Eurodiaconia

Connecting faith and social justice through action

Funding gaps for social services - The perspective of Eurodiaconia members

Policy Report

Introduction

This paper looks into the current funding models Eurodiaconia social service providers work with and identifies the challenges they face with these models, as well as possible hybrid models for financing. Based on our members experience, we make recommendations to improve the sustainability of financing of social services.

Eurodiaconia is a network of 54 organisations in 32 European countries, based in the Christian faith, providing social services across Europe. Our members represent more than 30.000 social and healthcare providers, and over 1 million social care staff across Europe who are at the forefront, working for social justice and providing inclusive health and social services to those who need it the most.

Social services are services delivered to persons in need. They ensure that people enjoy their human and social rights and live in dignity. Social services play a crucial role in improving the quality of life of people and providing social protection. According to the European Commission's definition social services of general interest include services related to social security, employment and training services, social housing, child care, long-term care, and social assistance services.[1] Social services are central to building a fairer Europe; they constitute a fundamental part of national social protection systems. However, these services are organised, financed, and delivered differently across the EU Member States.

Due to demographic change, changing societal needs, and recently the outbreak of the COVID-19 pandemic, social service providers are reporting a growing demand for social services amidst financing challenges. As the crisis has worsened social

[1] https://ec.europa.eu/social/main.jsp?langId=en&catId=794

inequalities in our communities, putting economies in a worse position than after the 2008 financial crisis, it is noticeable that people experiencing poverty and persons in already vulnerable circumstances are bearing the brunt of the pandemic. People in need of social services should have access to affordable and quality services, but the current funding reality is challenging the availability and sustainability of these services. Eurodiaconia members are reporting an increase in demand for all types of social services, which requires innovative funding to meet the complex needs of people. At EU level, Eurodiaconia has been at the forefront of the debate on quality, accessibility, funding, staffing, and availability of services, as can be seen in our report [2] on current trends and the future of social services.

Sustainable financing is crucial now more than ever to guarantee the long term provision of social services, but the lack of sufficient funding threatens the sustainability of care provision and other key social services in our societies. Public expenditure and investment in social services have not improved in current times.

Social investment plays a crucial role in supporting people's participation in social and employment lives. Investing in quality education, training, healthcare, affordable social housing, and long-term care goes a long way to yield economic benefits. Moreso, social investment is a crucial stone in building resilient economies and societies that can withstand future crises and where no one is left behind.

At the moment, information from Eurodiaconia members shows that there is increasing use of private funds to complement public funds for social services. However, with the entry of private for-profit enterprises in service provision, there is a question of quality standards in social service provision especially when tenders in public procurement are selected only based on lowest prices. Funding models go a long way to affect the way social services are developed and delivered. Consequently, they impact the quality, availability, and sustainability of services. As such, it is vital for stakeholders to establish possible hybrid funding models and innovative financing options that foster the provision of quality social services and also finetune the available funding streams to make them better for service providers.

[2] https://www.eurodiaconia.org/wordpress/wp-content/uploads/2021/01/High-level-Group-report-FINAL.pdf

Overview of Eurodiaconia members' current sources of finance.

The data collected through interviews with a sample Eurodiaconia members shows a diversity of types of funds used by Eurodiaconia members, ranging from EU structural funds to public and private funds. EU funding programmes play a crucial role in supporting and developing the quality of social service provision. A cross-section of Eurodiaconia members uses EU funds like the ESF+. However, developing sustainable and consistent financing of social services requires suitable EU legal and financial frameworks.

The sizes of organisations interviewed in this research vary extensively, ranging from umbrella organisations with 32 members to organisations with 2700 service units. And annual turnover ranging from 200.000EUR to 200million EUR.

The diverse funds used by Eurodiaconia members ranges from EU funds, public funding, state budgets, grants from the state, government contributions, public procurement, municipal budgets, subsidies, service fees, private donations, charities, private contributions and social impact bonds (SIB).

In **Germany**, Eurodiaconia members use a variety of funds: national government operating subsidy, regional/local operating subsidy, private donations, sale of services, EU structural funds, in-kind contributions(use of buildings or facilities), regional project grant, and non-profit foundation grant. Other financial instruments like Social Venture Capital and Social Impact Bonds are slowly being taken up in the social service sector. Social Impact Bonds present a multi-stakeholder relationship between private investors, social service providers, and the public sector. They intend to try out new and innovative approaches in social services. They also aim to achieve a measurable pre-defined social impact. In the Social Venture Capital (SVC) model, social impact investors lend their money to a social idea that creates a measurable impact and expects a financial and social return.[3] However, our German members consider that Social Impact Bonds are difficult to prepare and build, which is probably a reason for the slow uptake in the social service sector. In contrast, philanthropic forms of social investment are much more used to fund social services in Germany. Some of our

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[3] https://www.eurodiaconia.org/wordpress/wp-content/uploads/2021/01/High-level-Group-report-FINAL.pdf

members in Germany receive loans for SMEs that help them run activities some of their activities.

In **Finland**, our members' activities are funded through national government project grants, EU structural funds, private donations, public charitable collection, sale of services, regional/local project grants, lottery, regional/local operating subsidies, and Social Impact Bond (SIB). Like Germany, the SIB financing model is relatively new in Finland, the take-up is at its early phase, but there are possibilities of growth in the model.

Meanwhile, in **Czechia**, social service providers who are accredited for the service they provide receive funds based on the national law on social services. They apply annually for grants from the national and regional level, as well as municipalities. Slezska Diakonie, for instance, applies for funding of 111 services every year. Besides grants, they are also financed through EU structural funds, private donations, and the sale of services. Some of their services are also provided through public procurement.

Also, in **Romania**, our members equally benefit from diverse funds: national government project grants, regional/local contracts, charitable grants, EU structural funds, EU project grants, and private donations. Moreso, in addition to funding from European, regional or local programmes, our Romanian member has a stable partnership with several private companies that provide 25% of annual revenue and support investments. However, according to our members, the financing objectives proposed by the funding programmes often contain strong limitations. Furthermore, funding social services exclusively through such programmes poses serious difficulties for continuity of service provision. For instance, securing financing for drug addiction programmes is rare and, most times, insufficient for therapeutic initiatives.

Challenges faced with funds and gaps with the use of these funds

Eurodiaconia members identified nine significant challenges in the use of the current funds available for the provision of social services which hinder the continuity of some services:

I. Burdensome administrative formalities, which are time-consuming.
II. Slow application process.
III. Funding is too short

IV. Reporting requirements are burdensome
V. Payment is slow, causing cash-flow problems
VI. The intervention rate (share of costs supported) is too low
VII. Performance indicators are inappropriate
VIII. Inability to raise funds for investment, only for operational expenditure
IX. Time limitation in public procurement contracts

Some minor challenges indicated are infrequent application rounds, which create gaps in the planning and continuity of service provision, difficulty finding co-financing, insufficient finance to meet demand, and budget cuts.

Also, a significant problem is the annual uncertainty of social service providers regarding the number of subsidies from public sources for a specific social service. Subsidies are non-systemic, short-term, and paid out with great delays compared to continuously incurred costs. The use of EU funds is needed by most members but excessive administrative burdens deter some stakeholders from fully using the available resources. Moreso, with regards to ESF+, some members find it challenging to implement follow-up actions to projects due to gaps between the end of an ESF+ project, the launch of new calls for proposals, and the possible start date of follow-up projects. Our **Finnish** and **Romanian** members both state that project-based funding poses a problem of continuity of service provision. Again, some organisations have little know-how and expertise on EU funding and therefore are not sufficiently equipped to engage in application procedures. Some smaller organisations do not have enough staff resources for the time-consuming application procedures to engage in the process if they are not certain there will be funding at the end of the process.

Also, a combination of different kinds of EU funding sources, which requires a great amount of work from organisations that are sometimes not equipped to undertake the application process, is a problem for some members. According to **Diakonisches Werk Hamburg** in Germany, proof of use of EU and federal funds is often time-consuming and difficult because of the absence of commercial accounting data as documents are still kept manually.

When it comes to providing services through the use of public procurement, our Swedish member Bräcke Diakoni finds the duration limit of three years challenging. This is a short period and creates gaps in continuation of service provision.

The ideal funding model for Eurodiaconia members

Respondents proposed ideal funding models for the provision of social services:

According to **Diaconia ECCB in Czechia**, an ideal model would be similar to funding in the educational sector, with a normative amount allocated per enrolled pupil. In the case of social services, it would be a specific amount allocated per person which receives support. Therefore, Diaconia ECCB could calculate exactly how much the operational subsidy will amount each year. A guarantee of the payment of regular expenditures (subsidies) and multi-annual financing would be beneficial.

For **Deaconess Foundation,** an ideal situation in Finland will involve permanent funding from the public sector, national government**,** and municipalities. As an organisation, they are working on developing their capacity on project funding. Moreso, they recommend more cooperation on common projects with different organisations across the EU as a means to attract more funding.

For **Fundatia Filantropia Timisoara in Romania,** a balance between public and private is the way forward for funding social services. Public funds should sufficiently complement private funding for the provision of services.

However, most of the respondents push for the NGO sector to get more permanent and stable funding from the local municipalities, national governments, or European funds.

Based on our research among members and the feedback received, our network formulates the following recommendations to improve access to funding for social services across the EU.

Key Recommendations

To the European Commission

- The European Commission should improve the accessibility of EU funds by simplifying the application process and reporting procedures and making sure that the Member States set clear and proportionate administrative requirements to avoid burdensome and time-consuming application processes. Better still, public authorities should organise training on how to access funding programmes, such as ESF+ funding, at national, regional or local levels. In addition, capacity-building programmes should be developed for NGO service providers.

- The EU should undertake a review of the effectiveness of the use of Public Procurement in funding social care services and relevant updates should be introduced where needed especially in the social clauses. Furthermore, any revision to State Aid law at the EU level should positively support the commissioning of social services by reviewing the existing provisions and how effective they are in supporting social services. Moreso, the European Commission should also promote the use of other models of financing social services that are compatible with EU rules, like the use of personal budgets and service vouchers which empowers the service users to decide how they should be supported.
- The European Commission should also provide clear guidance on EU funding opportunities to managing authorities.
- We call for a fundamental, long-term social investment approach at the EU level to ensure supportive ecosystems for social services which enable them to be resilient and fulfill their essential role in society. Social Investment should be a priority at the heart of the recovery and policies such as the European Semester, EU Funds (ERDF, ESF+), and other financial instruments, including the Recovery and Resilience Facility.

To member states, regional and local authorities:

- When tendering for social services, Member States should keep tender volumes at a level that is deliverable by NGOs or separate the contract into lots.
- Member States should develop a coherent and reliable funding stream to social service to ensure their functioning and quality, foster successful social experimentation and social innovation projects, and maximise the efficient use of EU funding, including by pooling together resources from different funding programmes. Furthermore, they must ensure that EU funding plays a transformative role in shaping social services and social infrastructures that are additional to (and not the replacement of) national and regional budgets.

Sustainability of funding will ensure the sustainability of services and, consequently, the quality of services.

- Member States should ensure that public budgets guarantee adequate finances for the provision of social services. These services are not only an effective investment but are also crucial for building resilient and cohesive societies. Sources of private funding should complement public budgets, but when private funders are involved, public authorities must ensure that investors act in the general interest of the providers and that private financing is subject to high transparency requirements.[4]
- Public authorities, financial institutions, and foundations should promote the use of hybrid funds that are composed of both public and private funds.
- Public authorities should involve representatives of CSOs and social enterprises in an open dialogue on why and where "new" financing instruments are necessary and on how to favour long-term rather than short-term financing and hybrid financing (public and private). "New" financing instruments should complement existing financing methods rather than replacing them.[5]

To know more about funding for Eurodiaconia members and the future of social services, please consult our High-level Group report on Social Services.

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4 https://gallery.mailchimp.com/774e92f2da276e7fb5bb718ed/files/20141216_SocialPlatform_PositionPaper_financing_of_social_services.pdf

5 https://gallery.mailchimp.com/774e92f2da276e7fb5bb718ed/files/20141216_SocialPlatform_PositionPaper_financing_of_social_services.pdf