



Implementing Social Impact Bonds in Slovenia

Authors

Kump Nataša, Kavaš Damjan, Črnigoj Matjaž

Challenges for Payment-for-Success Models in the Slovenian Welfare System

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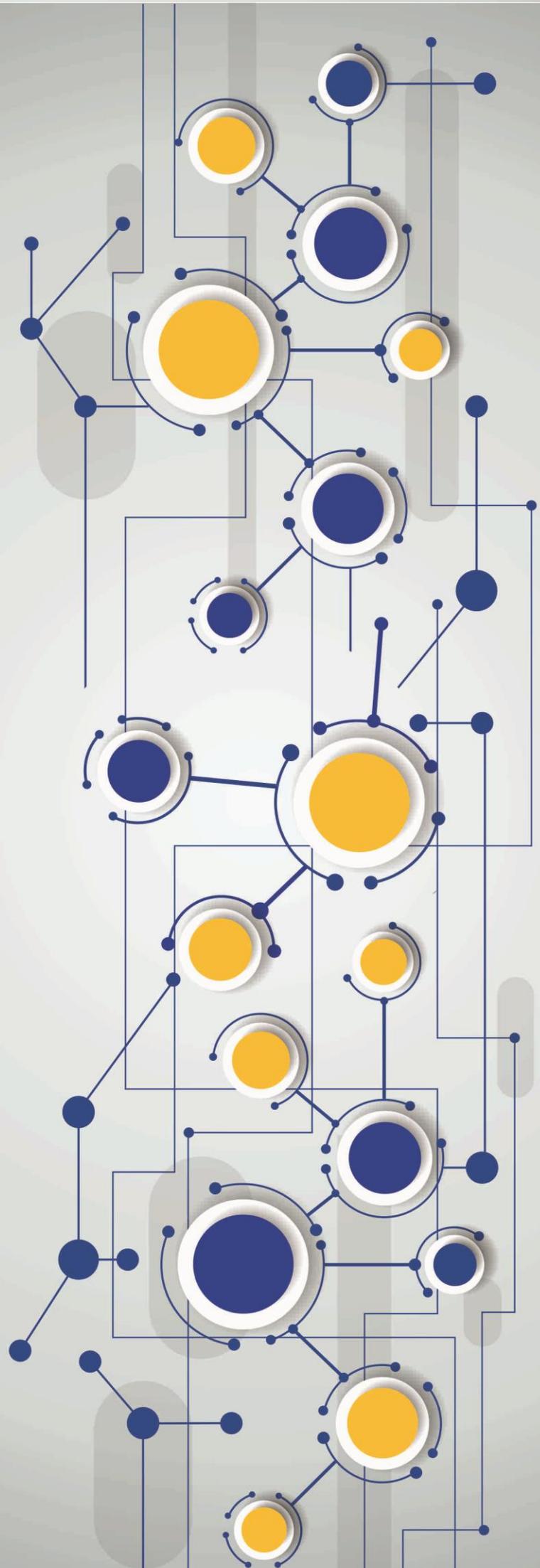
Implementing Social Impact Bonds in Slovenia

Authors

Institute for Economic Research

This paper discusses on the possibilities of implementing social impact bonds in Slovenia (SIB). The paper starts of by introducing the Slovenian administration and welfare system and the regulation of social economy in Slovenia. The continuation of the paper presents our main research findings (interviews and local meetings, IER's experiences and secondary data) together with the opportunities and limitations for SIBs' implementation.

Although some interviews were conducted with the intent to verify, update and supplement the information collected from meetings and secondary sources, it was impossible to consult all relevant stakeholders within the constraints of this study. The information and views set out in this publication are those of the author(s).



1. Introduction

Social Impact Bonds (SIBs) are a relatively new financial instrument as the first SIB was implemented only in 2010 (Peterborough, UK). However, following the recent financial and economic crisis they have started increasing interest. Due to the pressures on public budgets which emerged as a result of the economic crisis, new innovative ways of financing social services became highly sought after. Besides, SIB leads towards lower risk for the public sector, increased effectiveness and more efficient payment of social services (OECD, 2016a).

A SIB is a contract under which the public sector commits to pay for improved social outcomes (Social Finance, 2011). The focus on outcomes instead of outputs is one of the most important features as the payment is made according to the achievement of policy objectives and not for the activities. As it involves numerous stakeholders (public authorities and governments, investors, intermediaries and services providers) this is a very complex instrument. Investors provide funds for the social services; service providers are responsible for delivering the social service; the government/commissioner is the ultimate payer if the agreed outcomes are achieved; an intermediary can structure the deal and is responsible for raising the funds; an evaluator assesses the outcomes and their impact. SIBs are riskier for investors because if pre-determined social outcomes are not achieved, the investor might lose his investment. If everything goes to plan, the investment is reimbursed and the investor also earns a return. SIBs are not the usual bonds in financial terms and are also known as Payment-for-success bonds or Pay-for-Benefits bonds (OECD, 2016a).

SIB initiatives are now flourishing around the world, however, most can be found in countries in which significant parts of the welfare state have already been privatized, such as UK, USA and Australia (OECD, 2016a). So far continental Europe has seen merely a few cases. However, SIBs can be used in various cases, especially for: (a) preventive and early intervention programmes with the highest returns in the long run, (b) programmes which meet the needs of target groups that are not addressed by existing measures or are addressed insufficiently, and (c) innovative social services (pilots) (Dermine, 2014).

So far no SIBs have been implemented in Slovenia; moreover, SIBs are unknown among the majority of relevant stakeholders. One of the reasons for this can be found in the very strong welfare state where most social services are provided by public/private social service providers that are financed by the public sector.

Slovenia has a long tradition of Bismarck insurance and a very strong welfare system. A dual welfare system model has formed with compulsory social insurance systems and a strong public/state sector as the main service provider of all types of services (Filipovič Hrast and Kopač Mrak, 2016). Article 2 of the Constitution of the Republic of Slovenia stipulates that Slovenia is a state governed by the rule of law and a social state. Since the social state is embedded at the beginning of the constitution, it has fundamental value. As Slovenia was a part of Yugoslavia, modern Slovenia developed from a socialist state welfare system in which the state played a dominant role. In the transition period and up to date, the Slovenian welfare system retained strong state involvement in the provision of social services (Filipovič Hrast and Rakar, 2015). An important fact regarding the development of the Slovenian welfare system during the transition period in the 1990s was that, contrary to some other post-socialist

countries, Slovenia did not experience a so-called “welfare gap”, since the transition from socialism to capitalism was rather smooth in socio-economic terms. Hence, contrary to some other post-socialist governments, which introduced welfare reforms predominantly in the form of “shock therapy” (as a consequence of the economic crisis), the Slovenian political elite decided to introduce gradual reforms in individual social policy fields (Kolarič et al., 2011). However, the ageing population and the consequential increase in social protection expenditure will lead to welfare state reforms that might influence the role of the state.

In our paper we analyse the potential to implement SIB in Slovenia, we attempt to foresee its benefits and we discuss the challenges we would face if SIB was implemented. The analysis is based on secondary data, similar studies from abroad and meetings with stakeholders and policy-makers who are the most relevant for the elaboration and implementation of SIB. We conducted interviews with the Municipality of Ljubljana (Office for Youth) and the Ministry of Labour, Family, Social Affairs and Equal Opportunities (for NEETs and Seniors). We also attended the event "Social Impact Investments" (organised by Viva) in November 2017 and the section on financing social economy at the event "Days of Social Economy" in December 2017. We also interviewed experts in the field of financing of the social economy (social impact investment) sector.

In the following chapter we will present the administration system in Slovenia, with an emphasis on centralisation. The third chapter is dedicated to the description of potential social service providers. The challenges and opportunities for implementing SIB within the Slovenian welfare system can be found in the fourth chapter, while the conclusions and recommendations are given in the last, fifth chapter.

2. Administration system in Slovenia

On 25th June 1991 the Republic of Slovenia was declared a parliamentary representative democratic republic. Even though Slovenia has no regional government, the Constitution, adopted in 1991, guarantees local self-government. With the adoption of the Local Self-Government Act in 1993 the country developed into a decentralised unitary state. This act provided for territorial reorganisation and new municipalities replaced the former communes. The country has twelve statistical regions, which do not have their own governments or their own competences. In addition, Slovenia is composed of fifty-eight devolved state administrative units, which ensure state responsibilities and manage affairs falling under the area of expertise of their respective ministries on a regional level. However, these units do not have local government status. Finally, Slovenia is composed of 212 municipalities. The competencies of a municipality comprise of local affairs which affect merely the residents of the municipality and which may be regulated by the municipality autonomously. As for regions, the state transfers by law the performance of specific state duties to the regions for which the state must provide the necessary financial resources.

In general, the division of powers is more or less centralised. The Government has national legislative powers in all areas and state authorities supervise the legality of the work conducted by the local community authorities. Local matters of public interest as determined by law or by the municipality general act are independently performed by the municipalities. The responsibilities devolved to municipalities are also connected to the areas where SIBs might be implemented: urban and spatial

planning, rest homes, housing, education (pre-school, primary), family and youth assistance, and social welfare. Although many social services are financially under the jurisdiction of the state, the municipalities are responsible for social transfers concerning pre-school and primary education, housing and to a certain extent institutional care. However, we should keep in mind that local responsibilities, competencies and financial resources are limited due to the strong role of the state. Municipalities are facing a lack of funding, as well as the need to comply with new legislation without adequate financial resources, while also experiencing over-regulation. Over the years 2014, 2015 and 2016 the amount of fiscal equalisation decreased, as did the amount of co-financing for municipal investment.

3. Potential social service providers in Slovenia

The Slovenian social service sector is relatively diverse. Services are provided by the public, non-governmental and private actors. Characterized by the unquestioned monopoly of the state in the social service provision in the socialist era, the public sector still holds onto its dominant role. Nevertheless, there are some fields of social services covered by social enterprises and third sector organisations (Boljka et al., 2012).

As a part of an economy or society comprising of non-governmental and non-profit organizations or associations (including charities, voluntary and community groups, cooperatives, etc.) the third sector plays an important role within the Slovenian welfare system. Although the state should ensure the public services, this does not mean that the public services are fully implemented by the state, as some of them are implemented by third sector entities. These public services are performed by concessionaires as a part of the public service. Sometimes their programs have the status of public programs, for example, they have the status of public cultural programs in the field of culture, or public social welfare programs in the field of social protection. Besides, some social services are provided by voluntary organizations. The importance of private non-profit organisations is on the rise, especially of those established by The Catholic Church (Kolarič et al., 2011). In Slovenia the term non-governmental organisations is usually used for all types of third sector organisations. The relation model between the state and the third sector remains the same, i.e. state-dominant. The NGOs in the field of social services are relatively well represented in terms of share of all employees in the NGO sector. Even though these NGOs represent a mere 3.6 % of the so-called third sector, they present 26.7 % of all employed in the sector. These numbers lead us to believe that the NGOs that are active in the provision of social services are relatively professionalised and that they have secured continuous financial support from the state (Črnak Meglič and Rakar, 2009).

Social enterprises are often mentioned in literature on SIB as important potential service providers (OECD, 2016a; OECD, 2016b), therefore we will briefly describe the social enterprise sector in Slovenia. However, we should keep in mind that potential social service providers in Slovenia can also be represented by other third sector organisations and even some SMEs (small and medium enterprises) with social impact.

The Social Entrepreneurship Act in Slovenia was adopted in 2011, however there were initiatives to make the act more consistent with EU in this field. Slovenia fits in a group of countries in which the concept of social economy enjoys a moderate level of recognition (CIRIEC-International, 2016).

Similar to Italy and Spain, the Slovenian bureaucracy and qualitative austerity policy represent great obstacles which prevent social economy entities to work with public authorities (European Economic and Social Committee, 2017).

The current Slovenian register of social enterprises (SEs) does not cover their entire spectrum. This is partly due to the strict criteria implemented to maintain the status of SEs and a lack of public financial advantage, with the exception of existing MLFSA measures. The Country Report for Slovenia (European Commission, 2014) estimated there were approximately 900 organisations which potentially fall within the EU operational definition. Therefore, when we talk about social enterprises we should understand them as all organisations according to the EU operational definition and not merely as the registered SEs.

At the end of December 2017, the Government of the Republic of Slovenia endorsed the proposal for the act that would amend the Social Entrepreneurship Act, and thus improve the establishment and operation of social enterprises from the content and administrative point of view. The key changes in this amendment can be found in the broader context of social economy, the elimination of bureaucratic obstacles that dissuade entrepreneurs from registering a social enterprise, the abolishment of the possibility of paying off the profit and an introduction of measuring the social effects.

A large proportion of social services in Slovenia is provided by the public sector and the state does not attempt to withdraw from the supply of public sources and services (Črnak Meglič and Rakar 2009). Restricting the provision of services predominantly to the public sector represents a significant burden for the state budget and does not allow the integration of residents and communities into the development of modern and accessible services by the social economy sector. An action plan will be prepared within the Ministry of Economic Development and Technology's project "Promoting the Development of Social Entrepreneurship, Cooperatives, and Economic Democracy". This plan will identify the potential services that can be transferred from the public sector to the social economy sector and define the steps needed to carry out this transfer, including the normative bases. Such developments are extremely positive for introducing innovative financial schemes such as SIB. Besides, the project aims to establish a comprehensive systemic organizational structure in the field of social economy, prepare/adopt a Social Economy Development Strategy and establish a system of monitoring, measuring and evaluating social effects (Ministry of Economic Development and Technology, 2016).

4. Challenges and opportunities for implementing SIB into the Slovenian welfare system

As already noted, SIBs have so far not been implemented in Slovenia. Moreover, the social economy sector is familiar with the SIB concept, while the other stakeholders (government, policy makers, local authorities, etc.) are mainly unaware of it. Already in 2012 the Slovenian Forum of Social Entrepreneurship included ethical banking and SIBs in its goals (Seražnik Lisjak, 2016).

The assessment of challenges linked to implementing SIBs in Slovenia is, amongst others, based on the meetings with stakeholders and policy-makers who are the most relevant for the elaboration and implementation of SIBs (Figure 1). In this chapter we will describe the methodology behind the interviews, while the main findings will be combined with the findings from the meetings, secondary sources, and our knowledge and experience from previous projects.

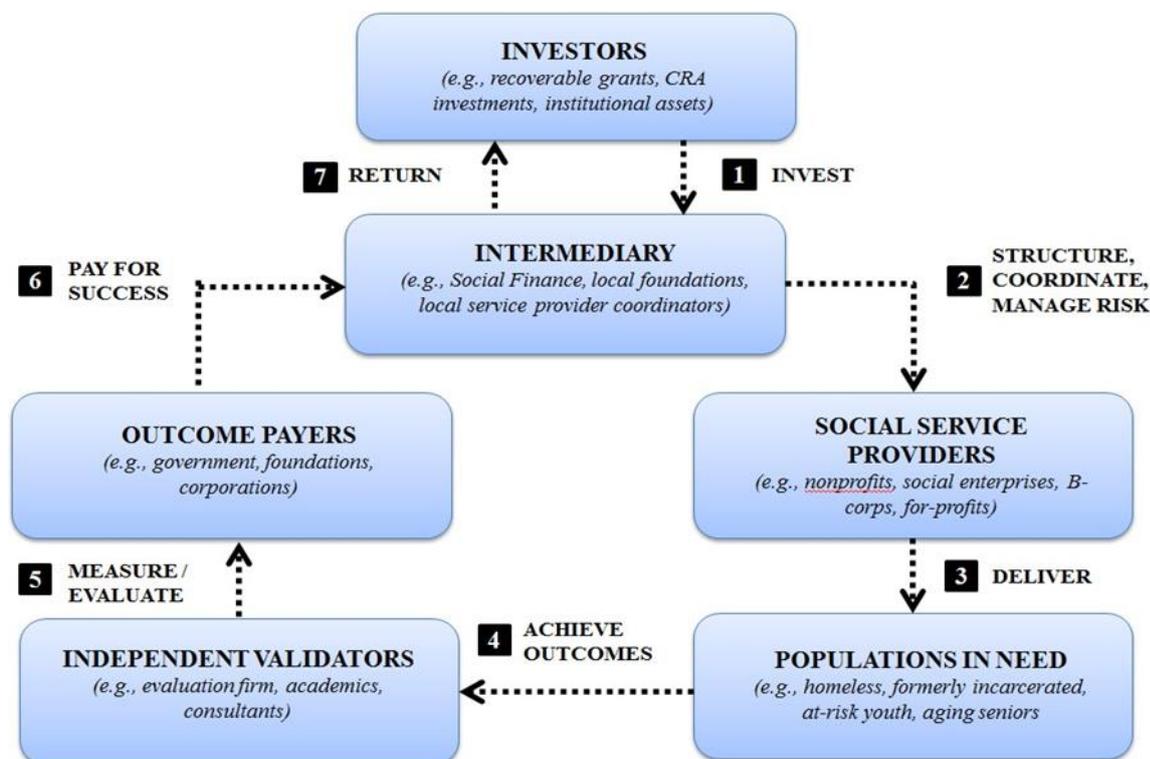
4.1. The meetings with policy makers and other stakeholders

There are numerous welfare-state stakeholders in Slovenia, to mention a few:

- national public authorities (ministries);
- local authorities (municipalities);
- social service providers;
- networks (e.g., associations);
- public insurance organisations (e.g., The Health Insurance Institute of Slovenia, Pension and Disability Insurance Institute of Slovenia);
- implementing organisations (e.g., Employment Service of Slovenia);
- national research, development and consultancy institutions (e.g. National Education Institute Slovenia);
- private insurance companies and others.

The main welfare state policy makers in Slovenia are The Ministry of Labour, Family, Social Affairs and Equal Opportunities and The Ministry of Health of the Republic of Slovenia on the national level and municipalities (local public authorities) on the local level.

Figure 1: The Social Impact Bond (SIB) Mechanism



Source: OECD, 2016b.

At the meetings with policy makers the goals were to present the project and the concept of SIB, gather information on the current provision of social services and discuss the potential/limitations/challenges of SIBs' development and implementation. The interviews included the following:

- We presented the project and the concept of SIB itself. There was a discussion on the opportunities and potential sectors/areas for SIB implementation, and a discussion aimed at establishing which target groups have unmet demands due to a lack of social services and which areas show potential for SIBs. The key reasons why these areas/target groups remain undiscovered were also discussed.
- The discussion also tried to establish which obstacles stood in the way of implementing the SIB on all levels, i.e. state, social service providers, investors, enabling environment (such as the social system, legislative framework, regulation, etc.). Other important topics such as the current evaluation of the social services, the potential adaptation of the SIB model in order to increase the feasibility of its implementation in Slovenia, the possible co-existence of the current social services' system and SIB, as well as any possible pilot projects were also discussed in the interview.
- The interviewees were encouraged to consider other similar models of implementation and financing in the field of social services. The experiences with private capital in the field of social services, i.e. other similar funding models, (advantages, disadvantages) were also a part of the conversation.
- The participants were invited to consider the positive features of the SIB model and the possibility to use these elements in order to improve the economy and efficiency/quality of the social services.

We also interviewed a few key stakeholders in the field of social economy financing and asked them about social impact investors, the SIBs implementation possibilities and the ways in which the impact could be measured.

The interviews showed that the role of the state and the public sector dominate the social services sector in Slovenia and that the public authorities as well as the service providers are unfamiliar with innovative financial models, such as the SIB. In the following chapters the limitations and opportunities for the SIB model will be described and the areas in which the interviews showed the possibility of implementing SIBs will be presented. It should be noted that many of the listed social services have already been implemented to a certain degree.

4.2. Opportunities for SIBs

The interviews revealed a few potential areas in which the SIB concept could be implemented. The main focus was on NEETs and senior needs which are not covered or are insufficiently covered (according to the project aims). Some ideas are already targeted and precise, while others remain relatively indicative, broad and in some cases might not seem appropriate for SIB implementation. It should be noted that the feasibility of SIBs implementation in the mentioned areas is beyond the scope

of this paper and the authors provide merely a brief assessment. Each idea should be subjected to a feasibility study before a final decision is taken.

Seniors

Slovenia is a country with a highly pronounced ageing population, which is driven by the low birth rate and increasing life expectancy. The share of the elderly will increase significantly in the near future, and all services dedicated to the elderly will be on the rise. The elderly, aged 65 and more, represent approximately 18 percent of the Slovenian population, however, their share is expected to increase to almost one-third of the population by 2080 (Eurostat database). The ideas described below emerged during the interviews.

Rural transport network

Providing transport for the elderly in rural areas could be a good case for SIB implementation. Good and reasonably fast access by public transport is not always the norm in rural Slovenia. Elderly people living in rural areas who do not own a car need help with tasks outside of their home or place of residence (visiting a doctor, going to the bank, etc.). One good practice in this field is the Sopotniki Institute which was founded in 2014 by the young from the Karst region who wanted to help the isolated and excluded elderly from rural areas by integrating them and providing active social lives and who promoted intergenerational development cooperation. The distance from city centers, unfavourable demographic trends and inefficient public transport were merely some of the reasons for establishing this Institute. Volunteers transport the elderly for free. The costs are covered by sponsors, voluntary contributions, and public tenders. This kind of services would be more than welcome also in other regions.

Preventive visits at the homes of the elderly

Loneliness is the most common feeling experienced by seniors. Research in Slovenia (Kralj, 2013) has shown that two-thirds of the elderly living in institutions (retirement facilities) face loneliness as do approximately one half of those living in their own homes. Loneliness has a very negative influence on health and leads to a higher risk of premature death. Preventive visits of the elderly would prevent them from feeling lonely and open up an opportunity to react in cases of emergency. A similar volunteer program, Seniors for Seniors, coordinated by the Slovenian Federation of Pensioners' Associations (ZDUS), has been in existence since 2004. Currently, the program covers about 60 percent of Slovenia. Volunteers work for free, however all travel expenses and costs for the coordination and training are covered. A stable form of financing and broader coverage should be reached.

Fall prevention

Falls are the leading cause of both fatal and nonfatal injuries for people aged 65+. Falls can result in hip fractures, broken bones, and head injuries. Even falls without a major injury might have significant negative consequences. Some activities in the field of fall prevention are already underway in Slovenia, but a more systematic approach to the field is needed, i.e., we need to connect all stakeholders and fall prevention organisations on all levels (Voljč, 2016).

Comprehensive preventive programme for seniors

According to the highly successful Danish Life Long Living model which originated in Fredericia, a comprehensive preventive programme would be of great value also in Slovenia. This is a new interaction model, which involves the elderly based on early intervention, rehabilitation, and prevention, rather than relying on the traditional care system and expensive late interventions. Consequently, older people regain physical, social and cognitive abilities which postpone and reduce the age-related weakening and dependence, which in turn reduces the need for long-term care and care for the elderly.

The project is divided into five sub-projects: a) everyday rehabilitation and independent living training, conducted by multidisciplinary teams of home trainers, occupational therapists, nurses and physiotherapists, b) early detection and prevention of acute illness, c) follow-up home visits after hospital discharge, d) welfare technology and e) prevention and health promotion for those over 60 (European Social Network, 2012).

Taking care of the elderly living in a multi-apartment building without an elevator

A lot of the elderly live in a multi-apartment building without an elevator. A few ideas have emerged how to tackle this issue, from investing money to adapt the apartments to better suit the elderly, enhancing reverse mortgage or creating a platform for apartment/house exchange.

ICT and the elderly

The aim of the project would be to teach ICT to the elderly in order for them to improve their quality of life. At the moment, we have the project Simbioza, which is dedicated to intergenerational connections and reciprocal transfer of knowledge. The project brought together young volunteers who taught the elderly the basic computer skills.

NEETs

The term NEETs is used to describe young people, not in employment, education or training. At first this term included the age group of 15–24, however it was later broadened to include those aged 15–29 (Eurofound, 2017). In Slovenia, the most likely to become NEETs are young people with a tertiary level of education, although the NEETs rate in 2015 was 16.3% which was below the EU 28 average of 20.3%. In Slovenia the share of young NEETs who have found themselves in long-term unemployed is 28.2%¹ of all NEETs which is above the EU 28 average (22%). On the other hand, only 2.1% of all NEETs are discouraged workers which is below the than EU 28 average – 5.8% (Eurofound, 2016). The NEET rate for young people is closely linked to the economic performance and the business cycle, but even in the time of economic prosperity NEETs are a category that should not be neglected. The main (political) problems related to NEETs are: unemployment of young people, especially long-term unemployment; early school leavers (below the EU average, but still some concerns); violence, crime, alcohol and drug abuse.

Despite the age definition of NEETs, we should not omit the age group 30 – 35 in Slovenia, as this age group was the most affected by the unfavourable labour market which resulted from the economic crisis. This is the generation that completed its studies just before the crisis begun and did not receive any measures aimed at reducing the negative consequences of the economic crisis on youth employment. In 2014, the Youth Guarantee led to the creation and development of activities intended to assist young people getting back into education, training or employment, however this generation was not entitled to the introduced measures. The generation, aged between 30 and 34, has suffered the greatest negative impact and still remains overlooked. Therefore, the NEETs group for SIBs should be extended to 35 years.

Motivation of discouraged young adults who completed their studies just before or at the beginning of the crisis

As noted above, the generation aged 30-35 was not eligible for any measures that would have eased their entry into the labour market. Presumably, there are many discouraged workers in this age category who are inactive and not included in any register. Nowadays, as the economic situation has improved, they are no longer competitive due to their age, lack of work experience and are thus overall less employable than their younger counterparts.

The project or programme should stimulate these young adults to get involved, provide them with a counsellor/mentor, help them overcome the "lost" years and help them enter the labour market and plan their careers. Although this generation is not directly targeted, there are some similar projects going on; for example programs *Yes start* carried out by the YES Association (<http://www.yes.si/sl/yes-start/program>) and the *Future Social Innovators* carried out by the Association Mladinski ceh (<http://www.mladinski-ceh.si/node/21>).

Providing housing for the young population

In Slovenia, the mean age for leaving the parental home was over 28 in 2013 (Eurostat, 2015) and 42.5% of young adults, aged between 25 and 34 years were still living with their parents in 2015

¹ Data refers to 2013 (Eurofound, 2016).

(Eurostat database). In 2008 Stropnik and Šircelj wrote that: ".. the housing market is characterized by the high prices of housing, the long waiting lists for non-profit housing, insufficient availability of favourable housing loans, poor development of the private rental sector, insufficient student housing, and the absence of the third or co-operative sector." Nothing much has changed since then, and especially young adults cannot afford the rising prices of independent housing.

In Slovenia the housing policy can be seen as an underdeveloped and marginalised part of the welfare system. The reasons for this can be attributed to the privatisation of social housing that transformed many post-socialist countries into societies with predominant home ownership and a marginalised rental sector, as well as a huge deficit in social and non-profit rental housing (Kolarič et al., 2011).

Attempts for innovative models or experiments in the housing for the young are rare are far between. The housing co-operative Zadrugator was recently established in Ljubljana, and the Public Housing Fund Ljubljana plans to build 150 dwellings on the edge of Ljubljana, 30 of which are expected to be co-operatives. However, more similar projects are needed.

Providing housing for young people in foster care who have reached the age of 18 years (or 26 if studying)

A particular niche target group are young in foster care who are 18 years old or more (but not more than 26) and are not involved in full-time education. The foster care contract can be extended even after the child turns 18 (to a maximum age of 26), if a child is not capable of independent living and work due to physical or mental development disorders or if a child remains in the foster family while continuing with his education.

Housing for children/young adults who are not eligible for foster care is one of their biggest problems and providing some housing arrangement would make a great difference for them.

Potential ideas for SIBs mentioned in interviews (authors' own assessment)

Ideas from interviews	Which population should this target?	Are there compelling intervention programmes that would solve this social issue?	Does the financial model generate savings for the Local Authority and a return for the investors in an acceptable time frame?	Can the SIB financial model work?
Rural transport network	Elderly living in rural areas in which public transport is inefficient and deficient	Yes, volunteering in some parts of Slovenia (zavod Sopotniki), partly co-financed by users, companies, and municipalities.	Yes	Partly. At the moment there is an initiative for municipalities to co-finance the interventions.
Preventive visits at the homes for the elderly	Elderly of a higher age (presumably 70+)	Yes, volunteering	Yes	Partly. It should either be different from the existing voluntary programme, or the various programmes should be merged into one. The main problem is the lack of funding, not the absence of capacities.
Fall prevention	Elderly in institutional care	No	Yes	Yes
Comprehensive preventive programme	Elderly (aged 60 and above)	No	Yes	The idea is very broad and probably too extensive and costly. A pilot programme

				with a very targeted and limited population might work.
Taking care of the elderly living in a multi-apartment building without an elevator	Elderly living in a multi-apartment building without an elevator	No	Yes	At this stage, it's only about identifying the specific problem. Precise programmes/solutions should be developed.
ICT and the elderly	Elderly (aged 60 and above)	Yes, many activities in this field have been implemented so far.	Partly	The field is very broad. The idea needs additional elaboration. Never the less, the main problem can be found in the lack of funding, not in the lack of capacities.
Motivating discouraged young adults who completed their studies just before or at the beginning of the crisis	NEETs and older (30 - 35)	No	Yes	Yes, a more precise program should be developed.
Providing housing for the young	NEETs and all young up to 30 years of age	Only to a very limited extent. The needs are covered by the Public Housing Fund and some pilot projects	Yes	The idea is very broad, the population should be better targeted and a more precise program should be developed.

Providing housing for young people in foster care who have reached the age of 18 years (or 26 if studying)	NEETs and other young people who were in foster care and are no longer eligible for foster care.	No	Yes	Yes, a more precise program should be developed.
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4.3. Benefits, challenges, and limitations for implementing SIBs into the Slovenian welfare system

There are many benefits and challenges or constraints for implementing SIBs in Slovenia. In this paper we have avoided listing the general advantages and limitations of SIBs and tried to focus merely on those which are most relevant or specific to Slovenia, as noticed in the interviews and secondary sources.

The benefits of introducing SIBs in Slovenia

Service provision to hard-to-reach beneficiaries

Despite the strong welfare state that exists in Slovenia and the existence of numerous institutions that are successful in providing good social services, we still have unmet needs. There are still NEETs and seniors who are not reached through standard measures or pilot projects. SIBs offer the possibility to reach people whose needs are not covered through the services already in existence.

Strengthening the capabilities of the social enterprises

Social enterprises (according to the EU's operational definition and not merely according to the Slovenian register) and other third sector organisations are not the only possible providers of social services, but they seem to be the most suitable for this task. Currently, access to funding sources represents the main obstacle on the path to starting-up of social enterprises / to providing social services. Access to the necessary funding is hampered by the non-existent social impact investment market and social impact investors and a poorly developed support environment (Sražnik Lisjak 2016).

There have also been concerns that managers lack the know-how as regards financing opportunities beyond national and EU project support, because most social entrepreneurs come from the NGO sector which traditionally relies on grant funding. Social entrepreneurs with a business background are rare and far between (European Commission 2014).

Slovenia is lacking a system solution that would link the private financing sector with the social entrepreneurship sector. On the other hand, companies face a poorly developed support environment, with few intermediaries between social enterprises and investors. There are also no financial instruments that would allow this cooperation. SIB is one step forward because the introduction of SIBs would encourage the networking of social enterprises and strengthen their credibility in the eyes of both, the private as well as the public sector.

Involvement of private sector/investors in social services

According to literature, SIBs allow the integration of residents and communities into the development of the social economy sector. Besides, SIBs could lead to new or improved social services which could be provided in new innovative ways. Hence, the SIB model enables the government to use private support for testing alternative services and if the service proves successful, provide regular public funding. Moreover, new approaches could yield better results than existing public services.

Stimulating cooperation of experts from various fields and cross-sector cooperation

The development of the SIB framework requires knowledge in financial, legislative and impact measurement fields, as well as knowledge in the field of intervention. One thus needs to establish a

network of experts that would offer an in-depth insight into the problem area and create an opportunity for solving societal problems on a broader scale.

Besides, each social problem has various aspects and a number of stakeholders. It is important to understand which stakeholder deals with each aspect of the problem and to bring together all stakeholders who benefit from social services. For example, the physical activity of seniors does not only bring benefits for the seniors, as it is also beneficial for the health and long-term care costs.

Establishment of social outcome measurement standards

SIB implementation would lead to the adoption of uniform standards for the measurement of social impacts. The interviews revealed that the current measurement focuses primarily on the effect or even the output. The concept of outcome measurement would broaden the understanding of the outcomes to the inter-sectoral level and promote the consideration of long-term effects. It would result in performance-based allocations of funds from the state budget.

The introduction of the standards for monitoring the social effects of social enterprises is listed in the "Proposal for operational goals and measures for the implementation of the strategy for the development of social entrepreneurship and the role of individual stakeholder groups" by The Slovenian Forum of Social Entrepreneurship (2014). It reveals the expressed need for improved measurement of the outcomes in practice, although the measurement model for measuring the social impact of social enterprises in Slovenia has already been developed (Hrast et al., 2014).

Challenges when implementing SIBs in Slovenia

There are many limitations and challenges linked to the implementation of SIBs in Slovenia. Some of them cannot be easily resolved, while others should expect slow improvement.

Fear of privatising the social services

The public administration and service providers are generally not in favour of entering the private capital into the provision of social services, especially where there is demand for a particular rate of return. We can often hear that social services should not provide a profit and that all extra funds should be spent on the provision of social services and should therefore not be given as a return to the investors. Given the high level of public funding in Slovenia, non-profit organizations perceive SIBs as a process that can push out public funding. There is a fear that SIBs will lead to the monetization of social services and that the monetary dimension of the social services will prevail. This could cause a reduction in the scope and range of social services.

In general, the current Government (health-care system reform) and the general public have a negative attitude towards the role of the private sector finding a way of financing and providing social services. They fear that the private providers will jeopardise the supply of social services.

It is, and it will be inevitable to introduce and promote the understanding of the SIB model and the benefits of SIB implementation to the public administration. The following should be emphasised: the state pays the cost in any case (state bonds), the risk is transferred from the public to the private sector, the capacity to monitor and evaluate the outcomes and the high returns in the long run.

Due to the previously mentioned prevailing opinion, it would be good to use SIBs for innovative approaches and in areas/fields that lack any services or initiatives at all.

Lack of social impact investors

Although there are donors from the private sector, there is (almost) no capital available for social impact investments. The private sector that is acquainted with the concept of social entrepreneurship in Slovenia is not very interested in working with these companies. Investors are looking for investment opportunities, for which most Slovenian social enterprises do not have sufficient capacities, and the financial returns are not high enough (European Commission, 2014).

Despite the fact that there are various reasons for the investors' low motivation (for example, the capacity of social enterprises), we have to ask ourselves whether there are social impact investors who would want to invest in SIBs. So far the potential social impact investors from the private sector have not been mapped yet, but we could consider various donors as potential investors in SIBs. The newspaper *Moje finance* (2016) has prepared the list of the most generous donors in Slovenia. According to their research, the 18 largest donors from the Slovenian business sector donated 3.6 million EUR in 2016. The interest of these donors to participate in innovative financial instruments such as SIB is of course not guaranteed or is even questionable (for tax reasons, because implementing SIB is complicated, etc.).

Current social entrepreneurs revealed that their potential funding sources come from subsidies from the state, the European Investment Fund and other European funds, self-financing or self-financing by all employees and private investments. Financing with equity and debt capital is limited due to the poorly developed private investment market, strict credit terms and the lack of interest of the domestic investors (Seražnik Lisjak, 2016). There have been a few cross-border donations within the "Trans Giving Europe" network, and EuSEF and Charity Aid Foundation were also mentioned (European Commission, 2014).

The capacity of the social service providers

Most commonly social enterprises or non-profit organisations are service providers in SIBs, however, this does not necessary have to be the case. Therefore it is very important that social enterprises have the skills and capacity to provide the foreseen services. Concern was expressed that there were not enough social entrepreneurs with a business background. Besides, in most cases the current social enterprises are too small to attract international impact investors (European Commission 2014) or perform social services on a broader scale.

Many social service providers from the third sector lack sufficient funding and personnel, however, taking into account the circumstances, their services can be perceived as very good.

High transactional costs

The costs related to SIB are very high. Short-term and long-term standard costs are encountered: there is the upfront investment by the investor and the conditional payback with a return at the end. Besides the standard costs there are also associated or transactional costs: intermediaries' fees, legal and evaluation expenses. These high costs reduce the attractiveness of the SIB model, especially for the public administration and investors. Moreover, a small economy also means a small scale of social

services in absolute financial terms, which puts the high transactional costs into an extremely important perspective.

Implementing innovative models for financing social services represents a challenging task in a small country such as Slovenia. Hence, in a small country with small vulnerable groups (in absolute terms), it is more difficult to find projects that would be of an appropriate size (big enough) to be economically financed through SIBs.

Reluctance for profits in the social services sphere

Social enterprises and all other social service providers in Slovenia must be non-profit legal entities, meaning they are not established for the sole purpose of generating profit and that the excesses revenue is used for social entrepreneurship or other non-profit purposes (Social Assistance Act). Therefore, it is impossible to create any profit in connection with social services, and it would also be negatively perceived. Financial returns for investors in SIBs represent a controversial issue for the stakeholders, and not only for the public administration.

Tax treatment

No tax allowances are available, neither to registered social enterprises nor to social impact investors. Donors, for example, are entitled to a tax relief for assets that are given in cash or in kind up to 0.3% of the taxable income over the tax period. Some sort of special tax treatment should be made available also for SIB investors.

Measurement

Due to the lack of monitoring and evaluation culture in Slovenia there is also not enough experience in measuring the outcomes and the intervention impact. Data is not systematically collected and rigorous (experimental or quasi-experimental) evaluations are extremely rare.

Difficulties with identifying the social problems for SIBs

Slovenia is a welfare state and numerous social services are provided by the public sector. Besides, there are currently also numerous on-going projects/programmes in the field of social services that are led by volunteer organizations, philanthropic organisations, and various associations which are partly financed by the EU (ESF) or the Slovenian government. Therefore identifying a social problem area which could benefit from SIB implementation represents a challenging task. In the most problematic areas we already have knowledge and experience, as well as services and interventions, although they are often insufficient due to the lack of funding.

Legal aspects

At the moment it is unclear whether the current Slovenian legislation supports/allows for the SIB implementation. Besides, this paper does not focus on the legal issues. The most challenging issues at the moment seem to be the return on investment in the event of successful SIB implementation (paid from the state budget) and the demand for public procurement procedure.

5. Conclusions

The idea for implementing SIBs in Slovenia is challenging to say the least. So far no SIBs have been implemented in Slovenia. Moreover, the social economy sector is merely partially familiar with the SIB concept, while the remaining stakeholders (government, policy makers, local authorities, etc.) are almost completely unfamiliar with the concept. The interviews revealed that the fear of privatising social services is highly present in the Slovenian public sector. Besides, the social economy sector enjoys a moderate level of recognition, while also facing certain obstacles.

Slovenia fits in a group of countries with a very strong welfare system. The state provides the public services. However, not all public services are fully implemented by the state. The public service providers' network includes both public institutions as well as private profit and non-governmental organizations. Moreover, some services are provided by volunteer and philanthropic organisations. There are also many EU funded pilot programs in the field of social services, which all together form the wide range of social services that are already implemented in Slovenia. On the other hand, the lack of funding represents the main reason for the currently insufficiently performed social services. The scarce funding also represents one of the main issues in the field of social economy.

The main findings and recommendations are as follows:

- We need a campaign that would explain and promote SIBs and their benefits, if we wish this concept to be accepted. Each stakeholder should be approached with a topic that is the most relevant to him. The fear of privatising the social service sector, which is present in the public sector, should be tackled with great precaution. Our findings are in line with the experience of Dermine (2014) that the wording is important if we are to avoid ideological reactions from public stakeholders. The term "Social Impact Bond" is poorly chosen. Firstly, because the mechanism is not a bond per se, but most importantly because it refers directly to the financial jargon and therefore evokes the threat of "financialization" of the social services in Slovenia.
- Not all social problems can be solved through social impact bonds. The model is based on a transparent impact assessment model (including data regarding the problem area) and the readiness of all parties to contribute to problem solving. SIB is most suitable for financing new, innovative services which are currently not performed by the public sector, especially due to the reluctance to sharing the profits and the private sector entering the sphere of social services. Mapping and selecting the problem areas could be very demanding as many services are already available, albeit sometimes on a very limited scale.
- The lack of social impact investors was mentioned in interviews and reports on social economy. The private sector should be invited and attracted to participate in social impact investments. Awareness raising and tax incentives for social impact investments could be possible tools used for achieving this goal.
- Legal constraints linked to SIB implementation need to be carefully investigated by a group of various experts. As this is a new and demanding area, numerous issues are not clear at this stage.
- The mapping of eventual social providers would vary according to the chosen problem area. The mapping would be demanding due to the insufficient capacities which would make a large-scale commitment by the existing social providers questionable. On the other hand,

finding capable service providers could be problematic in a situation where several publicly financed programs are launched and extended simultaneously.

- In Slovenia we have only very limited experience with implementing evidence-based interventions and impact measurement. There is a need to develop adequate social impact measurement methodologies and methods.

This paper reveals only the views of the author(s) and interviewees, while some issues might have stayed below the surface. It would be extremely useful to perform a feasibility study and a pilot project in which the SIB would be implemented for the first time as this would reveal all of the currently unknown problems. Besides, we should keep in mind that although interviews were conducted in order to verify, update and supplement the information collected from secondary sources, it was not possible to consult all relevant stakeholders within the constraints of this study. Especially the legal issues concerning SIBs are beyond the scope of this paper, and due to their complexity, they should be a subject of an independent study.

An important precondition for a successful launch of social impact bonds can be found in the parties' interest and readiness to test the model. Firstly, state authorities should be motivated to seek opportunities for solving issues in their field of administration more effectively; they should also attempt to reduce the cost base. Secondly, investors need to show an interest in investing in social impact bonds. Thirdly, capable third-sector organizations with motivation to develop and offer new services need to be in place (Heateo Sihtasutus, 2015). Due to the current lack of understanding/capacities/readiness of all parties, it is highly unlikely that SIBs will be launched in Slovenia prior to 2020. Therefore additional communication activities and studies (feasibility study, study of the legal issues, study of the social impact methodology&methods) are necessary if we wish to change the existing attitude.

6. Literature

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