Nordregio

Scaling up Nordic impact through public procurement

A review of literature

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Foreword

In the Nordic countries, the welfare system is experiencing a growing pressure. Ageing populations, lifestyle diseases, a changing environment, migration, and a global pandemic have strained public expenditures. There are innovative solutions to address Nordic welfare challenges along with financial instruments and investor capital. However, the linkages between existing knowledge, available capital, innovative solutions, and public procurement are missing. Social impact start-ups are capable of merging these to the benefit of the Nordic welfare societies. Therefore, we need to understand the main barriers and enablers for social impact start-ups to break through the public procurement wall. Collaboration among public authorities and impact start-ups is a powerful engine for change and sustainable growth. Yet several widely held beliefs prevail and threaten to hinder the progress of the Nordic impact start-up ecosystem.

This working paper **"Scaling up Nordic impact through public procurement – a review of literature"** is part of a larger project with the aim to conduct an explorative study of the impact ecosystem. The review of literature has provided the foundation for the continued work that involves understanding the social impact ecosystem from four perspectives: 1) public stakeholders, 2) start-ups, 3) start-up investors, and 4) institutional investors who finance new payment methods. Furthermore, the project partners will bring the knowledge into action through pilot cases. These cases will facilitate collaboration between public actors responsible for procurement and social impact start-ups working with relevant welfare solutions.

This review of literature is an important contribution to the Nordic knowledge base on social impact start-ups. By making it publicly available, we hope it can benefit a wide variety of stakeholders working with procurement schemes. An important finding is the need to continuously work towards improving a Nordic model of governance whilst working to support private social entrepreneurs in addressing pressing societal concerns.

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Introduction

In 2019, it was estimated that, of 5,000 Nordic start-ups, 10% included solutions that addressed the 17 United Nations Sustainable Development Goals (SDGs). However, many of them struggled to make a profit, especially at the early stages and mostly due to a lack of access to the market and to the right supporters (The One Initiative 2019). Considering this, Nordic Innovation has funded this desk study for mapping barriers and enablers of impact start-ups through public procurement.

An impact start-up contributes with innovative solutions to a welfare state under pressure. Impact start-ups engage different agents with complementary skills to offer solutions in areas such as the education sector or to provide services and care to vulnerable groups in society (e.g., minorities, youth, and those suffering from reduced ability to work or long-term unemployment). Over the last 3-5 years, several new procurement contracts and financing methods have been developed in the Nordic Region. By identifying main barriers and enablers for impact start-ups throughout the Nordic countries, it is possible to better understand the potential for participation in public procurement processes as well as interactions and funding streams from private investors, both of which can help to sustain start-ups.

This report consists of two sections: The first part addresses barriers to public procurement, enablers for social innovation, and institutional support measures. In part two, we evaluate how Nordic municipalities use alternative financial models such as social impact bonds (SIBs) and public-private partnerships to achieve social impact. The content is developed from the perspective of impact start-ups and entrepreneurs, institutions, public-private partnerships, and impact investors. Each perspective considers the barriers and enablers for impact start-ups according to their spheres of action. By reviewing the existing obstacles and opportunities facing impact start-ups in the Nordic Region, planners and policymakers can improve the legal framework to remove barriers and strengthen existing enablers to help impact start-ups meet societal needs.

Defining a social impact start-up and related concepts

A **social impact start-up** (up to five years old) offers a business model that provides solutions for existing welfare challenges. Therefore, they positively impact society while also making money (Den Sociale Kapitalfond 2022). Similarly, a **social entrepreneur** is an entrepreneur or company that gains income under regular market conditions but re-invests surplus to resolve a societal challenge (Brøgger 2017; Wallenberg Academy 2017).

Some public actors concretise this, stating that, to be considered a social entrepreneurial company, the company must re-invest over 50% of their profits to further their societal goals or otherwise maintain it as a priority (Suomalaisen työn liitto 2022; Tillväxtverket 2022). For both impact start-ups and social entrepreneurs, **social innovation** is a cornerstone in the business model. Social Innovation "refers to the design and implementation of new solutions that imply conceptual, process, product, or organisational change, which ultimately aim to improve the welfare and well-being of individuals and communities" (OECD n.d.). While accounting for the variety of related terms, this study will focus primarily on **social impact start-ups/entrepreneurs** that provide **innovative solutions** to welfare challenges.

Central for social impact start-ups is supporting an inclusive work life. The start-ups offer new products, services, and technologies that strengthen societal diversity and inclusion. They are also examples of new pathways for the labour market in terms of enhancing the quality of the work life. Impact start-ups are particularly apt for striving towards goals to improve health and well-being, supporting solutions that have the power to generate change, making education and employment more inclusive, and encouraging communities to become more sustainable and resilient. Figure 1 illustrates this dynamic through the four pillars of societal contribution, which also have positive spill-over effects for several sustainable development goals. Impact investment and innovative enterprises are key to reaching several SDGs such as ending poverty, ensuring health and well-being, ensuring quality education for all, promoting decent work for all and sustainable economic growth, reducing inequality, and making cities and human settlements more inclusive, safe, and sustainable.

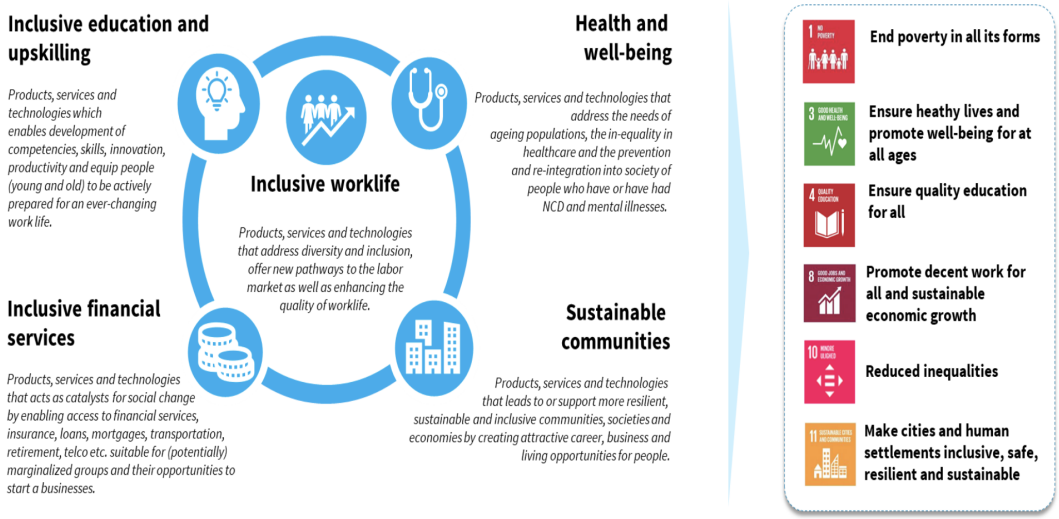

Figure 1. *Four pillars of impact start-ups and relations to SDGs.*

Methodology

In this study, we followed a search word directory provided by the project partners, Den Sociale Kapitalfond Accelerator Management (Denmark), Prosper Impact Consulting (Sverige), Impact Startup Norge (Norway), and Epiqus (Finland). We searched the academic research database Scopus for relevant research from the last 5 years (2017-2022). The first search round provided us with information on which search words yielded most results in the Nordic conditions, and we focused more on this group in our subsequent search rounds in government literature directories and media databases.

Since the field of impact investment is relatively new, it is shaping up differently in each Nordic country, with different emphases. Therefore, we address each country individually. Because the term 'social impact start-up' is a specific and rather new term connected to the accelerator programmes in the Nordic countries, it is not common in the literature and reports. Consequently, we have applied other terms such as 'social entrepreneur' and 'social innovation' as these are interchangeable in some cases, and there are many lessons to be harvested in the studies conducted using this terminology.

To create transparency for this desk study, the next paragraphs will present the terminology applied in each country along with the search words in the local language providing most results:

Finland	Both Finnish translations of key terms and their English counterparts were used in Finnish searches, including 'yhteiskunnallinen yritys' OR 'yrittäjyys', 'yhteiskunnallinen kasvuyritys', 'yhteiskunnallinen innovaatio', 'yhteiskunnallinen start-up', 'sosiaalinen' OR 'yhteiskunnallinen innovaatio', and 'vaikutussijoittaminen'. Of these terms, 'sosiaalinen innovaatio' yielded most results.
Sweden	Country-specific search terms included 'social entreprenör', 'socialt företag', and 'startups + social innovation' (limited to Swedish). 'Social entreprenör' and 'socialt företag' were used rather interchangeably in many references; however, according to the government innovation agency Vinnova, these terms have slightly different connotations. A 'social entreprenör' or 'smahällsentreprenör' includes meeting social problems as an integral part of their business concept, while a 'social företag' is more focused on combining profit-seeking goals with generating social benefits. 'Social innovation' in Sweden is defined as any innovative services, products, or ways of doing things that seek to meet societal challenges (Vinnova 2018). Of these terms, 'socialt företag' yielded most results.

Norway	The term 'social impact startup' is not common in the literature and reports in Norway. The term 'sosial entreprenør' seems to have been established in the last 5-10 years in Norway, and several government reports have been written specifically on social entrepreneurs and their role in society as well as the possibilities for the public sector to collaborate with or procure from them. Literature and reports on 'sosial entreprenør' and 'start-up' exist. However, most relevant for this desk study is literature about social entrepreneurship and innovative public procurement.
Denmark	In Denmark the terms 'socialøkonomisk virksomhed', 'social entreprenør', and 'social iværksætter' are most commonly known. 'Social impact start-up' is mostly used in connection to accelerator programs funded by Den Sociale Kapitalfond. From the searches, it appears that 'socialøkonomisk iværksætter' and 'social entreprenør' were the most used terms and were the most relevant to study the national landscape concerning main barriers, determinants and enablers, and institutional support measures.

Photo: Alejandro Escamilla

Part I: Barriers, enablers, and support measures for impact start-ups

Part one of the review examines barriers, enablers, and support measures for start-ups in a Finnish, Swedish, Norwegian, and Danish context. The **barriers** for impact start-ups' participation in public procurement concerns public administration models, the competition with larger and more established suppliers, lack of local leadership and capacity to prioritise collaboration with impact start-ups, and resistance to change. Following the **barriers**, we review **enablers** and **institutional support** needed for Nordic impact start-ups and public procurement processes to be successful. Here, the main points concern national agencies supporting impact start-ups, participation in networks and dialogue activities, and establishment of public models that supports innovation partnerships.

Main barriers for impact start-ups' participation in public procurement

The annual amounts spent on public procurement are Sweden, EUR 77 billion; Finland, EUR 47 billion; Denmark, EUR 51 billion; Norway, EUR 63 billion (Huynh *et al.* 2022; KEINO 2022). Since the possibilities related to impact start-ups remain relatively unexplored in public procurement, it is necessary to understand any structural barriers that limit possibilities for public-private cooperation. Many obstacles facing start-ups relate to stiff bureaucracy, such as contradicting administrative legacies and silo organisations, lack of competence and time, or a lack of transparency about public procurement. Below, we discuss the main barriers in each country and offer some recommendations on how impact start-ups can transcend these hurdles.

Finland

There are several different governance logics in the Finnish administrative, all of which are active, to some extent, in municipal decision-making today. These layers—the traditional Public Administrative model (PA), the New Public Administration model (with goals of corporate-type leading and enhanced efficiency), and the New Public Governance model (introduced in the early 2000s and which relies on internal and external networks)—make the procurement process slower to adopt new and innovative models. As a result, the public procurement decision-making process is, in essence, a bureaucratic-legalistic affair with exact definitions of right practices, a risk averse mentality, and little communication. This combination is incompatible with the ideals of open communication, reciprocity, and common goals that could help boost innovative procurement. For example, municipal budgets are not flexible—they would not allow shifting funds from one cause to another in the middle of an election term. Currently, the municipalities have less time to improve the residents' well-being by conducting preventive and anticipatory work, and they mainly focus on filling their obligations and fulfilling official goals without making mistakes (Kyösti Airaksinen 2020 2021).

Related to this, short-term benefits are favoured over long-term ones, making it more difficult for certain innovation schemes to break through. Some innovations generate savings to one city department but bring costs to the department in charge of developing the scheme, so they are likely to be abandoned. Furthermore, institutions tend to take a reactive stance towards innovations, often waiting for private entrepreneurs to make an initiative rather than proactively seeking them out. These traits underline the importance of cross-departmental work ; Moriggi 2020). Also, local city officials see the public procurement rules as cumbersome and inflexible but point out that the system becomes easier to work with if officials are experienced, thus enabling them to interpret the benefit for the innovation (Makkonen 2018).

According to researchers in public administration, different sectors do not interact with each other enough, and there should be more practices that are able to cross boundaries between sectors. At the moment, services are usually categorised according to different sectors. This becomes a challenge because many impact start-ups that offer welfare solutions are cross-sectoral and fall between local departments. Furthermore, the language used in promoting innovative procurement is often too abstract, originating from the bureaucratic system instead of the lived reality of the client. Instead of dealing with specific social challenges, which is the situation now, Finnish society would benefit from more preventive work that is able to address a problem before it grows (Kyösti Airaksinen 2020).

One considerable problem in promoting social innovations based in results-based financing in public procurement is determining when the project has been successful, in other words, finding the right indicators, especially monetary and quantifiable ones, and creating specific models. Problems related to health and well-being are typically complex and long-lasting, which adds to the problem. Partially for this reason, creating new social impact investment models is a long process (Kyösti Airaksinen 2021; Manninen 2020). These same difficulties in measuring impact and creating interactivity between public and private actors have prevented the introduction of more innovative elements to public procurement practices (Pelkonen Valovirta 2015).

Small municipalities find it difficult to allocate time away from their daily responsibilities for furthering social impact-related work. Major barriers are lack of data and know-how and lack of

resources such as time and staff. When there is enough data, it may be outdated (due to delays in statistics), or people experience difficulties in combining different types of data and adapting it into local conditions. Without sufficient information, it is difficult for municipalities to initiate collaboration with impact start-ups, and deputies making political decisions of future procurements should have enough information about the municipal conditions well in advance. Furthermore, smaller municipalities must currently use external resources to make procurements because they do not have in-house resources e.g., an in-house lawyer (Manninen 2020). Municipalities believe they would have sufficient know-how to utilize data efficiently if the above-mentioned problems were solved (Kyösti and Airaksinen 2021; Manninen 2020). Current problems are emphasized by the fact that municipal budgets are planned only a few years in advance, which is not enough time for meaningful preventative and innovative work (Kyösti and Airaksinen 2020).

In addition, there are some issues that are specific to start-ups active in public procurement, in comparison to established players. These include a lack of expertise and resources (financial and human) in preparing the tender documents, lack of references, and lack of expertise in pricing their offering. Due to their position as newcomers in the market with less-tested solutions, they lack long-term relations with municipal experts and, as a result, are unfamiliar with authorities making the decisions. All these reasons hinder the prospects of social impact start-ups.

Some of the current problems could be solved if more cooperation and information exchange existed between local city governments, for example, within the Finnish capital region of Helsinki, Espoo, and Vantaa (Makkonen *et al.* 2018).

Sweden

Solving time-consuming, complex, and multi-sectoral issues with innovative solutions requires not only cooperation but also co-creation across societal sectors. Currently, taking up these approaches is difficult because the Swedish society is divided into sectors of public administration, private business, civil society, and innovative start-ups, and collaboration across these divides requires effort. Preventive, social projects currently face obstacles in the public sector, not only because profits are slow to materialize, but also because, when they do emerge, they often benefit a different department than the one responsible for the project. Furthermore, as a strong welfare state, Sweden lacks history with building private social financing infrastructure and utilizing instruments such as social investment funds, social loans, impact bonds, social credit guarantees, or cooperative banks with a clear social focus. In sum, there is need for financial support that is also more innovative and adaptive (Nachemson-Ekwall 2021; Vinnova 2018).

Current issues that prevent social investment models from becoming established have to do with lack of practical knowledge and evaluation skills, lack of institutional funding, regulatory complications related to the newness of the model, and bureaucratic issues related to resistance towards change. Some of these issues may be solved by increasing the scale and number of projects involving social innovations. This would reduce transaction costs and help build a model that would work for all stakeholders. In addition, the Swedish welfare model is somewhat resistant to reforms in social investments. This is because Swedish municipalities are highly influential actors as welfare service providers with large financial capabilities of their own; therefore, they have a much more active role in the field than what the investors might assume. Developing meaningful and helpful metrics has also been a challenge in the Swedish case and has caused extra work for the municipalities, which often do not have the reporting capacity expected by private investors. According to interviews among Swedish stakeholders, a large, centralised operative unit would be needed to transcend barriers, facilitate projects, and connect different actors. The state and private banks could take more active roles, for example, by creating more incentives to reduce administrative work and decrease transaction costs, or by building new financial infrastructure based on social investment with outcome and credit guarantee funds (Balkfors *et al.* 2020; Good and Juhlin 2020).

Currently, much of the reporting focuses on activities rather than outcomes, which does not favour long-term planning. Therefore, more focus on social outcomes is necessary (Balkfors *et al.* 2020). The current barriers all reinforce each other as the lack of competence and proper tools leads to a lack of time. To alleviate the problem, a representative from Sweden's National Agency for Public Procurement, Tobias Jobring, has called for more integrated approaches to harmonise buying processes and align them across regional actors, thereby tapping into collective leverage (Nordregio 2022). Furthermore, educational institutions could help with long-term planning by developing programmes that focus on preventing complex social problems (Nachemson-Ekwall 2021).

The potential for conducting direct innovation procurement is limited, and the opportunity to develop catalytic innovation procurement is greater if policy initiatives are taken. However, with the help of political action, there are opportunities to transform standard procurement into innovation-friendly, impact start-up procurement (Edquist 2014).
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Norway

The Norwegian government launched StartOff (the Norwegian Agency for Public and Financial Management) in 2021 to bring entrepreneurs together with the public sector to co-create and enable increased cooperation. However, some smaller start-ups state that this programme targets more mature, institutionalised companies and, in practice, does not support smaller scale, social start-ups. Four main barriers for collaborating with social impact start-ups and conducting innovative procurements have been identified in Norway (Skogli and Nellemann 2016). The barriers are 1) limited competence, 2) fear of making mistakes, 3) lack of coordination, and 4) weak alignment/leadership.

Limited competence is related to lack of knowledge about procurements. Often public agencies have only minor insights into other procurement regulations, especially about the possibilities for innovation. There is also a lack of specific expertise which makes it difficult to stipulate relevant criteria for good procurement. *Fear of making mistakes* is related to the way procurement is organised in the municipalities. Public procurers are often uncertain about the regulations and therefore choose the familiar path rather than risk making an error. Usually, procurement is taken care of in small entities, which means that time and resources are not always devoted to exploring all existing possibilities. *Lack of coordination* is evident from the public institutional structure. In Norway, each public agency carries out its own procurement, which means there are approximately 3,000 different clients. There are also challenges in terms of *weak alignment and leadership*. Several examples show that public actors have little incentive for taking ownership of the collaboration process and are instead distracted by the time, budget, and performance indicators required for establishing innovative procurements.

According to a 2020 report commissioned by the Norwegian Directorate of Labour and Welfare, some public sector employees comment that, because social entrepreneurs are new and/or do new things, it is difficult to know what is allowed or not allowed when it comes to collaboration and procurement of services (Aksnes *et al.* 2020). Others are sceptical about entrepreneurs' motivations and question whether they are primarily driven by business or by social results. Other challenges mentioned by the public sector employees include data-sharing and privacy. Several perceive it as resource demanding to ensure leadership commitment within the organisation.
The Norwegian think tank Agenda has identified several characteristics of different social impact start-ups. The start-ups in the first category are those that have already defined the key challenges and solutions. The primary concern for these start-ups is to convince public sector actors of the value of the welfare work they are proposing. Usually, these impact start-ups are suggesting tasks that are preventive and can save costs for the public sector in the long run. They need facilities for meeting and need to collaborate with public actors to determine the scope of the tasks and solutions they can deliver through public procurement.

Start-ups in the second category are those that offer solutions on tasks the public sector is already procuring, and they are often in competition with larger, commercial suppliers. This group is dependent on the public sector prioritising welfare quality higher than experience and costs.

Start-ups falling into the third category are more established social impact start-ups that are delivering regular services but have a more socially responsible profile by, for example, hiring employees who would not have been part of the regular labour market. Start-ups of this type are dependent on a specific social and inclusive criterion in the public procurement process.

The public management models are a major barrier for public procurement for start-ups in Norway. The typical Norwegian municipality is small and has limited capacity and expertise in the nuances of procurement regulations (Agenda 2017). According to Agenda, the competence and organisation for public procurement in the municipalities are too weak to bridge the link between the start-ups and their contribution to the welfare. Among the suggestions from the think tank are to draw attention to evaluation criteria, establish support mechanisms for start-ups (e.g., by providing a chat and telephone line), and carry out measurements on effectiveness that can serve as inputs when evaluating tenders in the procurement process.

Denmark

A study from the Danish Chamber of Commerce shows that one of the biggest reasons why entrepreneurs do not bid in public tenders is because it requires too many resources (Dansk Erhverv 2018). When public procurement is specified with precise solutions and details in the tender, it hampers the opportunity for new thinking in public procurement. A report from the Danish business authority examines challenges and opportunities for innovation procurement in the public sector (Erhvervsstyrelsen 2019a). The report points towards four barriers:

Lack of incentives and clear cooperation frames: The public sector lacks a clear strategic and operational objective for innovative procurement, most likely because it is difficult to evaluate and measure both the prevalence and the results/effects of the innovative purchases. Another issue is the lack of clarity of the societal value across the cooperation levels along with the requirements to select the least expensive options when using public expenditures. Furthermore, the long timespan from economic investment to seeing the social gains makes it risky for actors to procure from impact start-ups.

The innovative procurement processes with impact start-up companies may require more resources and more time, and the derived gains in the form of better welfare solutions can be difficult to estimate. Upfront costs needed to establish new partnerships with impact start-ups often overpower (and are easier to estimate than) the potential long-term savings; therefore, it is difficult to build a case around establishing alternative procurement processes with new social innovation partners.

Lack of resources and competences: Employees in the public sector who want to establish new collaborations with impact start-ups often lack time and resources. There also appears to be a lack of knowledge and experience regarding the different public procurement legislations and value-based contracts. Often the public authorities do not feel well-equipped to use the flexible forms of tender. There is a tendency for buyers to choose a form of tender and a form of cooperation so that they are sure of the rules and avoid mistakes (Erhvervsstyrelsen 2019a; Regeringen 2013).

*Lack of collaboration and innovation culture***:** The public sector generally has a low willingness for taking risks or altering the status quo. The absence of a culture that can change the standard silo approach in terms of procurement, welfare services, and preventive measures prevents authorities from trialling innovative methods.

Legal framework: The EU maintains a set of procurement and tendering rules, but there is some uncertainty among public purchasers about these rules, including when it is possible to use more flexible forms of tender (Erhvervsstyrelsen 2019a). Therefore, innovative procurement is perceived as a legally complicated exercise.

Photo: Ethan Hu

Impact start-up determinants and enablers

This section focuses on key enablers that support impact start-ups in targeting social needs. It also explores how the innovation processes can be fruitful for the people engaged by transforming relationships and providing access to resources and power. Several successful impact start-ups are triggered by a personal indignation concerning existing practices and structures. However, impact start-ups are not only focusing on solving a challenge at a subjective level; they also seek to change the system itself. In this manner, impact start-ups are based on ideas of the dynamics of change: if you can make a change at an individual level, you also establish the groundwork for making a cultural change, which can lead to societal or institutional changes at a collective level.

Finland

In Finland, the main enablers for social impact start-ups are related to individual agency, timing, and the positive perception of the contribution to society.

Due to the high level of overall trust in Finnish society, people generally view organisations responsible for social impact projects (such as Sitra[1]) and their work positively (Moriggi 2020; Hughes 2019). The high level of digitalisation also plays an important role. Despite some current problems with data collection, there is usually some data available in an accessible format, and the data systems work (Hughes 2019). Relations to public institutions, personal contacts, and interests of private entrepreneurs are also important enabling factors. Often, social impact projects gain momentum because they are able to respond to societal needs at just the right time. For example, Koto-SIB began its work of preparing immigrants for the Finnish labour market in 2017 following the peak of the refugee crisis. The programme progressed quickly because institutional barriers were lifted (Pennanen 2020). This example illustrates how timing is a more subconscious yet essential factor that enables the success of social impact start-ups.

1. https://www.sitra.fi/en/

Interest in social impact start-ups is on the rise in Finland. According to a survey from 2021, 67% of municipalities are discussing the importance of social impact start-ups, often in connection to the discussion about social impact bonds (Kyösti and Airaksinen 2021). Local city governments have the interest and capacity to work as innovators alongside private companies, especially when granted sufficient resources and incentives. In fact, some of their innovative activities may remain unknown as they do not materialise as technological patents or similar tangible results. This is because many local city governments have not considered IPR (intellectual property rights) implications nor their possible benefits.

Another enabling factor is local city government activities in projects related to service design and lean service processes and participating in national innovation programmes (Makkonen *et al.* 2018). In one study, social entrepreneurs reported that their funding sources consist mainly of government grants (from sources like the Ministry of Foreign Affairs, the Ministry of Culture and Education, or the Funding Centre for Social Welfare and Health Organisations under the Ministry of Social Affairs and Health) or of fees from their products and services (Ashoka and Sitra 2021).

Sweden

In Sweden, there are two key factors in recent years that have enabled successful social investment: firstly, the role of a unique government innovation agency dedicated to investing in social impact projects, and secondly, dedicated programmes within public institutions that can build innovation networks and partnerships across different sectors.

National innovation agency: Sweden's own government innovation agency, Vinnova, operates under the Ministry of Enterprise and Innovation to contribute to a more sustainable future. Vinnova funds innovative projects with social impact, for example, a project giving tools to the health and social care sector of the City of Mölndal to procure more innovative solutions such as security-creating technology for people living in nursing homes or having other special needs. Between 2017 and 2019, Vinnova spent SEK 55 million to support and implement targeted social innovations from direct government funds. This is in addition to the approximately SEK 25 million which the agency invests annually in self-initiated projects. Some private investors active in networking and capacity-building related to social innovations include Leksell, Ashoka, Reach for Change, Norrsken Foundation, Axfoundation, Mikrofonden Väst, Ferd Social Entrepreneurs, Uppstart Malmö, Inclusive Business Sweden, Impact Investment Scandinavia, and Inkludera Invest (Vinnova 2018).

Networks: Programmes within public institutions also enable innovation networks to form. One example of this is at Karolinska University Hospital in Stockholm. For several years, the institution has taken the degree of innovation in healthcare technology into account when making procurements. This work has been done under the MT/ICT programme, which began in 2014 and focuses on innovation partnerships in municipalities. Most of the innovative procurements taken up thus far by Karolinska have to do with new business models and practices and less with new technology. Innovative procurement led to higher costs at the initial stages (planning and procurement) but also to larger savings and improved quality in the long run (Karolina Universitetssjukhuset, Upphandlingsmyndigheten, and EY 2017); (Sveriges Kommuner och Regioner 2022).

The scope and nature of social investment in Swedish municipalities determine how modest the impacts may be. Municipalities and regions sometimes seek ways to invest in preventive solutions, providing social investment funds, or operating within a cooperative risk-sharing model (such as SIBs). In general, social investment is rather common in Swedish municipalities as 47% of them have experience of it in some form, and compared to 2014, 29% more had allocated money specifically for this cause. However, this amount is quite limited in comparison to the municipal budgets, and the overall impact has been rather modest. Most change may be perceived in new perspectives within municipal decision-making and growing interest towards social investment among businesses and non-governmental organisations (Balkfors *et al.* 2020).

Norway

In Norway, more than half of all companies are part of an entrepreneurial network or a collaboration platform for social enterprises or innovation. The most common networks are Ferd, SoCentral, and the Centre for Social Entrepreneurship and Innovation, but Church City Mission, a non-profit organisation that cooperates with public authorities and other organisations to provide various care services for vulnerable groups, is also a key link for many of the businesses. Cooperation with actors such as these enables many social enterprises to more effectively achieve their goals because it increases access to competences that facilitate the collaboration with local and regional authorities. A majority of businesses are also influencing political processes important to realising their goals, where they are most often in contact with the municipality (administration and politicians; (Eimhjemmen and Loga 2016; Kvam 2016). According to the literature, there are four primary suggestions for enabling impact start-ups to accomplish their socially innovative goals.

Concrete dialogue activities: Inviting the public authorities to a general meeting with two-way communication, preferably before preparing the procurement documents, lets start-ups in the market show what they have to offer. Here, the public sector could promote their needs and allow suppliers to provide input on possible solutions. It is a benefit both for the impact start-up and the public sector to obtain as much information from each other as possible before initiating a procurement process (Seljebotn *et al.* 2018).

Written input: Impact start-ups can be given the opportunity to provide written input on how they will solve the identified need. A well-written description of the solutions can feed into the public sector tender documents. In some cases, this will challenge and stimulate the impact start-ups to ensure innovative and well-defined solutions (Seljebotn *et al.* 2018).

User journey and service design: When the social impact start-ups use elements from service design and/or user journeys in the planning phase, it enhances credibility in the solutions they present. The methods to map users' experiences can be done by inviting suppliers to workshops and by sending out surveys. Experts in the field argue that the linkage between the product or service and the users are critical for success and thus for funding the social start-up (Ferd 2019).

Request feedback: An important part of the process is for social enterprises to receive feedback, both from end-users and from those in charge of public procurement. Input about the written proposal, service design, and conclusions from the dialogue activities are relevant for impact start-ups to continuously strengthen their vision, management, and financial model (Eimhjemmen and Loga 2016; Seljebotn *et al.* 2018).

Denmark

There are four determinants from the literature studying impact start-ups in the Danish context. They describe which enablers are central for leading the start-ups to success.

Networks and network enabling: According to research in the field, impact start-ups can benefit greatly from participating in relevant networks; however, it is all the more important to bring that network into action. This distinction has proven critical for impact start-ups in Denmark. Several cases illustrate that existing networks have been a prerequisite for establishing an impact start-up. However, to be successful, the impact start-up needs to be able to activate the network (Hansen *et al.* 2021). A general lesson from successful impact start-ups is to encourage the municipalities to accept that they are stepping into something new—a change model—which requires them to be involved in a new, more active way.

Timing. Timing has to do with the current meta-stories and conditions of society. For example, in 2009, it became a legal demand in Denmark for organisations with more than 250 employees to have a Corporate Social Responsibility (CSR) strategy. Shortly after this legal demand was implemented, two impact start-ups (MindYourOwnBusiness and CityBee) addressed some of the large companies that quickly needed societal partnership as part of their CSR strategies. The companies supported these impact start-ups which allowed them to report this as part of their CSR strategy work. Another example comes from the public sector where an impact start-up called Cycling Without Age (CWA) began providing bike rides to elderly residents in Copenhagen. The initiative was introduced at a time where the pressure was high within elderly care. If it had been years before, when there was more public funding towards senior services, the company may not have succeeded in the same capacity (Hansen *et al.* 2021; Johansen, Skovgaard, and Hyllegård 2010).

Identifying and mobilising partners: Besides timing, an interesting aspect of network enabling is the ability to identify and mobilise the intrapreneurs of collaborating organisations to be able to succeed. For example, the founder of CWA connected with an open-minded public manager who was positive to change. Often, managers in the public administration know which centre managers are the most proactive and receptive to new ideas. Identifying these partners can play a key role in rolling out an innovative programme. Several impact start-up CEOs and project managers also stress how important it is to find actors that are willing to take a risk and build up relationships (Hansen *et al.* 2021).

Becoming an actor with whom the public sector can collaborate: According to the study, all four impact start-ups reviewed (CWA, MYOB, CityBee, and E-bro) found new solutions within existing organisational frameworks (Hansen *et al.* 2021). There is a shared understanding across cases that they push the boundaries of what is possible to do and achieve in cross-sectoral collaboration. MYOB offers a number of courses and activities for young boys to enhance their interest and engagement in entrepreneurship (and to prevent their involvement in criminal activities. All take place in close collaboration with our various players, including volunteer venture pilots, business partners, and local partners. They are financed by three foundations with which they have a strategic collaboration. Today MYOB is relevant for the public authorities working with entrepreneurship and industry as well as integration of vulnerable immigrants. Many of the impact start-up initiatives establish cross-sector collaboration, networks based on different degrees of involvement with associated public and private partners (Hansen *et al* 2021; Johansen *et al.* 2010).

Photo: Thomas Litangen

Institutional support measures

Innovation studies have gradually shifted their analytical focus from the individual entrepreneur to the network (often via an organisation). Public Service Innovation Networks for Social Innovation (PSINSI) are the latest contribution from research in the field (Scupola *et al.* 2021). An innovation network describes a system of relationships between different agents working for innovation. The agents in question do not all have to belong to the same organisation, and the relations that link them can take different forms (e.g., cooperation, coordination, collaboration, co-creation, co-production, co-innovation, co-design). Public administration needs to be involved to realise the new approaches to collaboration that often require bending the regular collaboration or procurement routines.

This section will present the experiences of institutional support measures for realising new impact start-ups. The impact start-ups offer ways of solving tasks and creating inclusion in interactions with the welfare state. The social purpose is the dominant aspect of the companies, and social involvement includes welfare production, interest representation, and partial activism for certain social groups.

Finland

The value of public procurement in Finland is EUR 47 billion per year, which accounts for 20% of GDP (KEINO 2022). Institutional decisions rely on strong public support as 80% of Finns hold the view that municipalities should be forerunners of sustainable procurement, and 74% think that socially responsible products should be favoured, even if the price is a bit higher. Most Finns also want to know how sustainability issues have been taken into consideration in municipal procurement (Nordregio 2022). Correspondingly, municipalities have know-how and motivation to solve health and well-being problems in novel ways, including networking capacities and knowledge (Kyösti and Airaksinen 2021). Sitra has freedom and range of action, and the organisation has acquired trust across sectors, which has enabled it to work efficiently when introducing innovative procurement options to the public sector (Hughes 2019).

Finland relies on the competence centre KEINO as its main tool in supporting innovative and sustainable procurement. This network-based centre gives advice, runs programmes and clinics, and forms influential purchaser groups. The network consists of the sustainable development company Motiva, the Finnish Association of Municipalities (Kuntaliitto), the Technical Research Centre of Finland (VTT), the innovation financing centre Business Finland, the Finnish Environment Institute (SYKE), Hansel Oy, the procuring entity KL-Kuntahankinnat, and Sitra, and the project is coordinated by the sustainable development company Motiva (Tonteri 2019). Sitra has been an especially active operator in the field, in addition to Business Finland (a government organisation of innovation funding among other activities) and municipalities. Funding from Business Finland focuses on research and development activities, with an aim to increase new knowledge and innovation in Finnish companies (Linnusmaa 2022). Finland has seen a selection of SIB projects, the results of which reflect the current issues and possibilities.

In some cases, public procurement allows testing new solutions. One example is from the City of Oulu which decided to implement a keyless door-opening service during 2013-2014. The City based the decision on highest quality scores granted by users instead of on price. This process involved both final users and usability experts in the product testing phase. Lack of time to conduct the testing phase properly posed problems during the project, but in 2018, the keyless service was launched throughout the city's home care services. Launching the service took a year and was carried out seamlessly. Since then, more than 35 municipalities have adopted similar solutions (Mainela *et al*. 2016; Tunstall 2020).

Sweden

The annual value of public procurement in Sweden is approximately SEK 800 billion (Upphandlingsmyndigheten 2020). Sweden published its innovation strategy in 2012, with an aim to create stronger innovation climate and capacity and to make the majority of Swedish public procurements innovation-friendly (Regeringskansliet 2012). The national procurement strategy of 2016 and the national strategy on social enterprises from 2017 have continued this work. Five strategic collaboration programmes were launched to create new links between the public sector, businesses, and academia to better meet the objectives of the strategy, and the government assigned the Swedish Agency for Economic and Regional Growth (Tillväxtverket, under the Ministry of Enterprise and Innovation) to support regional social innovation initiatives and prepare a national programme for utilizing social enterprises to boost employment.

The 2017 social enterprises strategy includes several policy measures such as generating need in the public sector for social innovations, increasing business counselling and knowledge about public and private investments, developing a methods evaluation of social innovation impact, and supporting related knowledge hubs and network arenas. For this work, Tillväxtverket was granted SEK 20 million annually for the years 2018-2020. Furthermore, the budget proposition of 2018 directed SEK 50 million for promoting social enterprises (Karolinska Universitetssjukhuset *et al.* 2017; Regeringskansliet 2018). This strategy has been considered successful because it was well-timed to align with funding resources; 3 years later, in 2021, many of the initiatives had stopped as they were no longer connected to supporting financial structures (Ashoka *et al.* 2021).

In February 2022, the rules of public procurement were simplified to support more flexibility in procuring services, leaving more room for designing each procurement case to match the organisations' goals. However, the reform requires more paper work by the contracting organisations as they must now describe the procurement process in detail (Upphandlingsmyndigheten 2022b).

Innovation procurement promotes the development and implementation of innovative and sustainable solutions. Its aim is not procuring innovations but setting the intention that a contracting public institution promotes innovation in its procurement process by requesting or allowing new solutions (Edquist 2014; Upphandlingsmyndigheten 2021). Another variation focuses on functional procurement requirements. When procuring with functional requirements, the contracting organisation describes the needs that must be met or the effect that must be achieved, and then lets the tenderers decide how to proceed. By requesting an outcome or effect instead of a specific solution, innovative solutions and novel actors have more space to participate in procurement (Regeringskanseliet 2010). The functional procurement requirement approach resembles SIBs (described in a later section of this report).

A report by the Swedish Competition Authority (Konkurrenceverket) states that the state, regional, and local governments should reserve fiscal space for conducting procurement in a manner that promotes innovation. It is important that politicians make it clear—to themselves and others—that they must take and "be responsible for" decisions to conduct public innovation procurement, innovation-friendly procurement, and pre-commercial procurement (Edquist 2014). The report also stresses that administrators, policymakers, and decision-makers must be the ones implementing innovation-related procurement (Edquist 2014; Upphandlingsmyndigheten 2021).

National support measures also encompass social entrepreneurs and companies, as the Swedish government views supporting social entrepreneurs as a way to reach the UN SDGs for 2030. The current Swedish strategy for supporting social enterprises aims for long-term development, and the government proposed SEK 50 million in the 2018 budget to be reserved for improving their prospects and promoting knowledge dissemination and practical know-how around the subject (Regeringskansliet 2018). Sweden's first social entrepreneurship incubator, Center för Socialt Entreprenörskap (CSES), began its work in 2011 and works with several EU-funded projects as well, such as Erasmus+ and the EDIN network (CSES website 2022). In addition, Region Stockholm and several universities are active in the field, for example, in the form of Mötesplats Social Innovation, which is the main national knowledge platform and network for promoting social innovations (Vinnova 2018); (Mötesplats Social Innovation 2022). However, studies have pointed out that funding via incubators and supporting intermediaries is unstable, resulting in many short-term projects. One consequence of this is the time consumption for constantly applying for new funds to prolong the work, which can detract from accomplishing the work which has societal impact. Furthermore, in a study published in 2021, 70% of social enterprises reported not having received intermediary support from these organisations (Ashoka *et al.* 2021; Mötesplats Social Innovation 2021).

Several Swedish incubators are increasingly interested in working with SIBs or other social investment models in the near future (Good and Juhlin 2020). The national instrument is national research institute RISE, specifically its Social and Health Impact Centre (SHIC). SHIC was established to act similarly to the Finnish institution Sitra by aiding municipalities, regions, and authorities with setting up SIBs and operating a model known as the National Outcomes Fund (RISE 2022). Other institutional tools include the National Procurement Agency, which, together with the Legal, Financial, and Administrative Services Agency (Kammarkollegiet), makes up a competence centre for innovation procurement under the EU project Procure2Innovate. The project ran from 2018-2022, with involvement from the Finnish competence centre KEINO as well (Upphandlingsmyndigheten 2022a). Current knowledge initiatives include a group that the Svenska Standard SIS has set up with the organisation Effective, the auditing firm PWC, and the Swedish National Advisory Board to develop a Swedish standard for social impact measurement. In addition, a meeting place called Social Innovation at Malmö University, together with four other Swedish universities and the foundations Reach for Change and Inkludera, received funding from the European Commission for cooperating with actors from France, Spain, and Latvia to form a European competence centre for social innovation, running from 2021 to 2023.These examples illustrate the ways that institutional networks are working in the Swedish context to support impact start-ups.

Norway

Every year, the public sector purchases goods and services for a total amount of NOK 600 billion (Kommunal- og moderniseringsdepartementet 2020). Procurements below NOK 100,000 are below the threshold of procurement regulation requirements, so public procurement may happen without competition. According to the regulations, the client is not allowed to separate one service into several deliveries in order to dip below this limit (Ferd 2019).

Although several reports have been written on social entrepreneurs and public procurement, there does not appear to exist any information illustrating the sales or number of tenders involving social entrepreneurs. In 2017, the Ministry of Local Government and Regional Development commented in their report that these experiences are still limited, and there are only a handful of examples of this type of collaboration between municipalities and social entrepreneurs (Kommunal- og moderniseringsdepartementet 2017).

Norwegian organisations like Effektlab support impact start-ups to connect with public sector suppliers. EffektLab provides public purchasers with insights, tools, and support that make them better equipped to take advantage of this opportunity. The programme also provides knowledge about how to measure the social effect to which their acquisitions contribute (Impact Start-up Norway 2022). By entering into a dialogue with the market, the public sector gains better knowledge about the present needs from the citizens, which also benefits the impact start-ups in facilitating collaborations on societal solutions (Ferd 2019).

The Norwegian government funded a website[2] about innovation procurement that provides an overview of current innovation procurements. At the time of research, there are 216 innovation procurements listed, 31 of which are in welfare technology (*velfærdstjenester*), 28 in the health sector (*helsetjeneste*), and 13 in municipal services (*kommunal tjenester*). The remaining examples are in construction (*bygg og anlegg*), digitalisation of services (*digitalisering av tjenester*), county municipality services (*Fylkeskommunale tjenester*), ICT software and systems (IKT software og systemer) design and interior (*innredning og interiør*), climate and environmental technology (*klima og miljøteknologi*), reindeer herding (*renhold*), textiles (*tekstiler*), transport, water, sewage and infrastructure (*vann, avløpp og infrastruktur*) and others.

In addition to enabling different search categories, the website includes a "procedure selector" feature to assist in the procurement selection. To use this tool, it is important that it is clear what the need and purpose of the procurement is, so that it is clear what results and effects it will contribute to achieving. To apply the tool, it is also critical to have a dialogue with the market and a good knowledge of market conditions as well as the value of the acquisition (Leverandørutviklingsprogrammet 2022).

In June 2021, the Norwegian government introduced a new legislation: the government will delegate a task to the Norwegian Labour and Welfare Administration (NAV) to engage in more innovative procurements — in particular, more open and smaller tenders that let small actors and social entrepreneurs test and scale within the system. Other resolutions around early intervention and more collaboration may also be of significance for social entrepreneurs and young changemakers (Ashoka 2021).

2. https://innovativeanskaffelser.no

Collaboration between NAV employees and social entrepreneurs has also proven an important support measure. A study by Oslo Metropolitan University mapped the relations, and among the central learning points is that collaboration with social entrepreneurs is seen as useful because the social entrepreneurs contribute with a mindset and a methodology which is different from the one NAV has traditionally used to stimulate actions, such as employment (Oslo Met 2022). For example, a department head at a NAV office stated that the collaboration contributes to more innovative and better solutions because the social entrepreneurs know the target very well compared to, for example, a consultancy. Therefore the social entrepreneur contributes with new and useful ideas in the NAV offices (Aksnes *et al.* 2020).

Denmark

Denmark uses approximately DKK 380 billion annually on public procurement (Finansministerie 2020). The Danish business authorities have initiated a process model for innovation partnerships. It gives public parties the opportunity to collaborate with private suppliers and impact start-ups to create innovative solutions, with the option for procurement afterwards. The first step for the innovation partnerships is to identify a specific problem that the partnership could contribute to resolving. The second step is to participate in a market dialogue to examine relevant competences and solutions. The final step involves setting up an outcomes-based contract with the companies or start-ups for procurement (Erhvervsstyrelsen 2019b).

In Denmark, public-private partnerships have been described as more development and collaboration-oriented compared to traditional supplier-buyer relations. These partnerships involve knowledge sharing, common motivation, and developing ideas. The findings of a study of eight in-depth case studies shows several factors central to success: identifying a clear problem to be solved, determining the commercial potential for the solution, establishing trust and continuous communication among the actors involved (rather than only relying on a formal cooperation contract), preparing guidelines for handling the procurement rules, involving enthusiasts that drive cooperation forward, and sharing a mutual understanding of the differences between public and private cultures (Krarup, *et al.* 2014; Scupola *et al.* 2021).

When it comes to institutional participation in innovative procurement, 91% of public -private institutional innovations are connected to core tasks, and 69% of public innovations happen with external collaboration. The actors participating are private companies, other public agencies, citizens, research institutions, volunteer-driven associations, public investment funds, impact start-ups, and social enterprises (Center for offentlig-privat innovation 2022).

Photo: Airfocus

Part II: Alternative financial models beyond impact start-ups

The second part of this report will explore alternative models for social innovation that are beyond the impact start-ups but are also relevant to understand the context around social investments and the different approaches and solutions that exists in the Nordic countries. As previously mentioned, **social impact bonds (SIBs)** have been used, specifically in Finland and Sweden, as a tool for testing innovation while reducing risk. In addition to reviewing examples of SIBs, Part II will also consider the **motivations of private investors** to finance impact and examine different **examples of public-private partnerships** that also contribute with social value to society.

Social impact Bonds

A social impact bond (SIB) is a financial model where the public sector pays for results rather than efforts. With this model, the public sector can offer preventive services to citizens instead of reactive services (in terms of intermediate financing), and private capital bears the risks. This new payment and financing model has not yet gained much traction in the Nordic Region. However, there are some flagship initiatives from Finland and Sweden from which others can learn.

Finland

During the first experiments with SIBs, singular actors were most active to further SIBs in Finland (Pennanen 2020). Finnish municipalities are generally interested in participating in SIB projects, but according to the Kuntaliitto, their capacity to do so varies notably, mainly due to their size. The matter is further complicated by the Finnish municipal governance, which is currently balancing its rather inflexible administrative legacy with the new opportunities and challenges posed by the SIB model. Nevertheless, some new networks have already been created representing new principles, which form a basis for setting up SIBs. These new principles rely on tools such as customer-oriented service logic in creating and organising services, service procurement based on results, and partner-based, multiform service production (Kyösti and Airaksinen 2020).

Due to lack of data, identifying and locating citizens to engage with the model is at times difficult, and the launching phase of SIBs has taken more time than anticipated. The amount of work related to launching and operating a SIB project, and especially regarding data protection issues, surprised some municipalities. Fitting public and private sectors together has also posed some problems, and, in one instance, the public employment services were not always aware of their tasks. For these reasons, practical, hands-on assistance is needed, especially at the beginning (Manninen 2020; Kyösti and Airaksinen 2021; Kiuttu 2020; Ylönen 2022).

Professional investors agree that the current SIB model is rather heavy and inflexible. A model based on loans, like in Sweden, would help alleviate this problem, but that would require more established practices. In the ideal case, the public sector could move from buying performances to buying results, and the public sector would gain more experience and know-how related to measuring social impact results, which could make a loan-based model succeed in Finland (Hokkila and Riskienhallinnan 2019). Some fear that social impact investment has become a diluted buzzword in some sectors leading to "impact-washing." Some researchers suspect that investors and public actors may end up at opposing sides over the matter, for example in a situation where they view related risks differently. Estimating the related risks in a reliable way is challenging as the time span of a social project may easily extend over 10 years. In this situation, investors fear to commit their capital to long projects in a case where it cannot be withdrawn. These insecurities often stem from the novelty of the instrument: there is no empirical data yet to compare to or to make reliable estimations of its effectiveness. Furthermore, the projects that have used SIBs in Finland have been relatively small and inefficient (Manninen 2020).

Some private investors believe that SIBs should develop towards social outcomes contracting. Currently, the Finnish Financial Supervisory Authority does not allow selling SIB funds to small investors, so their potential in this field is not yet explored. However, there are some possibilities to invest in SIBs also as a non-professional investor (Nykänen 2022).
Investors that emphasize social responsibility are more ready to take part in developing objects that they believe have disproportionately high risk, such as social impact funds. Investors with a more market-oriented emphasis prefer to practice impact investing in other ways. Incorporating all these differing emphases regarding profit-seeking into one model is complex. Nevertheless, impact investing is generally considered an interesting option by investors and a clear-cut way to generate both profit and social impact (Manninen 2020).

Below are several examples of SIBs in Finland that provide insight into how they can be successful as well as some complications and barriers to enabling social impact.

Successful results: Established in 2017, Koto-SIB invested EUR 14 million of private funds with the aim of tailoring integration education based on the concrete needs of working places, thus speeding up the path to employment for immigrants from several years to 6 months. Companies such as Fazer Amica and Valmet Automotive were among those recruiting refugees who were involved in the programme. At the time, the programme was the largest SIB initiative in Europe. The results have been considered successful because the state has saved an estimated EUR 10-15 million on integration services, and about 50% of immigrants who participated in the programme became employed. Although the profit for investors was modest (less than 10%), it was considered reasonable and in line with their expectations. Success of the programme was measured with two indicators: a decrease in reception of unemployment benefits and an increase in income tax accumulation (Aro 2020; Kiuttu 20.10. 2020).

Complexities of indicators: Tyhy-SIB, a project aiming to promote occupational well-being, provides an example of difficulties in measuring success. Municipalities used the number of sick-leave days as an indicator for determining if the programme achieved its goals; however, the project produced mixed results. Although the number of sick-leave days did not decrease as significantly as the target, employees that took part in the project were satisfied with the experiment overall. It was concluded that the measure of sick-leave days was not comprehensive enough to reflect the state of occupational well-being (Aro 2020). People who worked with this integration and employment-oriented SIB also indicated that only measuring success numerically and financially excludes relevant parts of the human experience of integration (Ylönen 2022).

Structural barriers in SIBs: In 2019, Children SIB was set up to target families with neurodivergent children who need extra support with delivery in five Finnish municipalities (Government Outcomes Lab 2022) Three years after the launch of the Children SIB programme (Lapset SIB), the City of Vantaa reported that the project was too complex and heavy for city officials to sustain. The City of Vantaa procured services from the Central Union for Child Welfare and SOS Children's Village, with investments from the private banking company FIM Varainhoito. The families involved were happy with the project, but, even with a small number of customers, running the project still required a lot of time from city officials thus creating an administrative burden. As a result, city authorities came to the conclusion that the knowledge base on which cost estimates had relied on had been imperfect (Aalto 2021).

Other cities have been generally pleased with the project. The City of Lohja commented that families who were involved were satisfied, and the project delivered on its expected results. One Lohja representative commented on the problems that had emerged in Vantaa, saying that, from their perspective, the results of the project were worthwhile, even if it required additional administrative work. Overall, deeper analysis of the project's success is not yet possible, as many are still on-going or have just finished. The City of Hämeenlinna used the SIB model to organise team sports activities for boys in risk of alienation and received good results, some of which—such as the participants' need for social services support—could also be evaluated quantitatively. Some cities recognised similar problems as Vantaa, like Kemiönsaari, where suitable families were either not found or not recognised (Kauneela-Finley 2021).

These examples show how SIB projects in Finland have, at times, imposed heavy workloads on public actors, but have also yielded successful results, especially from the perspective of the participants in need. One remaining complication is how to evaluate programme success with the appropriate metrics and indicators.

Sweden

To date, there has been a limited number of SIB projects in Sweden, but several are in the planning stages. The Swedish SIB model differs from its European counterparts in the sense that the roles of the national government and municipalities are more significant than in the raditional SIB model. However, the current situation of heavy public sector involvement has made updating the social finance system more arduous and time consuming. Since the SIB model is still relatively new, there are some suspicions and even prejudices towards it as a foreign model in Swedish municipalities. Municipalities have also voiced concerns over the fact that savings from successful social investments would benefit the regions and the state but not the local level (Balkfors *et al.* 2020; Good and Juhlin 2020). Actors interested in investing in SIBs are municipalities and non-profit organisations, such as the Leksell Social Ventures; they do not include private investors. In Sweden, few incentives exist for private investments in SIBs compared to other European countries, so legal and tax reforms may be needed to increase the share of impact investors (Good, Jonathan and Juhlin, Mattias 2020)

Sweden's first SIB project was a model developed in Norrköping that focused on the well-being of children in foster care with partners such as Norrköping Municipality, Leksell Social Ventures, the Committee on Mental Health of the Swedish Association of Local Authorities and Regions, and the company Health Navigator. Leksell Social Ventures acted as the financier with an investment of SEK 10 million. Norrköping committed to paying at least 40% of this sum back (or 100% payback if there was a definitive reduction in social service costs). If even greater success was achieved, the payback would be up to SEK 2 million. The activities were carried out by an intervention team which was specifically recruited for this reason. Success was measured by observing costs of social services and children's school performance before and after the intervention. The project was in active operation from 2016 until 2019 (Norrköpings kommun *et al.* 2020). The final report concluded that, during a 24-month evaluation period, the costs of social services for municipalities rose (by SEK 7.5 million), but the well-being and school performance of the children increased. Prolonging the evaluation period to 36 months showed a decrease of SEK 4 million in social service costs. Overall, the final report concluded that the project was successful since it is likely that there were additional positive outcomes that were not included in the evaluation model (Sveriges Kommuner och Regioner & RISE Social Impact Center 2021).

In 2020, Region Stockholm launched a Health Impact Bond in cooperation with SEB bank (as intermediary) and Skandia (as investor) aiming to prevent type 2 diabetes by targeting people with a prediabetic condition. The project planned to run for 5 years with a budget of SEK 30 million. Another aim of the project was to develop a model that, in the future, may be applied to similar diseases that require substantial prevention efforts (Region Stockholm 2020).

Similar to the Tyhy-SIB in Finland, a SIB project focusing on reducing sick-leave days at workplaces was also launched in Botkyrka and Örnsköldsvik. Here, the project was mainly public with governmental investors in municipalities acting as the bond-issuing actors. The programme ran from 2018-2021 with a budget of SEK 22 million for Botkyrka and SEK 18 million for Örnsköldsvik (Good and Juhlin 2020; Social & Health Impact Center 2022).

The two examples above showcase the type of social issues that SIBs in Sweden are concerned with at the present time (mainly those responding to health issues).

Photo: Toa Heftiba

Impact investors

This section will review the literature focusing on private investors' motivations to invest in social impact investments (as opposed to standard investments). Impact investments are characterised by their intention to generate social impact alongside achieving a financial return. Many Nordic investors direct their capital toward sustainable development in areas of renewable energy, healthcare, and education; however, only a few investors use the SDGs to develop impact investment strategies (The One Initiative 2019).

According to a study focusing on investors in the Nordic countries, 83% expect their impact portfolio to deliver at or above market rate of return (The One Initiative 2019). The study also found that the majority of investors still place financial return as a higher priority than impact, with 59% claiming to invest for financial return only or financial return first, while 41% invest for impact only or impact first. An important point is that impact-driven institutional investors are motivated by the public agenda and client demands. This illustrates the previously mentioned enabler concerning timing as the impact start-up can present solutions to specific societal challenges. However, many impact-driven investors still see impact investment as a complementary strategy.

In 2019 in Finland, 4% of investments by angel investors were impact investments. Although a specific number regarding social impact investments is not available, the number has increased by two percentage points since 2013 (FIBAN 2022). In 2019, 41% of investors believed that impact investing may increase profits, and 40% of investors took it into consideration when making decisions on investments. Despite the positive view, most investors were not aware of what kind of concrete effects their investments had. Although some measurement systems have been developed in recent years, there remains a lack of indicators for measuring impact. Some impact investors, like the development financier Finnfund, have created their own results-measuring system (Aro 2020).

While the Swedish financial market has committed to goals related to the Paris climate

agreement and the green transition, work for social impact investment and social sustainability goals has been lagging behind by several years. However, new co-creation projects between the public sector, businesses, and innovators show that interest is increasing. The possibility to use private capital for social investments and the social responsibility related to the green transition are two trends that seem to be encouraging greater use of private capital towards preventive work that solves social issues.

In the Swedish context, the privately financed outcome fund launched by Leksell Social Venture in 2021 is likely to motivate the private market to provide capital with demands on the positive social effects. SEB bank has developed a customer offer of loans with sustainability goals that also link to several social aims. Trill Impact and Norrsken have also made social investments with private capital, in addition to Nordea Liv och Pension, a life insurance company which invested SEK 1 billion in a recently established Nordea fund (the Global Impact Fund) which focuses on global social impact investments (Nachemson-Ekwall 2021).

Another important factor that can motivate private investors to invest more in impact is when they participate in a network. Several impact companies are part of a private portfolio which also influence their investment decisions. In a Norwegian survey, 55 % (66 participants) answered that they are part of a network with others and may therefore be affiliated with these companies (Eimhjemmen and Loga 2016). Tharald Nustad from Nordic impact and Katapult group in Norway has expressed that many investors do not realise the possibility to generate profit while also focusing on problem-solving, which may be why investments remain limited (The One Initiative 2019).

Measuring impact can be a resource intensive task, however, it is a key component that helps attracting investors. An important finding from a survey conducted among 84 Nordic institutional and private investors shows that 92% find that impact investment is a good way to meet social goals, but there was still doubt regarding past performance of impact investments. This underlines the need to ensure a simple way to illustrate the gained social impact to convince investors that their investments add to the general welfare of society along with a financial return (The One Initiative 2019).

Photo: Jonas Smith

Public-private partnerships

Public-private partnerships involve collaboration between the public sector and a private company. These partnerships can be built for several purposes and have different kinds of partnership collaborations. Several examples from the Nordic Region show how these partnerships may help increase the share of innovation in public procurement.

During 2015-2016, Sitra hosted an "impact accelerator", the goal of which was to build an ecosystem for impact investing in Finland. The 28 companies that took part in the acceleration programme developed solutions for problems like increasing the welfare of children and their families, preventing youth isolation, and improving the agency and functionality of the elderly. The impact accelerator programme strengthened the start-ups' abilities to attract funding, know-how, and growth. Through such programmes, companies such as Merikratos Oy found several public partners to help fund further development of healthcare technologies (such as heart rate monitoring and video observation for protecting children from abuse). Klinik Finland is another company that benefitted from the accelerator programme by establishing a cooperation with the regional healthcare provider Saarikka in Central Finland. This partnership enabled the impact start-up to help clients identify their health symptoms and gain clarity on which healthcare service provider is most suitable to meet those needs (Sitra 2016). According to a City of Vantaa representative, cooperation between cities and national actors is often a key feature for achieving innovative and sustainable public procurement. To generate similar results on a larger scale, however, more concrete policy goals would be needed (Anon 2022).

Public-private partnerships can also emerge as part of a solution to rural service provision. The following two examples from Sweden are from a rural context where centralisation along with regional and municipal mergers can lead to a lack of services to the local population. In these examples public and private partnerships have been established to ensure a continuation of healthcare, citizen service, and public meal procurement.

Offerdal Healthcare Centre: In Northern Sweden, Jämtland County Council developed its own model for healthcare provision. The council based its public procurement principles on qualitative values, such as working methods, rather than only using the healthcare providers offering the lowest costs. Due to these public procurement rules, Offerdal Healthcare Centre was able to

obtain a public procurement contract in 2012 (Berlina 2016a). The healthcare centre was established as a cooperative that was owned and self-managed by the employees, and it serves as an example where local people take initiative to continue a healthcare centre which otherwise would have closed (Berlina 2016a).

Service Centre in Kalix Övre bygden: In Kalix Municipality in Northern Sweden, residents initiated a centre that provides various public services, including a home care service and school taxi service, in addition to acting as a local store. Kalix Municipality supports the project by acting as a main cooperation partner of the service centre. Additionally, the service centre cooperates with different regional authorities, including the County Council of Norbotten, as well as small business owners who can buy services from the centre. Moreover, the service centre has been engaged in cross-border cooperation with the municipalities of Övertorneå and Haparanda (Berlina 2016b). In line with the previous example, this project shows how a group of locally engaged people are preventing the loss of services in their rural area through establishing a public-private partnership.

In Denmark, rural areas also struggled with closing down basic community facilities. Jammerbugt Municipality in Northern Jutland addressed the concern by establishing partnerships between the public and private sectors. This took place through the Skovgård model, consisting of three social enterprises—Købmandsgården, Skovsgård Hotel, and Råd&Dåd—all of which are located in former merchant houses in rural areas in Denmark. The establishment of these three social enterprises would not have been possible without a public partnership. During the initiation and development of the Skovgård model, the enterprises collaborated closely with the municipality. The main driver of these projects has been the residents of Skovgård with their visionary ideas about how a more inclusive labour market can support local community development. The purpose of the model is to provide opportunities for people with disabilities and other vulnerable groups and provide useful products and services for the communities in the area. The model demonstrates how the local community can collectively take over private institutions and establish enterprises where disabled people can contribute to local rural development (Jungsberg 2016).

To establish public-private partnerships, it can be helpful to organise workshops to define local needs and have an open dialogue about possible societal solutions, for example, for young people at risk of social exclusion, integration of immigrants, citizen services, and public participation. In Norway, several interest organisations (Kommun Sektorensorganisation, Innovation Norway, SoCentral, and Ferd Social entrepreneur) have co-created workshops together with the municipal and regional authorities. The meetings have been organised on the topic of how local actors can contribute to a society that fosters increased participation by young people, where exclusion and dropout rates are reduced, and where new communal values are established in the municipality (Ministry of Local Government and Modernisation 2020).

Public-private partnerships in Norway have also been used to respond to needs of elderly people in care facilities. Innovation Norway and the City of Stavanger started collaborating with Innocom AS, an impact start-up established in 2017 that develops welfare technology to improve independency among those with particular needs. A result from this public- private partnership is a robot that makes it easier to follow-up and motivate patients to be active. This solution was tailored to the needs of the municipality by specifically finding ways to support patients in respite care. The City of Stavanger has since purchased several activity robots that are now introduced in local nursing homes (Ministry of Local Government and Modernisation 2020).

Conclusions

This report has reviewed the role of impact start-ups in public procurement processes throughout the Nordic Region. Impact start-ups in the Nordic Region face three overarching challenges: firstly, actors on all sides of the public procurement process face difficulties with the rigidity of procurement rules. Secondly, the literature in all four countries indicates that public actors lack resources, especially experience, knowledge, and capacity to interpret, prepare for, navigate, or develop new procurement schemes. In some cases, the legal regulations around public procurement —whether at the EU level or locally—are unclear. This is most notable in Norway, where a lack of administrative management means that each public agency carries out its own procurement. Finally, the slow bureaucratic processes for updating procurement procedures to contemporary models of practice cause difficulties for all actors involved. All three of these barriers are intertwined. For example, in Norway, the lack of capacity for brainstorming new procurement frameworks is connected to a fear of making mistakes, which ultimately leads actors to continue working within existing procurement agreements. For public actors in Denmark, the lack of willingness to take risks also means that establishing new procurement frameworks through collaboration methods and across administrative silos is a rare occurrence. Finland faces similar obstacles, with some actors pointing out the need for flexibility in public procurement processes while at the same time realising that adjusting public governance structures is a slow process. Sweden also suffers from these barriers but has developed some flexible rules that allow for innovation as well as tools for both public and private actors to gain access to funding, networking, and knowledge around innovative procurement.

To combat these barriers and enable social enterprises to gain public procurement opportunities, policies as well as less formal schemes need to foster networks of personal relationships between the public and private sectors. Many start-ups also benefit profoundly from being part of larger collaborative systems where funding, knowledge building tools, and institutions can pave the way for the projects to achieve their expected impacts. In Denmark and Norway, impact start-ups have been especially affected by their participation in relevant networks where communication between the private enterprise and the public actors can occur prior to the procurement process. These opportunities for dialogue enable both the public client and the private supplier to understand one another's needs and potential solutions that can feed into tendering applications. Importantly, the success of many impact start-ups in the Nordic Region is due to their timely response to a pressing social issue that is already on the public agenda. Another enabler is the general rising interest in social impact start-ups. Finally, knowledge about procurement legislation needs to be made widely available in order for key actors from both the public sector and from private start-ups to prepare for and engage in public procurement.

Many institutional support measures are already in place that encourage social impact start-ups from receiving investments and gaining procurement opportunities. In Sweden, public procurement and innovation are linked in governmental strategies which provide a structural basis for programmes and funding. The procurement regulations in Norway also limit competition for smaller start-up projects by removing any regulations from procurements that are less than NOK 100,000. In both Norway and Denmark, online tools exist for enabling innovative procurement as well. In Norway, a government website provides tools for public institutions to navigate innovative procurement easily, while another organisation, Effekt-lab, works to connect public purchasers with insights that can help them make informed decisions regarding which impact start-up can

solve which social need most effectively. Similarly, the Danish business authorities have established a process model that enables collaboration among public actors and private suppliers from social enterprises, which can lead to procurement agreements.

Gaining financial support from impact investors can be critical for social entrepreneurs/enterprises, especially at early stages of their work. Thus far in Finland, impact investors mainly support projects initiated by experienced companies rather than start-ups, but interest from the investors' perspective appears to be on the rise. In Sweden, green impact investments are increasing, while other social impact programmes have less momentum. The continued increase in investments from private actors will likely depend on impact start-ups' abilities to define their success criteria through quantitative methods, but qualitative methods should not be overlooked as viable metrics for justifying social impact. In Norway, as is the case in other Nordic countries, many investors fail to see the profitability of social impact start-ups. Despite being a resource-intensive activity, as specifically mentioned in the Danish literature, measuring and reporting on the effectiveness of the social impact as well as the profitability are important for impact investors to get on board.

Both SIBs and public-private partnerships offer opportunities for impact start-ups to share risks, encourage transparency among stakeholders, achieve their social goals, and build momentum for future public procurement. Though they are not yet commonly used in the Nordic Region, SIBs are a form of partnership that can be an attractive way for investors to fund social enterprises with payback determined by project results. SIBs also provide an alternative to public funding, thus easing the burden on the public sector and sharing risk across multiple stakeholders to address a social challenge. However, developing indicators for success becomes paramount in such models. Thus far, Sweden and Finland have shown varying models of SIBs in action.

Public-private partnership models are also explored in Finland, Sweden, Norway, and Denmark. Unlike the public procurement process, public-private partnerships help to lift the financial and structural onus from the public sector for carrying out social services. Unlike in public procurement (in which the public actors act as clients who seek a private service provider), public-private partnerships help to ease the budgeting burden from the public sector by securing loans from private banks. But achievements in this area can lead to greater engagement across public and private entities and more effective results that offer an alternative to public procurement bureaucracy. In this way, partnerships can help shape public procurement rules that enable impact start-ups to have a foot in the door. Thus far, these partnerships have been able to respond to various social welfare needs, especially in the realm of healthcare.

What remains for the Nordic Region now is to exchange knowledge on potential models for how new forms of partnership and procurement schemes can best operate within a Nordic Model of governance whilst working to support private social entrepreneurs in addressing pressing societal concerns.

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About this working paper

Scaling up Nordic impact through public procurement - a review of literature

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Nordic co-operation
Nordic co-operation is one of the world's most extensive forms of regional collaboration, involving Denmark, Finland, Iceland, Norway, Sweden, the Faroe Islands, Greenland, and Åland.

Nordic co-operation has firm traditions in politics, the economy, and culture. It plays an important role in European and international collaboration, and aims at creating a strong Nordic community in a strong Europe.

Nordic co-operation seeks to safeguard Nordic and regional interests and principles in the global community. Shared Nordic values help the region solidify its position as one of the world's most innovative and competitive.

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