FEASIBILITY STUDY FOR SOCIAL OUTCOMES CONTRACT FOR ROMA COMMUNITIES IN THE SLOVAK REPUBLIC

November 2023 Final Report
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Authors

This study was produced by the consortium comprised of Ecorys, ATQ Consultants, Ernst & Young, and Zuzana Poláčková, Researcher at the Centre of Social and Psychological Studies of the Slovak Academy of Sciences, with financial support from the European Investment Advisory Hub.
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# Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>COLSAF</td>
<td>Central Office of Labour, Social Affairs and Family</td>
</tr>
<tr>
<td>DG EMPL</td>
<td>Directorate-General for Employment, Social Affairs and Inclusion</td>
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<tr>
<td>DIB</td>
<td>Development Impact Bond</td>
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<tr>
<td>EIAH</td>
<td>European Investment Advisory Hub</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<tr>
<td>ERDF</td>
<td>European Regional Development Fund</td>
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<tr>
<td>ESIF</td>
<td>European Structural and Investment Funds</td>
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<tr>
<td>ESF</td>
<td>European Social Fund</td>
</tr>
<tr>
<td>ESF+</td>
<td>European Social Fund Plus</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FCDO</td>
<td>Foreign, Commonwealth, and Development Office</td>
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<tr>
<td>JA</td>
<td>Job Advisor</td>
</tr>
<tr>
<td>MoLSAF</td>
<td>Ministry of Labour, Social Affairs and Family</td>
</tr>
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<td>MRC</td>
<td>Marginalised Roma Community</td>
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<tr>
<td>NFC</td>
<td>Non-repayable financial contribution</td>
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<tr>
<td>NGO</td>
<td>Non-governmental organisation</td>
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<tr>
<td>PbR</td>
<td>Payment by Results</td>
</tr>
<tr>
<td>PFS</td>
<td>Pay-for-success</td>
</tr>
<tr>
<td>PPA</td>
<td>Public procurement process inspired by competitive dialogue in line with Act No. 343/2015 Coll. on Public Procurement and on Amendments and Supplementation of Certain Acts</td>
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<tr>
<td>PPO</td>
<td>Public Procurement Office</td>
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<tr>
<td>PSI</td>
<td>Portuguese Social Innovation</td>
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<tr>
<td>SIB</td>
<td>Social Impact Bond</td>
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<tr>
<td>SIC</td>
<td>Social Impact Contract</td>
</tr>
<tr>
<td>SOC</td>
<td>Social Outcomes Contracting</td>
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<td>SPV</td>
<td>Special Purpose Vehicle</td>
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1. Executive summary

This final report summarises the findings of the consortium commissioned by the European Investment Bank (EIB) to support the request from the Office of the Plenipotentiary of the Government of Slovak Republic for Roma communities to conduct a feasibility study for a Social Outcomes Contract (SOC). The aim of the SOC is to address the societal issues related to the high level of unemployment among the Roma community. The consortium comprises of a team of Ernst & Young, Ecorys, ATQ Consultants and Zuzana Poláčková, Researcher at the Centre of Social and Psychological Studies of the Slovak Academy of Sciences.

1.1. Recommended SOC design

The Feasibility Study has concluded that a SOC is feasible. Figure 1 overleaf provides an overview of the proposed SOC structure. This SOC contains the following key elements:

- **Funding source and outcome payer:** The funding for the SOC will be derived from the ESF+ resources that were specifically allocated for Roma support and integration. The outcome payments will flow either from the budget of the Office of the Plenipotentiary or the MoLSAF, who will act as the outcome payer, pending a final agreement. A provisional budget of EUR 5m has been agreed by the Office of the Plenipotentiary.

- **Scope and scalability:** The proposed SOC model is designed as a small-scale pilot project. For this reason, it is recommended that the SOC pilot will be delivered in three dedicated regions in Slovakia that can ensure targeted impact and efficient support. A single service provider or consortium of service providers will operate in each of the three regions. Whilst there were suggestions from consulted stakeholders which regions can be suitable to target (e.g. Gemer, Novohrad and Spiš regions), it is recommended that the choice of precise regions will be agreed upon during SOC implementation. If the pilot project proves successful, there is a potential to scale up the SOC to expand further its reach and impact to multiple regions.

- **Estimated size and impact:** It is estimated that the SOC would support 1,400 people, primarily Roma over three years, supporting at least 420 individuals to enter labour market and 112 staying in work for six months.

- **Programme manager:** The programme manager will act as the go-between and manage the relationships between the other stakeholders. They will be responsible for: selecting the service providers; managing the performance of the service providers; building the capacity of service providers to operate within the SOC; managing the outcome payments; and arranging and managing investments.

- **Comprehensive support services and providers:** The SOC will offer a comprehensive range of services to support people far from the labour market, including the Roma. The service providers will be free to tailor the intervention to local needs. However, it is likely that the support services will consist of: assistance with obtaining qualifications; developing soft employability skills; fostering motivation to enter the formal labour market; and addressing various social challenges that may hinder employment prospects. Simultaneously, the service providers will actively engage with employers, collaborating with them to facilitate the employment and sustainable retention in employment of the vulnerable people.

- **Investors:** The upfront capital to fund the launch of the Roma SOC will be provided by external investors, whose returns will be based on the achievement of the outcomes. The programme manager will be responsible for engaging with the investors, agreeing the investment terms and
repaing the investment. It is estimated that the SOC would require EUR600k external investment.  

- **Procurement:** It is recommended that a public procurement process inspired by competitive dialogue in line with Act No. 343/2015 Coll. on Public Procurement and on Amendments and Supplementation of Certain Acts be used for the implementation of the pilot project. This provides the necessary degree of flexibility for the procurement of particularly complex projects.

*Figure 1: Proposed SOC structure*

The SOC intervention aims at supporting the progress towards the labour market, and therefore attaches outcome payments to specific ‘milestones’ that show this progress, in addition to ultimate employment outcomes. The proposed outcomes and payment amounts are shown in Table 1 below.

*Table 1: Proposed rate card*

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Payment (males)</th>
<th>Payment (females)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual development plan co-designed with client.</td>
<td>EUR 1,400</td>
<td>EUR 1,400</td>
</tr>
<tr>
<td>Service user accomplishes training course / qualification.</td>
<td>EUR 1,400</td>
<td>EUR 1,400</td>
</tr>
<tr>
<td>Service user completes work performance agreement.</td>
<td>EUR 1,400</td>
<td>EUR 1,400</td>
</tr>
<tr>
<td>Service user maintains 1 month employment.</td>
<td>EUR 2,000</td>
<td>EUR 3,000</td>
</tr>
<tr>
<td>Service user maintains 3 months employment.</td>
<td>EUR 4,000</td>
<td>EUR 4,000</td>
</tr>
<tr>
<td>Service user maintains 6 months employment or successfully runs the trade licence.</td>
<td>EUR 5,000</td>
<td>EUR 5,000</td>
</tr>
</tbody>
</table>

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1 The investment requirement is relatively low compared to total programme and delivery costs because set-up cost are likely to be low and outcome payments will start to be made after 2-3 months and can then be recycled, keeping investment costs down. Please see Section 7.4 and Annex 2 for more details.

2 See: [https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2015/343/](https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2015/343/)
There are two key risks with the SOC:

- There was a limited data with which to build the financial case, which means there is a high level of uncertainty in the estimated outcome figures. The estimates are therefore very conservative. It will be necessary to engage investors with high levels of social motivation (and who may be willing to take financial risks for the potential social gain from the SOC).

- Service providers may struggle to ascertain the relevant paperwork to evidence the achieved outcomes. **This could be mitigated by establishing a** data sharing agreement between the Office of the Plenipotentiary and/or programme manager and social insurance companies.

The **key next steps** to launching the SOC involve the Office of the Plenipotentiary initiating the procurement process and developing and submitting “Zámer projektu” to secure timely and early support from key government and ministry stakeholders.
2. Introduction

2.1 Context of study

The Office of the Plenipotentiary of the Government of Slovak Republic for Roma communities (hereinafter ‘Office of the Plenipotentiary’) has requested support to the European Investment Advisory Hub (EIAH) to conduct a feasibility study for a Social Outcomes Contract (SOC). The aim of the SOC is to address the societal issues related to the high level of unemployment among the Roma community. The SOC feasibility study is to focus on developing the SOC project, including understanding the social need; defining the desired outcomes and related indicators; business case\(^3\) development; mapping and shortlist of service concepts, service providers and investors; and proposal of a potential structure.

The SOC feasibility study is financed under the EIAH – a joint initiative between the European Commission and the European Investment Bank (EIB).

EIB commissioned a consortium of Ernst & Young, Ecorys, ATQ Consultants and Zuzana Poláčková, Researcher at the Centre of Social and Psychological Studies of the Slovak Academy of Sciences, to draft the study and carry out data collection, research, interviews and online and in-person workshops with key stakeholders.

2.2 Overview of Social Outcomes Contracts

In simple terms, a SOC is a contractual partnership aimed at improving social outcomes for service users. The service will only be paid for if and when outcomes are achieved. SOCs have been frequently used to improve employment outcomes. Over a quarter of all launched SOCs globally relate to employment and training (75 out of 283) - 56 of these were in Europe.\(^4\) Reviews of SOCs, including to support employment, have generally found positive results, with stakeholders of the view that they achieved more outcomes than traditional contracts.

Outcomes based contracts have been used in Slovakia in the energy performance sector. In 2011, there was an attempt to use outcome contracting in the social sector, but the project was unsuccessful due to different factors such as lack of time to prepare the bid, insufficient data on job seekers profiles, and unstable political situation (fall of the government). In the key informant interview the Public Procurement Office said that at this moment (2023) there is better preparation to carry out such project.

In the Supplementary Supporting Information document to this Final report, Annex A provides more information on SOCs and their use to support employment. Annex B summarises the latest evidence on the advantages and disadvantages of SOCs. Annex C provides information on similar employment SOCs that were used to inform the design of this SOC.

\(^3\) The business case provides justification for undertaking a project or programme. It evaluates the benefit, cost and risk of alternative options and provides a rationale for the preferred solution.

2.3 Overview of feasibility study and conclusions

2.3.1 Objectives

The overall objective of this feasibility study was to provide a solid and evidence-based foundation for the future activities regarding the use of SOC to address issues faced by Roma communities with regards to high levels of unemployment.

In order to meet the overall objective, the feasibility study aimed to cover the following aspects:

- Analysis of the current state of the social challenge, existing service provision and related gaps, and the potential barriers to achieving better outcomes, identifying the problem’s root causes and potential service delivery concepts that could efficiently contribute to better outcomes. Defining intervention scope and segmentation of the target group.
- Estimation of the size of the targeted population and of the capacity to reach out to them and to include them in the SOC programme. Proposal of an adequate referral process through which a sufficient number of referrals can be made into the SOC project.
- Identification of one or more performance indicators that simultaneously represent social and economic value/benefits to the government, and exploring their suitability as outcome contracting metrics, including the availability of reliable data for measurement. Explore, together with the Office of the Plenipotentiary, the advantages and disadvantages of using different performance evaluation methods in the context of a SOC.
- Structuring a business case for the SOC, including calculating the value and the benefits that the government could potentially reap from this operation. On the basis of this business case, estimate a reasonable amount to be paid for the outcomes achieved. Develop a cash flow model. Assess the potential for the use of European Regional Development Funds and European Social Fund Plus (ESF+) specifically.
- Construct a design for the operation and the structure of the SOC (including a road map and a tentative timetable), its evaluation and contracting. Explore possible ways of contracting the SOC, support the preparation and the launch of the public procurement process.
- The feasibility study also identifies and takes into account the role of stakeholders, including possible outcome co-payers, potential investors, and service providers.

2.3.2 Methodology

To address these feasibility elements of a SOC in the Slovak context, a range of activities were conducted as part of this study:

- Meetings with various public authorities and departments of Slovak Government (Public Procurement Office; Office of Plenipotentiary for Roma Communities; Ministry of Labour, Social Affairs, and Family (MoLSAF); Central Office of Labour, Social Affairs, and Family (COLSAF); and Office of Plenipotentiary for Civil Society)
- Meetings with employers, potential service providers and investors (Whirlpool Slovakia, Agency of work of the Banská Bystrica self-governing region, SocioForum, People in Need, Erste/Slovenská Sporiteľňa, Social Innovators, Slovak Investment Holding, Bridges Fund Management)
- Meetings with stakeholders involved in other employment SOCs (MAZE Portugal, Portuguese Social Innovation Project, CMCP Consult, Erste Group Bank Austria)
- Document review of 59 documents in total, including strategic documents; reports on challenges faced by Roma and relevant programmes of support; and research documents on employment SOCs.
• Data collection, including cost data from Step-by-Step programme\(^5\); cost and outcome data from other employment SOCs; and an online survey of service providers (29 responses) to capture estimates of costs and outcomes (see Annex G).
• Procurement review, including meeting with Central Coordination Body (Ministry of Investment, Regional Development and Informatisation), and commissioning of Ruzicka & Partners legal experts to recommend procurement options.

2.3.3 Main findings from the feasibility study

The findings of this assessment strongly support the implementation of a SOC to support Roma employment integration in Slovakia.

Through the evaluation of SOC implementation in various contexts and the specific challenges faced by the Roma community within the current employment support system, it is evident that a SOC holds the potential to overcome barriers and improve the employment integration of the Roma. The proven effectiveness of SOC models in achieving measurable outcomes, coupled with their flexible service delivery and focus on accountability and transparency, aligns well with the specific obstacles within employment faced by the Roma community.

Considering the political will to address the needs of the Roma community and the substantial budget allocation from the ESF+, the timing to launch a Roma support SOC appears advantageous.

A detailed analysis of the assessment of the feasibility of the SOC in the Slovak context is included in Annex 1.

2.4 Structure of the remainder of report

The remainder of the report is structured as follows:

• **Chapter 3: Model overview** offers an overview of the proposed SOC model, that is then further developed in the subsequent sections of the report.
• **Chapter 4: Intervention design** discusses the design of the intervention, including the target population and possible referral routes.
• **Chapter 5: Stakeholders in the project** describes the key roles required within the SOC, including some potential organisations identified in the feasibility study to undertake these roles.
• **Chapter 6: Outcomes metrics and rate card** lists the proposed payable outcomes and the payment value for each one.
• **Chapter 7: Financial model** outlines the financial model used to develop the rate card and estimate the required investment levels.
• **Chapter 8: Procurement** includes a recommended procurement route, eligibility criteria and award criteria.

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\(^5\) The aim of the Step by Step programme was to bring inactive people closer to the labour market by strengthening individualised counselling directly in the field. The programme was announced and coordinated by the Ministry of Labour, Social Affairs and Family thanks to the REACT EU funds and was implemented through demand-driven projects carried out by a wide range of providers, mainly actors from the non-governmental sector. It was the first instrument of its kind where the intervention was oriented towards individualised work with inactive clients. More information about the programme can be found: [https://www.mpsvr.sk/sk/esa/programove-obdobie-2014-2020/dopytovo-orientovane-projekty/ react-eu/krok-za-krokom/](https://www.mpsvr.sk/sk/esa/programove-obdobie-2014-2020/dopytovo-orientovane-projekty/react-eu/krok-za-krokom/).
• **Chapter 9: Risks and mitigations** highlights potential risks together with strategies on how to effectively mitigate them.

• **Chapter 10: Next steps** serves as a roadmap on how to proceed with the SOC implementation.

The report also includes two sets of annexes: Annexes 1 – 8 are essential annexes that can be found at the end of the report; Annexes A – K are supplementary annexes that are available in a separate Supplementary Supporting Information document.

The report uses a range of technical terms. When these are first used, a definition is provided as a footnote. Definitions for all terms are also provided in Annex 8.
3. Model overview

Figure 2 overleaf provides an overview of the proposed SOC structure. This SOC contains the following key elements:

- **Funding source and outcome payer:** The funding for the SOC will be derived from the ESF+ resources that were specifically allocated for Roma support and integration. The outcome payments will flow either from the budget of the Office of the Plenipotentiary or the MoLSAF, who will act as the outcome payer, pending a final agreement. A provisional budget of EUR 5m has been agreed.

- **Scope and scalability:** The proposed SOC model is designed as a small-scale pilot project. For this reason, it is recommended that the SOC pilot will be delivered in three dedicated regions in Slovakia that can ensure targeted impact and efficient support. A single service provider or consortium of service providers will operate in each of the three regions. Whilst there were suggestions from consulted stakeholders which regions can be suitable to target (e.g. Geinner, Novohrad and Spiš regions), it is recommended that the choice of precise regions will be agreed upon during SOC implementation. If the pilot project proves successful, there is a potential to scale up the SOC to expand further its reach and impact to multiple regions.

- **Estimated size and impact:** It is estimated that the SOC would support 1,400 people, primarily Roma over three years, supporting 420 individuals to enter labour and at least 112 staying in work for six months.

- **Programme manager:** The programme manager will act as the go-between and manage the relationships between the other stakeholders. They will be responsible for: selecting the service providers; managing the performance of the service providers; building the capacity of service providers to operate within a SOC; managing the outcome payments; and arranging and managing investments.

- **Comprehensive support services and providers:** The SOC will offer a comprehensive range of services to support people far from the labour market, including the Roma. The service providers will be free to tailor the intervention to local needs. However, it is likely that the support services will consist of: assistance with obtaining qualifications; developing soft employability skills; fostering motivation to enter the formal labour market; and addressing various social challenges that may hinder employment prospects. Simultaneously, the service providers will actively engage with employers, collaborating with them to facilitate the employment and sustainable retention in employment of the vulnerable people.

- **Investors:** The upfront working capital to fund the launch of the Roma SOC will be provided by external investors, whose returns will be based on the achievement of the outcomes. The programme manager will be responsible for engaging the investors, agreeing the investment terms and repaying the investment. It is estimated that the SOC would require EUR600k external investment.
The following sections of the report describe each aspect of the proposed model in detail, providing a comprehensive understanding of the role of proposed SOC components and synergies between them.
4. Intervention design

4.1 Target population

The proposed SOC will target people who are currently positioned far from the labour market, including both long-term jobseekers and economically inactive individuals. The SOC will explicitly encourage the engagement of those with Roma origin but remain accessible to the broader population. More specifically, to ensure effective targeting, it is recommended that services are provided only for people from villages and towns that are listed in the Atlas of Roma Communities 2019 (proved by the address on the ID card or by an affidavit that they reside in the village/town in question).

The above condition (explicit targeting) must be met for all clients. In addition, at least one of the following conditions must be met:

- Low qualifications (citizen completed less than secondary vocational education):
  - It is proved by a certificate of the highest education attained (if the client is registered in the register of jobseekers, this information is also kept in the jobseeker’s file).

- Long-term unemployed citizens (including those unregistered at labour office):
  - In the case of registered jobseekers, people who have been registered for more than 12 months or people who have been out of the labour market for 12 months prior to registration (see Act 5/2004 Coll. On Employment Services, disadvantages within the meaning of Section 8a(e). This information is held centrally by the labour office and can be accessed through the personal identification number assigned to each individual registered at the labour office.
  - In the case of people who are not registered as jobseekers, the people who are in receipt of material need benefit or live in a household in receipt of material need benefit without being registered as jobseekers. This information is held centrally by the labour office and can be accessed through the personal identification number assigned to each individual registered at the labour office.
  - The condition must be fulfilled before being registered in the service provider’s client portfolio.

- Inactive (natural person who is not a jobseeker, is not employed, is not self-employed, and/or is not in continuous vocational training). (This information is held centrally by the labour office.

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7 According to the legislation, material need is a condition where the income of household members does not reach the minimum subsistence level and the household members are unable or incapable of securing or increasing their income:
- by their own work;
- by exercising the right of ownership or other right to property; or
- by the exercise of entitlements.

Material need is established by assessing the income, assets, and entitlements of the household members. People suffering from material need can apply for a material need benefit. This is granted by the Office of Labour, Social Affairs and Family on the basis of a detailed examination of the situation of all members of the household. The benefit is calculated at the household level; the maximum monthly material need benefit for a one-person household is set at EUR74 per month (in the case of a household composed of two adults with one to four children, it is EUR192.40 per month).

Material need benefit is regulated by Act No. 417/2013 Coll. on Aid in Material Need.
and can be accessed through the personal identification number assigned to each individual registered at the labour office):

- People who are in receipt of material need benefit or live in a household in receipt of material need benefit without being registered as jobseekers
- People who are not registered jobseekers, not employed, not self-employed and/or not in continuous vocational training for at least one month before being registered as client of the service provider
- The condition must be fulfilled before being registered in the service provider’s client portfolio.

- People experiencing poor housing conditions:
  - People who live in a locality that is listed in the Atlas of Roma Communities as a "concentration" (if possible, this is proved by the address on the ID card; if not, by an affidavit)
  - People whose official address is at the municipal/city office.

Some people may struggle to provide one or two pieces of evidence relating to the above criteria. However, the assumption is people will likely cover multiple categories, and so they will likely be able to provide evidence that they meet at least one of the criteria.

It is suggested that the SOC pilot should be initially launched in three regions. Three regions are more preferable than one because it allows the SOC to be tested in different contexts. It is recommended that the precise regions/districts are agreed during SOC implementation. This is because the optimum regions will depend on whether there is sufficient capacity and buy-in from regional employers and service providers to sustain a SOC. The best approach to determine this is for the service providers to demonstrate where they could be most effective during the service provider selection process.

However, in key stakeholder interviews conducted as part of this feasibility study, COLSAF suggested piloting the SOC across the selected districts of Gemer, Novohrad and Spiš regions - three regions in central and eastern Slovakia that are densely populated by Roma communities, show a high rate of registered unemployment and a high number of households in receipt of material need benefits. However

The financial model is based on supporting 1,400 people, as this is what is affordable within the EUR 5m budget (see Chapter 7). Even accounting for the likely challenges of engaging service users, there is enough Roma population to engage 1,400 people. According to the CoLSAF statistics from June 2023, there are more than 21,000 job seekers in the category of disadvantaged job seekers due to low educational attainment in the three regions listed above, out of which many are Roma. Annex K to the final report provides detailed information on potential target population in the Gemer, Novohrad and Spiš regions.

### 4.2 Possible Intervention

The SOC pilot is designed to support the Slovak Government in tackling the twin challenges of high levels of Roma unemployment on the one hand and labour shortages experienced by large-scale employers on the other. The intervention aims to support progress towards approaching and entering the labour market for eligible participants, recognising that some Roma are far from accessing work and may not find employment during the intervention timescales. The intervention will not be specified, allowing service providers to propose interventions that are tailored and responsive to local needs. However, interventions are likely to focus on addressing the following barriers to employment:

- **Supply-side barriers** – The SOC will adopt a strength-based, tailored approach that focuses on the specific needs of individuals to improve their distance from the labour market. The
intervention package could include: enrolment in training programmes to achieve qualifications; supporting individuals to re-enter formal education; support in developing soft skills (e.g., communication, leadership, problem-solving); working on motivation to enter the formal labour market (including tackling personal debts); provision of social services to tackle broader social issues; and flexible funding to help overcome barriers to work (e.g. transport).

- **Demand-side barriers** – In parallel, the planned pilot will engage closely with employers to understand where labour shortages are concentrated and the skills required to fill these roles, as well as supporting employers in making application processes accessible to jobseekers of Roma origin.

Annex E to the final report includes a Theory of Change, outlining how this intervention will lead to the intended outcomes.
4.3 Referral routes

Through its active employment services, Labour Offices will play a key role in signposting eligible participants to the programme. However, as many Roma are expected to be unregistered with existing employment schemes, organisations appointed as service providers will need to supplement this participant pool through direct outreach activities that target Roma populations and other marginalised groups. Specific measures will be considered and implemented to avoid double-financing of activities already supported through existing employment programmes, e.g. through tools such as demarcation lines between programmes, referral routes for individual clients, etc.

Research from previous SOCs, including employment SOCs, shows that achieving adequate referrals is a significant risk. When SOCs do not achieve the number of intended outcomes this is often because they have been unable to engage estimated number of service users. This is also a risk for this Roma SOC; during the key informant interviews stakeholders highlighted that keeping Roma engaged and motivated in long-term employment support is challenging.

It is therefore important that the service providers are able to demonstrate that they have good experience of engaging Roma in employment programmes; this should be assessed by the programme manager during the service provider selection process.

It is also recommended that service providers are given high levels of flexibility in how they use the funding, so that they can use this in innovative ways to maintain Roma engagement.

This risk of not achieving adequate referrals has also been accounted for in the financial modelling; the estimates of the number of service users that service providers reported they would be able to engage during the programme has been reduced by 20%, to control for optimism bias and that referral numbers are often over-estimated.

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9 ATQ Consultants, 2018. Mental Health Employment Partnership (MHE): Mid-point in depth review. Available at: https://www.tnlcommunityfund.org.uk/media/Indepth-Reviews_MHEP_Visit-2_FINAL.pdf?mtime=2019081913323#:~:text=At%20this%20interim%20stage%20the,5%2C%20with%203%20being%20Fair.

10 Participants using services offered by service providers, in this case people far from the labour market, including the Roma, using employment support services.
5. Stakeholders in project

It is proposed for the SOC to be implemented by the following stakeholders.

5.1 Outcome payers

Outcome payers are responsible for commissioning the contract, specifying payable outcomes, and paying for achieved outcomes. This role will most likely be held by the Office of the Plenipotentiary, who initially suggested they could fund the SOC from potential underspend linked to EUR 5m earmarked to employment support. Any available savings will become apparent in 2024.

MoLSAF also expressed interest in delivering outcome payments. Due to uncertainties around available budget, this feasibility study originally modelled the SOC based on three funding scenarios: EUR 2m, EUR 5m, and EUR 10m outcome payments. Following discussion with key stakeholders it was determined that the EUR 2m option was not viable and that the likely funding envelope would be EUR 5m. The modelling in this Final Report therefore focuses solely on the EUR 5m option.

5.1.1 Service providers

Service providers will work with Roma communities to achieve specified outcomes. It is suggested that non-governmental organisations (NGOs) and social enterprises are well-placed to fulfil this role due to existing links with Roma populations.

There is a risk with new SOCs that the design is imperfect, and includes perverse incentives that may lead to undesirable service provider behaviour. There is some evidence to suggest that socially-motivated service providers are less likely to act upon these perverse incentives (but only in a low-risk environment). Therefore, the selection criteria for the service providers should prioritise organisations able to demonstrate a strong social mission.

Non-public organisations (especially NGOs) are not experienced in delivering service contracts for government. Their experience of measuring outcomes is low. They would need capacity-building support and peer-learning to deliver the SOC.

If the service is to be scaled, it is important that the capacity of the whole system – not just a small number of organisations – is built. Therefore:

- The peer-learning activities should not just be available for organisations operating within the SOC, but for a broader set of organisations that could be involved in future SOCs.
- There would ideally be a ‘social prime’ delivering the SOCs, with smaller organisations providing additional support, in order to build capacity of smaller organisations.
- The service provider selection criteria should prioritise organisations able to demonstrate how they will build the capacity of smaller organisations.

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Potential service providers have reacted well to the concept of the SOC. They are encouraged by its flexible approach, as it would allow for more freedom and creativity in their work, and a more complex approach in different areas of their engagement, including employment.

### 5.2 Programme manager

The SOC model is predicated on the appointment, through public procurement, of a programme manager, who would manage the SOC and money flows. This is because managing SOCs can be technical and time-consuming, and there could be challenges considering this is the first SOC run in Slovakia. Furthermore, as NGOs in Slovakia are not experienced in working in SOCs, they would require good levels of capacity building support. It would likely be challenging for the Office of the Plenipotentiary to provide this level of oversight and support. The SOC would therefore benefit from a programme manager overseeing the programme, particularly one that has experience of delivering SOCs in other countries.

Figure 3 below summarises the roles and responsibilities of the programme manager. These are:

- Engaging investors and agreeing the terms of investment
- Managing the money flows, including receiving the external investment, receiving the outcome payments, providing the funding to the service providers, and repaying the investors
- Appointing the service providers
- Gathering the outcomes claims from service providers, checking it and submitting it to the Office of the Plenipotentiary
- Overseeing the performance of the service providers
- Building the capacity of service providers to operate within a SOC. This would include assessing their capacity to gather relevant outcome evidence and ensuring they have good data-driven adaptive management processes in place (i.e. they have good processes to not just gather the data, but also that they regularly review it themselves, and use the data to understand their own performance and how it might need to change). It is also recommended the programme manager includes a peer-learning element, so the service providers can learn from each other (and including a broader set of organisations that could be involved in future SOCs). The programme manager could either deliver this capacity-building support themselves, or appoint an external organisation.

**Figure 3: Roles and responsibilities of programme manager**
The above list means the programme manager requires a broad skillset. Thus, it is possible for either a single organisation or a consortium to be in the role of programme manager. However, different organisations will have different capacities and preferences with regards to managing the SOC. For example, the investment fund manager Bridges Fund Management often prefers to establish their own special purpose vehicle (SPV)\(^{12}\) to be the contract holder for the SOC and manage provider performance direct – thereby playing both roles of managing the SOC and managing the investment. Therefore, the procurement specification should specify the responsibilities that are required (listed above), but bidders should be given the freedom to determine how best to split these responsibilities across different organisations.

The feasibility study concluded that there are a number of potential programme managers available that could compete for the role. These include (but are in no way limited to):

- Erste
- Social Finance
- Instiglio
- MAZE
- Bridges Outcomes Partnerships/Bridges Fund Management.

Two payment options for the programme manager have been considered: Option 1 - they are paid a fixed fee; Option 2 - their payments are tied to the outcomes achieved. There are benefits and disadvantages to both options, but it is strongly recommended that the programme manager is paid a fixed fee as this is a much more feasible approach in this context. The two options and the rationale for the recommendation are set out in detail in Annex 3.

### 5.3 Investors

Due to the nature of the likely service providers within the Roma SOC (small-scale NGOs / social enterprises) it will be necessary for external investors to provide the upfront working capital to launch the SOC and to absorb the financial risk for under-performance of outcomes. Based on the financial modelling conducted for this feasibility study it is estimated that the investors will need to provide EUR 600K.

Due to the fact that this is the first SOC to have launched in Slovakia, and also due to the challenges in developing a robust financial case (see section 7), this is a high-risk investment. It is, therefore, important that the SOC is financed by social investors who are motivated by the potential social impact of their investment as much as – if not more than – the potential financial returns.

Several potential investors\(^{13}\) were interviewed during the feasibility study and the financial risks of the investment were highlighted to them. Encouragingly, all of the investors interviewed expressed interest in investing in the SOC despite these financial risks. Furthermore, the European Investment Fund –

\(^{12}\) Special purpose vehicle is a legal entity (usually a limited company) that is created solely for a financial transaction or to fulfil a specific contractual objective.

\(^{13}\) Erste, Social Innovators and Bridges Fund Management.
although unable to invest in this SOC because of the use of ESF+ resources as outcome payments – also stated that they would have been interested in investing in the SOC were they able to do so.

However, although they all expressed interest, this was during the early stages of the SOC development, and they stressed that the final decision would depend on the specifics of the SOC design. It will not be clear, therefore, who will invest in the SOC and on what terms until the programme manager engages with the investors.

Investors commented that they would be more likely to invest if the outcomes goals were realistic, and that there were incremental payments for progress to work not just entry into employment itself; this has been factored into the outcomes metrics and rate card (see section 6).

During the key stakeholders workshop in Bratislava, a number of stakeholders expressed concern that the SOC would not attract external investment. This is always a risk. However, it is worth highlighting that to the best of the knowledge of the feasibility study team, no SOC has failed to gather external investment; there is a range of investment funds – such as the SDG14 outcomes fund – expressly established to invest in social outcomes contracts, who are fully aware of the risks involved with them and are designed to absorb these risks. Generally, there appears to be an oversupply of social investment compared to the demand, indicating an ample availability of funding pursuing a limited number of opportunities.

If it is not possible to engage investors in the SOC, then it will not be possible to launch the SOC.

Potential investors include, among others:

- Erste Bank
- Social Innovators
- Bridges Fund Management and UBS Optimus Foundation
- BNP Paribas
- Big Issue Invest.

### 5.4 Independent evaluators and auditors

In SOCs, outcome evidence can be gathered through three routes:

- Administrative data, i.e. data already gathered by public services
- Outcomes data collected by an external evaluator (e.g. undertaking surveys)
- Outcomes data collected by service provider; sometimes verified by an external organisation (e.g. completing assessments).

In this SOC administrative data will be used to measure the outcomes (see section 6 and Annex 4), and therefore an independent evaluator would not be necessary to capture the outcomes. However, it would be advisable to audit outcome claims to ensure there is no fraud. The programme manager will be responsible for auditing the outcome claims. As per the usual process within the Slovak Government, the Office of the Plenipotentiary, the Department of the European Programs, or another relevant intermediary body, will be responsible for overseeing the auditing process undertaken by the programme manager. Therefore, it will not be necessary to appoint an additional external auditor.

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14 Sustainable Development Goals
Whilst an independent evaluator would not be necessary to measure the outcomes, it is recommended that an independent evaluator is appointed to undertake a process evaluation. This would independently capture lessons learned in implementing the SOC mechanism in Slovakia, and the findings could be used to inform any future roll-out of SOCs.

5.5 Managing the potential conflicts of interest across the stakeholders

There are several potential conflicts of interest across the stakeholders listed in this section that would need to be managed. These are as follows:

- **Service providers and service users**: The delivery model of some of the NGOs / social enterprises that provide Roma support involves employing Roma directly within the NGO organisation. In a SOC, where the NGO is financially incentivised to support Roma into employment, this would be a conflict of interest because the service provider may simply create jobs for the Roma that are ended once the SOC ends; these would therefore not represent sustainable employment. It is therefore recommended that service providers limit the number of service users employed within their organisation to 10%, i.e. of the total cohort of service users that the service provider supports, no more than 10% can be employed by the service provider organisation. This percentage would be sufficient to enable the service provider to employ service users that would be well suited to work for their organisation, whilst ensuring it is not used as a way to over-achieve on employment outcomes. In addition, service providers will need to prove the jobs created for the Roma are sustainable; the evidence for employment claims states that the employment contract must be set up for the duration of minimum period of 6 months (see Annex 4).

- **Programme manager and service providers**: It can be a conflict of interest if one of the organisations acting as a service provider was also a part of the consortium taking on the programme manager role. This is because the programme manager is responsible for managing the performance of the service providers. We recommend that the same organisation should not be allowed to be both a service provider and involved in the programme manager role.

- **Programme manager and investors**: There are some SOCs where the investment fund manager owns the delivery body (usually an SPV) overseeing the SOC, and the SPV appoints the programme manager. There are potential conflicts of interest in this model, because the programme manager is responsible for auditing the outcomes claims from the service providers, and the investor could be incentivised to overstate the outcome claims in order to maximise their returns. Therefore, if the investor or investment fund manager were involved in the programme manager role there would need to be assurances that the auditing of the outcomes claims was done in a way that would ensure separation of roles and avoid any potential conflicts of interest.
6. Outcome metrics and rate card

This section describes the outcomes to which recommend payments are attached, and the proposed payments for each outcome (the rate card).

6.1 Proposed payable outcomes

As described in section 4, the SOC intervention focuses on supporting progress towards the labour market, recognising that the cohort is far from the labour market, and thus a large proportion of the population is unlikely to achieve sustained employment during the SOC timescales. Therefore, outcome payments have been set to reward the service users’ journey towards employment, as well as achieving employment itself. This approach is designed to reduce cherry picking (i.e. service providers only working with those closest to labour market), ensuring that service providers are incentivised to work with a diverse range of individuals, including those who are far from the labour market.

The proposed outcomes for which payments will be attached are:

- Individual development plan co-designed with client.
- Service user accomplishes training course / qualification.
- Service user completes work performance agreement.
- Service user maintains 1 month employment.
- Service user maintains 3 months employment.
- Service user maintains 6 months employment or successfully runs the trade licence.

A detailed explanation of each of the above outcomes together with an overview of other considered metrics that were deemed not suitable are provided in Annex 4.

During the feasibility study, stakeholders consulted highlighted significant risks with the evidence required to achieve the outcomes listed above – specifically gathering paperwork from Roma relating to employment. The potential solution to overcome this problem would be for a data sharing agreement to be established between the Office of the Plenipotentiary and/or programme manager and Social insurance company. This action would be required by the Office of the Plenipotentiary and is strongly recommended. Further information on this risk is provided in Annex 6.
6.2 Proposed rate card

Financial modelling has been used to derive proposed payments for each outcome which were then discussed and revised in consultation with key stakeholders (see section 7). The proposed payments are as shown in Table 2 below.

Table 2: Proposed rate card

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Payment (males)</th>
<th>Payment (females)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual development plan co-designed with client</td>
<td>EUR 1,400</td>
<td>EUR 1,400</td>
</tr>
<tr>
<td>Service user accomplishes training course / qualification.</td>
<td>EUR 1,400</td>
<td>EUR 1,400</td>
</tr>
<tr>
<td>Service user completes work performance agreement.</td>
<td>EUR 1,400</td>
<td>EUR 1,400</td>
</tr>
<tr>
<td>Service user maintains 1 month employment.</td>
<td>EUR 2,000</td>
<td>EUR 3,000</td>
</tr>
<tr>
<td>Service user maintains 3 months employment.</td>
<td>EUR 4,000</td>
<td>EUR 4,000</td>
</tr>
<tr>
<td>Service user maintains 6 months employment or successfully runs the trade licence.</td>
<td>EUR 5,000</td>
<td>EUR 5,000</td>
</tr>
</tbody>
</table>

It is recommended that there is a cap on the number of service users that service providers can support i.e. at the start of the contract service providers will estimate how many service users they will be able to engage. They would be allowed to replace 10% of this cohort who drop out. However, they would not be allowed to replace any more than this. Doing this minimises the risk that service providers simply engage large numbers in order to hit as many of the easy-to-achieve outcomes as possible (e.g. Individual development plan); they will instead be incentivised to realise the harder-to-achieve outcomes with the cohort they are working with.15

Whilst it is recommended that the total cohort number is capped (and total outcome payments – see Section 7.1), there should be flexibility between the number of outcomes achieved for each outcome in the rate card – so for example if the service providers engage fewer people onto the programme (and thus under-achieve on the development plan outcome), they may still make as much money by over-achieving on the employment outcomes. Providing too much rigidity in the number of outcomes per category that can be achieved generally reduces flexibility.16

6.3 Ensuring value for money

A key focus in designing the rate card has been on ensuring it provides enough funding to deliver the service and achieve the outcomes, whilst also ensuring it represents value for money (VfM) for the Slovak Government and Slovak people. The SOC represents good value for money for the following reasons:

- **The costs are in line with similar support programmes**: Table 3 compares the costs of the Roma SOC project with similar Slovak programmes. This shows that the costs are similar. The service provider delivery costs in the Roma SOC are EUR 3,257 per service user; this is within the same range as the service provider delivery costs for the Step-by-Step – where the range is EUR 1,432 – EUR 4,615. The cost of successfully supporting a person to achieve 3 months’ employment in the Roma SOC is EUR 21,714.19; this is again similar to other programmes (EUR 20,248.16 for Step-by-Step and EUR 21,923 for Activation Work, however, in case of Activation Work, the indicator of remaining in the labour market for a minimum of 3 months is not tracked, but only the indicator of entering the labour market).

- **The Slovak Government only pays if it works**: In other similar programmes the Slovak Government has to pay for the programme regardless of whether the outcomes are achieved. In the Roma SOC project, the Slovak Government only pays for the outcomes achieved, and if fewer outcomes are achieved, the Slovak Government pays less. Therefore, the costs are completely tied to project success, ensuring value for money.

- **The outcomes will achieve wider social benefits**: Successfully supporting Roma into sustained work will provide a stable income and reduce Roma poverty. This will also lead to wider social benefits: A study into a Slovak Roma employment programme found improved employment then led to improvements in precarious housing; reduced crime; increased social inclusion with the wider population; and improvements in health. There were also generational benefits: the programme led to a change in the perception of education amongst participating families, leading to improved school attendance and the completion of studies.

<table>
<thead>
<tr>
<th>Programme:</th>
<th>Step by Step</th>
<th>Activation Work Programme</th>
<th>Roma SOC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost</td>
<td>EUR 23,062,659.40</td>
<td>Data unavailable</td>
<td>EUR 4,560,000</td>
</tr>
<tr>
<td>Number of individuals supported</td>
<td>8,052</td>
<td>Data unavailable</td>
<td>1,400</td>
</tr>
<tr>
<td>Average cost per person</td>
<td>EUR 2,864.22</td>
<td>EUR 285</td>
<td>EUR 3,257.14</td>
</tr>
<tr>
<td>Number of people supported into 3 months employment</td>
<td>1,139 (14%) (estimation)</td>
<td>77 (1.3%)</td>
<td>210 (15%) (estimation)</td>
</tr>
</tbody>
</table>

Table 3: Cost comparison between Roma SOC and similar Slovak Programmes

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18 Bosáková, L. 2018. A bottom-up approach to employment: an example of good practice. World Health Organization. Regional Office for Europe. Available at: https://apps.who.int/iris/handle/10665/329685
| Cost per outcome | EUR 20,248.16 (3 months employment) | EUR 21,923 (entering employment) | EUR 21,714.19 (3 months employment) |

Data sources: Step by Step: ITMS2014+ database Available at: https://www.itms2014.sk/prehlad-projektov/projekty?ff=sMchq4O5kpYmxTzNexOV$__DA-t9Dbh690YoKCyzv1UgDj5gV_hDIFMKiiK5w4fzsB_usOnjktam9FWsMLw5ceVK6Lc2W0ndlVma9GeJ0lPro2ach_k. Activation Works: Inštitút Sociálnej Politiky, 2020. Aktivačné práce neaktívných neaktivujú. Analýza čistej účinnosti menších obecných služieb. Ministerstvo práce, sociálnych vecí a rodiny. Available at: https://institutsocialnejpoliticke.sk/wp-content/uploads/2022/12/Aktivacne-prace.pdf. The Roma SOC costs focus on funding for the service providers, because these are the costs most comparable to the other programmes.
7. Financial model

The financial model has been developed to ensure the SOC is feasible for all key stakeholders including outcomes payers, service providers, programme manager, and investors. This section summarises the key findings at base case 19 and the sensitivity of the base case to lower or higher performance. Annex 2 provides a detailed explanation of the approach used to develop the model, how it works and how outputs have been estimated or calculated.

7.1 Total costs and net costs available for outcome payments

The total funding envelope of EUR 5m needs to cover outcome payments after deduction of the costs of the programme manager (who will be paid a fixed fee – see section 5.2 and Annex 3) and the legal and other contracting costs. Based on previous programmes and subject to the public procurement process it is assumed that the fixed fee paid to the programme manager will be EUR 350k, or 7% of the total programme costs, and that total legal and other contract/set up costs will be EUR 90k.

Total fixed costs are therefore estimated to be EUR 440k leaving net funding available for outcome payments of EUR 4,560k.

This level for funding is sufficient to support a total cohort (that is number referred to the programme) of 1,400 service users.

7.2 Provider resourcing and costs

The actual cost to deliver the service will not be known until the providers are selected by the programme manager and have agreed their delivery models.

The assumed delivery model is Job Advisors (JAs) working intensively with a maximum of 10 service users at any one time for up to six months. This is a lower caseload than some programmes and reflects both the challenging nature of the Roma population, and experience from other projects that high caseloads are very difficult to maintain, leading to over-optimistic forecasts of outcome performance.

Additional resources have been included for specialist support (e.g. employment coordinators) and for supervision and management. It is estimated that there will be fixed start-up costs of EUR 50,000, and 30% has been allowed for other overheads such as IT and premises. It is also assumed provider costs would increase annually by 6% as a result of inflation.

19 There is no universally accepted definition of ‘base case’ in all sectors but a reasonable definition is “the results obtained from running an economic model with the most likely or preferred set of assumptions and input values” Source: https://yhec.co.uk/glossary/base-case-analysis/#:~:text=A%20base%20case%20analysis%20usually%20refers%20to%20the%20results%20obtained%20from%20running%20an%20economic%20model%20with%20the%20most%20likely%20or%20preferred%20set%20of%20assumptions%20and%20input%20values. In an SOC the base case is sometimes defined as the case which produces the minimum acceptable return to investors, but in this instance, we are defining the base case as a reasonable set of assumptions and input values that produce viable results for all key stakeholders.
Taken together, these assumptions lead to a base estimate of total provider costs of **EUR 4,329,473**.

### 7.3 Outcome success rate and proposed outcome payments

The outcome success rate is the proportion of the total cohort that achieves each outcome on the rate card. Thus a success rate of 20% for the one month employment outcome means that 280 of the proposed total cohort of 1,400 will achieve the outcome.

Table 4 below includes the estimated success rate and the payment per outcome (rate card). As this shows total payments at these rates would be **EUR 4,487,000**. The methodology used to calculate these figures is provided in Annex 2.

**Table 4: Outcome success rates and total outcome payments**

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Success rate</th>
<th>Total outcomes (1,400 cohort)</th>
<th>Payment per outcome</th>
<th>Total payment per outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual development plan co-designed</td>
<td>80%</td>
<td>1,120</td>
<td>EUR 1,400</td>
<td>EUR 1,568,000</td>
</tr>
<tr>
<td>User accomplishes training course / qualification</td>
<td>10%</td>
<td>140</td>
<td>EUR 1,400</td>
<td>EUR 196,000</td>
</tr>
<tr>
<td>User completes work performance agreement</td>
<td>30%</td>
<td>420</td>
<td>EUR 1,400</td>
<td>EUR 588,000</td>
</tr>
<tr>
<td>1 month employment</td>
<td>20%</td>
<td>280</td>
<td>EUR 2,000 / EUR 3,000 male / female</td>
<td>EUR 735,000</td>
</tr>
<tr>
<td>3 months employment.</td>
<td>15%</td>
<td>210</td>
<td>EUR 4,000</td>
<td>EUR 840,000</td>
</tr>
<tr>
<td>6 months employment / trade licence</td>
<td>8%</td>
<td>112</td>
<td>EUR 5,000</td>
<td>EUR 560,000</td>
</tr>
<tr>
<td>Total payments</td>
<td></td>
<td></td>
<td></td>
<td><strong>EUR 4,487,000</strong></td>
</tr>
</tbody>
</table>

### 7.4 Investment requirement and returns

The likely investment requirement is based on the assumption that it must cover peak negative cashflow – that is the point (usually in the early months of the contract) at which provider costs exceed income from outcome payments by the greatest amount. The modelling also includes a “buffer” of 25% to allow for costs being higher, or revenue lower than assumed in the modelling. For the base case the estimated investment requirement will be EUR 477k, rising to EUR 597k with buffer included, and rounded to a total investment requirement of **EUR 600k**. The levels of capital required are relatively low compared to the total costs of delivery because outcome payments are effectively recycled to cover delivery costs, rather than immediately being returned to investors.
Eventual returns to investors depend on the way the investment is structured and the calculation is both complicated and subject to a number of unpredictable variables – please see Annex 2 for full details. In summary and at base case cost and revenue as outlined above the maximum return to investors will be the initial capital invested (EUR 600k) plus the surplus that might be generated by outcome payments exceeding costs (EUR 157,527). Thus the total repaid would be up to EUR 757,527, equivalent to a money multiple (total return relative to total investment) of 1.26x. The average money multiple for SOCs for where we have (unpublished) data is 1.21x, and so this level of return is in line with, and only slightly higher than the average SOC return, which is justifiable considering the high risks within the SOC (first time done in Slovakia, built on limited data, challenging cohort). The Internal Rate of Return (IRR) to investors would vary depending on how the capital was injected, but two possible options are a loan repayable over the life of the contract (for which the assumed annual interest rate is 10%) or a distribution of the surplus generated by the project at intervals (assumed annually). The possible IRR under each option is shown in Table 5 below.

Table 5: Internal Rate of Return for different repayment options at base case

<table>
<thead>
<tr>
<th>Repayment through:</th>
<th>Initial Investment</th>
<th>Repayment in</th>
<th>IRR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR 600,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan at 10% plus surplus</td>
<td>EUR 241,269</td>
<td>EUR 241,269</td>
<td>EUR 241,269</td>
</tr>
<tr>
<td>Annual distribution</td>
<td>EUR 600,000</td>
<td>EUR 100,000</td>
<td>EUR 130,000</td>
</tr>
</tbody>
</table>

20 IRR is essentially a way of converting the total returns on an investment (in this case total outcome payments less investment, or loan repayments plus surplus) into a percentage rate, calculated over the length of the investment and varying according to cash flow – i.e. how quickly and at what level payments are made. IRR calculations are complicated, but in simple terms the earlier you get the money back the higher the IRR, because IRR takes account of the ‘cost of money’. This is why a loan produces a higher IRR than a distribution paid only when sufficient funds are available). For a further explanation of both IRR and MM see page 25 (Box 2.5) of this report:
7.5 Sensitivity analysis

Sensitivity analysis has been applied to the base case, to control for the possibility of performance being lower or higher than assumed. This is summarised in Table 6 below and detailed in Annex 2.

These alternative scenarios give some confidence that the SOC will remain viable provided sufficient referrals can be generated to enable at least 1,200 service users to enter the programme. If performance varies above and below the base case, the main effect will be to reduce or enhance returns to investors, which means that the balance of risk is appropriate and that investors are (as intended) bearing the brunt of performance risk. Also, it should be emphasised that the referral numbers and caseloads are conservative.

Table 6: Overall financial position under base, low and high case models

<table>
<thead>
<tr>
<th>Item</th>
<th>Base case</th>
<th>Low case 1 (Lower referrals)</th>
<th>Low case 2 (Lower outcome performance)</th>
<th>High case (Outcomes reach cap)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated total cohort</td>
<td>1,400</td>
<td>1,200</td>
<td>1,400</td>
<td>1,400</td>
</tr>
<tr>
<td>Total outcome payments</td>
<td>EUR 4,487,000</td>
<td>EUR 3,871,000</td>
<td>EUR 4,361,000</td>
<td>EUR 4,559,800</td>
</tr>
<tr>
<td>Total capital required</td>
<td>EUR 600,000</td>
<td>EUR 600,000</td>
<td>EUR 620,000</td>
<td>EUR 600,000</td>
</tr>
<tr>
<td>Maximum repayment</td>
<td>EUR 757,527</td>
<td>EUR 603,907</td>
<td>EUR 651,527</td>
<td>EUR 830,327</td>
</tr>
<tr>
<td>Internal Rate of Return (loan at 10%)</td>
<td>12.1%</td>
<td>0.4%</td>
<td>3.0%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Internal Rate of Return (annual distribution)</td>
<td>7.7%</td>
<td>0.2%</td>
<td>1.1%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Money multiple</td>
<td>1.26x</td>
<td>1.01x</td>
<td>1.05x</td>
<td>1.38x</td>
</tr>
</tbody>
</table>
8. Procurement

One of the objectives of the feasibility study was to explore possible ways of contracting the SOC, and support the preparation and the launch of the public procurement process. To support this objective, Ruzicka & Partners legal experts were commissioned to recommend procurement options. Meetings were also held with the Public Procurement Office and Central Coordination Body. A summary of the recommended procurement route and key considerations is below; the recommendations Ruzicka & Partners provided are in Annex 7.

8.1 Procurement route

It is recommended that the SOC project be awarded as a mixed social services contract not a service concession.

There is a precedent for procuring outcomes-based contracts through negotiated procedure in Slovakia: The Guaranteed Energy Services Projects²¹.

If SOC projects are to be successfully implemented in Slovakia, it is recommended that a public procurement process inspired by competitive dialogue in line with Act No. 343/2015 Coll. on Public Procurement and on Amendments and Supplementation of Certain Acts²² (hereinafter referred to as the “PPA”) be used for the implementation of the pilot project. This provides the necessary degree of flexibility for the procurement of particularly complex projects for which the contracting authority is objectively unable to:

- identify the technical means to meet its needs or objectives; or
- specify the legal and/or financial conditions of the project.

At least one of the above-mentioned statutory conditions for the use of competitive dialogue is met in the case of the project. In addition, given its “light touch” nature, under the procedure pursuant to Section 107a of the PPA, the outcome payer may use a procedure inspired by competitive dialogue even if the statutory conditions for its use have not been fulfilled.

Considering the nature of the Project, intended to be a pilot SOC Project, no legitimate expectation exists that the Outcome Payer will be able to define the SOC Project and set its parameters in a manner that will ensure its successful implementation unless they conduct negotiations with the stakeholders. The foregoing excludes the application of both the public tendering procedure and the restricted tendering procedure and, to a large extent, also the method of awarding grants to the Programme Manager under Act No. 121/2022 Coll. on the Contributions from European Union Funds and on Amendment and Supplementation of Certain Acts²³ (hereinafter referred to as the "New EU Funds Act").

Using the method of awarding grants to the programme manager under the New EU Funds Act is further compromised by the obligation of the programme manager to follow the Single Guide for applicants/recipient on the process and control of public procurement/procurement for the 2021 – 2027

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²² See: https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2015/343/
²³ See: https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2022/121/
Programming period\textsuperscript{24} (hereinafter referred to as the "Guide on the public procurement process and control") when selecting providers. In the case of selecting the Programme manager using the preferred method described above, the Programme Manager will not be obliged to proceed in accordance with the Guide on the public procurement process and control (Annex 3) when selecting the Provider or Providers, because the PPA regime securing effective use of public resources was already applied when selecting the Programme Manager.

The preferred method described above will facilitate obtaining relevant information from the market, setting the optimal conditions of cooperation, and identifying potential vulnerabilities. Subsequent projects may require less negotiation, thus be procured using simplified procedures.

Terms and conditions of selection of service providers as well as payment plans between the programme manager and the service providers may be negotiated and defined during the competitive dialogue. It is recommended that this is included in the competitive dialogue procedure in order to mitigate against some of the project risks set out in Chapter 9. It is recommended that the following aspects are negotiated during the competitive dialogue procedure:

- The payment plans between the programme manager and service providers (to ensure there is not undue transfer of financial risk onto the service providers)
- The selection criteria the programme manager will use to select the service providers. Specifically, the following elements should be ensured during the competitive dialogue procedure; that the programme manager will assess service providers on
  - The service providers’ demonstrated ability to engage Roma who are far from the labour market into the service.
  - That the intervention has been co-designed in consultation with Roma people.
  - The service providers’ social motivations and the history of the socially engaged behaviour.
  - The service providers’ intention to develop the capacity of smaller organisations (to build longer-term capacity to support the legacy and growth of SOCs in Slovakia).

Figure 4 overleaf summarises the procurement process, and selection process of different stakeholders. This is set over three stages:

- **Stage 1:** Programme manager procured through public procurement: Process inspired by Competitive Dialogue in line with PPA.
- **Stage 2:** Programme manager selects service providers. Capacity building support could be delivered by programme manager OR selected by programme manager OR selected by Contracting Authority / Outcome Payer.
- **Stage 3:** Investors engaged. Detailed terms agreed via programme manager.

Annex 7 provides further information on the procurement route.

\textsuperscript{24} See: https://www.eurofondy.gov.sk/wp-content/uploads/2022/12/Prirucka_k_procesu_a_kontrole_VO_v1.doc
8.2 Eligibility criteria

The programme manager will need to be able to raise and manage investment funds. They will also need to meet standard eligibility criteria within Slovak procurement, which the Public Procurement Office is best placed to provide.

8.3 Award criteria

Most SOCs focus the award criteria on quality (‘qualitative criteria’) over price (‘quantitative criteria’), with many providing a fixed budget and only scoring based on quality. This is because an award criteria focused on price increases the risk of ‘cherry picking’, where service providers only support the easiest-to-support. For example:

- The Kotouttamisen (KOTO) SOC (training and employment SOC for immigrants, Finland) only scored based on quality. The award criteria were:
  - Expertise of the project administrator’s personnel (40%)
  - Project plan (60%), which the project administrator committed to for the contract period.

- The Refugee Transitions Outcome Fund (RTOF) SOC (employment SOC for refugees, UK) included 20% scoring for ‘financial narrative’ (scoring of division of costs), but not on price.

Both quantitative and qualitative criteria may be used for the award of a public contract in Slovakia. Qualitative criteria were already successfully used in the past, for example in the public procurement process for the selection of financial institutions to act as financial intermediaries for financial instruments for the support of social economy. However, based on the discussion at the key stakeholders’ workshop, there appears likely be a preference to focus at least in-part on price. It is therefore recommended that a multi-criteria approach is applied with 60/40 focus on quality/price.

The simplest way to apply a multi-criteria approach would be for 40% of the scoring to be attached to the price of the programme manager delivery costs. The recommended award criteria is set out in Annex 5.

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25 Details available at: https://wwwuvo.gov.sk/vyhladavanie/vyhladavanie-dokumentov/detail/3123569
9. Risks and mitigations

The feasibility study identified a number of risks that need to be considered when introducing a SOC for support of Roma employment in the Slovak context. An overview of these risks is presented below in Table 7, and they are analysed in detail along with the recommended mitigation measures in Annex 6. The risks have broadly been placed in order, i.e. with the greatest risks at the top.

Some of these risks have already been described in previous sections of the report; they are also included here so that all of the risks are accessible within the same section.

Table 7: Risks and mitigations table

<table>
<thead>
<tr>
<th>Risk</th>
<th>Impact</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of data with which to build SOC financial case.</td>
<td>High level of uncertainty in modelling, creating high risk for investors; investors don't invest.</td>
<td>Engage investors with high levels of social motivation (and who may be willing to take financial risks for the potential social gain from the SOC). The base case has been substantially de-risked by making cautious assumptions of provider caseload and outcome success, while maintaining reasonable investor returns. The model is still financially viable with lower levels of performance (albeit generating lower returns).</td>
</tr>
<tr>
<td>Stakeholders (Roma, service providers, employers) do not engage, due to negative experiences of previous Roma employment programmes.</td>
<td>Lack of engagement in programme, impacting outcomes.</td>
<td>Competitive Dialogue process will support co-design of SOC with service providers (who in-turn co-design intervention with Roma) and employers, to understand their concerns and how they could be mitigated.</td>
</tr>
<tr>
<td>Service providers face issue with gathering paperwork from Roma relating to employment.</td>
<td>Inability to gather sufficient outcomes evidence.</td>
<td>A data sharing agreement will be established between the Office of the Plenipotentiary and/or programme manager and social insurance companies.</td>
</tr>
<tr>
<td>The SOC mechanism has not been used in this context in Slovakia previously</td>
<td>SOC creates set of perverse incentives un-identifiable up-front, creating negative impact.</td>
<td>It will be ensured that stakeholders are socially motivated, to minimise risk of perverse incentives being abused. 1st year is pilot year, programme can be amended after 1st year, if needed. Cohort numbers and total outcome payments will be capped.</td>
</tr>
<tr>
<td>Service providers do not have sufficient financial &amp; project management capacity to operate under a SOC.</td>
<td>Unable to gather evidence needed to support management of a SOC and</td>
<td>Capacity building support will be included for service providers.</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Risk</th>
<th>Impact</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme manager introduces unfavourable payment terms for service providers.</td>
<td>Service providers unable to deliver meaningful support for Roma, reducing outcomes.</td>
<td>Service provider payment plan will be checked during procurement process; programme manager will need to specify service provider payment terms during bidding.</td>
</tr>
<tr>
<td>Roma SOC does not tackle wider structural barriers (e.g. debt around health insurance acting as disincentive to enter formal employment; wider social exclusion and discrimination).</td>
<td>Outcomes not achieved.</td>
<td>Roma SOC will not operate in isolation, but rather alongside broader initiatives by the Slovak Government.</td>
</tr>
<tr>
<td>The Ministry of Labour, Social Affairs and Family will launch a number of programmes aimed at promoting the employment of the disadvantaged.</td>
<td>Providers will not have enough clients to work with and individual programs will be in competition with each other.</td>
<td>Clear lines will be drawn between the different programmes so that they are not in competition but in complementarity and the SOC will be implemented in regions with a high level of need.</td>
</tr>
</tbody>
</table>
10. Next steps

The next steps to launching the SOC involve the Office of the Plenipotentiary initiating the procurement process and developing and submitting “National Project Plan from Program Slovakia 2021-2027” to secure timely and early support from key government and ministry stakeholders.

The roadmap below outlines the recommended steps for the procurement process including the timeline, to ensure an efficient SOC project launch and implementation. A detailed description of each stage with required activities of procurement process is described in Annex 7.

Table 8: Recommended procurement roadmap

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracting legal / procurement adviser</td>
<td>Drafting tender documents, advise on and provide for the proper execution of the public procurement process. Low value contract (below EUR 70,000). Selection based on market research.</td>
<td>2 – 3 weeks</td>
</tr>
<tr>
<td>Stakeholders buy in</td>
<td>Securing buy in of the stakeholders to the extent allowing communicating of information on the SOC Project to the market.</td>
<td>No statutory timeline</td>
</tr>
<tr>
<td>Financing the SOC Project - Approval of the National Project(^{26})</td>
<td>Preparation of the Plan of the National project. Approval of the Plan by the monitoring committee. Examination of the call for submission of national projects by the managing authority. Publication of the call for submission of national projects. Approval of the National Project. Conclusion of the non-repayable financial contribution (NFC) Contract.</td>
<td>No statutory timeline</td>
</tr>
<tr>
<td>Drafting and Publication of Prior Information Notice</td>
<td>Voluntary stage. Public declaration of the intention to procure the SOC Project through the publication of a prior information notice(^{27}) in the Publications Office of the European Union and Slovak Procurement Journal.</td>
<td>1 day</td>
</tr>
</tbody>
</table>

\(^{26}\) As defined in Section 23 of the New EU Funds Act

\(^{27}\) Prior Information Notice is a method for providing the market place with early notification of intent to award a contract/framework.
<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preliminary market consultation</td>
<td>Voluntary stage. Conducting market consultations with a view to preparing the procurement and informing economic operators of the procurement plans and requirements. Seek or accept advice from independent experts or authorities or from market participants, if necessary. If applied, must be subject to <strong>ex ante</strong> inspection by the Public Procurement Office (<strong>PPO</strong>).</td>
<td>4 weeks (plus 40 days for inspection)</td>
</tr>
<tr>
<td>Tender documents</td>
<td>Drafting tender documents (call for participation, basic informative document, draft contract).</td>
<td>8 weeks</td>
</tr>
</tbody>
</table>
| Ex ante inspection           | Obligatory **ex ante** inspection of the tender documents by the **PPO**. *Ex ante* inspection focuses on obligations specified in:  
  - The PPA,  
  - The Guide on the public procurement process and control to procurement,  
  - NFC Contract.  
After the inspection, the **PPO** shall issue a notice on its findings, identifying breaches of the obligations specified above. | 40 - 70 days |
<p>| Accommodation of the <strong>PPO</strong> findings, adjustment of the Tender Documents, Drafting and Publication of the Contract notice | The inspection is likely to result in comments by the <strong>PPO</strong> which will have to be accommodated in the tender documents. Contract notice needs to be drafted. Contract notice shall be published in the Publications Office of the European Union and Slovak Procurement Journal. | 2 weeks |
| Competitive dialogue         | Clarification of participation criteria. | 10 weeks |
| Qualification stage          | Minimum time limit for receipt of requests to participate shall be 30 days from the date on which the contract notice was sent. Evaluation of satisfaction of participation criteria. | |</p>
<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive dialogue</td>
<td>Shortlisting</td>
<td></td>
</tr>
<tr>
<td>Dialogue stage</td>
<td>Sending invitations to take part in the dialogue.</td>
<td>12 weeks</td>
</tr>
<tr>
<td></td>
<td>Clarification of the informative document (document stating basic information about the bid in a given template)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Drafting and submitting solutions.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dialogue meetings.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Presentation of solutions by tenderers and evaluation of solutions by the contracting authority.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reducing the number of solutions and further dialogue stages (optional).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Drafting the final informative document – contract documents.</td>
<td></td>
</tr>
<tr>
<td>Competitive dialogue</td>
<td>Invitation to submit final tenders.</td>
<td>6 weeks</td>
</tr>
<tr>
<td>Tender stage</td>
<td>Clarification and evaluations of final tenders.</td>
<td></td>
</tr>
<tr>
<td>Contract execution</td>
<td>Completion, signing and publication of the contract.</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Ex post inspection</td>
<td>Obligatory <em>ex post</em> inspection of the tender procedure by the PPO to evaluate compliance with the PPA.</td>
<td>55 – 85 days</td>
</tr>
<tr>
<td></td>
<td>• <em>Ex post</em> control focuses on obligations specified in:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The PPA,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The Guide on the public procurement process and control to procurement.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>After the inspection, the PPO shall issue a:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Protocol, in case violation of the PPA was identified; Protocol includes proposal of financial correction, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Report, in case no violation of the PPA was identified.</td>
<td></td>
</tr>
</tbody>
</table>
Annex 1 – Assessment of whether a SOC is feasible to support Roma communities

A1.1 Feasibility study approach: The five tests

In order to assess the feasibility of launching a SOC to improve the employment integration of Roma in Slovakia, it is essential to consider whether five key elements are present. Previous research has found that these five elements are closely associated with the successful launch of a SOC\(^\text{28}\); therefore the more these five elements are present in Slovakia the more likely it is that the SOC is feasible and will successfully launch. These elements are as follows:

- **Demand from outcome payer**: This involves determining if there is sufficient interest and willingness from outcome payers to fund the desired outcomes.
- **Regulatory framework**: It is important to evaluate whether the existing regulatory framework in Slovakia supports the implementation of a SOC and if any legal barriers or constraints need to be addressed.
- **Economic and political context**: The economic and political climate of the country must be taken into account to assess whether it is favourable for launching a SOC. This includes factors such as political support and political and economic stability.
- **Availability of data**: Assessing the availability of relevant data is crucial for building the SOC model. This involves examining whether there is sufficient data from similar initiatives or programmes to inform the design of the SOC and to develop the financial model.
- **Market capacity**: Evaluating the market capacity involves determining if there is interest, capacity and capability amongst the stakeholders that would be involved in a SOC, such as service providers, investors and intermediaries or programme managers.

A1.2 Is a SOC feasible? The results from the five tests

Based on the feasibility study activities, the five key SOC feasibility factors have been assessed in the Slovak context and rated using a colour-coded system in Table 9 overleaf:

- Red: Failed the feasibility test
- Amber: Indicates medium risk
- Green: Passed the feasibility test.

On the basis of the assessment again the five key factors, it has been determined that launching a SOC to support Roma employment in Slovakia is **feasible**.

However, it is important to acknowledge that, as this would be the first SOC of its kind in Slovakia, there are risks involved that could affect the project implementation, such as the limited availability of data. The potential risks as well as their recommended mitigation measures are further examined in Annex 6.

Table 9: Feasibility test results with ratings

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rating</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand from outcome payer</td>
<td>Green</td>
<td>Very positive reactions to SOC from across Slovak Government, with initial budgetary discussions</td>
</tr>
<tr>
<td>Regulatory framework</td>
<td>Green</td>
<td>Positive discussions with Central Coordination Body, Ministry of Investments, Regional development and Informatisation (Program Slovakia Managing Authority) on use of ESF+ to fund the SOC: This is feasible within ESF+ rules around public procurement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Positive discussions with Public Procurement Office &amp; Ruzicka &amp; Partners on using procurement process inspired by competitive dialogue to procure the SOC and in line with Section 107a of PPA</td>
</tr>
<tr>
<td>Economic and political context</td>
<td>Amber/Red</td>
<td>General election in September, which very often halt SOC development plans</td>
</tr>
<tr>
<td>Availability of data</td>
<td>Amber/Green</td>
<td>Very few examples of similar programmes from which to draw cost &amp; outcomes data. However, mixture of cost data from previous programmes, cost &amp; outcome estimates from 29 NGOs / social enterprises plus data from international examples has made it possible to develop a financial case for the SOC</td>
</tr>
<tr>
<td>Market capacity</td>
<td>Amber/Green</td>
<td>Positive reactions to SOC from potential service providers &amp; investors. NGOs not used to delivering SOCs, and so will require a lot of capacity-building support</td>
</tr>
</tbody>
</table>

A1.3 Could a SOC overcome challenges to Roma employment?

It is important to not only consider whether a SOC is feasible, but also whether it is desirable. Our feasibility study found that there can be multiple benefits to introducing the SOC that has the potential to overcome some of the challenges with current employment support in Slovakia.

Firstly, SOC models have proven to be effective in improving outcomes. When dealing with deeply entrenched issues that have required extensive efforts over time, introducing new tools and approaches such as SOCs can be beneficial. Attaching payments to outcomes increases the focus on achieving measurable results, incentivising service providers to direct their efforts towards the desired outcomes. This approach enhances the likelihood of success in addressing the specific challenges faced by the Roma in relation to employment. Considering the low levels of Roma employment, this provides an opportunity to improve job outcomes for Roma.

Secondly, SOCs offer the advantage of flexible delivery. By linking payments to outcomes rather than inputs, service providers are granted greater flexibility in delivering services that are tailored to the local context and specific needs of the target group. This flexibility enables the implementation of innovative and tailored approaches that can effectively address the barriers hindering Roma from accessing and
maintaining employment opportunities. Considering that service providers reported that they felt current funding was restrictive and short-term, a SOC would offer service providers with flexibility they need to provide the required support.

Thirdly, SOCs promote **accountability and transparency**. By clearly defining the expected outcomes, there is a shared understanding among all stakeholders of the goals to be achieved. Moreover, the outcomes are measured in a transparent manner, ensuring objective assessment of the progress and impact of the intervention. This accountability and transparency provide assurance to outcome payers as well as wider project stakeholders that the SOC is delivering tangible results.

A SOC would therefore have the potential to provide benefits for all stakeholders, as summarised in the Box 1 below.

**Box 1: Benefits of a SOC for stakeholders**

- Beneficial for Roma because there is good evidence that SOCs improve beneficiary outcomes
- Beneficial for employers because it tackles their labour shortages
- Beneficial for the Slovak Government, because it helps them achieve their Strategy for Equality, Inclusion and Participation of Roma up to 2030, and they only pay when outcomes are achieved
- Beneficial for service providers, because it brings a new tool that provides long-term, flexible funding that enables them to deliver the required support
- Beneficial for investors, because it aligns social and financial returns

### A1.4 Assessment of whether the timing is right to launch a Roma support SOC at this point in time

The timing to launch a SOC is a critical consideration, and several factors indicate that the current moment may be opportune for such an initiative in the Slovak context.

Firstly, there is a notable political will to provide a "new paradigm" of support for the Roma community. This signifies a commitment from relevant stakeholders to address the challenges faced by the Roma population and seek innovative solutions. Additionally, a substantial budget of EUR 900 million has been allocated within the European Social Fund (ESF+) specifically dedicated to Roma support. This financial commitment demonstrates the potential availability of resources to implement a SOC and drive meaningful change. However, it is important to acknowledge that the upcoming general election poses a potential risk to the stability and continuity of these initiatives.

Furthermore, the SOC aligns well with the objectives outlined in the Slovak Government's Strategy for Equality, Inclusion, and Participation of Roma up to 2030. The government's strategic framework provides a foundation and policy support for implementing a SOC that aims to address employment disparities and promote social inclusion among the Roma. This alignment enhances the prospects of gaining support and collaboration from relevant government agencies and stakeholders, fostering a conducive environment for launching the SOC.

Table 10 below details the objectives within the Strategy for Equality, Inclusion, and Participation of Roma up to 2030 and how a SOC could contribute towards these.

**Table 10: SOC contribution to objectives of the Strategy for Equality, Inclusion, and Participation of Roma up to 2030**
<table>
<thead>
<tr>
<th>Objectives within the strategy</th>
<th>How a SOC could contribute towards the objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective 1: Ensure equal opportunities for Marginalised Roma Communities (MRC), increase the</td>
<td>• By focusing on engaging MRC currently not participating in employment support</td>
</tr>
<tr>
<td>necessary skills and gain practical experience for the transition from education to the labour</td>
<td>• By focusing on increasing skills (formal and soft) of MRC</td>
</tr>
<tr>
<td>market.</td>
<td></td>
</tr>
<tr>
<td>Objective 2: To increase the efficiency, quality of provision and expand the availability</td>
<td>• By funding non-public employment services, which will expand their availability</td>
</tr>
<tr>
<td>of public and non-public employment services and active labour market measures for the MRC</td>
<td>• By using an outcomes-focus, which has potential to increase efficiency and</td>
</tr>
<tr>
<td></td>
<td>quality of services</td>
</tr>
<tr>
<td>Objective 3: Create conditions for the support of MRC employment with employers, with an</td>
<td>• By supporting employers to employ Roma</td>
</tr>
<tr>
<td>emphasis on employers in the social economy</td>
<td></td>
</tr>
<tr>
<td>Objective 4: Reduce labour market discrimination and other manifestations of anti-Roma racism.</td>
<td>• By supporting employers to employ MRC</td>
</tr>
</tbody>
</table>
Annex 2 – Financial model

This Annex explains in detail the purpose of the financial model, its structure, and how the inputs have been estimated or calculated. It then summarises the outputs from the base case model and sensitises it against both low and high case scenarios.

The financial model is embedded here.

A2.1 Purpose of the model

The purpose of the financial model is to test whether the Slovakia SOC is feasible for key stakeholders as set out in section 7 of the main report, namely the outcomes payers, service providers, programme manager, and investors, and effectively establish a base financial case for the project. The SOC will work only if it meets some basic requirements from the perspectives of each of these stakeholders, which are that:

- The total costs are within the total budget available – that is both the outcome payments and other costs are less than the total budget (EUR 5m);
- The providers are able to deliver the service to Roma communities successfully, and achieve sufficient outcomes to cover their costs;
- The payments per outcome (rate card) are sufficient to cover both provider and investor costs, assuming achievable levels of success;
- The programme manager is able to cover its costs. As explained, this should not be an issue in this case because it is proposed that the programme manager is paid a fixed fee following open competition; and
- The investors are able to make a reasonable return on their investment, or at worst do not lose money – that is they at least break even and recover their initial capital investment.

A further test is that subject to the above tests being achieved, the outcome payments made are as low as possible to achieve the required outcomes, and are related to the value of the outcomes achieved. Thus outcomes which have the highest value to both the individual and to the outcomes payer should attract the higher payments.

The rest of this Annex first explains how the model is structured to enable the testing of project feasibility, and then what assumptions and other data were applied in order to develop a financial case that meets all the necessary requirements.

A2.2 Structure of the model

The financial model is complex because it needs to enable calculation of a number of different outputs, which are:
- Calculate how much funding is available to meet the cost of outcome payments, after subtraction of some fixed costs;
- Estimate how much it will cost to deliver the service, based on the staffing and other costs that each provider will incur;
- Estimate how many outcomes will be achieved by the providers, and therefore how much needs to be paid for those outcomes in order to cover provider costs; and
- Calculate how much investment will be needed based on these estimates, and how much might be returned to investors dependent on the way investment in the project is structured.

Figure 5 below summarises how the model is constructed and how each of these key elements relates to each other (though this is very much simplified and omits many of the complexities within the model). Further details of calculations and assumptions that underpin the financial base case are then provided in the following sections.

Figure 5: The Slovakia SOC financial model – simplified structure and key relationships

### A2.3 Model assumptions and calculations

**Overall contract and funding drivers**

The model is based on some overall contract drivers which have in part been predetermined and agreed with key stakeholders, and are reflected in other sections of this report. These are that:

- The total funding available for both outcome payments and other costs will be EUR 5 million. This needs to cover both some fixed costs (including the legal and other costs of the contracting process, and the management costs incurred by the programme manager) and the costs of all outcome payments; and
- The service will run for three years and will be delivered across three distinct and geographically separate sites.
Fixed costs and funding for outcome payments

In line with the recommended design of the project (see section 5.2 and Annex 3) the model assumes that the programme manager will be paid a fixed fee, rather than being reimbursed from outcome payments. The level of this fee will be dependent on the public procurement process but the modelling assumes that the fixed fee paid to the programme manager will be EUR 350k, or 7% of the total programme costs. There is no definitive guidance on an acceptable fee level but a 7% fee appears to be indicated by project and programme management best practice\(^29\). As a total fee it is also commensurate with the level of payment for managers and intermediaries performing similar roles on other programmes, including Development Impact Bonds (DIBs) which have been independently evaluated by Ecorys\(^30\), and the Fund Manager for the UK’s Refugee Transitions Outcomes Fund\(^31\). These show wide variation (see

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\(^{29}\) Source: https://www.pmi.org/learning/library/project-management-much-enough-appropriate-5072


\(^{31}\) The Refugee Transitions Outcomes Fund set a budget for the Fund Manager’s fee of £700k, or 7% of the total Fund value of £10m. This figure was omitted from the published procurement documentation.
Table 11 overleaf) but the nearest equivalent to this project (the Village Enterprise DIB) indicates a total funding requirement of EUR360k.
Table 11: Indicative programme management costs from DIB evaluation

<table>
<thead>
<tr>
<th>Outcomes contract</th>
<th>Cost categories</th>
<th>Legal and other set up costs</th>
<th>Governance/ performance management costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>External advice (legal/financial)</td>
<td>EUR 50,000.00</td>
<td></td>
</tr>
<tr>
<td>ICRC Humanitarian Impact Bond</td>
<td>Verification</td>
<td>EUR 67,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investment vehicle</td>
<td>EUR 25,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Performance management</td>
<td>EUR 450,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>EUR 50,000.00 EUR 542,000.00</td>
<td></td>
</tr>
<tr>
<td>Quality Education India Development Impact Bond</td>
<td>External advice (legal/financial)</td>
<td>EUR 110,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investment vehicle</td>
<td>EUR 60,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Governance</td>
<td>EUR 125,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Performance management</td>
<td>EUR 800,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>EUR 110,000.00 EUR 985,000.00</td>
<td></td>
</tr>
<tr>
<td>Village Enterprise Development Impact Bond</td>
<td>External advice (legal/financial)</td>
<td>EUR 115,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investment vehicle</td>
<td>EUR 60,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trustee fees</td>
<td>EUR 100,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Governance &amp; project management</td>
<td>EUR 200,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>EUR 115,000.00 EUR 360,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>EUR 91,666.67 EUR 629,000.00</td>
<td></td>
</tr>
</tbody>
</table>

In addition, it is proposed that contracting and other legal costs are funded centrally. This is so the Office of the Plenipotentiary and/or Slovak Government is able to retain the Intellectual Property and use this for future SOCs, reducing the long-term legal costs of using SOCs in Slovakia. The legal cost estimate is based on cost data from the DIB research ( 
Table 11) - EUR 90k.

Total fixed costs are therefore estimated in the model to be EUR 440k leaving net funding available for outcome payments of EUR 4,560k.

For reasons that are explained further below, it is calculated that this level of funding will support a total cohort of 1,400 service users.

Estimated service provider delivery costs

Likely staffing levels and roles

The service provider delivery costs have been estimated drawing on information provided through the service provider survey (see Annex G to the final report) and through a subsequent workshop which explored the issues in more depth with a selected sample of five experienced service providers.

It is challenging to estimate how much it will cost to deliver the service since this is dependent on the specific service providers selected by the programme manager and the delivery model each service provider will use. The service providers who responded to the service provider survey and/or participated in the service provider workshop had very different delivery models and estimated costs, and so the actual delivery costs could be different to these estimates. The model has been developed with some headroom, so costs and outcome estimates different to the ones in the model will still be feasible; these are all explained in the remainder of this section.

Based on information provided from these sources the delivery model of the providers is likely to be based on Job Advisors (JAs) working intensively with a number of service users from Roma communities for an average of six months, though in practice some users will be supported for less time and some for longer.

The amount of support expected and needed by each service user will vary but providers asserted that the challenges faced by Roma communities were greater than other cohorts and therefore the number of users that they could sensibly work with would be lower than other programmes, which typically assume JAs working with 15-20 service users (for example Step by Step stipulates that each advisor cannot work with more than 20 users). Based on blending the data from the survey and from the workshop it is concluded that the maximum case load of each JA should be no more than 10, on the assumption that each job advisor will have to work intensively with each service user and address a wide range of issues as well as employment (indeed before they can take employment) such as housing and school problems, debt and health issues. This caseload is the main driver of staffing levels within the model, since it directly affects how many staff are needed for a given number of users.

There are two reasons for setting such a cautious caseload:

- The Roma communities with whom the JAs will be working are challenging and providers advised that they could not achieve sustainable employment for a significant number of service users unless they could work intensively with them. The corollary of assuming lower caseloads is thus higher outcome success (see ‘Estimating the outcome success rate’ below)

- Experience of SOCs elsewhere is that high levels of caseload are very difficult to achieve and maintain, and few contracts are able to run at maximum capacity due to inevitable fluctuations in the pattern of referrals, staff absence, and attrition as some service users leave the programme prematurely. Assuming a lower caseload than similar programmes thus de-risks the model as a whole and means there is more headroom for error and over-estimation by service providers.
Providers also advised that JAs will usually be supported by other specialists, notably an employer coordinator and a psychologist to advise on therapeutic support as needed. It is assumed that each of the three sites where the service providers will deliver services will require two specialists of this type: one for employee coordination and another to manage the therapeutic support.

Providers will also need other staff to supervise the JAs and provide financial and other support. It is assumed that each provider will need one supervisor for each six JAs and one other support manager (e.g. finance or HR) for every 10 JAs.

It is emphasised that these staffing assumptions may be different from those proposed by individual providers (indeed it is unlikely that the model has correctly estimated precisely how a provider will structure the service) but because the assumptions are conservative (especially as regards the caseload per JA), alternative delivery models are unlikely to include staffing levels and costs that are higher than those assumed.

Service providers completing the survey were asked to estimate how long it would take them to build up to full capacity. The data from the survey was inconsistent and wide-ranging on this issue, with some providers appearing to misinterpret the question but those who did respond (n=5) showed a consistent picture, with the average time to full capacity being 5 months and the median being 6 months. It is therefore assumed that it will take service providers 6 months to build up to full capacity. Again this is likely to be a cautious assumption and it is possible that providers will be able to build up to capacity more quickly. If so this will create positive cash flow more quickly than the model assumes.

Staff costs per role
The survey did not provide useful data on staff costs; therefore, the maximum monthly cost of labour permitted under the Step-by-Step programme have been included in the model, updated by 10% to allow for inflation since the Step by Step programme was established. This is the basis for all roles except the psychologists, whom it is assumed will require a higher salary than supervisory roles. This has been estimated at EUR40,000 per year. The annual and monthly total cost of labour assumed within the model are therefore as shown in Table 12.

Table 12: Assumed salaries for roles within the financial model

<table>
<thead>
<tr>
<th>Role</th>
<th>Labour cost per year</th>
<th>Labour cost per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job advisor (JA)</td>
<td>EUR 26,519</td>
<td>EUR 2,210</td>
</tr>
<tr>
<td>Supervisor</td>
<td>EUR 29,977</td>
<td>EUR 2,498</td>
</tr>
<tr>
<td>Finance or HR manager</td>
<td>EUR 31,561</td>
<td>EUR 2,630</td>
</tr>
<tr>
<td>Employer coordinator</td>
<td>EUR 31,561</td>
<td>EUR 2,630</td>
</tr>
<tr>
<td>Psychologist</td>
<td>EUR 40,000</td>
<td>EUR 3,333</td>
</tr>
</tbody>
</table>

Fixed costs and overheads
The results of both the provider survey and the workshop indicated that the providers did not expect to spend significant fixed sums on start-up costs, such as the renting of new premises: providers said that they either already had such premises in the right locations, or did not need them because the staff
worked wholly or mainly through outreach and in the communities they supported. A modest EUR 50,000 has been added to the model for set-up costs.

With regard to overheads, many of these may be covered by the assumption about supervisory and management staff as above. Providers will however need to cover other costs such as IT, facilities management and transport. Provider views on how much they would need to cover such costs varied widely in the provider survey and were in a range from less than 5% to 40% (which is likely to be because 40% is the standard on-cost assumed in the Step-by-Step programme). Overall, the average overhead was estimated at 18% but this may be an under-estimate. Therefore, the estimated overheads are assumed to be 30% of salary costs. This may over-estimate the scale of overheads but again provides some headroom if providers’ costs are higher in other areas than those estimated.

Overall estimate of provider costs
The above estimates and assumptions lead to the following estimate (Table 13) of total provider costs to deliver the services, based on a total cohort that needs to be supported of 1,400 across three sites.

Table 13: Estimated provider costs

<table>
<thead>
<tr>
<th>Item</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total staff costs</td>
<td>EUR 3,338,691</td>
</tr>
<tr>
<td>Total overheads and set up costs</td>
<td>EUR 990,782</td>
</tr>
<tr>
<td>Total delivery costs</td>
<td>EUR 4,329,473</td>
</tr>
</tbody>
</table>

Estimating the outcome success rate
Another key driver of the model is the outcome success rate – that is how many of the total cohort will achieve the specified outcomes, and therefore attract outcome payments. The estimated outcome success rate is critical because it determines whether there will be enough funding to cover both the delivery costs (as outlined above) and the costs of investment (estimated below).

Total cohort
The model expresses the success rate as a percentage of the total cohort achieving each outcome, which converts into a total number for each outcome. As already outlined above the total cohort (that is all those who the providers will aim to engage and persuade to join the programme) is estimated to be 1,400. Unlike some programmes this is not a predetermined figure but is driven by the total funding available, which net of central fixed costs is EUR 4,560k as explained above. At the cautious estimates made of total caseload for Jas, this means that the cohort cannot be much higher than 1,400 without delivery costs exceeding total funding.

Outcome success rates
As explained in Section 6, there are six outcomes for the SOC which are:

- Individual development plan co-designed with client.
- Service user accomplishes training course / qualification.
- Service user completes work performance agreement.
- Service user maintains 1 month employment.
- Service user maintains 3 months employment.
- Service user maintains 6 months employment or successfully runs the trade licence.

Data from both the provider survey and subsequent workshop have been used to get as clear a view as possible of the success rates that will be achieved for each of these outcomes. Please note that in all cases the “success rate” is expressed as a proportion of this total, not as a proportion of those achieving an earlier outcome. Thus, a success rate of 20% for the one-month employment outcome means that 280 of a total cohort of 1,400 will achieve the outcome, irrespective of how many achieve the predecessor outcomes.

To help estimate the outcome success rate providers were specifically asked in the survey how many of those referred to the programme could be retained and would ultimately enter and sustain employment. The results are shown in Table 14 below. Note that the survey analysis is based on both the responses from all respondents (n=29), and on a smaller sample of respondents who explicitly stated that they had experience of working with Roma communities (n=7). Note also that both the average and median success rates have been calculated, since there were some clear outliers whose views tended to distort the averages – for example some respondents in the broader sample thought that they could achieve a 50% success rate for three months employment, which appears optimistic.

As Table 14 shows the providers who indicated direct experience of Roma communities were more cautious about outcome success rates, which may indicate their greater experience of the challenges of this cohort. In addition, there was no difference between the average and median for the seven Roma specialist providers – partly because the sample was lower and partly because their estimates were in a narrower range.

Table 14: Employment success rates indicated by provider survey

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Success rate based on cohort retention</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All respondents (n=29)</td>
</tr>
<tr>
<td></td>
<td>Average</td>
</tr>
<tr>
<td>Service user maintains 1 month in employment</td>
<td>40%</td>
</tr>
<tr>
<td>Service user maintains 3 months employment</td>
<td>16%</td>
</tr>
<tr>
<td>Service user maintains 6 months employment</td>
<td>12%</td>
</tr>
</tbody>
</table>

The initial position was therefore to adopt the success rates indicated by the median of the feedback from the Roma specialist group, as highlighted in green in Table 14. However, when the more focused group of providers were consulted during the workshop they thought that these rates were too low, and that if they could work intensively with the service users (as implied by the assumed JA caseload of 10 discussed above) they could achieve higher levels of employment at three months; conversely, they thought there would be more drop-off between three and six months. The model was therefore modified, assuming 15% success in achieving three months employment, and 8% success in achieving six months.
With regard to the three progress outcomes leading to full employment there was no clear data from the provider survey and therefore this data comes from the answers in the service provider workshop, as well as data from other comparable programmes. The view of providers attending the workshop was that:

- It would be possible to successfully engage 80% of service users and co-design a development plan with them. Note that this outcome is not as easy to achieve as it first appears, since the service users must positively engage in at least two meetings with a provider JA and agree the development plan jointly – see detailed outcome definitions in Annex 4.
- It would be very challenging to engage service users in education and training and enable them to complete qualifications. The reason for this is that providers thought that service users would be more interested in employment (and consequential earnings) than formal training and qualifications. Providers indicated that a success rate of only 10% should be assumed.
- Achievement of the work performance agreement would be higher than sustainment of employment and therefore has an assumed success rate of 30%.

**Time lag before each outcome is achieved**

Providers responding to the survey were also asked to report how long they expected it would take for each of the outcomes to be achieved. This time lag does not have a huge effect on the overall viability of the model (since the total number of outcomes achieved remains the same) but it does affect the cash flow of the project, and therefore the total investment needed. In practice, the pattern of outcome achievement will not be as smooth as the model assumes, with some happening more quickly and some more slowly, but it is not possible to sensibly estimate how outcomes might actually occur without much more data; though there is contingency in the model which means variations are feasible (though they might affect the level of investment required).

The survey provided very useful data on this issue. Both the average and median data is shown in Table 15 below, based on the whole sample of 29 respondents. Since these estimates are in weeks, they need to be converted into months to enable input to the model. Based on a combination of the average and median figures, and the fact that some of the outcomes have been amended since the survey was completed (as described below), the assumptions shown in the final column of Table 15 were adopted for the modelling. This means that some of the time lags are longer than indicated by the survey – for example the survey estimated two weeks to engage each client but we have assumed a more intensive engagement process requiring co-design with each client over a number of meetings. Note that all the modelling assumptions refer to the total time from commencement of the engagement process to outcome achievement and the total time lag is therefore cumulative – unlike the survey results which showed the time between each outcome.

**Table 15: Estimated time lags between outcomes**

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Average time lag estimated in survey (Weeks)</th>
<th>Median time lag estimated in survey (Weeks)</th>
<th>Modelling assumption (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual development plan co-designed with client.</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Service user accomplishes training course / qualification.</td>
<td>6 – 13</td>
<td>6 – 8</td>
<td>4</td>
</tr>
<tr>
<td>Service user completes work performance agreement.</td>
<td>7</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>
Service user maintains 1 month employment. | 15 | 5 | 5
Service user maintains 3 months employment. | 22 | 11 | 7
Service user maintains 6 months employment or successfully runs the trade licence. | N/A | N/A | 10

The time lags assumed are greater than those indicated by the survey for some of the outcomes because the precise outcome metrics were refined after the survey had been conducted. The differences are that the survey asked providers to estimate:

- simple engagement rates, whereas the proposal in the SOC is for a more intensive initial engagement and development plan process;
- commencement of a training course (whereas the proposal in the SOC is for completion); and
- simply entering employment (rather than maintenance of employment for at least one month, which is now the proposal).

Summary of outcome success rates and timing
In summary therefore, the base case model is based on the success rates (and consequential total numbers achieving each outcome) shown in Table 16 below. Details of the proposed payments per outcome implied by these success rates are described separately below.

Table 16: Estimated outcome success rates and time lags

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Success rate (% of total cohort)</th>
<th>Total outcomes achieved (based on cohort of 1400)</th>
<th>Time lag before outcome achievement (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual development plan co-designed with client.</td>
<td>80%</td>
<td>1120</td>
<td>2</td>
</tr>
<tr>
<td>Service user accomplishes training course / qualification.</td>
<td>10%</td>
<td>140</td>
<td>4</td>
</tr>
<tr>
<td>Service user completes work performance agreement.</td>
<td>30%</td>
<td>420</td>
<td>4</td>
</tr>
<tr>
<td>Service user maintains 1 month employment.</td>
<td>20%</td>
<td>280</td>
<td>5</td>
</tr>
<tr>
<td>Service user maintains 3 months employment.</td>
<td>15%</td>
<td>210</td>
<td>7</td>
</tr>
<tr>
<td>Service user maintains 6 months employment or successfully runs the trade licence.</td>
<td>8%</td>
<td>112</td>
<td>10</td>
</tr>
</tbody>
</table>

Proposed outcome payments
The payments made per outcome are not automatically calculated and can be varied to achieve different incentives for providers and investors. However total outcome payments must be sufficient to cover both the total costs of service delivery (estimated as above to be EUR 4,329k) while being lower than the total funding available (EUR 4,560k).
Within these overall constraints payments have been set to:

- Weight payments towards the achievement of the employment outcomes. The primary objective of the SOC is to move hard-to-reach Roma communities into employment and ideally sustain employment for 3 – 6 months at minimum. Payments are therefore higher for the employment outcomes than the progress outcomes.
- Provide early cashflow for the project. Weighting payment towards the employment outcomes needs to be balanced by the expectation that success rates for these outcomes are likely to be relatively low. As explained above. This means that the overall sustainability of the project requires some reasonably high payments for the early outcomes, and especially for the first engagement and development plan outcome which has a high success rate.
- Incentivise the providers to work with women as well as men. There is recognised to be a particular challenge in enabling women from Roma communities to enter and sustain employment. There is therefore an additional premium payment (set 50% higher than the equivalent male payment) for the achievement of the first employment outcome (sustainment of one month’s employment) by females.

Based on all these factors the proposed outcome payments are shown in Table 17 below. As this shows, these payment rates would generate a total income of **EUR 4,487k**.

**Table 17: Proposed outcome payments and total revenue per outcome**

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Payment per outcome (males)</th>
<th>Payment per outcome (females)</th>
<th>Total revenue at success rates shown above</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Base payments</td>
<td>Premium payments (i.e. female premium)</td>
<td></td>
</tr>
<tr>
<td>Individual development plan co-designed with client.</td>
<td>EUR 1,400</td>
<td>EUR 1,400</td>
<td>EUR 1,568,000 N/A</td>
</tr>
<tr>
<td>Service user accomplishes training course / qualification.</td>
<td>EUR 1,400</td>
<td>EUR 1,400</td>
<td>EUR 196,000 N/A</td>
</tr>
<tr>
<td>Service user completes work performance agreement.</td>
<td>EUR 1,400</td>
<td>EUR 1,400</td>
<td>EUR 588,000 N/A</td>
</tr>
<tr>
<td>Service user maintains 1 month employment.</td>
<td>EUR 2,000</td>
<td>EUR 3,000</td>
<td>EUR 294,000 EUR 441,000</td>
</tr>
<tr>
<td>Service user maintains 3 months employment.</td>
<td>EUR 4,000</td>
<td>EUR 4,000</td>
<td>EUR 840,000 N/A</td>
</tr>
<tr>
<td>Service user maintains 6 months employment or successfully runs the trade licence.</td>
<td>EUR 5,000</td>
<td>EUR 5,000</td>
<td>EUR 560,000 N/A</td>
</tr>
<tr>
<td>Total payments</td>
<td>EUR 4,046,000</td>
<td></td>
<td>EUR 441,000</td>
</tr>
<tr>
<td>Grand total – all payments</td>
<td>EUR 4,487,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Investment requirement and returns**

**Investment requirement**

The estimated investment requirement is generated automatically by the model based on the assumption that it must cover the maximum or peak negative cashflow – that is the point at which provider costs exceed income from outcome payments by the greatest amount. Outcome payments under SOCs are made at intervals to the delivery body or intermediary (in this case the programme manager) as outcomes are achieved and evidenced to the outcomes payer (the model assumes payment monthly, but it may be quarterly or another period as agreed in the contract). As with all SOCs, a combination of start-up costs and this time lag until outcomes are achieved and paid for, means that the project will be cash negative in its early months, and become more cash positive as it progresses. The extent to which it is negative is however mitigated by the provision of relatively early payments (after only two months) for the achievement of the first progress outcome.

In addition, a “buffer” has been added to the maximum investment indicated by negative cashflow to allow for costs being higher, or revenue lower than forecast by the model – for example because referrals prove harder to generate than expected or outcomes take longer to achieve. This buffer has been set at 25% of the investment requirement based on negative cashflow alone.

For the base case financial model, based on the assumptions outlined above as regards both provider expenditure and revenue from outcome payments, it is calculated that the investment requirement will be EUR 477k, rising to EUR 597k with buffer included. This has been rounded to a total investment raise of **EUR 600k**. The levels of capital required are relatively low compared to the total costs of delivery because outcome payments are effectively recycled to cover delivery costs, rather than immediately being returned to investors.

**Estimated returns to investors**

Returns to investors are impossible to predict accurately because it is not known how the investors will choose to inject capital and what investment structure will be used – this will only be known once investors have been appointed. With regard to structure, the likelihood is that the programme manager will set up a special purpose vehicle (SPV) into which investment will be made (and from which it will be later repaid) and through which both funding for providers will flow out and outcome payments will flow in. In the UK this SPV would likely take the form of a limited liability partnership or limited company, but its legal form may be different in this case, though this will not materially affect the overall flow of funding.

The alternative to this SPV-based structure would be for investors to make loans directly to providers, this approach is unlikely (and it will be discouraged during the procurement process) since it would expose the providers (rather than the SPV and investors) to financial risk if referrals or outcomes were lower than forecast.

32 If payment is made less frequently – most likely quarterly – this would negatively impact cashflow to a degree but the overall investment requirement – including a buffer of 25% - should still be sufficient. It would also slightly impact the IRR because payments would be slightly later, However total income would be the same, and therefore MM would not be affected.
Given that it is not known how investors will choose to inject capital, the possible return to investors has been calculated based on two options:

- **The capital is injected as a loan to the SPV which is repayable at an agreed or ‘coupon’ interest rate.** Under this option it is assumed that the total capital needed (estimated as above to be EUR 600k) is repaid at an annual interest rate of 10% compound over the three years of the contract in monthly instalments. Under this option the investors could also have returned to them any remaining surplus of income over expenditure at the end of the contract. This would effectively provide the investors with an additional ‘risk premium’ over and above their guaranteed return of 10%. However, it is usual in SOCs elsewhere for the repayment of capital and interest to be at least partly dependent on outcome performance, so that if the project underperforms and agreed repayments cannot be made, they may be renegotiated or delayed until sufficient revenue is available to enable repayment.

- **The capital is invested as ‘quasi-equity’ with investors being entitled to receive a distribution from outcome payments as they are paid to the programme manager and flow into the SPV.** Under this option investors are not guaranteed a return and will likely not be paid monthly, but only when sufficient surplus has built up within the SPV to enable a distribution. The terms of such a distribution would be agreed with investors but it is assumed that a distribution will be made at the end of each year equal to 80% of the surplus at that point. The investors would then receive a final distribution (in year 4) of the remaining surplus once all possible outcome payments have been made.

Under both these options the total amount repaid to investors would be the same, since the surplus of income over expenditure at base case is estimated to be EUR 157,527 and therefore the maximum repayment would be EUR 757,527 against an initial investment of EUR 600,000. The money multiple (total return relative to total investment) would therefore be 1.26 in both cases.

The Internal rate of Return (IRR) achieved by investors would however be different because the investors would receive the total return more quickly under the loan option than the distribution option. The affects the IRR because IRR takes account of the ‘cost of money’ and therefore the earlier the repayment, the higher the IRR. The comparison is shown in Table 18 below.

*Table 18: Internal Rate of Return for different repayment options at base case*

<table>
<thead>
<tr>
<th>Repayment through</th>
<th>Initial Investment</th>
<th>Repayment in</th>
<th>IRR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Year 1</td>
<td>Year 2</td>
</tr>
<tr>
<td>Loan at 10% plus surplus</td>
<td>EUR 600,000</td>
<td>EUR 241,269</td>
<td>EUR 241,269</td>
</tr>
<tr>
<td>Annual distribution</td>
<td>EUR 600,000</td>
<td>EUR 100,000</td>
<td>EUR 30,000</td>
</tr>
</tbody>
</table>

---

33 An investment that reflects some of the characteristics of shares but without the organisation offering up equity. Rather than paying back a set amount each month (as in a loan) repayments are typically based on the performance of the organisation – such as profits or income, and paid at agreed intervals (much as actual equity would pay a regular dividend). Quasi-equity is relatively common in SOCs because repayment can be linked to outcome performance and income from outcome payments.
A2.4 Summary

Based on the above estimates, assumptions and calculations the overall financial position of the SOC at base case would be as shown in Table 19 below. This achieves all the critical success factors set out at the beginning of this Annex, in that funding exceeds total costs, revenue from outcomes payments is sufficient to cover delivery costs, and investors make a reasonable, but not excessive return.

Table 19: Overall financial position under base financial model

<table>
<thead>
<tr>
<th>Item</th>
<th>Number/costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total funding available for project</td>
<td>EUR 5,000,000</td>
</tr>
<tr>
<td>• Less:</td>
<td></td>
</tr>
<tr>
<td>• Fixed payment to programme manager (7%)</td>
<td>EUR 350,000</td>
</tr>
<tr>
<td>• Legal and other contract costs</td>
<td>EUR 90,000</td>
</tr>
<tr>
<td>Net funding available for outcome payments:</td>
<td>EUR 4,560,000</td>
</tr>
<tr>
<td>Estimated total cohort</td>
<td>1,400</td>
</tr>
<tr>
<td>Total costs of delivery including overheads</td>
<td>EUR 4,329,473</td>
</tr>
<tr>
<td>Total outcome payments</td>
<td>EUR 4,487,000</td>
</tr>
<tr>
<td>Total capital required</td>
<td>EUR 600,000</td>
</tr>
<tr>
<td>Maximum repayment</td>
<td>EUR 757,527</td>
</tr>
<tr>
<td>Internal Rate of Return (assuming loan at 10%)</td>
<td>12.1%</td>
</tr>
<tr>
<td>Internal Rate of Return (assuming annual distribution)</td>
<td>7.7%</td>
</tr>
<tr>
<td>Money multiple</td>
<td>1.26</td>
</tr>
</tbody>
</table>

A2.5 Sensitivity analysis

The above represents the base financial case for the SOC which has been sensitised for performance being both lower and higher than assumed, equivalent to a low case and a high case.

Low case 1 – lower referrals than forecast

A particular concern is that performance is lower than expected due to there being fewer referrals than assumed, and the target cohort of 1,400 referrals not being achieved. This has been an issue in several SOCs in the UK and elsewhere.
If this were to happen the revenue from outcome payments would fall because each outcome would be achieved from a lower base, but the costs of delivery would also fall because fewer staff would be needed to cover the caseload. The main consequence of lower referrals would therefore be felt by investors, whose returns would fall because the project would not achieve a surplus, reducing the amount available for distribution (or creating a deficit that would need to be netted off returns under other repayment arrangements). This is as it should be, since an objective of the SOC is that investors should bear the risk of underperformance.

A minimum performance threshold has therefore been set based on the point at which investors break even (that is they are repaid their initial investment, but no return). This threshold is breached if referrals and therefore the total cohort falls below 1,200 (which is termed Low case 1).

**Low case 2 – under-performance against outcomes**

A similar effect would occur if referrals were maintained but success rates were lower than modelled in the base case. For example, an alternative scenario is that referrals and initial outcome performance is high, but employment outcomes are slightly lower than forecast, by a percentage point for each outcome. Under this scenario (Low case 2) investors would still make a modest return, but would start to lose their initial investment (principal) if performance went lower.

**High case – over-performance against outcomes**

There is limited scope for performance to be higher than proposed in the base case because even if outcomes and thus payments were higher than forecast, the project would quickly reach the total amount available for outcome payments of EUR 4,560k. The proposal is that total outcome payments should be capped at this level, to avoid any possibility of total payments exceeding funding, so the high case is effectively not much different and only slightly better than the base case. In order to illustrate the effect of this, some slight changes in outcome performance have been assumed, which increase total outcome payments to just under the cap, at EUR 4,559,800. The effect of this is the opposite of the low cases, in that investors make a greater return whether measured by money multiple or IRR.

The effect of these alternative low and high case scenarios compared to base case is shown in Table 20 overleaf.

These alternative scenarios give some confidence that the SOC will remain viable provided sufficient referrals can be generated to enable at least 1,200 service users to enter the programme. If performance varies above and below the base case, the main effect will be to reduce or enhance returns to investors, which means that the balance of risk is appropriate and that investors are (as intended) bearing the brunt of performance risk. Also, it should be emphasised that the referral numbers and caseloads are conservative.
<table>
<thead>
<tr>
<th>Item</th>
<th>Base case</th>
<th>Low case 1 (Lower referrals)</th>
<th>Low case 2 (Lower outcome performance)</th>
<th>High case (Outcomes reach cap)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated total cohort</td>
<td>1,400</td>
<td>1,200</td>
<td>1,400</td>
<td>1,400</td>
</tr>
<tr>
<td>Total outcome payments</td>
<td>EUR 4,487,000</td>
<td>EUR 3,871,000</td>
<td>EUR 4,361,000</td>
<td>EUR 4,559,800</td>
</tr>
<tr>
<td>Total capital required</td>
<td>EUR 600,000</td>
<td>EUR 600,000</td>
<td>EUR 620,000</td>
<td>EUR 600,000</td>
</tr>
<tr>
<td>Maximum repayment</td>
<td>EUR 757,527</td>
<td>EUR 603,907</td>
<td>EUR 651,527</td>
<td>EUR 830,327</td>
</tr>
<tr>
<td>Internal Rate of Return (loan at 10%)</td>
<td>12.1%</td>
<td>0.4%</td>
<td>3.0%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Internal Rate of Return (annual distribution)</td>
<td>7.7%</td>
<td>0.2%</td>
<td>1.1%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Money multiple</td>
<td>1.26x</td>
<td>1.01x</td>
<td>1.05x</td>
<td>1.38x</td>
</tr>
</tbody>
</table>
Annex 3 – Payment options for the programme manager

Payment options for programme manager: Option 1: Programme manager paid fixed fee

In this scenario, the programme manager would be paid a fixed price for overseeing the programme. The public procurement process would be used to select the programme manager. The price criteria would be assessed against the bidders’ programme manager cost.

During delivery, the programme manager would be paid the agreed fee at intervals, to cover their costs. This would be dependent on specific milestones, which could be:

- Investment agreed
- Service providers appointed
- Service delivery begins
- Investment provision (money transfer)
- First, second and third set of outcome payments claimed
- Capacity building support begins

Performance management processes embedded and operating. The precise payment schedule would be negotiated during the procurement process.

The contract would include break clauses, so that if one of these milestones is not met, it would be possible to terminate the contract (for example, if the programme manager is unable to raise investment, and/or does not appoint service providers). This acts as an incentive for the programme manager to deliver the programme effectively, and safeguards against the Office of the Plenipotentiary appointing a programme manager who takes payments without progressing the programme.

This payment model for the programme manager is similar to the one used in the Austrian Perspective Digitalisation SOC, where payments to the programme manager were paid in tranches, and were not linked to the outcomes.

The advantages of this approach are:

- It makes the procurement simpler, because the price criteria can be easily implemented. It also means the programme manager can be appointed first, and they then source investment and appoint the service providers later.
- The programme manager would be free to focus on the recruitment and management of providers, without worrying about their own financial position, because their own payment would not be linked to outcomes.
- There are fewer conflicts of interest in relation to the programme manager overseeing the outcomes claims from service providers.

The disadvantages of this approach are:

- There is less financial incentive for the programme manager to achieve as many outcomes as possible.
- The Office of the Plenipotentiary would have to pay the agreed fee provided that the minimum threshold for each stage payment were met.
As outlined above the disadvantages can be mitigated against through the contract, which would attach payments to milestones, and include break clauses if the milestones are not met, or not met in a satisfactory manner.

**Payment options for programme manager: Option 2: Programme manager costs linked to outcome payments**

In this scenario, the programme managers’ costs would not be set: They would instead come out of the outcome payments paid by the Office of the Plenipotentiary. How these outcome payments would be split between the programme manager, service providers and investor(s) would be agreed between that consortium.

Because there would not be a set fixed fee for the programme manager, it would not be possible to assess the price criteria against the programme manager costs during the procurement process. A different assessment would be needed: the alternative would be that bidders bid against the rate card\(^{34}\) prices. That is, the rate card prices are the maximum available, and bidders can say they will deliver for lower outcome payments.

In order for the bidders to calculate the level of outcome payments they could deliver against, the whole consortium (programme manager, service providers and investors) would need to be in place during the procurement process, so they can agree a cost structure between themselves.

This payment model is similar to the Mental Health Employment Partnership (MHEP) model in the UK.\(^{35}\)

The advantages of this approach are:

- There is a stronger financial incentive for the programme manager to achieve as many outcomes as possible
- The Office of the Plenipotentiary is only paying for outcomes achieved.

The disadvantages of this approach are:

- It makes the procurement process more complicated. The whole partnership would need to be in place during the procurement process, which would be very challenging.
- Bidding against the rate card is not recommended as it encourages people to deliver lower quality
- It could encourage undesirable behaviour from the programme manager, including:
  - Passing financial risk down to the service providers: This happened in the MHEP model referenced above, where the programme manager passed financial risk down to the service providers, and some service providers had major cash flow problems because they could not achieve enough referrals. This meant the contract had to be renegotiated, and one contract with a service provider was eventually terminated.
  - Extracting a large share of outcome payments from the contract, with less available for service provision.

\(^{34}\) In the context of payment-by-results, a rate card is a schedule of payments for specific outcomes an outcome payer is willing to make for each participant, cohort or specified improvement that verifiably achieves each outcome.

\(^{35}\) Stanworth, 2018. Mental Health Employment Partnership (MHE): Mid-point in-depth review. Available at: https://www.tnlcommunityfund.org.uk/media/Indepth-Reviews_MHEP_Visit-2_FINAL.pdf?mtime=2019081913323#:~:text=At%20this%20interim%20stage%2C%20the,5%2C%20with%203%20being%20Fair.
The programme manager encouraging service providers to ‘game’ (manipulate) the outcome payments, to increase the programme manager’s own profits

Payment options for programme manager: The recommendation

The recommendation would be to adopt Option 1, where the programme manager is paid a fixed fee. The primary reason is this makes the procurement process simpler – the proposed procurement process is already innovative; to over-complicate it even further (which would occur in Option 2) risks the SOC not launching. Furthermore, whilst Option 1 risks creating perverse incentives (of the programme manager not optimising performance); Option 2 risks creating even more perverse incentives (around gaming the SOC to maximise profits). Finally, the Option 1 risks can be mitigated against through simpler means – milestone payments and break clauses in the contract.

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36 Gaming occurs when someone or an organisation behaves opportunistically, deciding to choose a path that benefits themselves over the interests of their clients.
Annex 4 – Outcome metrics

**A4.1 Individual development plan co-designed with client**

The individual development plan should be prepared by the service providers in a standardised format in cooperation with the service user, ensuring that the plan is tailored to the specific needs and goals of the service user. At least 2 meetings with the service user are required during the development process of the plan, and the details of these meetings must be accurately recorded. If the organisation uses an IT system, the date and duration of each meeting should be documented within the system. Alternatively, if the organisation does not use an IT system, this information must be securely kept in paper form.

Required evidence:

- Individual development plan (signed by both service user and case worker).
- Signed attendance sheet evidencing a minimum of 2 meetings with the service user.

**A4.2 Service user accomplishes training course / qualification**

The service user must successfully complete a training course comprising a minimum of 60 hours. The training course can be a single programme or a combination of several shorter courses. Only the following training courses will be considered as eligible for the outcome payment:

- Training courses organised by the Labour Office, which includes reskilling and upskilling programmes. This category also includes courses organised by third parties but under the auspices of the Labour Office; OR
- Courses delivered by employers’ associations; OR
- Courses delivered by other organisations but accredited by either the Ministry of Education, Research & Sport or the Ministry of Labour, Social Affairs & Family.

For qualification attainment, the service user must obtain a certificate of informal qualifications issued by employers’ associations.

For individuals participating in “second-chance education” (return of early school leavers to the formal education system), the successful completion of one year of education will be taken into account for outcome payment eligibility.

It is important to note that an outcome payment in this category can only be earned once in relation to each client.

Required evidence:

- Certificate(s) of training completion of a minimum of 60 hours (the certificate must include information on the scope of the training).
- Certificate issued by the employers’ association attesting that the informal qualification has been obtained.
- Certificate from the school headmaster certifying successful completion of the entire school year.
A4.3  Service user completes work performance agreement

The service user must fulfill the requirements of two types of work performance agreement, each involving specific forms of employment: “dohoda o vykonaní práce” and “dohoda o pracovnej činnosti”.

“Dohoda o vykonaní práce” involves flexible or irregular work for a maximum of 350 hours per year. To meet the criteria, the service user must work for at least 160 hours for ONE employer. The fulfillment of this requirement can be achieved in less than a month, but it may also take several months to reach the 160-hour threshold.

"Dohoda o pracovnej činnosti" entails regular work for a maximum of 10 hours per week. The service user must work at least 80 hours for ONE employer to qualify. The earliest achievement of this threshold for "dohoda o pracovnej činnosti" would be within 2 months, but it may also take several months.

It needs to be noted that an outcome payment in this category can only be claimed once in relation to one client.

Required evidence:

- Copy of agreement.
- Payslips demonstrating the number of hours worked.
- OR if a cooperation agreement is reached with the Social Insurance Company, the milestone is verified in the Social Insurance Company's database.

A4.4  Service user maintains 1 month employment

The service user must be employed under a regular employment contract signed in accordance with the Labour Code for at least 50% of normal working hours. The employment contract must be set up for the duration of minimum period of 6 months and the service user must be employed with a single employer throughout this contract period. The service user must accomplish 1 month of employment (counted as an average number of work days per month) within a maximum period of 2 months. Periods of sick leave are not counted in the 1 month employment requirement.

Required evidence:

- Copy of work contract.
- Payslips.
- OR if a cooperation agreement is reached with the Social Insurance Company, the milestone is verified in the Social Insurance Company's database.

A4.5  Service user maintains 3 months employment

The service user must be employed under a regular employment contract signed in accordance with the Labour Code for at least 50% of normal working hours. The employment contract must be set up for the duration of minimum period of 6 months and the service user must be employed with a maximum of 2 employers. The service user must accomplish 3 months of employment (counted as an average number of the working days per month) within a maximum period of 4 months. Periods of sick leave are not counted in the 3 months employment requirement.

Required evidence:

- Copy of work contract(s).
• Payslips.
• OR if a cooperation agreement is reached with the Social Insurance Company, the milestone is verified in the Social Insurance Company's database

### A4.6 Service user maintains 6 months employment or successfully runs the trade licence

The service user must meet the criteria for either maintaining employment for 6 months or successfully running a trade licence.

**Employment**

Employment of the service user must be under a regular employment contract signed in accordance with the Labour Code, for at least 50% of the normal working hours. The employment contract must last for a minimum of 3 additional full months after accomplishing 6 months of employment. Employment must be with a maximum of 3 employers during the specified period. The service user must accomplish 6 months of employment (counted as an average number of work days per month) within a maximum period of 8 months. Periods of sick leave or interruptions are not counted in the 6-month employment requirement. If the service user remains with one employer throughout, the duration of the employment contract must be at least 9 months. If the service user changes jobs and starts with a new employer shortly before the 6-month period is reached, the new employment contract should be signed for a minimum of 4 months.

**Required evidence:**

- Copy of trade licence demonstrating date of opening.
- Proof of regular payments to Social and Health Insurance Institution.
- OR if a cooperation agreement is reached with the Social Insurance Company, the milestone is verified in the Social Insurance Company's database.

**Trade licence**

The service user should demonstrate that this is a successful business and not a purposeful setting up of a trade for quick profit. The duration and operation of the trade must last for at least 6 months.

**Required evidence:**

- Copy of trade licence demonstrating date of opening. Proof of regular payments to Social and Health Insurance Institution

**Other outcome metrics that were considered for the SOC but rejected, include**

- **Payments for improvements in well-being:** The evaluation of the Fair Chance Fund (a UK employment SOC for young people) recommended that future employment SOCs included a payment for improvement in well-being, in order to recognise and reward the wider benefits that can be achieved through employment programmes. This was also recommended by one of the investors interviewed for this feasibility study. However, this was not applied because there

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is not currently an established well-being tool used in Slovakia, and it was felt that this would be challenging to introduce.

- **Differential payments for people further from the labour market:** Attaching higher payments to people further from the labour market was considered in order to incentivise service providers to support the most vulnerable. However, this was not applied because it would further complicate the rate card, and the priority was to keep the rate card simple to ease its implementation, considering this is the first time a payment mechanism of this type has used for social services in Slovakia. There is also minimal evidence that a differential rate card does indeed incentivise service providers to support more challenging cohorts. It is likely that it would be challenging for service providers to provide the relevant evidence to demonstrate that they are working with people further from the labour market. Finally, considering the vulnerable nature of the Marginalised Roma community as a whole, it did not feel necessary to provide higher payments for more vulnerable people within an already vulnerable group. However higher payments have been included for Roma women, recognising that they are much further from the labour market than Roma men.

- **Additional outcome payments for supporting Roma into non-subsidised jobs:** This was not applied for the same reasons as described above i.e. that it would overcomplicate the rate card.
Annex 5 – Award criteria

Table 21: Recommended award criteria (indicative)

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Percentage of marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Delivery plan</strong></td>
<td></td>
</tr>
<tr>
<td>Realistic plan for launching and delivering project. Includes when the service will be fully operational; how many service uses they will support; how many outcomes they will achieve; and assumptions underpinning this. Will include detailed table of risks and how these will be mitigated.</td>
<td>20%</td>
</tr>
<tr>
<td>This includes also the financial narrative, which means clear and transparent financial plan, including how much investment they will need to raise; the probable investment returns; payment plans for service providers.</td>
<td></td>
</tr>
<tr>
<td>The understanding of the employment issues facing Roma in Slovakia should be demonstrated here.</td>
<td></td>
</tr>
<tr>
<td><strong>Performance management</strong></td>
<td>10%</td>
</tr>
<tr>
<td>Clear plan for how programme manager will monitor and manage performance and outcomes of service providers</td>
<td></td>
</tr>
<tr>
<td><strong>Raising investment</strong></td>
<td>10%</td>
</tr>
<tr>
<td>Clear and credible plan for engaging investors and raising the investment. Preferable that they are able to demonstrate pre-established relationships with investors</td>
<td></td>
</tr>
<tr>
<td><strong>Relationship with service providers and capacity building of the service providers</strong></td>
<td>10%</td>
</tr>
<tr>
<td>Programme manager is able to demonstrate their understanding of the market of service providers and present a strategy of cultivating good relationships with them.</td>
<td></td>
</tr>
<tr>
<td>Programme manager is able to demonstrate how they will develop the capacity of service providers to operate successfully with in a SOC.</td>
<td></td>
</tr>
<tr>
<td>Programme manager is able to demonstrate how they will ensure effective and non-discriminatory selection of service providers, including providing a copy of their selection criteria and how this will be assessed, including how they will ensure they select service providers are able to demonstrate:</td>
<td></td>
</tr>
<tr>
<td>• Their ability to engage Roma into the service</td>
<td></td>
</tr>
</tbody>
</table>
- That the intervention has been co-designed in consultation with Roma people
- Their social motivations
- Their intention to develop the capacity of smaller organisations.

**Team and experience**

| Ability to demonstrate qualified team with experience of delivering similar projects and understanding of the marginalized groups employment complexity | 10% |

**Price**

| Costs of programme manager | 40% |
Annex 6 - Risks and mitigations

A6.1 Limited availability of data

An evidence review was undertaken in order to examine the outcomes achieved by similar Roma employment and integration programmes, in order to build an accurate estimate of the potential impact of the SOC to develop the business and financial cases. However, despite undertaking this activity, it was not possible to identify any accurate outcomes data; outcomes data of similar programmes has not been captured and published.

In order to develop the business and financial cases a survey was undertaken with Slovak NGOs, in which they were asked to estimate the potential impact and costs of a Roma SOC. Therefore, the business and financial case is built on estimates that have limited underlying empirical evidence. As a consequence there is a high level of uncertainty in the outcome estimates and corresponding financial modelling. This could discourage potential investors, hindering the progress of the SOC.

To counter this risk, it is crucial to engage investors with a high level of social motivation, who are willing to take financial risks for the potential social gains from the SOC. The likelihood of attracting the necessary investment increases by targeting investors who are strongly aligned with the objectives of the SOC project.

The base case has also been substantially de-risked by making cautious assumptions of provider caseload and outcome success, while maintaining reasonable investor returns. The model is still financially viable with lower levels of performance (albeit generating lower returns).

A6.2 Lack of engagement

As mentioned previously in this report, one of the key risks with SOCs is not engaging the estimated number of service users, affecting the total level of outcome payments possible.

Stakeholders in the key informant interviews also highlighted the risk that employers may be reluctant to engage with the programme because of negative experiences of previous programmes. To minimise this risk, the Preferred Method of procurement procedure inspired by the competitive dialogue (see chapter 8 on Procurement) can be used as an opportunity to co-design the SOC with employers and service providers (who in-turn co-design intervention with the service users). Engaging these key stakeholders in the initial development phase of the SOC can allow for a better understanding of their concerns and needs and the identification of effective measures to address them. This collaborative and inclusive approach can help to build trust and commitment among stakeholders, increasing the likelihood of their active participation in the project. Emphasising the potential positive social impacts of the SOC and highlighting its differentiation from previous programmes can also build stakeholder support and improve engagement.

A6.3 Inability to gather sufficient outcomes evidence

During the feasibility study NGOs highlighted significant risks with the evidence required to achieve the outcomes listed above – specifically gathering paperwork from Roma relating to employment. However, in the current situation this is the most appropriate evidence requirement; to dilute the level of evidence
required increases the risk of fraud and false claims. If nothing is changed, this risk will therefore have to be accepted.

The potential solution to overcome this problem would be for a data sharing agreement to be established between the Office of the Plenipotentiary and/or programme manager and social insurance companies. This would enable the programme manager to receive employment information direct from social insurance companies, removing the requirement for service providers to gather this evidence from service users. This action would be required by the Office of the Plenipotentiary and is strongly recommended.

A6.4 Unforeseen perverse incentives

As the SOC to support Roma employment would be the first initiative of its kind, the project could face unforeseen challenges due to its innovative nature. These challenges can include a set of perverse incentives that are unidentifiable in advance, and that could lead to unintended negative impact.

To mitigate this risk of perverse incentives, it is important that all stakeholders that are engaged in the SOC are genuinely socially motivated and invested in the success of the SOC. This commitment will foster a shared sense of accountability, which can decrease the likelihood of unintended negative consequences.

Additionally, it is recommended that there is a cap on the number of service users that service providers can support i.e. at the start of the contract service providers will estimate how many service users they will be able to engage. They would be allowed to replace 10% of this cohort who drop out. However, they would not be allowed to replace any more than this. Doing this minimises the risk that service providers simply engage large numbers in order to hit as many of the easy-to-achieve outcomes as possible (e.g. Individual development plan); they will instead be incentivised to realise the harder-to-achieve outcomes with the cohort they are working with38.

Even with these mitigations, it is still possible that there are perverse incentives that were unforeseeable at the launch of the programme. It would be ideal if the Office of the Plenipotentiary undertook a review of the SOC after its first year of implementation, in order to identify and respond to any perverse incentives that are within the programme. However, this may be complicated within the rules of Slovak public procurement; it is recommended that the Office of the Plenipotentiary explores this further.

A6.5 Insufficient capacity of service providers

The research for this feasibility study highlighted that NGOs in Slovakia are primarily funded through grants, and do not have the experience of operating in a contacting mechanism or approach similar to a SOC. They may therefore lack the necessary financial and project management capacity to operate effectively within the SOC. This limitation, namely in data collection and monitoring, can prevent gathering the key evidence needed for managing the SOC and generating outcome payments.

In order to mitigate this risk, it is essential to include capacity-building support for service providers in the SOC project to improve their financial and project management capabilities. It is recommended that this capacity-building support would begin with an initial assessment of the capacity of NGOs to collect relevant outcome evidence. Subsequently, measures should be taken to ensure the NGOs have well-established data-driven adaptive management processes in place, facilitating regular data review and self-assessment for continuous improvement. It is also recommended for the capacity-building to promote peer-learning and mutual exchange of good practices amongst the service providers. This can build the wider capacity of NGOs across Slovakia to deliver SOCs, and support wider scaling and replication of good practices beyond this project.

In the proposed SOC model, the capacity-building support of service providers is under the responsibility of the programme manager. It is recommended that the programme manager would either provide the support directly or would ensure partnering with experienced organisations that can provide the capacity-building support to NGOs.

A6.6 Unfavourable conditions for service providers

Another risk in the development and implementation of the SOC is the potential imposition of unfavourable payment terms for service providers by the programme manager. This can have negative impact on service providers as it can prevent them from delivering meaningful support to the Roma, resulting in reduced outcomes and undermining the overall impact of the SOC.

To prevent this risk and cultivate a beneficial environment for the service providers, it is crucial that during the procurement process the service providers’ payment plan proposed by the programme manager is thoroughly reviewed. This review should ensure that the terms and conditions are fair, transparent, and aligned with the objectives of the SOC. The programme manager should clearly specify the payment terms during the bidding process, ensuring that the conditions adequately support the service providers. Specifically, the investors should be taking on the financial risk and shielding this from the service providers; if the service providers are taking on any financial risk there should be a very good justification for why this is the case. This will simultaneously demonstrate the programme manager’s genuine commitment to the success of the SOC and their social motivation to effectively deliver the results. This has been built into the recommended award criteria (Annex 5).

A6.7 Complexity due to other programmes aimed at promoting employment

The Ministry of Labour, Social Affairs and Family intend to launch a number of programmes aimed at promoting the employment of the disadvantaged. There is a risk providers will not have enough clients to work with and individual programs will be in competition with each other. Clear lines need to be drawn between the different programmes so that they are not in competition but in complementarity and the SOC will be implemented in regions with a high level of need.

A6.8 Failure to tackle structural barriers

It needs to be acknowledged that there is a risk that the SOC may not adequately tackle the wider structural barriers hindering the successful integration of the Roma into the labour market. These
barriers can include for example issues around debt in relation to health insurance (which would act as disincentive for the Roma to enter formal employment) as well as the presence of wider social exclusion and discrimination. These structural barriers can hinder the ability of the SOC to achieve its objectives and desired impact.

To mitigate this risk, it is essential that the SOC does not operate in isolation, but rather cooperates with and complements broader relevant initiatives by the Slovak Government. By aligning the SOC with other programmes and initiatives aimed at supporting Roma integration and tackling structural barriers towards employment, the SOC project can leverage additional resources, expertise, and wider support, enhancing its overall impact.
Annex 7 – Procurement note

A7.1 Public procurement perspective

In this section of the Feasibility Study, the Project implementation options under consideration from the perspective of the public procurement procedures’ regulatory framework are modelled and compared. The SOC Project will be implemented through contracts financed from public resources, awarded by a public institution to private sector entities. To ensure the effective functioning of the fundamental principles of the single market under the Treaty on the Functioning of the European Union, it is therefore necessary to analyse and determine the contracting methods between the involved parties in accordance with the provisions of the following legal acts:

- Act No. 343/2015 Coll. on Public Procurement and on Amendments and Supplementation of Certain Acts (hereinafter referred to as the “PPA”); and
- the Act No. 121/2022 Coll. on the Contributions from European Union Funds and on Amendment and Supplementation of Certain Acts (hereinafter referred to as the “New EU Funds Act”).

A7.2 Analysis of Key Components of the SOC Project

From a public procurement perspective, the SOC Project is specific in particular because of:

- the way the remuneration is paid,
- the way in which the contract is negotiated, and
- the nature of the services provided.

The key characteristic of the SOC Project and its main advantage over the traditional means of financing social services is that the entitlement to remuneration is conditional upon the achievement of the Project’s outcome. The service provider is not compensated by the contracting authority for the provision of a pre-negotiated service but for the achievement of pre-defined measurable indicators. The risk of failing to achieve the effects specified by the contracting authority is borne by the service provider, who should be allowed a corresponding degree of discretion in determining the way the desired effects will be achieved. By the same token, the setting of the measurable indicators and the delineation of the framework for how they are to be achieved will to a large extent determine the attractiveness of the SOC Project to potential investors in the SOC Project. This is crucial for the selection of an appropriate implementation procedure for the Project, which must provide sufficient scope for setting the parameters of the contract in a transparent and non-discriminatory manner.

Stakeholders

The SOC Project entails the active participation of multiple stakeholders. The initiative originates from a public institution, namely the Office of the Plenipotentiary and/or the MoLSAF

39 See: https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2015/343/
40 See: https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2022/121/
Both the Office of the Plenipotentiary and the MoLSAF are considered contracting authorities under Section 7(1)(a) of the PPA. One of these entities will both award and finance the contract, while the other may merely be responsible for financing it. Office of the Plenipotentiary and the MoLSAF are hereinafter jointly referred to as the "Outcome Payers" and individually as the "Outcome Payer".

Alternatively, an occasional joint procurement by these institutions, pursuant to Section 16 of the PPA, is also a possibility. Occasional joint procurement has the potential to better harness or combine the respective strengths of the contracting authorities involved, while also allowing them to share the responsibilities. Proper assignment of the mutual duties and responsibilities of the Outcome Payers may boost the attractiveness of the SOC Project for potential investors who wish to invest financial resources in the provision of social services (hereinafter referred to as the "Investor").

The Feasibility Study has developed the outcomes of the Project, the means of achieving them, and the allocation of risks between the parties involved, to the extent allowing for the start of the procurement process. The Outcome Payers defined, in principle, their own needs and so determined the Project objectives and these objectives must be backed by a payment mechanism capable of meeting the costs of the Project and balancing its risks. It is therefore critical to the successful implementation of the Project to set attainable Project outcomes and to remunerate these in a way that covers the costs of the services provided to achieve these outcomes, including the costs of the Investors' financing of the SOC Project.

To achieve the above, it will be necessary, at the contracting stage for the implementation of the Project, the alignment of expectations on the part of the Outcome Payer with the capabilities of the social service providers (hereinafter referred to as "Providers") and the Investors. The actual implementation of the SOC Project will also require active cooperation and coordination of the parties involved, and to this end, the implementation of the Project is to be significantly supported by an administrator or coordinator (hereinafter referred to as the "Programme Manager") acting as an intermediary between the Outcome Payers, Providers, and the Investor.

The principal executive link and the provider of social services, in the true sense of the word, will be the Providers, distinct from the Programme Manager. The Providers will be contracted directly by the Programme Manager. The allocation of risks between the Programme manager and the Providers will be negotiated between the Outcome Payers and the Programme Manager candidates during the public procurement procedure.

The financing of the costs of the Providers' activities shall be arranged by the Programme Manager through the Investors. The rate of return on the Investor's investment should be linked to the success rate of the Project, i.e. the level of achievement of its outcomes shall determine the returns of the Investor.

Repayable funds will be provided by the investor either to the Programme Manager or directly to the Providers. It is assumed that the Investor will, in exchange, acquire rights from the Programme Manager for future compensation from the Outcome Payer (via factoring or forfeiting the Programme Manager's receivables against the Outcome Payer or other form of an agreement on a future agreement) for the achievement of the SOC Project's outcomes.

Subject of the Contract

From the public procurement perspective, the definition of the subject of the contract, i.e. the specification of the subject and scope of the services to be provided to the Outcome Payer, is essential.
As is evident from its very designation, the subject matter of the SOC Project is the provision of social services. The achievement of the “social outcomes” is envisaged by the provision of social services, i.e. any one or more services listed in Annex 1 of the PPA, which corresponds to Annex XIV of Directive 2014/24/EU\(^41\) (hereinafter referred to as “Social Services”). By way of example, the following is a list of the individual Social Services as per the CPV codes which might be procured under the SOC Project:

- 85300000-2 Social work and related services
- 85320000-8 Social services
- 85321000-5 Administrative social services
- 85312300-2 Guidance and counselling services

It is understood, however, that not all services procured for the purposes of implementing the SOC Project will be Social Services. In addition to the actual provision of Social Services, the subject of the contract for the implementation of the SOC Project will include administration of Social Services, in particular:

- Consultancy services for the Outcome Payer
- Securing (contracting) of Providers
- Coordination and monitoring of Providers
- Securing the Investor for the Providers or for the Outcome Payer

In terms of meeting the defining characteristics of a Social Services contract, it will therefore be a mixed contract pursuant to Section 30(2) of the PPA, under which:

“A contract comprising a service listed in Annex 1 and another service and a contract comprising a service and goods shall be awarded in accordance with the rules applicable to that part of the subject-matter of the contract with the highest estimated contract value.”

Should the SOC Project be awarded through the Social Services contracting procedure, the terms for the distribution of financial resources must be set to ensure that at least 50% of the monetary consideration is allocated to payments for the provision of Social Services. In the current financial model of the SOC more than 50% of the monetary consideration is allocated to payments for the provision of Social Services, and therefore this criterion is met.

Experience with Projects with „outcome-based“ Funding in the Slovak Republic

There is virtually no experience with the implementation of SOC Projects in the Slovak Republic. However, there is relatively widespread experience with the execution of Energy performance contracts\(^42\) mostly referred to as Guaranteed Energy Service projects (hereinafter referred to as “GES Projects”) from among the category of output-oriented projects.

In Slovakia, GES Projects are typically implemented with the active participation of a professional independent consultant pursuant to Section 12 or Section 19 of Act No. 321/2014 Coll. on Energy Efficiency\(^43\), who supports a contracting authority in the preparation of the technical specification and other documents to be included in the tender documentation for the public procurement. The contracting authority may be assisted by this consultant in the further GES contract process. For the purpose of

\(^{41}\) See: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0024

\(^{42}\) See: https://www.mfsr.sk/en/finance/public-private-partnership-ppp/energy-performance-contracts/

\(^{43}\) See: https://www.slov-lex.sk/pravne-predpisy/SK ZZ/2014/321/20210101.html
implementing the GES Project, the contracting authority is procuring the achievement of energy savings as such, i.e. it is procuring a "result" (i.e. a service), not a specific technical solution intended to achieve that result.

According to the methodological documents for the implementation of GES Projects⁴⁴, the procurement documents may specify the scope of the restoration of public buildings, without providing excessive detail regarding the technical solutions, as this may result in the exclusion of other and more effective solutions. However, care should be taken to ensure that the solution offered includes, as far as possible, the restoration of as many technological units as possible at once and in a single procurement, or that the public authority can select from a range of restoration alternatives. The aim should be to ensure that GES providers do not target only the most lucrative technology units with a short payback period, as in such a case the separate procurement of the renewal of the other units could subsequently be met with prohibitively long payback periods and would thus not be attractive or feasible for the providers or for the banks providing financing. Likewise for the SOC Project, measures shall be adopted to avoid cherry picking by selecting or prioritising the most lucrative individual outcomes of the Project.

Initially, the procurement of the GES Project providers involved the use of public tendering or public tendering with market consultations to prepare the procurement and inform economic operators of its aims, while achieving higher levels of participation. However, given that for GES Projects the most appropriate tendering outcome criterion is the achievement of energy savings per se, rather than a specific technical solution for achieving them, the use of a more sophisticated procedure such as a negotiated procedure with publication of a contract notice or competitive dialogue, which give contracting authorities more scope to transparently assess the different technical solution proposals from various GES providers and to select the most desirable technical solution variant, has proven to be a more appropriate option.

The negotiated procedure with publication of a contract notice has proved to be especially suitable for the selection of the GES providers for more complex GES Projects. Depending on the anticipated number of candidates for the provision of GES, the negotiated procedure with publication of a contract notice also applies selection criteria announced in advance to narrow down the number of bidders to proceed with the negotiated procedure.

**The Procurement Procedure for SOC Projects under the PPA**

GES Projects are awarded either as a service contract or as a service concession, a distinction which may also be relevant in the case of SOC Projects. The award of concessions is, compared to the award of "conventional" contracts, more flexible and less regulated. However, if a contracting authority awards a contract through the concession award procedure which does not meet the defining characteristics of a concession, this procedure will be considered in violation of the PPA.

The definition of a concession excludes service concessions from the set of service contracts based on the criteria specified in Section 4(1) and (2) of the PPA as follows:

"(1) A service concession is a contract of the same type as a service contract, except that the consideration for the services to be rendered is either the right to use the services rendered for an agreed period of time or the right is coupled with monetary consideration.

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⁴⁴ Procedure for the preparation and implementation of guaranteed energy services for the public sector (Source: 9RzCnDAw.pdf (mhsr.sk))
(2) With the award of a concession, the operational risk in the use of the construction or the provision of the service is transferred to the concessionaire, which comprises a demand-side or supply-side risk. Operational risk shall be transferred to the concessionaire if, under normal operating conditions, it is not guaranteed a return on its investment or its costs incurred in operating the construction or service which is the subject of the concession. The portion of the risk transferred to the concessionaire must include a realistic exposure to market fluctuations such that any potential loss incurred by the concessionaire is not merely nominal or trifling."

As regards the transfer of operational risk to the relevant degree required under Section 4(2) of the PPA, the distinction between a contract and a concession may not be entirely clear. At the same time, the existence of a degree of transfer of operational risk to the Programme Manager and the Provider will be essential for the attractiveness of the Project for potential Investors and will most likely be a subject of negotiations during the procurement procedure.

The fulfilment of the definitional attributes of a service concession will thus be dependent on the final specification of the SOC Project parameters. It is likely or it cannot be at least ruled out that the SOC Project will ultimately be designed in a manner that fulfills the definitional features of a concession. However, as a prudent precaution and to maintain greater flexibility in defining the terms of cooperation for the execution of the SOC Project, it is recommended that the SOC Project be awarded as a mixed social services contract and not as a service concession.

In the case of a SOC Project, which is defined by its outcome, it is necessary to determine the entity that will undertake to the Outcome Payer to accomplish the objectives of the SOC Project. This entity will be, within the meaning of the assignment, the Programme Manager, and will be entrusted by the Outcome Payer to ensure the provision of social services and secure the ongoing funding of the social services through the Investor. The remuneration to be paid by the Outcome Payer to the Programme Manager should, in case the Project objectives are attained, cover the costs of the Providers’ services, the costs of financing (Investor satisfaction), as well as the costs of the Programme Manager’s work or remuneration. The maximum remuneration that the Programme Manager may receive for the provision of its services shall also constitute the estimated value of the contract pursuant to Section 6 of the PPA. Given the envisaged level of funding, this will be, for each scenario (EUR 2 million, EUR 5 million, EUR 10 million), an above the threshold service contract (article 4 of the 2014/24 Directive). The contract will also be an above the threshold contract regarding the financial limit for the provision of social services. Were the SOC Project be considered a service concession, it would be a sub-limit concession.

The award of above the threshold contracts for social services is governed by Section 107a of the PPA and is consistent with the so-called "light touch" procurement regime with a mandatory publication of a public procurement notice, compulsory compliance with the principle of equal treatment, the principle of non-discrimination of economic operators, the transparency principle, the principle of proportionality and the principle of cost-effectiveness and efficiency, and the optional use of procedures for classic over the threshold contracts (First to Third Chapters of the Second Part of the PPA).

According to the recommendations of the feasibility study, the selection of providers should be handled by the Programme Manager. Although the Programme Manager shall not be a public institution, it will ensure the provision of the Providers’ services in return for the resources provided by the contracting authority (reimbursement system). It will therefore be necessary to examine whether the Programme Manager does not satisfy the definitional criteria of a so-called "subsidiary person" under Section 8 of the PPA, who is obliged to follow the same procedure as the contracting authority.
Section 8 of the PPA applies to contracts for the performance of construction works and for the provision of services related to a contract for the performance of construction works. In the case of the provision of social services, these conditions will not be met. The Programme Manager will thus not be obliged to act as a contracting authority in awarding contracts to Providers.

Being a SOC Project, where entitlement to payment will only arise if the required outcomes are achieved, a financial risk associated with a failure to deliver the outputs is present. It is understood that the financial risk is supposed to be shared between the parties involved; however, the proportion of risk-sharing is unclear. It is evident from the Feasibility Study that the payment of remuneration for the SOC Project should not occur without the achievement of its outcomes. In light of the above, the financial risk of the SOC Project should be borne solely by the providing party, i.e. the Programme Manager, the Investor and the Provider. The recommendation from the Feasibility Study is that this should be borne primarily by the investors – if financial risk is taken on by other organisations there should be a solid justification for this, and evidence that they are capable of taking on any financial risk.

Nevertheless, it is assumed that the degree of risk to be borne by the individual stakeholders will probably be the subject of a competitive dialogue. In the case of a procedure pursuant to Section 107a of the PPA, the Outcome Payer may use a self-defined procedure inspired by (not strictly following) competitive dialogue.

The assumption is that for a successful implementation of the SOC Project, it would be ideal to ensure that all stakeholders who will bear the financial risk are involved in designing the financial model (the reason for the use of a competitive dialogue). The setting of the Provider's share of remuneration, which will be "outcome based" (unless the assignment calls for a 100% share), may also be a subject of negotiations with the stakeholders. Furthermore, the dialogue/negotiation must lead to determination of the objectives - measurable indicators - and identify the means to achieve them.

### A7.3 Preferred Method of SOC Projects' Procurement

In the preferred method, the Outcome Payer will award a mixed contract pursuant to Section 30(2) of the PPA using the procedure in accordance with Section 107a of the PPA for the provision of social services to the Programme Manager (Hereinafter as “Preferred Method”).

The procedure under Section 107a of the PPA entitles the Outcome Payer to use standard or self-defined procedures for awarding above the threshold contracts. In accordance with the recommendation of the Public Procurement Office, the Outcome Payer may use a procedure inspired by competitive dialogue, which provides the necessary degree of flexibility for the procurement of particularly complex projects for which the contracting authority was objectively unable to:

- identify the technical means to meet its needs or objectives; or
- specify the legal and/or financial conditions of the project.

It is considered that at least one of the above-mentioned statutory conditions for the use of competitive dialogue is met in the case of the Project. In addition, given its “light touch” nature, under the procedure pursuant to Section 107a of the PPA, the Outcome Payer may use a procedure inspired by competitive dialogue even if the statutory conditions for its use have not been fulfilled.

Considering the nature of the Project, intended to be a pilot SOC Project, no legitimate expectation exists that the Outcome Payer will be able to define the SOC Project and set its parameters in a manner that will ensure its successful implementation unless they conduct negotiations with the parties involved.
The foregoing excludes the application of both the public tendering procedure and the restricted tendering procedure.

In the case of a negotiated procedure with publication of a contract notice, while there are negotiations on the basic bids of the candidates, the degree of flexibility is significantly lower than in the case of a competitive dialogue. Furthermore, under a competitive dialogue procedure, third parties (i.e. persons who will not be awarded the contract but who will have a role to play in the implementation of the Project) may also participate in the individual negotiations with the candidates. In that position, both potential Investors and potential Providers could participate in the competitive dialogue negotiations and their discussion inputs could contribute to the correct setting of the Programme Manager's performance parameters.

A competitive dialogue is conceived as a solution-seeking process comprising several successive logical phases, combining elements of a restricted tendering procedure (possibility to limit the number of candidates), a negotiated procedure with publication of a contract notice (negotiation), but also a design contest (selection of a design proposal). It is nevertheless a distinct procedure, differing from the others, and is typically implemented in four stages:

- preparatory phase (Section 74 of the PPA),
- expression of interest and candidate selection phase (Sections 74 and 75 of the PPA),
- negotiation phase with candidates (Sections 75 and 76 of the PPA),
- the phase of successful tenderer selection and contract finalisation (Section 77 of the PPA).

The aim of the competitive dialogue procedure is to identify and define the most appropriate way to meet the contracting authority's needs or the most suitable solution. The Outcome Payer shall define its needs and requirements in the contract notice, specifying them in the informative document.

The needs are to be defined by the Outcome Payer in a manner to enable the effective conduct and management of the dialogue. In the preparatory phase, the contracting authority should be able to define as far as possible its vision, aims or desired functionalities for the subject-matter of the contract, even if it cannot objectively ascertain the optimal way of achieving them, particularly to determine all the essential aspects of the subject-matter of the contract without consulting potential suppliers. Given the state of project preparation and the experience with the implementation of SOC Projects abroad, it is understood that defining the basic framework for the Project should not pose a problem for the Outcome Payer.

An experienced public procurement consultant will ensure that the basic parameters for the competitive dialogue (including the definition of those parameters which will not be subject to negotiation) are set by the Outcome Payer in accordance with the fundamental principles of public procurement. The same degree of caution will need to be exercised in setting the criteria for selecting the candidates who will participate in the competitive dialogue and, depending on the expected number of candidates, in determining objective and non-discriminatory criteria for the reduction of the number of candidates during the competitive dialogue.

As for the award criteria, both quantitative and qualitative criteria may be used for the award of the contract. Qualitative criteria were already successfully used in the past, for example in the public
procurement process for the selection of financial institutions to act as financial intermediaries for financial instruments for the support of social economy\(^{45}\).

Due to the co-financing of the SOC Project from the EU Funds, in addition to complying with the procedures stipulated in the PPA, the Outcome Payer will also be obliged to comply with the procedures set out in the Guide on the public procurement process and control\(^{46}\), in particular to submit the documentation for the ex-ante (prior to publication of the contract notice) inspection (paragraph 4.1.3 of the Guide on the public procurement process and control) and the subsequent ex post (after signing of the contract) inspection (paragraph 4.1.4 of the Guide on the public procurement process and control).\(^{47}\)

In the phase following the procurement of the Programme Manager, the Programme Manager shall contract the Providers outside of the PPA regime, as it will not be in the position of a „subsidised person” pursuant to Section 8 of the PPA. The Programme Manager will then not be obliged to comply with the Guide on the public procurement process and control, as they will not receive a non-repayable financial contribution (hereinafter referred to as the “NFC”). The NFC shall, however, be received by the Outcome Payer, who will also proceed with the award of the contract in accordance with the PPA and in accordance with the Guide on the public procurement process and control.

PPA does not set the minimum amount of bidders who submit their tenders. The award procedure, however, should be transparent so anybody interested can apply.

**A7.4 Method of Awarding Grants to the Programme Manager**

An alternative method for selection of the Programme Manager is to use the decision-making process relating to the provision of the NFC under the New EU Funds Act. Due to the payment mechanism utilised in the SOC Project, the NFC would be provided by way of reimbursement only once the Project's objectives have been attained.

From a procedural point of view, the Outcome Payer (the managing authority) would in the first-round issue a call for project proposals. In the call for project proposals, the Outcome Payer would define the scope of information necessary for the assessment of the project proposal and the conditions that the applicant must demonstrate their compliance with.

After the evaluation of the project proposal, the Outcome Payer would prepare a project proposal appraisal evaluation report, which would include information on whether the project proposal meets the conditions set out in the call for project proposals. The evaluation report may also contain recommendations for the involvement of a partner (Investor), user (Provider) or other persons in the preparation and implementation of the project or other recommendations on the preparation and implementation of the project.

In assessing the feasibility of this method, it will be critical whether the Outcome Payer will be able to define the minimum requirements for the Project and the criteria for the selection of the Project for which it will award a grant to the Programme Manager. These requirements and criteria must be fixed so that their subsequent change does not compromise the selection of the Programme Manager's project. At

\(^{45}\) See: https://www.uvo.gov.sk/vyhladavanie/vyhladavanie-dokumentov/detail/3123569

\(^{46}\) See: https://www.eurofondy.gov.sk/wp-content/uploads/2022/12/Prirucka_k_procesu_a_kontrole_VO_v1.doc

\(^{47}\) Or a relevant guidance based on the New EU Funds Act.
the same time, the Outcome Payer must be able to define the eligibility of the Project implementation activities.

The method under consideration seeks to achieve the same effect in the project selection process, based on the call for project proposals and the subsequent call for applications for NFC, as in the case of a competitive dialogue in the preferred method, i.e. the development of the basic idea of the Outcome Payer into a detailed contractual relationship between the Outcome Payer and the Programme Manager.

According to the Funds implementing Framework for the 2021 – 2027 Programming period48 (hereinafter referred to as the “Framework”), the NFC contract shall regulate the rights and obligations of the parties to the contract during the implementation of the project and during the project's sustainability period. Where a partner (§ 3 (t) of the New EU Funds Act) is party to the contractual relationship, the contract shall also regulate the rights and obligations of the partner.

According to the Framework, the managing authority is entitled to modify or supplement the model NFC agreement according to the specificities of individual operational programme. Any amendments or supplements to the provisions relating to financial management are to be sent by the managing authorities for approval to the payments authority (Ministry of Finance). The managing authority's duties arising from the Framework and its duties arising from other legally binding documents (Slovak and EU legislation) shall not be affected in any way by the modification or supplementation of the model NFC agreement. At the same time, when implementing any changes, the compliance with the principle of equal treatment and non-discrimination must be assessed by the managing authority.

The managing authority shall publish the model NFC agreement using ITMS49, keeping previous versions in an archive where all successive versions remain available. The model NFC agreement shall be published using ITMS together with the launch of the first call for project proposals/proposals at the latest.

Due to the requirement to publish the model NFC agreement together with the announcement of the first call for project proposals at the latest, there is no space for the specifics of the project plans (or projects) of applicants to be reflected in the NFC agreements, which is a major disadvantage of this method.

The above notwithstanding, if the Project or the Programme Manager is successfully selected in accordance with the procedure set out in the New EU Funds Act, the Programme Manager will subsequently be obliged to proceed in accordance with the Guide on the public procurement process and control (Chapter 3) when selecting the Provider or Providers. In particular, the Programme Manager will be obliged to ensure compliance with the principle of transparency and economy, including the prevention of conflicts of interest. The Programme Manager shall perform market research on Providers as described in section 3.1.4 et seq. of the Guide on the public procurement process and control. The above responsibility of the Programme Manager in the selection of Providers further compromises the flexibility of the Programme Manager in the implementation of the Project.

In case of selecting the Programme manager using the Preferred Method, the Programme Manager will not be obliged to proceed in accordance with the Guide on the public procurement process and control

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49 Section 47 of the New EU Funds Act.
A7.5 Comparison of the Methods under Consideration

Compared to the Preferred Method (selection of the Programme Manager pursuant to Section 107a of the PPA in a procedure inspired by competitive dialogue), the method of awarding a grant to the Programme Manager pursuant to the New EU Funds Act provides a simplified procedure for the selection of the Programme Manager, but at the cost of a significantly reduced ability of the parties involved to set the terms of cooperation and a reduced degree of flexibility of the Programme Manager in the selection of Providers.

Negotiations between the stakeholders, which are an immanent part of a competitive dialogue process, create a key prerequisite for setting the parameters of the SOC Project in a way that will be sufficiently appealing to Investors, even though it may constitute a potentially risky "outcome based" project.

In addition to the foregoing, the fact that there is existing experience with procurement of the outcome-based GES Projects in the Slovak Republic provides further support for the selection of the Preferred Method.

If SOC Projects are to be successfully implemented in Slovakia, it is recommended that a public procurement competitive dialogue process be used for the implementation of the pilot Project. The Preferred Method will facilitate obtaining relevant information from the market, setting the optimal conditions of cooperation, and identifying potential vulnerabilities. If subsequently, after the successful implementation of the pilot SOC Project, a framework for feasible implementation of SOC Projects is established, the possibility of selecting additional Programme Managers in accordance with the New EU Funds Act procedure can be reconsidered.
Annex 8 – Glossary

Below are listed definitions of terms used within the report. The sources for these definitions are noted below, and the source is listed at the end of each definition:

- GO Lab
- Good Finance
- Own definition

**Base case:** A base case analysis usually refers to the results obtained from running an economic model with the most likely or preferred set of assumptions and input values. (Own definition).

**Business case:** The business case provides justification for undertaking a project or programme. It evaluates the benefit, cost and risk of alternative options and provides a rationale for the preferred solution. The business case entails five domains:

- Strategic case - to demonstrate strategic fit
- Economic case - to demonstrate the social and economic value of the preferred option
- Commercial case - to demonstrate a viable deal between stakeholders
- Financial case - to demonstrate affordability and funding of the preferred option

For impact bonds, the business case also includes the impact case, which demonstrates how impact is intended to be achieved. (GO Lab).

**Cherry picking:** A perverse incentive whereby providers, investors or intermediaries select beneficiaries that are more likely to achieve the expected outcomes and leave outside the cohort the most challenging cases. (GO Lab).

**Development Impact Bond (DIB):** A term used for an impact bond that is implemented in low- and middle-income countries where a donor agency, multilateral institution, or a foundation pays for the desired outcomes as opposed to the government (although some combination of government with third party is also possible). (GO Lab).

**Evaluation:** A periodic, objective assessment of a planned, ongoing, or completed project, programme, or policy. (GO Lab).

**Gaming:** When someone or an organisation behaves opportunistically, deciding to choose a path that benefits themselves over the interests of their clients. (GO Lab).

**Impact:** In the context of impact evaluations, an impact is a change in outcomes that is directly attributable to a programme; also known as causal effect. (GO Lab).

**Inputs:** The financial, human, and material resources used for a specific intervention or service. (GO Lab).

**Internal Rate of Return (IRR).** A way of converting the total returns on an investment into a percentage rate, calculated over the length of the investment and varying according to cash flow – i.e. how quickly and at what level payments are made. (Own definition)

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50 See: https://golab.bsg.ox.ac.uk/knowledge-bank/glossary
51 See: https://www.goodfinance.org.uk/glossary
**Money Multiple:** A way of measuring investment returns that expresses the total returns as a simple multiple of the amount initially invested. Unlike IRR, MM does not vary according to when payments are received. (Own definition)

**Outcome:** The outcome is what changes for an individual as the result of a service or intervention. (GO Lab).

**Outcome based contracting:** Outcomes-based contracting is a mechanism whereby service providers are contracted based on the achievement of outcomes. This can entail tying outcomes into the contract and/or linking payments to the achievement of outcomes. *It is the broader umbrella of contracts within which social impact bonds sit. They are broader than SIBs because they do not necessarily require external investment.* (GO Lab definition; italicised text added by the feasibility study team).

**Outcome fund:** Outcome funds pool capital from one or more funders to pay for a set of pre-defined outcomes. Outcome funds allow the commissioning of multiple impact bonds under one structure. Payments from the outcomes fund only occur if specific criteria agreed ex-ante by the funders are met. (GO Lab).

**Outcome payer:** The organisation that pays for the outcomes in an impact bond. Outcome payers are often referred to as commissioners. (GO Lab).

**Output:** The tangible goods and services that are produced (supplied) directly by an intervention. The use of outputs by participants contributes to changes which lead to outcomes. (GO Lab).

**Pay-for-success:** Pay-for-success is the term used in some countries (in particular the US) for impact bonds. (GO Lab).

**Payment by Results (PbR):** The practice of paying providers for delivering public services based wholly or partly on the results that are achieved. (GO Lab).

**Perverse incentive:** An incentive to act in manner that goes against the desired outcome or aims of a service or programme. (GO Lab).

**Prior Information Notice:** Prior Information Notice is a method for providing the market place with early notification of intent to award a contract/framework. (GO Lab, though it has since been removed from the glossary).

**Procurement:** Acquisition of goods and services from third party suppliers under legally binding contractual terms. Public sector procurement is normally achieved through competition and is conducted in line with each government’s policy and regulation. In impact bonds, the procurement process identifies the partners, namely the services provider(s) to deliver the selected intervention. (GO Lab).

**Quasi - equity:** An investment that reflects some of the characteristics of shares but without your organisation offering up equity. Rather than paying back a set amount each month, your repayments are typically based on the performance of the organisation – such as profits or income. For example, you receive an investment of £50,000 and agree to pay the investor 2% of your annual income for 5 years. (Good Finance)

**Rate card:** In the context of payment-by-results, a rate card is a schedule of payments for specific outcomes an outcome payer is willing to make for each participant, cohort or specified improvement that verifiably achieves each outcome. (GO Lab).
Rate of return: The profit on an investment, normally expressed as an annual percentage. This is typically the ratio of the income from the investment over the cost of the investment. (GO Lab).

Service providers: The entity(ies) responsible for delivering the intervention to participants. (this is identified as a ‘provider’ in the GO Lab glossary).

Service users: Participants using services offered by service providers, e.g. employment support services (Own definition).

Soft outcomes: Soft outcomes depend on measurement which is more subjective and less quantifiable. (GO Lab).

Special purpose vehicle: A legal entity (usually a limited company) that is created solely for a financial transaction or to fulfil a specific contractual objective. (GO Lab).

Theory of change: Explains the channels through which programmes can influence final outcomes. It describes the causal logic of how and why an intervention will reach its intended outcomes. A theory of change is a key underpinning of any impact evaluation, given the cause-and-effect focus of the research. (GO Lab).

Value for money: Good value for money is the optimal use of resources to achieve the intended outcomes. Optimal means the most desirable possible given expressed or implied restrictions or constraints. (GO Lab).