A report by Sophie Nachemson-Ekwall
Senior advisor Ramboll Management Consulting Social financial infrastructure
Researcher SSE SIR CSR, Center for Sustainability Research
Stockholm School of Economics, SIR, and Sustainable Finance Lab

Sophie.nachemson.ekwall@ramboll.com
Sophie.nachemson-ekwall@hhs.se

July 2021

FORMING A MARKET FOR SWEDISH SOCIAL FINANCING. SOCIAL BONDS ETC.

Main message

Sweden is at the forefront when it comes to the financial market's commitment to the green transition with the goal of living up to the Paris Agreement 2015 and Agenda 2030. This is especially evident in the development of green bonds and green bank loans. But we are behind comparable western countries when it comes to Swedish institutional investors' and banks' commitment to engaging domestically in activities related to the social sustainable development goals. Being in the top-rank on citizen health globally does not mean that there aren't domestic Swedish challenges to tackle – such as loneliness among the elderly, mental illness, lack of socioeconomic inclusion, marginalized group on the labour market, deprived suburbs with run-down buildings and a general growth in the feeling of insecurity.

The report highlights the new thinking that is underway in Sweden, as the solution to today's complex societal challenges requires co-creation - not just collaborations - between society's various sectors - the public sector, the business sector and the value-driven sector, with its non-profits and civil society actors. This report describes how a changed mindset of the Swedish financial sector, towards a commitment to the social development of Sweden, can both contribute financial resources for proactive solutions that improve social and health outcomes and act as catalyst for transparent and systematic methodology related to investments for social impact, reporting and standardization of impact measurements.

- The report shows that a number of domestic institutional investors are committed to contribute to all of UNs development goals, also the social once related to their Swedish home market. This includes investing pension and savings capital in emerging financial instruments such as social bonds. But the report also shows that there are still some large investors who take a wait-and-see attitude.
- Municipalities, regions and the real estate sector, lead the development by starting to issue bonds and take loans tied to commitments to deliver on social goals. The report shows how they meet the social challenges of for example a deficient housing market, insecurity, lack of inclusion and mental illness. To this is added work with both civic engagement and civil society.
- The trend towards socially sustainable value creation also shifts the focus from just looking at how much resources that are allocated to the work with social proactive solutions to looking at the actual impact of a specific social program. The mind shift includes new ways of working, including private, public and value-based organizations collaboration to solve an agreed predetermined goal.

The report provides some clear recommendations:

1. Institutional investors need to invest more in organizations and activities that both have capability to deliver on a social commitment and manage to document and follow up on a social proactive investments impact on the target group and society.
2. The business community and the public sector need to commit resources to the development of standardized methodologies, which will facilitate the reporting of the societal value of preventive work, effect and impact measurement.
3. The government and the banks must act on the central role they play in shaping a financial market for socially sustainable financial instruments. This includes developing social bonds and loans, social outcome financing, but also social investment funds and social credit guarantees.

> Also the public sector needs more flexible accounting principles, that enable investments in social services targeting preemptive activities to be balanced over a period of years.

The report is a summary of a longer report available on Ramboll's website. The author is Sophie Nachemson-Ekwall, researcher at SSE SIR CSR, Center for Sustainability Research Stockholm School of Economics, SIR, and Sustainable Finance Lab and senior advisor to Ramboll Management Consulting. The report is part of a larger research project within the framework of KTH Sustainable Finance Lab

The report is based on two previous studies made by Sophie Nachemson-Ekwall on the emergence of a market for a Swedish social financial infrastructure. The background material includes conversations with almost 60 stakeholders, a literature review and searches in various databases for sustainable bonds. In the summer of 2020, a follow-up was carried out that mainly highlighted goal 11 of the UN's global sustainability goals - Sustainable cities and communities. This third report highlights the value of developing socially measurable goals. The report was compiled January 2021-May 2021. It is based on new conversations with the approximately sixty stakeholders interviewed in 2019, but also on supplementary conversations with about twenty stakeholders. This is a summary. The report is available in its entirety at www.ramboll /

Introduction

There seems to be talk about how to convert society in the direction of sustainable development everywhere. The issue is not new, but just 2020 marked a global turn towards more commitment to tackle climate change and a focus on long-term value creation in all parts of society. The Covid-19 pandemic highlighted the importance of a socially inclusive transition. This is reflected in the commitment to the UN's global sustainable goals, various EU policy documents and legislation, voluntary climate declarations signed by investors, the business community and various parts of the public sector. The calls for action from academia and civil society are numerous.

Sweden is at the forefront in several areas. We are involved in leading the development of green bonds, important for contributing to business and public sector investments for climate change. As a well-developed welfare state, we belong to the top tier in areas such as gender equality, equity and citizens' health. Still, we are not as good in the social field as we would like. Every day we are met with reports of housing market shortages, crime in vulnerable areas, growing exclusion and gaps between the city and country, young people's mental illness and the challenge of an aging population. For the citizens, the simplest solution, just raising taxes, seems increasingly unrealistic. Yet, the Government's work on Agenda 2030, which also includes new perspectives on Sweden's work on social goals, did not begin until 2020.

This report focuses on how all the capital available in our private pension-, savings- and public pensions funds (the AP-funds), together with other private capital, can join force with the public sector to strengthen the financing and solutions for our social challenges. These institutional investors already contribute to the green transition, among other things by lending money to municipalities and regions, but also the real estate sector and the business community. The shift that is now emerging is that Swedish domestic savings and pension capital are also starting to provide loans to organizations that offer to clearly contribute to a socially sustainable transition.

The development is already visible. In many western countries new financial instruments are attracting domestic institutional investors, including social bonds, social outcome contracts, social bank loans, funds for outcome financing and social credit guarantees. These are still uncommon phenomena in Sweden.

The report highlights the emerging market for social bonds, which mainly private property owners and the public sector have begun to show interest in. Efforts include affordable renovation of the public housing programs that were built in the suburbs in the 1960s and 70s, the so called “million programs”. At the same time, work is underway within municipalities and regions to develop a systematic approach to preventive social investments, where different financial tools for social outcome financing drive development. At the same time, there is a greater social commitment among private capital-owners, such as foundations and high-net-worth individuals. This shift in mindset towards social impact investing, includes a growing interest in social entrepreneurship, social innovation and, for a traditional tax-financed well-fare state, a growing understanding of the role that the organized civil society can play for enhancing citizens' trust and empowerment.

Swedish institutional capital has already made its mark in investments internationally, for example by lending to developing countries via the World Bank and SISD, a network for institutional investors set up by the Swedish International Development Cooperation Agency, Sida. In the summer of 2021, Sida guaranteed a social bond with the occupational penions-fund Alecta and labour insurance-company Afa as financiers. The report highlights that these investors now also turn to domestic opportunities. Several initiatives were presented in the first half of 2021. Kommuninvest, a society that issues bonds for 292 Swedish municipalities and regions, and the City of Malmö are both working to issue social bonds. In addition, Studentbostäder in Sweden, a listed provider of student housing, has issued a sustainability bond. There are also a variety of initiatives to launch social investment funds, from the public sector, from cooperatives and from the private sector. The bank SEB has launched so called sustainability-linked loans, loans that are linked to green and social goals for the overall organization, and not specific projects.

The shift, in the financial market towards following up its investments in terms of social impact, opens for a whole new field of expertise with subject area experts who have experience in calculating socio-economic effects, conducting broad socio-economic cost-benefit analyzes, working systematically with processes related to social change theory, and master different methods for measuring the effect of proactive social interventions.

Above all, the report points out that actors of business, the public sector and civil society organizations that can describe and communicate how they deliver a positive social impact will also be able to attract the new social finance capital.

What social investments are

The capital market's ability to invest in social bonds and other financial instruments that focus on social value creation rests on development in three areas. The first area relates to international rules and standards on social sustainability that impact the behavior of both companies and institutional investors. These include the UN's 17 sustainable development goals, the transposition of Agenda 2030 but also new accounting principles, the development of organizations such as the Global Reporting Initiative (GRI), the UN Principles for

Responsible Investment (PRI), and the EU Regulation on Sustainability-Related Disclosure Requirements, which is addressed directly to asset managers. EU's Green taxonomy, which makes it easier for investors to choose companies with an ecological and climate profile, is to be followed by a social taxonomy.

In parallel, a market for impact investing is emerging, where the investor's goal is to both create a sustainable return and contribute positively to social and/ or green transition. From a Swedish horizon, it is something completely new to, for example, to issue a bond on the international capital market with projects that are linked to social clauses and where the effect of the social efforts is also reported back to investors.

The third and final area is that as the market for loans and investments linked to social goals grows, standards must be developed for how the added societal value of the activity is measured and reported back, both at an individual level, for a company´s stakeholder or to citizens that pay taxes to a municipality, as well as the positive impact the proactive activity might have on a societal level.

For an investment to be classified as an impact investment, the investment or investment object must create positive effects that would not otherwise be achieved, what is called *additionality*. There should be positive net effects, when the positive and negative effects are added together. The effect must last over a significant time. The important thing is that the impact of the proactive solution is also measurable - in human well-being, societal savings or something else, what is called *intentionality*.

Social goals and social responsibility, when they go beyond basic human rights, abstention of child labor and the right to organize, require a changed approach. Just as when the financial market changes to channel capital to the green transition, the effect of social initiatives must be measured, followed up, evaluated and validated. But in the practical implementation, the differences between green and social goals are often large. The work with the green transition can lean towards science. The target group for the climate is us all, the planet. A real estate company that builds climate-smart can often control all the parts in the process itself.

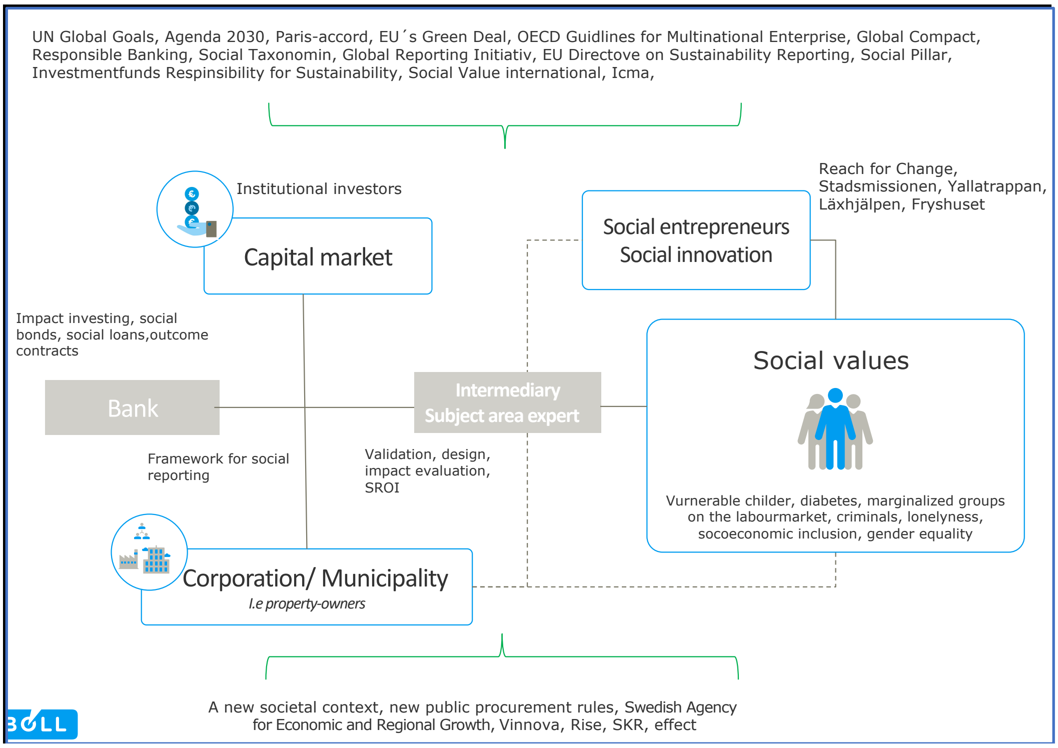
Social challenges in contrast, are often more complex than the green ones. They require an understand of the local context and the needs of individual target groups. A social activity often involves several actors for example the municipality, real estate companies, local businesses and civil society. A company can set goals on its own for, for example, staff turnover, the proportion of women in leading positions, and sick leave. But a completely different organizational work-process is required to secure human rights at the supplier level or improve security in a rundown neighborhood where a property is located.

Working with social benefits often requires a new approach. Research of the work of societal actors in breaking a negative spiral in Swedish run-down suburbs (built in the 1960s and 70s) highlights, for example, the need to shift the current division of roles between society's sector - public sector, private business and civil society and the idea-driven sector – to more of holistic thinking where actors with different backgrounds collaborate in new ways. Instead, groups of actors from different organizations come together, agree on both goals for the place or the group, and jointly present a roadmap on activities needed to realize the journey of change. Such a move encompasses a shift in the public sector away from management ideas built on new public management (NPM) to more of new public governance (NPG). It's a move that centerfolds the need of individuals or groups and in the process breaks down public sectors tendency to organize its service-offering in silos. The financial market can then be a catalyst for a system-changing perspective to achieve both a green and a social transition, by setting requirements for feedback on impact and measurable effect, contribute resources to bring together different stakeholders in complex collaboration processes and enable the dissemination of knowledge about which efforts work.

The socio-economic benefit of a preventive effort is calculated using socio-economic cost benefit analysis (CBA-analysis), which is an analytical method for calculating societal benefits in social projects. CBA analysis is common in the US. The Swedish public healthcare and many environmental organizations use the CBA method in their analyses. But it is unusual elsewhere in the public sector. It is possible to calculate the socio-economic value of preemptive value of security, handling mental illness or passing grades in ninth grade and a successful entry into the labour market.

An example of the calculation of the socio-economic value is Ramboll's calculations 2020 by Fritidsbanken, a social innovation that in a few years has spread to about 100 municipalities. Fritidsbanken contributes to 578,000 hours of physical activity in total over a year. This corresponds to 6,100 hours of physical activity per Fritidsbank that would otherwise not have happened. Based on contributions to the labour market (one employee and 2.5 trainees), positive climate impact, contributions to parasports, social inclusion and association life, the savings can be estimated at SEK 2-3 million per Fritidsbank. An average municipality with 36,000 inhabitants could receive a similar value from a Fritidsbank as from a recreation centre or a youth centre. This represents a potential This means a potential gross saving of between SEK 864,000 and SEK 1,764 million per municipality per year.

Social benefit as a complex collaborative process between several actors



***A complex process map:** A company or municipality wants to borrow money and identifies social loans as an alternative. The company partners with a social entrepreneur, private or from the civil society. The company enrolls consultants that advise and support the development of the proactive social solution in a systematic and reportable way. The company uses the documentation (framework) when it borrows money from a bank or an institutional investor and gets better terms/ reaches a broader group of investors by promising to create a positive social impact. The advisor / intermediary / subject area expert measures and follows up the company's social work and reports back to the company and lenders. The bank, the institutional investor, or an investment fund can in turn report back to its stakeholders that lending is socially sustainable.*

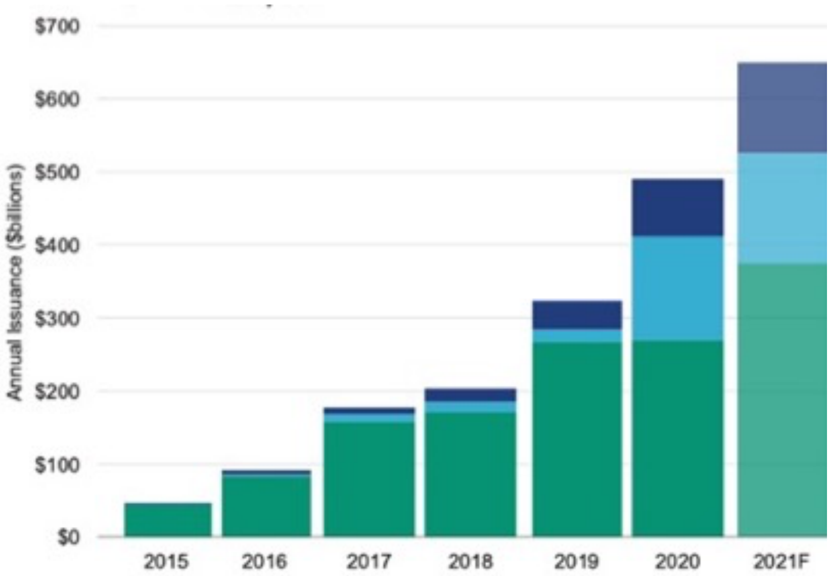
Swedish Standard SIS has together with the organizations Effective and Swedish NAB, and the auditing firm PWC established a group to develop a Swedish standard for social impact measurement. SHIC, a unit within the state research institute Rise, works together with Sweden's Municipalities and Regions to develop a culture for follow-up of preventive measures.

Social bonds

Nowhere in the financial and capital markets is the shift towards sustainability clearer than in the bond market. The global bond market is twice as large as the global stock market. Sustainability bonds are a relatively new phenomenon, and the first were issued by the World Bank in 2007 (in collaboration with the Swedish bank SEB). Companies, governments, municipalities and transnational institutions in particular have borrowed billions to invest in the green transition. A shift came in 2020. At that time, the market for bonds with projects linked to various social sustainability goals went from almost nothing at all to $ 220 billion, which corresponds to almost half of the market for all green and socially sustainable bonds issued that year. The effects of the Covid pandemic on society acted as accelerator, and we see that the development will continue in 2021.

The volume of social bonds is growing

Green, light blue (social), dark blue (durability)



Source: Bloomberg

Social Bonds that were specifically aimed at countries that worked with recovery after suffering from covid-19, the so-called "corona bonds", in 2020 still accounted for only 40 percent of all social bonds. An almost equal share of the social bonds issued went to loans earmarked for organizations that focused on employment (i.e Development goals 5, 8 and 10). The rest of the bonds were aimed at efforts to manage socio-economic development and autonomy as well as affordable housing or social housing. The development is led by organizations in France, the Netherlands, Spain and the USA. Among the issuers are several municipalities and regions.

Basically, sustainable bonds are ordinary bonds, but where the money is earmarked for sustainable projects that are defined in a separate document - a green or social framework that becomes part of the other bond documentation. What makes sustainability bonds so powerful for a sustainable transition of an economy is that investors become engaged in the borrower, something that has been unusual historically. Bonds mature after five or ten years. This means that the borrower constantly returns and ask for new money, thus offering an “examination-date” for delivering on previous commitments. This is seldom the case in the stock market, where new issues are unusual in most companies. In addition, each individual bond is often subscribed for by a few (domestic) investors, which paves the way for a close relationship between the investor and the issuer. In the stock market, an individual investor is often small and has difficulty exercising influence.

Most of the Swedish borrowers of sustainability bonds develop frameworks that follow principles from the International Capital Market Association (ICMA), such as the Green Bond

Principles GBP and the Social Bond Principles SBP. ICMA's principles can be applied to different bonds. The bond can be general, where the loan goes to different activities stated in the prospectus. The bond's payment can also be directly linked to a pre-specified project, a so-called project bond. It is also possible to use the bond-loan to refinance old loans or it can be linked to the company's entire balance sheet. The bond's return can be fixed or variable.

ICMA's principles enable a systematic description of how the social or green content of the project is planned, how they are managed, and how the feedback and follow-up of the work in the project is intended to take place. Thus, ICMA's principles become a common language that several parties use. This includes regulators, investors in the stock market and the loan market, the bank and the general public. The common language also contributes to the development of a common culture for how to evaluate the impact and effect of projects and initiatives in society and in companies. It facilitates the work of audit firms, sustainability consultants and subject area experts who help designing and follow up programs for proactive social solutions.

In April 2021, Principles for social bank loans were also presented, which are based on ICMA's principles. This creates a condition for Swedish banks to begin work on adding social sustainability criteria in the same way as green goals, in customers' loan programs with the bank.

The role of the Swedish financial sector

The Swedish bond market has almost doubled in size since 2006, from a market value of SEK 1,900 billion in 2006 to a market value of SEK 4,100 billion in 2020. The corporate sector and real estate companies increased their bond issuance from SEK 130 billion in 2006 to SEK 650 billion in 2020. The municipalities 'and regions' bond issues have tripled in size during the period, to SEK 160 billion, which still constitutes a small part of the market. The Swedish institutional investors together own two thirds of the bonds issued on the Swedish bond market. By comparison, Swedish institutions account for 20 percent of the capital on the Stockholm Stock Exchange. It is thus much more important how the domestic institutions invest their capital in the bond market and what requirements they place on borrowers than when they act as shareholder activists on the stock exchange.

During 2020 and the first half of 2021, Swedish institutional investors invested in covid-related bonds internationally, social theme-bonds in Swedish kronor were issued and, for the first time, bonds linked to social targets were also issued in neigbouring Nordic countries. In total, these were new investments in social bonds worth SEK 18–19 billion. The bank SEB has been most active as an issuer, closely followed by Danske Bank and Nordea. Among the borrowers are three real estate companies that have issued sustainability bond with green and social goals: Hemsö, Trianon and Studentbostäder i Norden. These are described in more detail in the next section. In 2020 and up to the first half of 2021, three social bonds have also been issued in the Nordic region. They were issued by MuniFin, Finland's equivalent to Kommuninvest and by Samhällsbyggnadsbolaget SBB, listed on the Stockholm Stock Exchange, both of which used the euro as their currency. The medical technology company Getinge is the only one among ordinary companies to have issued a social bond in Swedish kronor.

The report includes an interview study with 12 Swedish institutional investors and how they view investments in social bonds. A similar study was conducted in 2019. They can be divided into three groups:

1. ***Pensions-funds that are actively looking.*** This first group includes the state sponsored Second AP Fund, which is one of the earliest to actively choose investments that have a stated ambition to deliver a social impact. The group includes the 4 mutual life insurance funds, all of which have increased their involvement. Alecta is in the absolute lead, with social bonds totaling SEK 6 billion, a doubling compared to before. Folksam, Skandia and Länsförsäkringar have also invested billions.

2. ***Pensions- and retail funds that have begun a structured work on all sustainability.*** What is new is that the banks' retail funds have stepped forward. In 2020, Nordea invested SEK 2 billion in social bonds. Swedbank Robur, which in 2020 had a total of SEK 30 billion invested in sustainable bonds, also newly invested more than SEK 2 billion in primarily covid-related bonds.

3. ***Those who still lack a commitment.*** This group includes fund-managers who reason that the market for social bonds feature virgin characteristics, offering too few bonds with good quality to choose from and at a reasonable pricing. Also, many of these managers claim to have investment mandates that require them to invest in bonds with long maturities, and given that there is a limited secondary market for social bonds there simply aren't any to invest in. The group also includes those who see a risk with their money being used for "social washing".

Also, in the previous interview study 2019 the institutional investors were divided into three groups. The difference now is that the mutual life funds as a group have clearly moved their positions forward. An example of a mutual investor that has taken a step forward is Länsförsäkringar (that also has a retail fund mandate), which in 2019 and 2020 increased the proportion of sustainable bond investments from SEK 3.5 billion to SEK 17 billion (13 percent of the capital in all of LF's investments). Five billion clearly refers to social goals.

Folksam, which was an early investor in green bonds, but was missing two years ago, also made a turnaround in 2020:

"We were already involved in 2008 when SEB supported the issuance of green bonds. Now we wish to be involved in developing the social loan market as well. We wish to take a large stake in the bonds we enter. That will ascertain influence and we can deploy enough resources to familiarize ourselves with the issuer properly. We wish to have a close relationship so we can make direct contact if there is something."

Responsible for fixed income management, Folksam

In summary, the updated study shows that institutional investors can invest more actively in social bonds. The obstacle mainly consists of the lack of clear requirements and expectations from the boards and regulators of private and public pension- and retail fund.

The municipalities and real estate companies are leading the development

The Swedish corporate bond market consists of over 60 percent of real estate bonds. The Swedish real estate industry is internationally renowned for its work with the green transition. Now the real estate industry is at the forefront on the market for Swedish bonds with project-portfolios tied to social goals.

To date, three sustainability property bonds have been issued, with green and social goals, which have been issued in Swedish kronor and which are also aimed at solving social challenges in Sweden. All have been real estate companies, Hemsö, with a focus on community properties, Trianon, with operations in socially deprived areas in Malmö and Studentbostäder i Norden, which own student housing in areas close to universities and colleges. Hemsö issued a first bond as early as 2016 and followed up with several bonds in 2020 to a total value of SEK 2.8 billion. In addition, the bond market Nasdaq FX has listed a bond from Felagsbustadir, Icelandic Reykjavik's social housing company, which in 2019 issued a bond in Icelandic kronor.

Two Swedish public agents have announced that they are in the process of developing a framework for social bonds: Kommuninvest and the City of Malmö. The public democratic process, with demands for political support and collaborations across independent administrative units, means that it takes at least three to four years to go from idea to finished product. In a pilot project, Kommuninvest has given five loans totaling almost SEK 550 million to public real estate investments with promises to deliver on social commitments. The municipalities are: Eidar, Trollhättan's public developer of the city-center, Uppsalahem (renovation and redevelopment), Botkyrkabyggen (various projects), Botkyrka municipality (stormwater parks) and Ånge municipality's real estate company. Kommuninvest describes the social framework as a “game-changer” where municipalities and regions that want to participate are both forced to review their program for tackling social challenges and develop the plans for measuring effect and impact of proactive and preventive measures.

Kommuninvest handles borrowing for 292 of the country's municipalities and regions. In the social framework, Kommuninvest highlights some of the challenges that the public sector has to deal with:

1. urbanization, which has created major differences between metropolitan and rural municipalities
2. demographic change, with increased segregation and many young refugees, which places new demands on health care as well as on the education system
3. that socio-economic segregation is growing, something that can be seen in the difference in housing conditions, and this affects living conditions, cultural life and the development of democracy.

A loan-approval requires that the investment and the social effort must:
1. promote a socially sustainable society by developing practices, innovation or increased quality in terms of physical investment, social intervention or target group.
2. Participate in the borrower's systematic work for social sustainability or contribute to the development of such work.
3. Apply to a defined target group and be long-term.
4. Have clear goals and include systematic impact evaluation. Among other things, there must be a "baseline" to start from and clear target indicators.

The City of Gothenburg, with the help of the bank SEB, has begun to look at sustainability-linked credit facilities that can be evaluated against both green and social goals. The interest rate is then linked to how well the city delivers on set goals and is not linked to any individual investment project.

The work with the report includes a review of 30 real estate companies, both private and publicly owned, and their social sustainability ambitions. A common theme in the materiality analyzes of the annual reports is that security and safety is paramount to what the tenants value. It is also clear that the companies aim to improve quality control in the supply chain. A number address the importance of civic engagement and collaboration with other stakeholders around a given location, including civil society. A few more address the need for research-related collaborations and the need for standards that help to systematize and follow up pn the impact of preventive social work.

The review of the of the 30 real estate companies, and complementing interviews, provides space for some thought-provoking reflections on how the work with social sustainability can be developed. The first is that the companies that conduct systematic work linked to the green transition are also companies that are far ahead when it comes to working with social sustainability. Another reflection is that neither the Swedish system of rent regulation nor the public housing-company's requirements to deliver market return constitute an obstacle to reporting according to international standards for social and affordable housing. This may, for example, be a careful renovation of rental apartments in a socio-economically weak area where tenants can afford to stay. Also, a private property owner can offer to rent out apartments via the social administration through social housing contracts.

A third reflection is that a number of real estate companies describe their social sustainability work as a cohesive process and an integral part of the company's value creation. Rikshem, majority owned by an AP-fund and a mutual pensions fund, says that they carry out a systematic area development, the mutual pension fund Skandia has developed a tool for assessing urban development and Fabege, a mainly commercial property developer and listed on the stock market, has developed a model for collaboration with stakeholders in a certain area that covers a broad range of social indicators. Stena has developed a theory of change for her social work. Several real estate companies attempt to evaluate socio-economic and business economic benefits. The last reflection is that a number of the representatives of private property companies interviewed, mention that there is a lack of social bank loans and credit facilities.

In summary, the obstacle to social goals in real estate companies so far seems to be a combination of immaturity in the investor group, which, among other things, refrains from paying extra for the work required of borrowers who develop and document the work with social indicators. The real estate companies themselves are also uncertain about which social indicators may be relevant. The interesting thing here is that the development is moving in the direction of better quality in the use of and reporting of social indicators, and that the indicators are more clearly linked to the company's willingness to deliver both a positive societal impact and long-term value for for the busines.

Other financial instruments that highlight social benefits

Social bonds can be found at the top of the hierarchy in the market for a social financial infrastructure. Among various financial instruments, there are also social investment funds that in Sweden only exist as municipality or regionally sponsored funds. Internationally, the market for private social investment fund and social credit guarantee funds are growing, as are social bank loans, microloans to social entrepreneurs and dedicated funds for outcome financing. There are also several private initiatives underway.

The municipalities' work to develop an outcome culture for measuring effects of preventive social initiatives has been going on for some time. Here, new financial instruments that take social outcomes into account can be used, ie those that take into account society's savings and profits. This includes work with both the municipalities and regions social investment funds (SIF) and social outcome contracts (SOC). The advantage with the SIFs is that they enable a transfer of “profits” between administrative units, for example from the employment service to the school. Such a transfer of resources is otherwise not possible in public accounts where expenses for social initiatives must be booked on an ongoing basis. Current regulation only allows investments in property to be booked over different periods.

Studies show that the results of the work with internal social investment funds have been mixed, and this is one of the reasons why the development of social bonds has taken time. Some municipalities say that the funds have both strengthened cooperation between different administrative units and created positive and measurable societal impact. Other municipalities point to difficulties related to cooperation between units, that it is unclear who runs the projects, and a reluctance on the part of municipal officials to allocate resources to design, follow up and managing the results. In summary, the studies show that internal social investment funds have so far been disappointing.

Financing instruments that take the outcome of social initiatives into account are based on Theory of change and collaborations - management models where several actors work together to achieve a common goal. The models include that committed parties have agreed on

- a needs analysis
- any or some social effects they think it is relevant to influence and continuously follow up
- the effort or efforts whose effect they are to measure.

The parties can be municipalities, private financiers, social enterprises and an intermediary who takes care of the contract itself. The financing often includes some form of risk sharing between the parties so that all receive both the profit if it goes well, and the loss if it goes badly.

Social outcome financing

To the experience of the municipalities' work with social investment funds can be added the work that is going on around social outcome contracts (SIB or “social outcome contracts”, SOC). An outcome contract often involves four parties - a social enterprise that provides a service, a public actor that pays for the result, a private investor who finances the service production and receives an agreed amount when it is completed, and an intermediary - advisor - who sets up the outcome contract. Together, the actors agree on a recognized societal challenge, what the solution looks like, whether the measure is likely to be effective, and how it can be scaled up. If the result is positive, the investors are rewarded, and the municipality pays out a predetermined amount. If the result is negative, the investor conversely loses part of his invested capital, but the municipality does not have to take the full loss.

To date, approximately 210 outcome contracts have been issued globally. Most are found in the western world, many of them in the USA, Great Britain, the Netherlands and Portugal. Common themes are welfare issues such as health, education, reintegration of criminals and employment promotion measures. A review from the Brookings policy and research institute shows that the instrument has attracted a new type of financiers. For example, the American investment bank Goldman Sachs invested in several outcome contracts issued by New York City to reduce the proportion of repeat offenders, improve education, criminal law and the environment.

In Sweden, social outcome contracts have had difficulty gaining momentum. They have been overshadowed by the political quarrel over "profits in the welfare sector" as well as the work with the municipalities and regions internal social investment funds. Nevertheless, trials with outcome financing are underway in Sweden. This includes Botkyrka municipality, which has developed a program to manage the municipality's sick leave. The program is implemented by an external actor but is financed internally through the social investment fund. The municipality of Norrköping and Leksell Social Venture, a social investment company, set up a social outcome contract for young people placed in HVB homes in 2016.

In Norrköping's social outcome contract, it was the municipality that delivered the service, which among other things consisted of support with school work. Leksell Social Venture undertook to lend up to SEK 10 million to the municipality to implement the contract. Assignments Mental Health at Sweden's Municipalities and Regions was, together with the state research institute RISE and the unit for preventive social work, SHIC, and the private company Lumell Associates intermediaries responsible for supporting the development, implementation and follow-up of the contract.

The evaluation shows a mixed result, where the effort turned out well for several of the young people. But the evaluation also showed that the measurement period of 3 years was too short to give a clear result. In addition, according to the design of the contract, the municipality did not make the expected savings and Leksell Social Venture therefore did not receive the expected return on the loan.

The Stockholm Region launched a Swedish social outcome contract in June 2020. The contract is valued SEK 30 million and includes a digital care application for proactive health care to prevent type 2 diabetes. The life mutual Skandia is a financier and the bank SEB has developed the financial model. Health Integrator delivers the digital platform, which was developed together with researchers at Karolinska Hospital.

The main obstacle for a Swedish market for outcome financing to take off seems to be the difficulty of finding a financing model that enables the actors and investors involved to share the risks in projects, and to transfer costs and savings / indirect profits between different public administrations and time periods. In other western countries that have both social bonds, social outcome contracts and social loans there also exists a supportive financial infrastructure in parallel. Sweden, on the other hand, lacks a state-sponsored social outcome fund, and an investment and credit guarantee fund. Several proposals, private as well as public, for investment funds have been developed and presented to both politicians and government officials. This includes SHIC, which together with SKR, has developed a model for national outcome financing. The fund will be a few hundred million kronor and funding will come from the state as well as various EU funds. The vision also includes the existence of a network of private social investment funds, similar to the network in the United Kingdom. The fund must also include advisors and metrics reporting. SHIC's vision is based on experience from initiatives in other countries such as Finland, the United Kingdom, Canada and Denmark. SHIC has also been inspired by the Washington State Institute of Public Policy, which has developed methodologies for compiling socio-economic cost-benefit analyzes of evidence-based programs across the welfare state.

In June 2021, Laurent Leksell, the founder of Leksell Social Venture, announced that he would privately contribute SEK 300 million to Leksell Social Venture to develop the Swedish market for social outcome contracts.

Final reflection

Do socially sustainable financial instruments have a place in a well-developed welfare state like the Swedish one? If the question goes to national politics, the question is left unanswered. At least very little is still being done by the government and the parliament (Riksdag) to develop a Swedish social financial market or an outcome-culture that measures and monitors the impact of preventive social initiatives. The Government's work to integrate climate policy into all relevant policy areas, which was adopted by the Riksdag in June 2020, also includes targets for the financial market. A similar plan for the social field is lacking. The work on Sweden's strategy for Agenda 2030 is still ongoing. That is why the emergence of a Swedish market for social bonds and going forward also banks' offer of social loans and sustainability-linked lending frameworks, is so interesting, working against “all odds”, for future developments.

The financial instruments point to the need for standardized processes where the business community, institutional investors and banks together develop a model for co-creation rather than working separately and delivering different parts that have been the norm in the past. Civil society organizations must be given the opportunity to participate as an equal party. As it looks now, it is the private real estate industry and Kommuninvest together with several municipalities that are at the forefront of developing socio-economic societal analyzes and social indicators, that can be followed up and from which the effect can be evaluated. Yet, the work could speed up if public sector accounting principles opened investments in social services targeting preemptive activities to be balanced over a period of years.

In sum, the report outlines a development where sustainable and social bonds can play the role of catalyst for Sweden’s work with Agenda 2030 to enhance a socially sustainable development. A market for social outcome contracts can then emerge in parallel, even if it takes longer. If 2020 marked the start of the international financial market for social bonds, this report shows a Sweden that in 2021 is underway, with the possibility for a take-off in 2022 or 2023.

References:

ESO report (2019) “Social investments in Sweden's municipalities and county councils. Balkfors, A; Bokström, T and Salonen, T. ESO.

Nachemson-Ekwall, S (2020) Social bonds. Tools for an inclusive adjustment. Global Challenge October. https://www.globalutmaning.se/rapporter/sociala-obligationer-verktyg-for-en-inkluderande-omstallning/

Nachemson-Ekwall (2019) A Swedish market for sustainability-related and socially labeled bonds. Institutional investors as drivers. SSE Working Paper Series in Business Administration, Stockholm School of Economics. No 2019: 3. December.

https://swoba.hhs.se/hastma/paper/hastma2019_003.1.pdf

Icma (2020) Social Bond Principles (SLB) Guidelines June.
https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/