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# Social Investment Funds in Sweden: Status and Design Issues

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## Abstract

Long-term investments in individual and social human capital, such as preschool, school, family support, early-intervention for youth at risk and other programmes that are part of the welfare services provided by local government in Sweden are generally managed with one-year-ahead budget planning. Against criticism that the resulting resource allocation is biased by short-sightedness, silo mentality and risk aversion, more than a fifth of Swedish municipalities have in recent years established “social investment funds” for promoting investment and innovation views on such measures. This article provides a background on the motives and current status of these funds at the national level and describes in more detail the design and project funding in two cases. Two critical design issues are discussed; whether investment returns should be paid back to the fund and whether assessment should be made of other societal benefits than avoided costs.

Keywords: Social investments; investing in children; cost-benefit analysis

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## Introduction

Modernisation of the public sector has been set out by the European Commission as one of five key priorities to promote economic growth in the European Union (EU COM 2013a). Member states are asked to pay attention to reforms aiming at facilitating internal and external administrative processes; among others by strengthening the capacity for strategic and budgetary planning and encouraging innovation (EU COM 2013a). Further, in a “Guide to social innovation” (EU COM 2013b) the Commission emphasises that “(p)romoting social innovation within European societies and, more specifically, inside social politics, entails: - adopting a prospective view /.../ consistently with a logics of investment /.../” (p. 17).

A recent institutional change in a similar spirit is the creation of Social Investment Funds (SIFs) by a number of Swedish municipalities (Bokström et al. 2014, Hultkrantz 2014, Nilsson 2014). These funds are a means for promoting an investment view on local-government provided welfare services, such as schools, social work, care of children and elderly and labour-market programmes. In contrast to Social Impact Bonds and similar instruments in the UK and elsewhere that draw funding from private sources to social purposes, the SIFs allocate regular public funding for uses mostly within the public sector.<sup>1</sup> The novelty is in the focus on some innovation and long-term aspects that are taken to be underestimated in the ordinary budget planning.

Short-term budgets and planning horizons as well as poor skills in active risk management are often pointed out as major obstacles to public sector innovation (e.g. Albury 2005, EU COM 2013b),<sup>2</sup> for which a possible remedy is to assign resources to innovation funds that evaluate,

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<sup>1</sup> However, recently (in March 2016) a social impact bond scheme targeting activities within a municipality was set up in a cooperation between the social investment fund in Norrköping and a Swedish philanthropist.

<sup>2</sup> A similar criticism of budgeting in firms has been expressed by e.g. Hope and Fraser (1997, 2003) and Wallander (1999), but Marginson et al. (2006) argue that the conflict between budgeting (encouraging stability and risk-averseness) and innovation (which needs scope for experimentation) has been overstressed by these authors.

select, fund and administrate innovation activities as if they were business investments.<sup>3</sup> The SIFs are partly motivated by such considerations (Hultkrantz 2014, Nilsson 2014). Another main motivation is a wish to promote more dynamic, long-term and holistic perspectives in expenditure decisions that affect prevention and early intervention for children and youth (Bokström et al. 2014), as a result of a growing awareness that many problems on both individual and societal levels are the results of conditions in early childhood that can be corrected or mitigated at a much lower cost if done at an early stage (e.g., Heckman 2006). Also in this respect, alternatives or complements to conventional budget planning are sought that can overcome short-sightedness and silo mentality and thereby gain in dynamic and societal efficiency.

The SIFs have resulted from mostly spontaneous initiatives taken in some of the 290 independent, self-governed and mainly self-funded municipalities that constitute the Swedish local government level. As can be expected under such circumstances, there is a considerable variation in scope, scale and design that may affect the effectiveness of the SIFs as instruments for social innovation and promotion of long-term and societal perspectives on social services.

The purpose of the study is hence to describe the current status of SIFs and discuss some design features that may be critical for their success as instruments to encourage long-term and innovation perspectives in the provision of welfare services by local governments. For this aim we will briefly report results from a survey among municipalities on the current status of SIFs and describe in more detail the design of two of the most advanced SIFs, in the cities of Norrköping and Örebro, and give a brief overview of the projects that these have initiated. We will discuss how various design features may affect incentives from both an

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<sup>3</sup> However, as Albury (2005) points out, some of the most innovative public service organisations have no specific such funds as they believe that innovation should be part of the mainstream activity.

innovation and long-term perspective. In the two case cities, investment proposals are mainly evaluated based on their internal budget effects, so we will discuss to what extent standard CBA could be feasible.

Next section provides a background on why and how the first SIFs were established. This is followed by a national overview of the current prevalence and status of such funds. The

## Background

Needs for improvements of innovation governance and quality management in local government have been acknowledged for a long time by the national government, various national authorities and in the public debate.<sup>4</sup> This has been spurred by recurring concerns over issues such as public mental-health problems, poor performance in PISA and other international evaluations of education and a low or absent increase of productivity in the midst of the ICT revolution (Arnek 2014). Some problems that were identified in discussions over these issues are lack of coordination between government authorities at the central, regional and local levels; lack of coordination between divisions within the municipalities (e.g., between schools and social services or between preschool and school); and needs for enhanced prevention measures to correct negative developmental processes of individuals, groups, schools and districts. In response, a battery of national level stick and carrot measures has been launched over the years within education, health and social work policies, such as extended and stricter national legislation and ordinances, inspections and audits by specifically assigned national agencies, and national “coordinators” for mediating agreements between central and local level government and ear-marked grants for implementation of so called evidence-based practices (EBP).

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<sup>4</sup> See eg. Ds 2014:9 and SOU 2008:18.

However, these top-down efforts have had mixed results.<sup>5</sup> Central control of local governments is a demanding challenge as such and in the Swedish context municipalities' self-governance, which is granted by the constitution, aggravates the institutional complexity. Also, as pointed out by e.g. Petersén and Olsson (2014) EBP, characterized by standardized assessment instruments and manualised treatments "suffers from a dilemma whereby a narrow view of evidence is prioritised at the cost of relevance to social work". These authors contrast top-down EBP to bottom-up praxis-based knowledge that puts emphasis on social-workers experience and bottom-up governance. In this respect, the SIFs stand out by being bottom-up initiatives that are set up and administrated by the municipalities themselves. As will be described below, while SIFs to some extent are vehicles for implementation of EBP, they can also be seen as instruments for building praxis-based knowledge from treatments that are adapted to local circumstances and for which both costs and benefits may depend on the local context.

The spark that ignited the creation of the first SIFs was generated by work sponsored by a Swedish equity fund<sup>6</sup> in "social accounting" (Nilsson and Wadeskog 2013), i.e., evaluations of the total cost to society of some individual careers in crime, drug abuse, etc. A number of such exercises indicated that there are high potentially avoidable societal costs, and that a considerable portion of such costs are borne by the same local governments that are responsible for social services, preschools and schools and other activities that possibly at an early stage could affect these individuals later development. This therefore suggested that early interventions may not just be beneficial to society and the persons concerned, but even could be self-funded by invoked future cost reductions. This led the mayor of the city of

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<sup>5</sup> See for instance the recent evaluation of the national agreement between the government and the Swedish Association of Local and Regional Authorities on evidence-based practice within social services (Statskontoret 2014).

<sup>6</sup> "Ideas for life", belonging to the finance and insurance company Skandia.

Norrköping to propose the establishment of a local social investment fund,<sup>7</sup> so in 2010 the cities' municipality assembly decided to allocate SEK 40 million (Euro 4.2 million) for that purpose (Källbom 2014). According to the statutes, the fund was to be used for preventive measures that lead to lower future costs to the municipality while also giving "human benefits" (Norrköping 2010). Further, the cost reductions should be returned to the fund to be used for continued financing of social investments.

A crucial conceptual component of the Norrköping SIF is that sustained funding for new projects should be held by yields from previous projects. However, such returns cannot be based on contracts between external parties but have to be "paid" back by adjustments of future internal budget frames. For instance, if the SIF funds a school programme targeting potential high-school drop-outs that is expected to reduce the expenditure needs for the social-services administration in the coming years, resources can be reallocated in the overall future municipality budgets to the SIF by reductions of the budget frames for this administration division. While the original decision in 2010 states that returns shall be based on expected cost reductions it was later decided that these will be conditional on that these cost reductions actually are realised (Källbom 2014).

### [SIFs in Sweden: Current status](#)

The Norrköping initiative received much attention in national media and spurred a wave of proposals by local politicians from various parties all over the country to set up similar funds that eventually led to such decisions by several other municipality assemblies in the coming years. The Swedish Association of Local Authorities and Regions (SALAR) engaged by giving methodological and economic support to a few pilot municipalities, including Norrköping (Bokström et al. 2014).

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<sup>7</sup> Mayor Lars Stiernqvist, see Lundin and Åberg (2014).

However, the SIF idea also met some resistance. The reasons for side-stepping the ordinary budget process seem to have been unclear to many and some fear was heard that the SIFs were a tool for re-allocation of scarce budget resources to politically profiled projects of dubious value. However, during 2012 – 2015 all municipalities received substantial windfalls from re-payments of sick-leave insurance premiums for employees as a result of lower than expected costs for this insurance. Several municipalities used some of this money for funding SIFs, which then could be seen as making no infringement on regular budgets.

Another, maybe more important, problem was the formal position of SIFs in the municipality economic accounts. Fiscal policy, such as the use of automatic business-cycle stabilisers, is legally restricted to the national government level so municipalities are not allowed to run budget deficits. A consequence is that a municipality is not allowed to set aside resources for an investment fund if that leads to a current account deficit. As it happened, the political majority in the city of Göteborg decided in 2012 to allocate SEK 400 million (EURO 42 million) to a SIF, although the opposition parties claimed that this was against the fiscal rules. In the next year the city audit came to a similar critical conclusion. As a result some municipalities<sup>8</sup> decided against establishment of SIFs. However, partly because of the insurance premium windfalls most municipalities ran a surplus in 2012-2014 making this a non-issue in these years.

To get an overview of the spread of SIFs among Swedish municipalities we have combined results from a survey that was conducted by SALAR in May 2014 (SALAR 2015) with results from a web search. The SALAR survey received responses from 252 municipalities, which corresponds to 87 percent of the total number. We did a web search<sup>9</sup> to fill in some of

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<sup>8</sup> For instance the city of Halmstad in 2012.

<sup>9</sup> The web search was made in June 2014. The basic search was made in Google with first the keyword “social investeringsfond” and then this keyword in combination with specific municipality names. This search often led to newspaper articles, blogs, etc. referring to decisions and documents that in a subsequent search step could be found on the municipalities’ web sites. Protocols and other documents meetings with the municipality



the non-responses and to get documents, such as protocols, memos and reports that gave more insights into the local discussions and decisions made.

The result of this mapping is that at least 63 municipalities (21 percent) had allocated resource to an SIF in May 2014.<sup>10</sup> There were at least 62 more municipalities (21 percent) that were considering launching a SIF.<sup>11</sup> The total of allocated funds was SEK 1.3 billion (Euro 140 million), which is approximately 0.2 per cent of the annual total turnover of the sector.<sup>12</sup> The funds are generally small in both absolute and relative terms. Two thirds of the SIFs were endowed with SEK 10 million (Euro 1.1 million) or less. As can be expected these amounts are correlated with populations size.<sup>13</sup> The largest fund, Göteborg (see above), amounted to 1.2 percent of the annual turnover. More recently, in spring 2015, Stockholm launched a social investment fund with an initial capital of SEK 500 million (Euro 53 million).

While the web search suggested that there had been some rather tense local discussions on SIFs, there seems to be no clear political tendency in which municipalities that had allocated funds to a SIF. A simple political classification reveals that 20 of these were governed by liberal-conservative parties and 29 by left parties<sup>14</sup> (the remainder by mixed coalitions and/or local parties).

The overwhelming majority of the SIFs were only open for internal applicants but some explicitly invited also NGOs, social enterprises and other private actors (as for instance Örebro, see below). Figure 1, which is based on the results of the SALAR (2015) survey shows the target policy fields of the SIFs. The main areas were social services, schools, labour

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assembly, the municipality board and the municipality councils (for instance the school council, the social-services council, etc.) are public and can often be found online.

<sup>10</sup> 51 of these were reported in the SALAR survey.

<sup>11</sup> According to the SALAR (2015) survey 15 were preparing a decision and another 47 were “discussing”.

<sup>12</sup> Notice that all resources in the funds were not supposed to be distributed during one year

<sup>13</sup> The correlation coefficient is 0.9.

<sup>14</sup> I.e., Social Democrats and/or the Left Party.

market programmes and public health, but some municipalities mention also culture/leisure, health services and city planning.

### **Figure 1 here**

A closer look at the results of the SALAR survey reveals that less than 20 municipalities had elaborated policies for how to use the SIF as an engine for innovations. For instance, just 15 municipalities had developed guidelines for how experiences from the funded projects can be implemented in the mainstream activities. 13 municipalities had followed Norrköping by requiring return “payments”, of which 9 were contingent on actual cost savings and 4 “unconditionally”.

The web search shows that such payback requirements had been considered at several other places before being turned down by various arguments. For instance in Västerås, the city office refers to the difficulty in estimating cost savings, especially due to the long time lags involved and that such effects appear in different parts of the city’s organisation. (City of Västerås 2013).

Some municipalities that have made the payback conditional on outcomes state that return transfers should be made unless there are ”extraordinary reasons”, while some require that a project evaluation that ”clearly” shows that cost savings were not realised (e.g. , in Linköping). In an evaluation of the first year with the SIF in Södertälje (Skinnars 2014), one of the municipalities that has a conditional payback requirement, it is reported that two initiatives that had been close to a funding application had been withdrawn because of this. In one case this was because the concerned administration was not fully confident in the estimated cost savings, in the other because the follow-up requirements were assessed to be too demanding.

## Two cases: Norrköping and Örebro

In this section we describe the design of two of the most advanced SIFs, in the cities of Norrköping and Örebro, and give a brief overview of the projects that these have initiated. While, as already stated, the Norrköping fund started in 2010 with a capital of SEK 40 million (Euro 4.2 million), the Örebro fund got an initial capital of SEK 65 million in 2013, which in 2015 was extended to SEK 80 million (Euro 8.4 million). Both funds aim to promote measures that can prevent a negative development for individuals and thereby avoid future costs for the municipality by for example decreasing needs for extra support in school, special living arrangements supplied by the municipality, etc. Such efforts are also expected to have effects on future long term unemployment and social exclusion problems (Norrköping 2010, Örebro 2013).

In both municipalities, funding applications can be made by consortia that involve more than one administrative division<sup>15</sup> within the municipality. External actors are also invited to apply together with at least one municipality division<sup>16</sup> (Örebro 2013, Norrköping 2016). Funding is granted to innovative intervention programmes that are not part of ordinary activities and that have measurable impact that can be predicted and followed up, including estimates of predicted and achieved cost reductions. The programme period is limited to three years in Örebro, which also is the standard programme length in Norrköping although there is no formal limitation.

There are some formal criteria for selection of programmes in Örebro, but not so in Norrköping. The guidelines for the Örebro fund (2013) state that priorities shall be based on the following conditions: 1) Efficiency, measured by socioeconomic effects and municipality

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<sup>15</sup> The Swedish municipalities normally have separate divisions in charge of the administration of schools, social work, city planning, etc. A common criticism is that the organisational split is an obstacle to improvement of early prevention as the costs of interventions are borne by other divisions (for instance the administration of preschools) than those that benefit through reduction of future expenditure needs.

<sup>16</sup> In Örebro this concerns associations, foundations, cooperatives and charity organisations.

cost reductions. 2) Strength of expected cooperation between different organisation units. 3) Credibility of the predicted size and timing of effects and of the plan on how to measure actual effects. 4) Whether long-term effects are expected.

Each of the two funds has currently granted funding to six programmes (by March 2016). Three projects in Norrköping have come to a completion while all others are currently running. Table 1 gives a short overview of the programmes, target groups and main objectives.

### **Table 1 here**

As can be seen, most programmes target youth and children with a high risk for social exclusion (foster children, individuals with some disability, etc.), or already having problems (being absent from school, having a drug problem or engaging in criminal behavior). The main goal is to support these individuals to improve their long-term wellbeing and avoid future costs for the municipality. So far three programmes in Norrköping have been completed: *Service-trainee* (payback period 2013-2015), *Skolfam* (payback period 2015-2017) and *All children in school* (payback period 2015-2017). *Service-trainee* has returned the full amount invested while both *Skolfam* and *All children in school* have started to return money. *Skolfam* has been viewed as successful and is now part of the municipality's regular services. Some parts of *All children in school* have been included in the regular operations and there also plans to continue a *Service-trainee* programme (Norrköping 2015).

Both funds require conditional paybacks. When the expected cost reduction has been accomplished, the nominal value of the received grant shall be returned to the fund. This therefore implies that the magnitudes of actual cost reductions need to be assessed and, since the outcome of the impact evaluations in this way may have direct economic consequences, their quality is likely to become an important issue in the project planning. The payback

schemes include no interest or inflation charges.<sup>17</sup> In Örebro re-payments are supposed to start three years after the project start (Örebro 2013), while in Norrköping the full amount is required to be returned within ten years (Malin Bengtsson, pers. com. 2015-11-23).

The payback is done by a reduction in the budget (therefore only units within the municipality can transfer back money). Estimates of expected cost reductions, and the agreed distribution among the participating divisions of return payments, have to be stated in advance (Norrköping 2010, Örebro 2013). An overview of the sources for expected cost-reductions from the programmes in Table 1 is shown in Figure 2.

**Figure 2 here**

The dominant source in Norrköping is avoided placements at residential care homes, while the major source in Örebro is reduced social-welfare payments (which is the second most important category in Norrköping). Both cities expect decreases of costs of schooling. In Örebro the expected cost reductions are spread over more sources than Norrköping, which explains that a large part falls in to the category Other.

The impact of the first programme that was completed in Norrköping, the *Service-trainee* programme, has been evaluated. It is a remarkable fact that this is probably the first municipality-funded labour-market programme that has been subject to an impact evaluation, although numerous such programmes have been conducted over long time (Thorén 2012). The evaluation compares the intervention group, consisting of 30 long-term unemployed participants, with two non-randomly selected control groups; one including 30 individuals who applied for participation but, since there only where 30 positions available, was not accepted (reason for selection is not stated), and another with 366 individuals with the same

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<sup>17</sup> Programme costs include evaluation costs.

basic characteristics as the programme target population; i.e., unemployed, foreign born, with children, 27-65 years old. 83 percent of the individuals of the intervention group were no longer dependent on financial aid while the reductions were 42 and 39 percent, respectively, in the control groups. As a consequence there was a reduction in the amount of financial aid by 80 percent in the intervention group and 57 and 45 percent, respectively, in the control groups. The estimated effect of the intervention was thereby a reduction in the amount of financial aid by about 23-35 percent (Manninen 2014). However, it should be noticed that due to non-random selection there could be a selection-bias influencing these results.

### Design feature 1: Paybacks

A distinguishing feature of the Norrköping and Örebro SIFs are the payback requirements. As the national survey in 2014 showed most SIFs do not have a similar requirements and can therefore not be sustained unless they are refilled by new allotments over the municipality budget. However, the payback requirement is conditional on success, which means that the programme risk is held by the fund and that unsuccessful programmes will drain the fund.<sup>18</sup>

Obviously, issues arise on whether credible commitments for such future return “payments” can be made, since the internal budget frames will be affected by multiple other factors as well (and the political decision-makers can change as a result of elections every fourth year). A related issue is whether the payback is conditional on actual outcomes. In theory, a credible obligation for such payback can affect incentives in several ways, depending on the precise rules. Generally, such an obligation can be thought to play a role by marking an investment perspective, i.e., that resources are supposed to be allocated for productive uses, not for meeting immediate needs however urgent they are. An unconditional payback requirement (in

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<sup>18</sup> Another feature that could potentially drain the fund is the fact that the repayment are based on the nominal value of the investment. This will reduce the real value of the funds available.

contrast to a case when there are no such obligations) can be expected to reduce asymmetric information problems in the selection of investment prospects by deterring “noisy” applications from less serious applicants. On the other hand, a conditional payback requirement gives the involved actors some stakes in the quality of the project evaluations. In particular, impact evaluations (i.e., based on treatment-control comparison) are likely to reduce the risk of “type 2 errors” (i.e., falsely corroborating the null hypothesis) compared to conventional process evaluations (i.e., assessments of performed activities without control), and therefore the risk of having to pay back when the project was conducted in good order but the expected cost reductions were not (fully) realised.

However, since the paybacks are based on the plan in the application it is not only important that the effect becomes as expected, but also that the cost reduction following this effect is correct. As stated before the payback is based on the evaluation of the *effect* and this effect is valued according to the latest available information. Therefore if the information regarding the cost of a specific activity have changed since the application, the payback will diverge from the plan.

### Design feature 2: “Business case” or societal benefits?

Both in Örebro and Norrköping, programmes are evaluated based on how they affect costs of the municipality, i.e., the focus is on “business-case” opportunities for avoiding own costs, while it is “assumed” that there are societal benefits as well.

As can be seen in Table 1, children and youth are the main target group of most funded programmes. Several are expected to improve the results in school and thereby reduce municipality costs from less need for extra teacher support, fewer pupils who need to repeat

one grade and less need for help from school psychologist. Effects outside of school have also been included such as less need for special living arrangements.

However, from a societal perspective one of the most important effects from increased education is that it increases the individual's productivity. This will influence both the probability to get a job and the expected wage level. Some of the applications have indeed included an effect on the probability to get a job. This has been valued as the decrease in financial aid that are expected to follow. However, from a societal perspective a decrease in financial aid is not a benefit in itself. The standard method to value increased education is instead to estimate the increase in lifetime labor market earnings (e.g. WSIPP 2015, The Social Research Unit at Dartington 2013, Heckman 2016). Including this effect in the evaluation could have a large effect on how beneficial a project appears.

As an example, consider *Skolfam*, which is a programme that has been implemented both in Norrköping and Örebro. It targets children in foster care, which typically underperform in school (Vinnerljung et al. 2005). The programme has been mainly motivated by its expected ability to reduce costs for the municipality within a few years by for example reducing the number of children in need of special living arrangements and by reducing the number of children that have to repeat a class (Örebro 2015, Wiman-Olsson 2011). The ex post evaluation of this programme in Norrköping (Bernfort and Lundqvist 2014) indicated a benefit-cost ratio at 0.85- 0.93, based on the benefits from internal cost reductions. Thus, the conclusion was that *Skolfam* was not profitable, although, on the other hand, the cost-reduction effects made the net cost quite low. However, this picture could be different in the context of a societal cost benefit framework, as can be seen from the following back-of-envelope calculation of the involved magnitudes:

Preliminary data show that 80 percent of the individuals who have participated in *Skolfam* and finished primary education (class 1-9) did so with grades that give them access to upper



secondary education (class 10-12).<sup>19</sup> This can be compared to about 44-49 percent for boys and girls, respectively, in foster care in general.<sup>20</sup> Assume therefore, to be on the low side, that *Skolfam* will increase the share of individuals that complete upper secondary school by 20 percentage units. Further, Swedish data show that individuals who finished grade 12 are associated with 11 percent higher wage compared with individuals who only finished grade 9 (Fredriksson and Holmlund 2014). Several Swedish studies have, based on register data for monozygotic and dizygotic twin samples and on natural experiments, investigated to what extent such associations are causal. Based on a review of this literature Björklund et al. (2010, chapter 4) conclude that about half of the correlation derives from a causal effect. Using these numbers, the current median wage income in Sweden (SEK 291 000) and the payroll tax rate (28.97%) the present value (at a 4 percent rate of discount) of the causal effect from the *Skolfam* programme on the life-time earnings per individual can then be calculated to SEK 78 000. Adding this effect, the benefit-cost ratio of *Skolfam* becomes 1.30, i.e., it is now profitable. Furthermore, education can bring other societal benefits. For example Åslund et al. (2015) find that an education reform that prolonged the vocational upper secondary education with one year (from two to three years) reduced the number of property crimes, which thus suggests that measures that affect school outcomes may have effects on crime rates and thereby produce additional societal benefits.

Thus, while a “business case”, motivation for social investments may be important as a drive for social investment projects, it may lead to misleading results if not framed within a societal benefit-cost assessment. Unfortunately, models and data for such analysis at the municipality level in Sweden are mostly absent, but possibly the SIF “movement” will create an upsurge in development of such CBA tools.

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<sup>19</sup> Statistics provided by the foundation Allmänna barnhuset (pers. com. Dec 2015).

<sup>20</sup> Statistics provided by the National Board of Health and Welfare (pers. com. Dec. 2015).

## Conclusions

More than a fifth of Swedish municipalities have in recent years established social investment funds. We have argued in this article that at least some of them constitute an attempt to introduce long-term (as opposed to one-year budget planning) and holistic (as opposed to silo-mentality budgeting) perspectives in the administration of welfare services at the local-government level. The novelty is in how resources are controlled, not in how these resources are generated as the money, so far, comes entirely from transfers over the public budget. By a social investment fund, decision-makers can make resource-allocation priorities based on programme prospects that show how a specific resource use is expected to yield returns over several years, in various divisions within the municipality and, potentially, in society as a whole. Moreover, such ex-ante investment planning makes it necessary to delimit the funded programmes from regular operations, identify the main outcome variables and how they can be measured, which thereby provides a basis that can be used for ex-post evaluation of outcomes, i.e. for learning from practical experience. In this way, social investment funds could function as a platform for fostering innovation and systematic work for improving overall quality of welfare services.

We have discussed two critical design issues in this article; whether investment returns from cost reductions should be paid back to the fund and whether assessment should be made of other societal benefits than avoided costs. It can be observed that these must not necessarily be related. In the two “best practice” example cases of Norrköping and Örebro, only internal cost reductions are considered as investment returns and all such returns are required to be paid back, up to the amount of the initial grant and conditional on that the cost reductions are accomplished. However, many SIFs do not have such requirements and may also have a more comprehensive view on what benefits to consider in making decisions on which projects that will be funded.

There are several tradeoffs involved in these design features. On the one hand, the model used in Norrköping and Örebro conveys a clear message to all involved parties that the grants are seen as investments, that receiving a grant also is a commitment to produce results, that results will be evaluated and that these evaluations will have real consequences. On the other hand this model may bias investments towards programmes that yield returns in the very near future, such as labour-market programmes that can reduce a municipality's welfare payments, in contrast to for instance early interventions for disadvantaged children that may help them as adults in a more distant future. Also, it may lead to a focus on the municipality's own expenditure reductions instead of on societal benefits.

However, it seems that both Norrköping and Örebro have been able to develop programmes for funding by the social investment funds that have possibilities to meet the payback requirement and that to a large extent target children and youth and therefore may give rise to wider long-term benefits. Also, as we have noticed, the state-of-the-art in societal cost-benefit modelling of these kinds of measures, conducted at the local-government level, is yet not very well developed in Sweden, although work is underway. It may therefore be a constructive choice that has been made in these two municipalities to start with own "business-case" projects so as to introduce social investment "thinking" in the provision of welfare services. Later, when there hopefully will be better data and models available for projection of long-term societal benefits, the investment planning could be amended by explicit consideration of longer time perspectives and of benefits that are external to the municipality budget.

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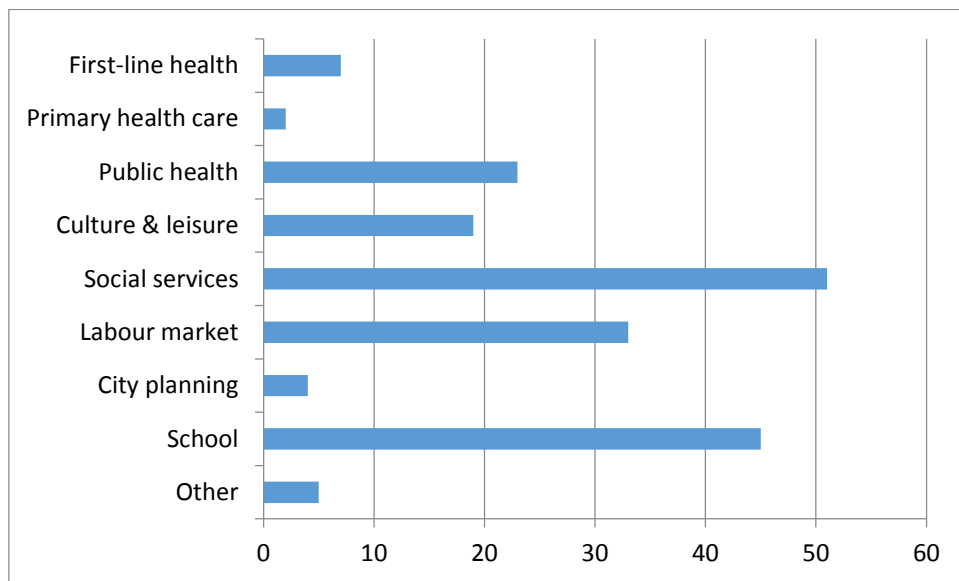
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Table 1. Programmes funded by the social investment funds in Örebro and Norrköping

<b>Name</b>	<b>Municipality</b>	<b>Target group</b>	<b>Objective</b>
<i>Solid Return</i>	Norrköping	Youth (14-20) with drug addiction and /or criminal behavior after institution treatment (SiS).	Decrease the risk of relapse and shorten the time of placement. To get the individuals back to studies, work or internship.
<i>All Children in School</i>	Norrköping	Youth and children (7-16) absent from school.	Reduce the rate of absenteeism and thereby increase the individual's performance in school, which will decrease the risk of social exclusion.
<i>Service Trainee</i>	Norrköping	Individuals (>26) dependent on financial assistance who speak one of the municipality's main immigrant languages.	Increase the probability to get a job.
<i>Skolfam</i>	Örebro/Norrköping	Children (7-11) placed in out-of-home care.	Fulfill the goals of primary education (class1-9), and get access to higher education.
<i>NP-centre</i>	Norrköping	Youth (13-23) with neuropsychiatric disability.	The individual should function well in his/her daily life.
<i>Drop In</i>	Norrköping	Youth (16-19) currently not in school or employment.	Get the individual back to school or seek contact with suitable authority.
<i>NP-cooperation</i>	Örebro	Youth (15-24) with neuropsychiatric disability.	Improve the individual's probability to manage and finish primary education (class 1-9) and class 10-12 but also to function in his/her daily life.
<i>Cooperation Sign Language</i>	Örebro	Individuals with sign language as main language with other limitations and not participating in the labor market.	Provide equal rights to financial and nonfinancial support.
<i>Cross-Competence Team</i>	Örebro	Parents and children living in an area with severe social-inclusion issues.	To change attitudes towards receiving for disability support in schools, social service centres etc.
<i>Spec. Pedagogical Skill Development</i>	Örebro	Children in kindergarten and pre-school in an area with severe social-inclusion issues.	Help teachers to early notice children with special needs and to give children the support they need.
<i>El Sistema</i>	Örebro	Children 5-7 living in an area with severe social-inclusion issues.	Give the children a feeling of social inclusion. It is also expected to improve the childrens' concentration and cooperation and thereby give better results in school.

**Figure 1** Target policy areas of social investment funds



Source: SALAR (2015)



**Figure 2 Sources of estimated cost reduction**

