Guidance for the social services sector on engaging investors

Partnerships Addressing Disadvantage & Social Impact Bonds

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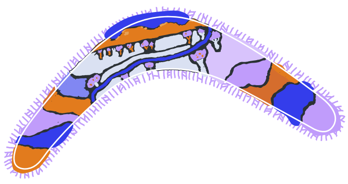

Acknowledgment of Country

Social Ventures Australia acknowledges and pays respect to the past and present traditional custodians and elders of this country on which we work.
‘After the Rains’ by Richard Seden for Saltwater People 2024

Legal disclosure statement

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Contents

Background

Partnerships Addressing Disadvantage

Partnerships Addressing Disadvantage (PADs) are social impact investments that tackle complex social issues through outcomes-based partnerships.

PADs like other outcomes-based contracts, are intended to deliver **measurably positive outcomes** to a **defined client group**, and by doing so achieve **value for money for government**. They often involve testing an intervention that is **innovative**, and **sharing the financial risk** of program failure with others who are best placed to take on this risk, such as the service delivery organisation and investors.

These financing and risk sharing arrangements with investors are commonly referred to by investors as Social Impact Bonds (SIBs). PADs and SIBs are just one of a wide range of financing approaches which may be used by organisations focussed on social impact.[1]

Purpose of this guidance

The Victorian Department of Treasury and Finance (DTF) consulted publicly in 2022 on suggestions and feedback on PADs. The feedback indicated that the social services sector required assistance with attracting and engaging with investors for future PADs and outcomes-based contracting initiatives.

This guide is intended for service delivery organisations considering involvement in PADs and other funding opportunities including through the Early Intervention Investment Framework (EIIF), and seeks to provide guidance on:

- Who are investors and what is their role in PADs and SIBs
- How PADs and SIBs work
- What you need before engaging with investors
- How to find potential investors
- When and how do I engage with investors
- How intermediaries and advisers can support you

Although this guidance is targeted at service delivery organisations responding to PADs or other outcomes-based funding opportunities (including through the EIIF) where investor capital is required, it may also support other organisations seeking to better understand when/how to engage with investors for other types of projects.

DTF commissioned SVA to prepare this guide and is based on SVA's learnings and insights from the development and implementation of SIBs.

Terminology

[1] For a fuller discussion of other financing strategies, see the Paul Ramsay Foundation report, '*Assessing the appropriateness of impact investment instruments for delivering impact within the Australian market*', November 2023

There are terms referred to throughout this guide with following meanings:

‘Advisers’ refers to consultants and legal advisers.

‘Intermediaries’ refers to organisations which arrange and manage SIB arrangements.

‘Service delivery organisations’ refers to organisations that provide social services to beneficiaries.

‘Partnerships Addressing Disadvantage’ or **‘PAD’** is interchangeable with other terms used to describe outcomes-based contracts, including Social Impact Investments, Payment by Outcomes, Payment by Results and Pay-for-Success. Not all outcomes-based contracts require investor capital.

Who are investors and what is their role in PADs and SIBs?

‘Investors’ in this guide is a broad term which is used to describe a broad range of organisations and entities who provide returnable capital to social service organisations. This does not include non-repayable grant funding or donations. ‘Investors’ may include fund managers, superannuation funds, banks, other financial institutions, foundations, families and individuals.

The key roles of investors in relation to PADs and SIBs are:

- Providing working capital to the service delivery organisation to deliver the intended service (until the target outcomes are achieved and paid by government); and
- Sharing the financial risk (and return) with the service delivery organisation and government.

Some investors may seek to provide ongoing expertise throughout the delivery of the PAD or SIB in relation to program evaluation and governance.

It is important to note that most investors do not have the internal capabilities or capacity to structure PADs and SIBs – this role is performed by a service delivery provider and / or intermediary.

Different investors have different motivations for investing in PADs and SIBs, which could be a combination of social, financial and/or regulatory reasons. Investors may have their own ‘Impact Investing’ strategy or mandate, which guides what types of projects that investor invests in. Impact investing is a term used to described investments that are made with the intention to generate positive, measurable social and/or environmental impact alongside a financial return.[2]

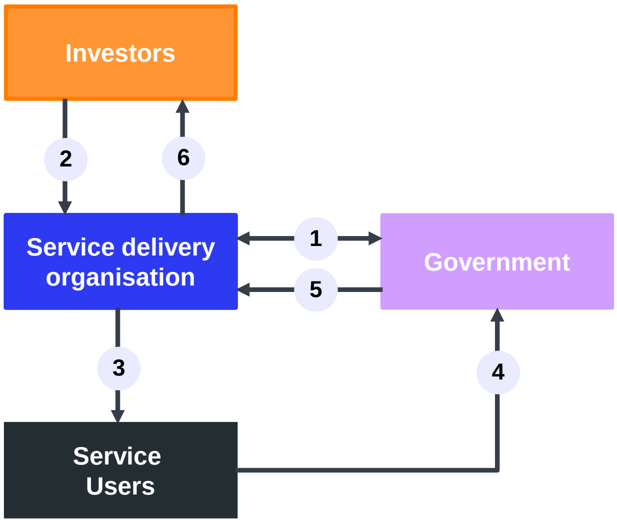
Different types of investors will have different financial return expectations and social impact objectives.

[2] Global Impact Investing Network, https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing

How do PADs and SIBs work?

The figure below provides an overview of how PADs and SIBs work (noting different countries, legal systems, service delivery organisations, and social programs necessitate variations on this structure).

Figure 1: An overview of SIBs and PADs



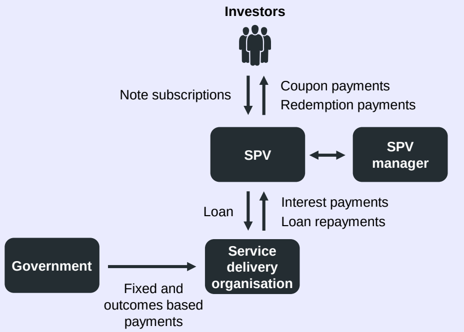
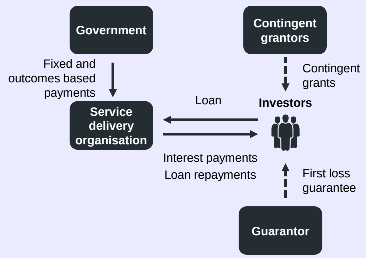
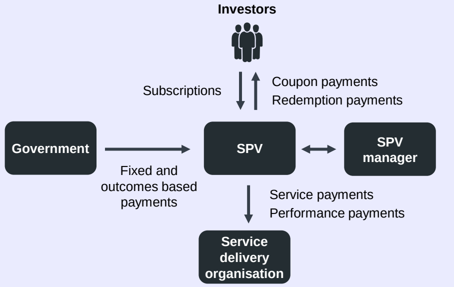
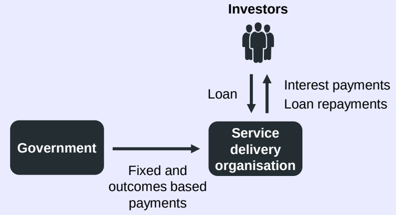
1. Service delivery organisation enters outcomes-based contract with government to pay on the basis of measured outcomes
2. Investors provide upfront capital to co-fund the provision of services or a program
3. Service delivery organisation delivers the program to service users, leading to improved outcomes
4. The improved outcomes generate savings for government
5. Government pays if outcomes are achieved according to the outcomes-based contract
6. Outcomes payments provide investors with a performance-linked return

It is important to note that PADs and SIBs are not actually bonds.[3] They can be a range of financing structures that **link an investor's financial return to the achievement of pre-determined outcomes delivered by the social service organisation**, and legally may take the form of a loan, a note or another debt instrument. Unlike many bonds, they are often difficult to trade, due to their bespoke nature.

There have been less than 20 PADs and SIBs established in Australia and most use highly bespoke contracting structures. Four illustrative contracting structures for PADs and SIBs are set out in Table 1. See this article for more information on SIBs.

[3] This makes SIBs different to social bonds which are simply a debt instrument with fixed returns and which is used to finance an identified 'social good' purpose. Unlike SIBs, payment of interest and repayment of the capital is not contingent on any measure or outcome being achieved.

Table 1: Different PAD and SIB contracting structures and their key features

1. Loan from a special purpose vehicle[4] (SPV)	2. Concessional loan with a contingent grant and / or first loss guarantee	3. Service sub-contract	4. Loan directly from investor(s)
 	 	 	
• Investors subscribe to notes issued by SPV under a purchase deed • SPV on-lends the investor note subscriptions to the service delivery organisation under a loan agreement • Government makes fixed and outcomes based payments to service delivery organisation under an implementation agreement[5] • Service delivery organisation makes fixed and performance based interest payments and performance-based loan repayment to SPV under the loan agreement • SPV makes fixed and performance coupon payments and redemption payments to investors under a note deed poll • SPV is managed by a separate organisation See Newpin SA Social Impact Bond for example.	• Investors lend principal to the service delivery organisation under a loan agreement (this may also be an SPV) • Government makes fixed and outcomes based payments to service delivery organisation under an implementation agreement • Service delivery organisation makes fixed and performance based interest payments and performance-based loan repayment to investors under the loan agreement • Guarantor provides first loss guarantee to investors if performance targets are not achieved • Contingent grants repay outstanding loan repayments to investors if performance targets not achieved See Journey to Social Inclusion for example.	• Investors subscribe to notes issued by SPV under a purchase deed • Government makes fixed and outcomes based payments to service delivery organisation under an implementation agreement • SPV makes payments to service delivery organisation under a services subcontract • SPV makes fixed and performance coupon payments and redemption payments to investors under a note deed poll • SPV is managed by a separate organisation See Aspire Social Impact Bond for example.	• Investor lends principal to the service delivery organisation under a loan agreement • Government makes fixed and outcomes based payments to service delivery organisation under an implementation agreement • Service delivery organisation makes fixed and performance based interest payments and performance-based loan repayment to investor under the loan agreement

[4] A special purpose vehicle (SPV) or special purpose entity is an entity created by a parent entity to undertake a specific project or business activity. A SPV manager may be the service delivery organisation or an intermediary.

[5] The implementation agreement is the main outcomes-contract with government which outlines the terms on which outcomes are measured and paid.

What do I need before I start engaging with investors?

There are three pre-requisites before you commence engaging with investors about a potential PAD or SIB investment opportunity:

1. An outcomes contract or PAD / SIB funding opportunity

A social impact bond requires an outcomes contract committing the funder to pay on the basis of achieved outcomes, so that investors can make a financial return. In Australia, these outcomes contracts are almost always with government, though occasionally other outcome funders may also contribute. DTF provides updates on existing and new PAD opportunities through its website and mailing list (pads@dtf.vic.gov.au).

2. A program that is suitable for a PAD or SIB

Your program will need to satisfy the considerations outlined below. This article provides further detail for each consideration.

- Is the target client group sufficiently large and clearly identifiable?
- Are there simple and unambiguous outcome measures that are a sound indicator of the program's impact and government savings?
- Can a counterfactual or baseline be fairly determined (i.e. what would have happened to the target client group in the absence of the program)?
- Is the program logic sound, and will it deliver results based on available evidence?
- Can the program be implemented at sufficient scale?
- Will the program be effectively run?
- Can the program be delivered at a cost commensurate with the benefits?

3. A service delivery organisation with the required capabilities and capacity to develop a PAD or SIB

Developing a PAD or SIB can be relatively resource intensive, so the service delivery organisation needs to be confident that it can commit sufficient resources to the development process. This includes financial, operational, data and legal capabilities which can be resourced internally and/or externally (through advisers or intermediaries). The support of leadership (board and executives) is required throughout the development and implementation process.

Investors and the commissioning government agency will also need to be confident that the service delivery organisation has the capacity and capability to deliver strong outcomes through the project as planned.

Important capabilities for developing and implementing a PAD or SIB include:

- **Strategic alignment:** clarity on 'why' a PAD/SIB and what is different about the funding arrangement, and appetite to be in the spotlight
- **Governance and financial controls:** long term financial viability with mechanisms in place at all levels of the organisation to support a focus on outcomes (and a new way of contracting)
- **Data managemen**t: systems and processes to identify client needs, monitor service delivery, track lead indicators and respond to outcomes data (to adapt and innovate service delivery)
- **People capability to implement:** staff recruitment and training, financial acumen and data reporting and analysis

How do I find potential investors?

It can be difficult finding investors that are looking to invest in PADs and SIBs. The following directories can assist you with finding potential investors, however, it should be noted that not all of these investors will be looking to invest in PADs and SIBs:

- Impact investor directory – Impact Investing Hub
- Impact funds and impact investor advisors – Impact Investing Australia

Some investors engage impact investment advisors to provide them with advice on potential investments.

There may also be other organisations out there seeking to deploy capital into initiatives like PADs and SIBs, so it may worthwhile speaking to your non-government funders to understand if this is something they are interested in.

When and how do I engage with investors?

The development process for a PAD or SIB might take as little as a year, or as long as two to three years to successfully launch and commence service delivery. Engagement with investors can occur before government tenders a PAD or SIB opportunity, and at a range of points throughout the development process. Figure 2 summarises the investor engagement and outputs required at each stage of the development process. The most intensive engagement typically occurs during the capital raise. Preparing for the capital raise may overlap the Joint Development Phase.

It is important to note that engagement with investors may vary significantly depending the type of investor – some investors may prefer to be engaged earlier in the process, where others will prefer to wait until the investment opportunity is fully developed and the capital raise is 'live'. Most investors do not have the internal capabilities or capacity to structure PADs and SIBs (which is developing the investor terms and contracting arrangements of the PAD or SIB) – this responsibility sits with the service delivery organisation and / or intermediary.

The type of engagement described in this section is intended to be illustrative only and it may not follow a linear journey for every investment opportunity and investor.

Figure 2: PAD and SIB development process

	Stage	Key output	Investor engagement
1	**Conceptualisation** *(or pre-request for proposal)*	Documented SIB or PAD concept and clarity of investor expectations	Early conversations with potential investors to gauge appetite and understand return expectations
2	**Request for proposal** *~ 3 months*	Submitted proposal with proposed contracting arrangements, investor terms and risk sharing arrangement	Early conversations with investors to understand return expectations can also occur during RfP stage
3	**Joint Development Phase** *~ 6-18 months*	Agreed commercial terms and executed implementation agreement	Keep potential investors updated on timing of capital raise and any changes to commercial terms
4	**Capital raise preparation** *~ 3 months*	Finalised investment offer document, draft investor contracts and launch of PAD/SIB	Conversations with other potential new investors to gauge interest in upcoming PAD or SIB
5	**Capital raise** *~ 6 months*	Capital secured from investors and implementation agreement conditions precedent satisfied	Detailed due diligence activities and finalisation of contracts with investors
6	**Implementation** *~ 4-10 years*	Service commencement; ongoing service delivery and outcomes measurement	Ongoing reporting, payment and other contractual obligations to investors

1. Conceptualisation (or pre-request for proposal)

The conceptualisation stage will involve assessing whether you have a program that is feasible for a PAD or SIB (see previous section for key considerations), and then conceptualising your program under a PAD or SIB funding arrangement. This PAD or SIB 'concept' can vary in detail – from a two-pager to a detailed business case – which will depend on the level of resourcing your organisation can commit at this early stage in the development process.

There can be considerable work in getting to this point, so often service delivery organisations will wait to do this conceptualisation until there is a live tender opportunity for a PAD or SIB, or until government budget announcements and market soundings make clear the social issues that governments are seeking to target.

During the conceptualisation stage it is worthwhile having some early conversations with potential investors to **understand their social impact objectives and risk and return expectations** – see key questions below. At this early-stage, potential investors will not be able to provide you with a commitment to invest in your PAD or SIB. Investors often say that they want a robust proposal and that they may only give service delivery organisations 'one bite of the cherry' in most cases, so it's worth preparing well before approaching investors. Helpfully, the sort of information investors seek is often similar to the information government and donors seek in submissions for funding.

- **Does my PAD or SIB concept align with potential investors' social impact objectives?** Investors will consider the proposed target cohort, intervention model, target outcomes and legal status of the service delivery organisation to help make this assessment. A more detailed concept can be more helpful for potential investors. Some investors have narrow social impact mandates (for example, employment only) where others have broad mandates, or focus entirely on a PAD or SIB's financial returns

- **What are the financial risk and return expectations of potential investors?** This typically includes the financial return if the outcomes are achieved as planned (often called the 'target' return), the financial return if the program performs better than planned (or 'outperforms') and how much capital they might lose in the worst case (or 'underperform') scenario. Different investors and different types of investors will have different risk and return expectations.
- **How much do these potential investors typically invest?** Investors often have a minimum and maximum amount they will look to invest in PADs and SIBs. This can depend on the size of the investor and the investments already within their portfolio.

These three questions will give you an idea of how much capital you could secure for your PAD or SIB with a certain risk and return profile. As outlined in the next section, there are a range of factors that determine the amount of capital you require for your PAD or SIB. Additional investors can also be engaged later in the development process.

The work undertaken during the conceptualisation stage can also be undertaken once a PAD's Request for Proposal (RfP) has been released. However, it can be difficult to do this work during the relatively short amount of time made available for responding to RfPs.

Where to go for help?

An intermediary or adviser can provide assistance with:

- assessing the feasibility of your program for a PAD or SIB
- developing your PAD or SIB concept
- structuring a PAD or SIB, including proposed contracting arrangements, investor terms and risk sharing
- understanding investor expectations and conducting investor sounding

The following resources can also be helpful:

- Frequently asked questions about PADs – Victorian Government
- Is your program suitable for a social impact bond – Social Ventures Australia
- Suitability for a social impact investment – NSW Government
- A guide to outcomes contracting and social impact bonds – Social Ventures Australia
- A guide to impact bonds - Government Outcomes Lab (UK)

2. Request for proposal

Government will release an RfP once it has announced a PAD opportunity and has undertaken consultation with the market. Some of the work outlined in this section can be done during the 'conceptualisation' phase.

The focus of the RfP stage is developing a detailed proposal for your **program,** the requirements for which many service delivery organisations will already be familiar, as well as the **funding arrangements,** which is where PADs and SIBs can vary significantly from traditional contracts. The funding arrangements include the proposed:

- Contracting arrangements (see Table 1 for four examples of different contracting arrangements)

- Investor terms
- Risk sharing arrangements

Potential investors should be consulted if there are any requirements in the RfP that may impact whether the PAD or SIB aligns with investor social impact, risk and return expectations.

Investor terms are the terms and conditions on which investors make an investment. Key terms typically include:

- **Financial return:** The appropriate level of financial return will depend on many factors, including the type of investor, the level of risk and level of social return, and will sit somewhere on the spectrum between philanthropy and purely commercial terms. Conversations with your investor base should inform the proposed financial returns. Returns are typically paid through coupon/interest payments and repayment of the initial investment, which can be fixed or variable (linked to outcomes).
- **Term of investment:** the period of time over which an investment is made (from the date of financial close[6] to the date of maturity). SIBs have had terms of between 4 and 10 years.
- **Size of investment:** this is the total amount invested by investors. This amount may be paid up front or split across multiple tranches or drawdowns as not all investor capital may be required on the first day of service delivery. Most SIBs have required greater than $5 million in investor capital. Key considerations for determining the amount of capital required include:
    - The total cost of the program (including transaction costs)
    - The amount of fixed payments from government
    - The maximum tolerable loss for the service delivery organisation (i.e. how much is the service delivery organisation prepared to lose if the program underperforms)
    - Any other funding sources (i.e. philanthropy)
    - Likely termination points during the term of the PAD or SIB (for example, when there is sufficient outcomes data to reliably determine that the program is 'underperforming')
    - The proportion of investor capital at risk if the program underperforms
- **Single or multiple investment classes:** there may be different terms and conditions attached to different tranches of investments (often referred to as classes). This approach may be adopted to attract different types of investors or capital with different return expectations for different investment classes.

Illustrative examples

Side by Side Social Impact Bond

- Program overview: the Side by Side program is an intensive 12-month program designed to improve the engagement and learning outcomes of students in Years 1 to 4, delivered in partnership by Berry Street and VACCA.
- Contracting structure: loan from an SPV (see Table 1)

[6] Financial close refers to the date on which all investor capital is secured and received (and any other contractual pre-conditions are satisfied).

- Financial return: Returns are linked to the success of the Side by Side program in reducing the number of days students are absent from school. Target performance scenario return of 6% per annum (with maximum return of 10% in the ‘outperform’ scenario; 70% capital protection in ‘underperform’ scenarios). This is paid as:
    - Fixed coupons of 1.5% p.a. for first 5.25 years
    - A performance coupon in the final year dependent upon program outcomes
    - Principal repayable in final year dependent upon program outcomes, subject to minimum of 70% of principal
- Term of investment: 6.25 years (2020-2027)
- Size of investment: $5 million paid in two tranches (single asset class)

Aspire Social Impact Bond

- Program overview: Aspire is a three-year program based on the ‘housing first’ intervention model for people experiencing chronic homelessness and is delivered by Hutt Street Centre in partnership with public and community housing providers.
- Contracting structure: service sub-contract (see Table 1)
- Financial return: Returns linked to Aspire program’s effectiveness in reducing participants’ utilisation of health, justice and homelessness services. Target performance scenario return of 8.5% per annum (with maximum return of ~14% in the ‘outperform’ scenario; 50% capital protection in ‘underperform’ early termination scenarios). This is paid as:
    - Fixed coupons of 2% p.a. for first 4 years
    - Performance coupon in years 5-7 which are dependent on program outcomes
    - Principal repayable in years 5-7 dependent upon program outcomes
- Term of investment: 7.75 years (2017-2024)
- Size of investment: $9 million paid in two tranches (single asset class)

Risk sharing refers to how the financial risk of the program not performing as planned is shared between government, investors and the service delivery organisation. Investors take on risk through their investment in the PAD or SIB.

In addition to the risk that investors and government takes on, investors (and government) will often want to ensure that the service delivery organisation has ‘skin in the game’ in the PAD or SIB so that there are aligned objectives. The level of risk sharing with the service delivery organisation will depend on the service delivery organisation’s financial capacity for risk sharing and can be done through outcome-based (or performance-based) payments to the service delivery organisation, or the service delivery organisation can co-invest in the SIB or PAD.

Where to go for help?

An intermediary or adviser can provide assistance with:

- developing and drafting a PAD or SIB proposal (in response to an RfP), including the proposed contracting arrangements, investor terms and risk sharing

The following resource can also be helpful:

- Developing a social impact investment proposal – NSW Government

3. Joint Development Phase

If your proposal is successful, you will commence further development of the PAD and negotiation of the key commercial terms with government. This is typically known as the Joint Development Phase (JDP). The length of the JDP can depend on a number of factors, including the quality of the PAD or SIB proposal, data availability, the capability of the government agencies and service delivery organisation, and contract negotiation. This stage will culminate in agreeing commercial terms with government and entering into an implementation agreement (the main contract with government).

It is important to keep your investor base updated during this process on the following:

- **Changes to commercial terms that may affect investors' impact, risk and return expectations.** Significant changes in the economic environment (for example, increases in interest rates) which impact risk and return expectations may also require re-engaging with your investor base. Any changes in investor expectations can be incorporated into your negotiation with government prior to finalisation of contracts.
- **The likely timing of the capital raise.** Your potential investor base will want to understand when they can expect to receive the detailed documentation to consider making an investment. Investors can take some months to do their due diligence, and need to factor in the timing of key decision-making meetings, so it's helpful for them to start planning in advance.

Additional investors can be engaged during the JDP to gauge their interest in your PAD or SIB.

Where to go for help?

An intermediary or adviser can provide assistance with:

- project management for the JDP
- negotiating commercial terms and legal contracts with government and other parties

The following resources can also be helpful:

- Sample legal documents – Victorian Government
- Sample legal documents and information memorandum – NSW Government

4. Capital raise preparation

Towards the end of the JDP you will also need to commence preparing for the capital raise, which includes formally marketing the SIB investment opportunity to potential investors. This can be done once commercial terms with government have been agreed and documented in an implementation agreement.

To market the SIB investment opportunity to potential investors, an offer document needs to be developed (in addition to any supporting contracts). This document is commonly referred to as an information memorandum or prospectus and outlines the investment opportunity to potential investors, including potential benefits and risks. Legal support is required to develop the offer document and supporting contracts.

Preparation of the offer document and supporting contracts can take around three months.

Illustrative examples

Examples of offer documents which follow a similar structure and format are listed below:

- Side by Side SIB Information Memorandum
- COMPASS SIB Information Memorandum
- Aspire SIB Information Memorandum
- Youth CONNECT Social Benefit Bond Information Memorandum
- Benevolent Society Social Benefit Bond Information Memorandum

It should be noted that not all investment opportunities will require an offer document, particularly where the investment opportunity is developed collaboratively with one investor only. For example, see illustrative contracting structure 3 (Loan directly from an investor) in Table 1.

Where to go for help?

An intermediary or adviser can provide assistance with:

- developing the investor documentation, including the offer documentation and supporting contracts
- developing a capital raise and marketing strategy
- conducting investor sounding

The following resources can also be helpful:

- Sample legal documents – Victorian Government
- Sample legal documents and information memorandum – NSW Government

5. Capital raise

Once the implementation agreement with government has been executed, you can then proceed with the capital raise for the PAD or SIB. Most investors require a minimum of six months to participate in the capital raise.

Marketing the investment opportunity to potential investors

You can distribute your SIB offer document to potential investors. Marketing activities can include running webinars and in-person events, social media campaigns and other forms of media.

Initial screening by potential investors

Once an offer document has been received by a potential investor they will typically conduct an initial screening of the investment opportunity to ensure it aligns with their investment strategy before committing resources to conduct a more detailed assessment (commonly referred to as due diligence). Different investors will have different criteria.

Investors typically have two types of screening criteria:

- **Social impact:** Does the investment opportunity align with the investor's social impact objectives? This might consider the target cohort, intervention model, target outcomes and legal status of the service delivery organisation.
- **Financial:** Does the investment opportunity meet the investor's financial objectives? This might consider the size of the investment, the length of the investment, the targeted returns of the investment and the maximum capital investment that could be lost.

The investor base you have engaged throughout the development process may have already undertaken this step. This step will culminate in the investor making a decision about whether or not to proceed with a detailed due diligence of the investment opportunity.

Detailed assessment of the investment opportunity ('due diligence')

Once a potential investor is satisfied that an investment opportunity aligns with its social impact and financial objectives, they will proceed to a detailed assessment of the investment opportunity (commonly referred to investors as due diligence). This typically includes the investor verifying (to the extent that it's possible) key assumptions underpinning the proposed social impact and financial targets, and investigating key risks of the investment opportunity.

Investors need to be confident that the service delivery organisation has a clear understanding of program risks, how risks affect the investors' likelihood of achieving their target returns, and that there are strategies in place to effectively manage the risks and hence investor returns. These risks (if realised) may impact the value of investors' investments, so risk management is a key focus for investment due diligence. Table 2 summarises the risk factors that investors may examine.

Table 2: Key risk factors for PADs and SIBs

Program performance	The program, if delivered as designed, does not deliver the planned outcomes due to flaws in program logic or overestimation of impact
Implementation	The service delivery organisation is unable to implement the program as designed (for example, staffing problems or poor process quality control)

Volume	The measurement group size is smaller than anticipated due to lower enrolments than planned
Disengagement	Individuals included for measurement purposes 'drop out' of the program and so have poorer outcomes
Data reliability	Data used to measure outcomes is incomplete or inaccurate
Counterfactual or baseline	The counterfactual or baseline does not represent a fair benchmark against which to measure performance
Policy	Government priorities change, creating impediments to successful implementation or difficulties in generating incremental improvements
Statistical error	Measured outcomes are distorted by random variations, particularly for small groups
Key personnel	Delivery of the program may be reliant on a number of key personnel employed by the service delivery organisation and its ability to attract and retain quality staff
Credit	The service delivery organisation may default on its repayment obligations as a result of its financial condition or insolvency
Liquidity	The investment may not be liquid or cashable (i.e. a secondary market may not exist to sell the investment)

This step may vary significantly depending on particular investors' requirements, motivations and capabilities. Typical due diligence activities involve:

- Reviewing underlying contracts and financial models
- Reviewing data and evidence supporting the performance targets
- Conducting interviews with the service delivery organisation (and similar organisations) and potential program beneficiaries
- Reviewing additional information (for example, theories of change, program logic, evaluation plans and reports)

This step culminates in the investor agreeing to the investor terms through approval by the investor's decision maker/s (for example, an investment committee or board, a trustee or an authorised representative). For investors using an investment advisor, the investment advisor will make a formal investment recommendation to the investor prior to the investor approving the investment in the PAD or SIB.

Legal documentation of the investment

Once the investment is approved by the investors, then the relevant contracts will be finalised and entered into. The form of these contracts will depend on the structure of the SIB. Legal support will be required to finalise and enter into the contracts.

Getting the funding

You will not be able to access or drawdown on the capital provided by investors immediately. There may be certain pre-conditions that must be satisfied before ‘financial close’ is reached and the funding can be accessed (for example, satisfaction of all conditions precedent under the implementation agreement, or other transaction documents entered into).

6. Implementation

Upon completion of the capital raise (i.e. reaching financial close), you can now access the funding from the PAD and you are able to set the program up for service delivery. This stage may differ depending on whether the program is a new program or an expansion of an existing program. For a new program this may include hiring staff, finding suitable premises, setting up client management systems and formalising practice frameworks and new processes.

During this stage it may be appropriate to update investors on the set-up of the program.

Once services commence, the relationship with investors doesn’t end. There are ongoing financial and social impact reporting obligations to investors over the term of the program. Investors will want to understand how the program is tracking relative to plan (for example, participant numbers, program engagement, resourcing, outcomes, payments), and understand the status of any key risk factors outlined in the previous section. Importantly, there will also be ongoing payment obligations under the relevant terms of the investor contracts, and investors may also need to consent to contractual changes which might impact their returns.

How can intermediaries and advisers support us?

Service delivery organisations may choose to engage with intermediaries and other advisors depending on their internal capabilities and capacity to develop a PAD or SIB. As outlined throughout the guide, intermediaries and advisers can provide a range of different services to support the development and implementation of outcomes PADs and SIBs – see the list below for summary of key services offered by intermediaries and advisors. This directory provides a list of intermediaries that may be able to assist you with your PAD or SIB.

- **PAD/SIB development and negotiation support:** advising service delivery organisations on adapting their programs to a PAD or SIB (including defining the target cohort eligibility criteria, refining the intervention model, defining outcome metrics, developing the financial model and payment terms, and estimating government savings) and supporting the PAD development process (including project management and negotiating commercial terms)
- **Structuring and financing:** developing contracting and financing arrangements with investors and undertaking the capital raise with investors
- **Contract governance:** providing ongoing oversight and administration of contracts and program performance, including annual reporting and supporting contractual reviews and renegotiations

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