



# How to set-up a Social Impact Initiative – the case study of Portugal Inovação Social

**Carla Pedro**, *fi-compass* expert

**Teresa Bomba**, *fi-compass* expert



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# THE PORTUGAL SOCIAL INNOVATION INITIATIVE



## CONTEXT

- **3-year Economic Adjustment Programme**

(EC/ECB/IMF – PT Government)

*Strong austerity measures*

*Increasing social needs*



- **Diverse ecosystem ... and growing**

Traditional players (Cooperatives, Foundations, Mutualities, Associations ,..)

Social Start-ups

*Portuguese Social Investment Taskforce*



- **2014-2020 PT/COM negotiation process**

*... defining priorities for the next 6 years of ESIF financing*

*Partnership Agreement for Portugal 2014-2020 – PT/COM*



# THE PORTUGAL SOCIAL INNOVATION INITIATIVE



## KEY OBJECTIVES



- Promoting Social Innovation and Social Entrepreneurship in Portugal, as a way to generate **new solutions for key societal problems**, that **complement** traditional approaches and responses



- **Improving the skills and competences** of all players active in the Portuguese social innovation and social entrepreneurship system, namely improving the **levels of response** of Social Economy Organizations (SEOs) and contributing for its **future sustainability**



- Fostering the Social Investment Market in Portugal, **developing financing instruments** that are **better adjusted** to the **specific needs** of both the Social Economy, and social innovation and social entrepreneurship projects



# THE PORTUGAL SOCIAL INNOVATION INITIATIVE



## KEY SUCCESS FACTORS FOR PSI SET-UP

1#: POLITICAL LEADERSHIP & OWNERSHIP

2#: PARTNERSHIPS

3#: ECOSYSTEM READINESS

4#: REGULATORY ENVIRONMENT (*EMERGING AREA*)



EMBEDDED IN THE MAIN 2014-2020 ESIF-ESF PT/COM NEGOTIATION PROCESS

BACK-TO-BACK STRATEGY (TECHNICAL WORKING GROUP)



# THE PORTUGAL SOCIAL INNOVATION INITIATIVE



## WHO TO FINANCE?

Diverse legal structures within the perimeter of the **Social Economy** + enterprises / **social start-ups**

No legal definition of **Social Enterprises**

No **Certification Framework** in place

### MAIN FOCUS:



## **Social Innovation and Social Entrepreneurship Initiatives (SISEI)**

*(as an effective gateway to reach the organizations responsible for its implementation)*

- ✓ *pursuing a **social mission**, contributing for the solution of a relevant **societal problem***
- ✓ *following an **innovative approach***
- ✓ *generating relevant **social impact***
- ✓ *that can be demonstrated through **measurement and validation***
- ✓ *contributing for its **sustainability***



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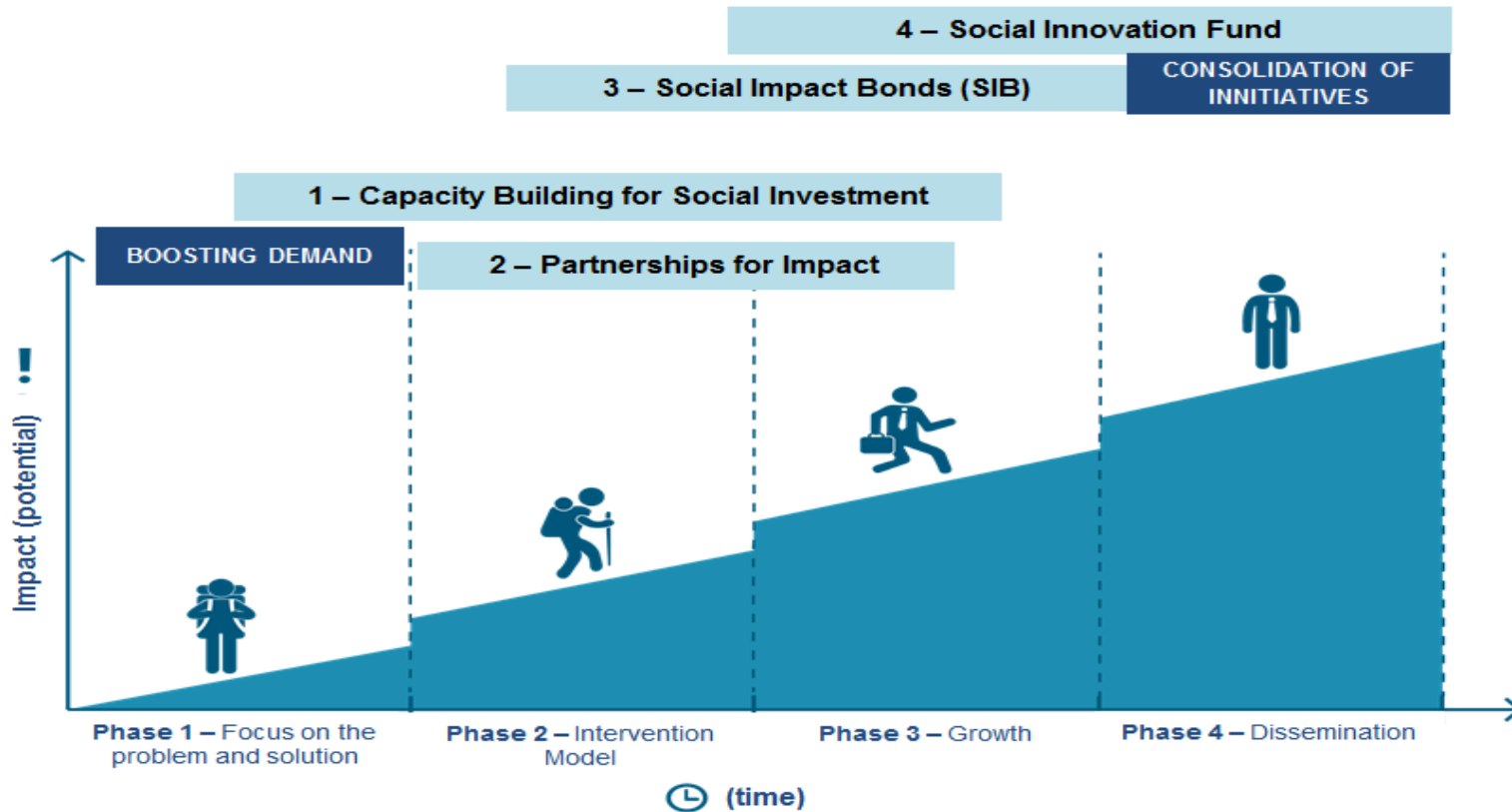


# THE PORTUGAL SOCIAL INNOVATION INITIATIVE



## WHAT TO FINANCE?

Using the 2014-2020 PA negotiations as the window of opportunity to, instead of a single FI, develop a **dedicated funding mechanism...**



... to finance the **full life-cycle** of social innovation and social entrepreneurship initiatives



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## HOW TO FINANCE?

FINANCING INSTRUMENTS	TYPE OF ESIF-ESF SUPPORT
<b>1 - Capacity-Building for Social Investment</b>	Grants provided in the form of lump sums <i>(simplified cost options)</i>
<b>2 - Partnerships for Impact</b>	70% / 30% matching-fund grants
<b>3 - Social Impact Bonds</b>	“Delayed” outcome-based grants <i>(with social investors pre-financing each project)</i>
<b>4 - Social Innovation Fund</b>	Financial instruments <i>(debt and equity FI)</i>

Innovative ESIF approaches  
to set-up innovative instruments  
in an emerging area,  
for experimenting and testing *(public sector innovation)*



# THE 4 FINANCING INSTRUMENTS



## CAPACITY BUILDING FOR SOCIAL INVESTMENT

The **Capacity Building for Social Investment** financing instrument aims to improve the organisational and management competencies of organisations directly involved in social innovation and social entrepreneurship initiatives (SISEI), narrowing their skills gap and preparing them to attract and apply social investment.



### Non-reimbursable ESIF-ESF support to small capacity building projects directly applied to SISEI

- ✓ **Up to EUR 50,000** public funding
- ✓ **Up to 18 months** duration
- ✓ **Payment (based on lump sums)** by validated outputs
- ✓ **Demand-driven** support (as opposed to supply-side financing)
- ✓ **Evaluation** of capacity-building suppliers

### MANDATORY ADOPTION OF SIMPLIFIED COSTS (LUMP SUMS)

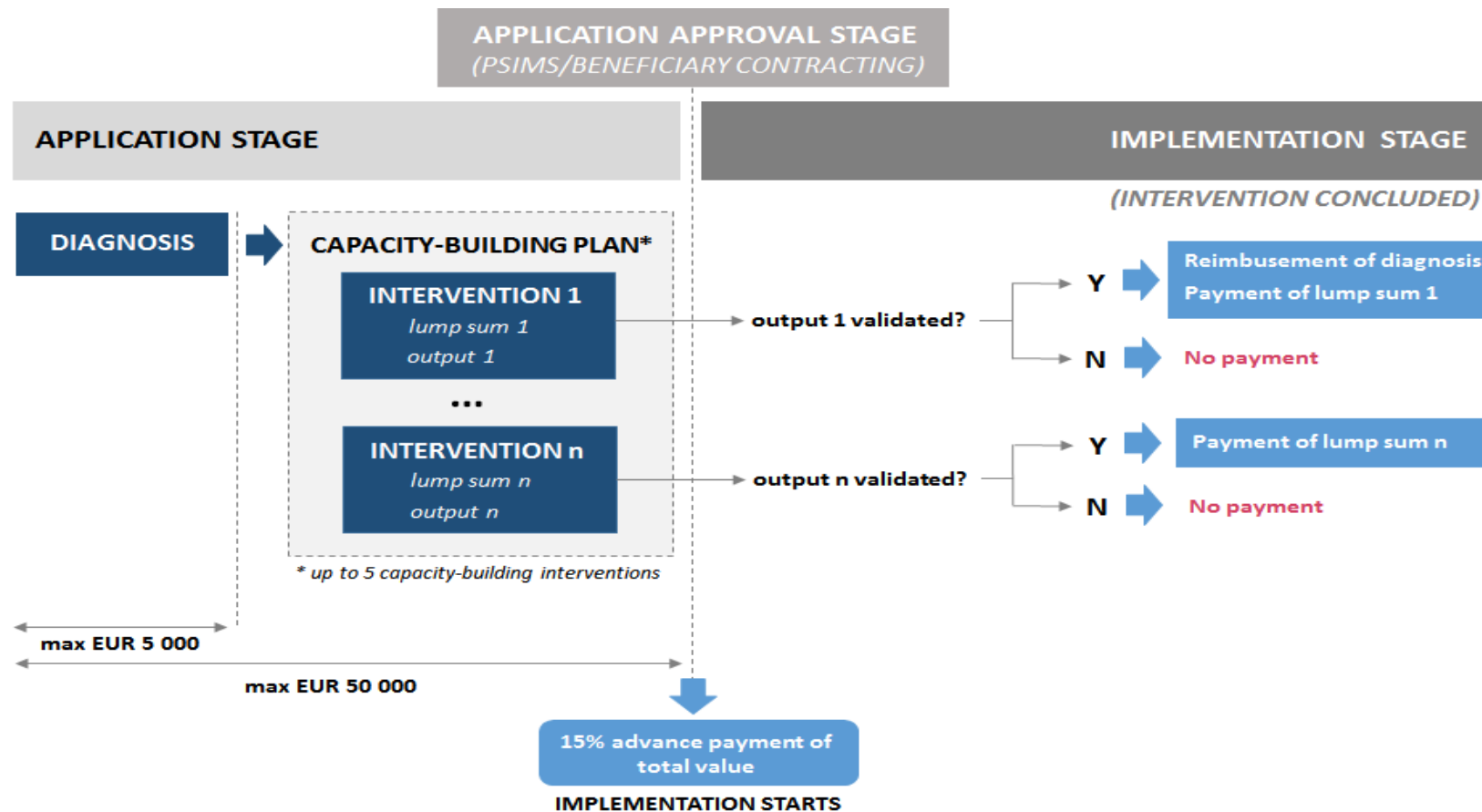




# THE 4 FINANCING INSTRUMENTS



## CAPACITY BUILDING FOR SOCIAL INVESTMENT



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# THE 4 FINANCING INSTRUMENTS

## PARTNERSHIPS FOR IMPACT



The **Partnerships for Impact Programme** is an ESIF-ESF financing instrument to support the early growth of social innovation or social entrepreneurship projects (SISEP), a grant structured as venture-philanthropy financing, leveraging other social investments (from for ex. Foundations, Municipalities, Corporate Social Responsibility of private companies, etc.) to support high potential and high impact projects.



### Non-reimbursable ESIF-ESF support to SISEP, matching private funding

- ✓ *More than EUR 50,000 ESIF-ESF grant support*
- ✓ *1 to 3 years project duration*
- ✓ *100% of eligible costs*
- ✓ *No maximum threshold per project*
- ✓ *Improved sustainability as a goal*
- ✓ *Venture philanthropy support (as opposed to tradition of dispersing small donations)*
- ✓ *Financing needs shared between social investors and Portugal 2020 (ESIF-ESF) (private co-financing of 30% matches 70% of public financing - ESIF+PT public budget)*



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# THE 4 FINANCING INSTRUMENTS

## PARTNERSHIPS FOR IMPACT



### APPLICATIONS INCLUDE 2 ELEMENTS:

1. A [development plan](#) for the project (up to 3 years)
2. A letter of commitment from [one or more social investors](#)



- Typical ESIF-ESF grant assuming reimbursement of real costs actually incurred and paid by the beneficiary
- 15% total eligible cost advance paid upon application approval
- *Pari passu* payments between ESIF-ESF and social investors



# THE 4 FINANCING INSTRUMENTS



## SOCIAL IMPACT BONDS (SIBs)

A **Social Impact Bonds (SIB)** is an ESIF-ESF financing instrument that uses an outcome payment mechanism to support innovative projects that address societal problems in specific public policy areas (Employment, Social Protection, Justice, Health and Education).



- ESIF-ESF **grant pays for validated outcomes** achieved by specific social innovation projects in an area of public policy.
- **100% of eligible cost financing** to beneficiaries (85% ESIF-ESF + 15% PT State budget), upon validation of contracted outcomes
- **no maximum threshold** per project.
- Project **duration up to 5 years** between project start and outcome validation and payment.
- “delayed” ESIF-ESF grant with **no advance payment**.



### SIB application must be submitted by a consortium of:

- One or more private investors, that finance the project;
- One or more implementing entities, responsible for executing the intervention;
- One or more public sector entities, that validate the alignment of the project with the relevant public policies, as well as the significance of the proposed outcomes.

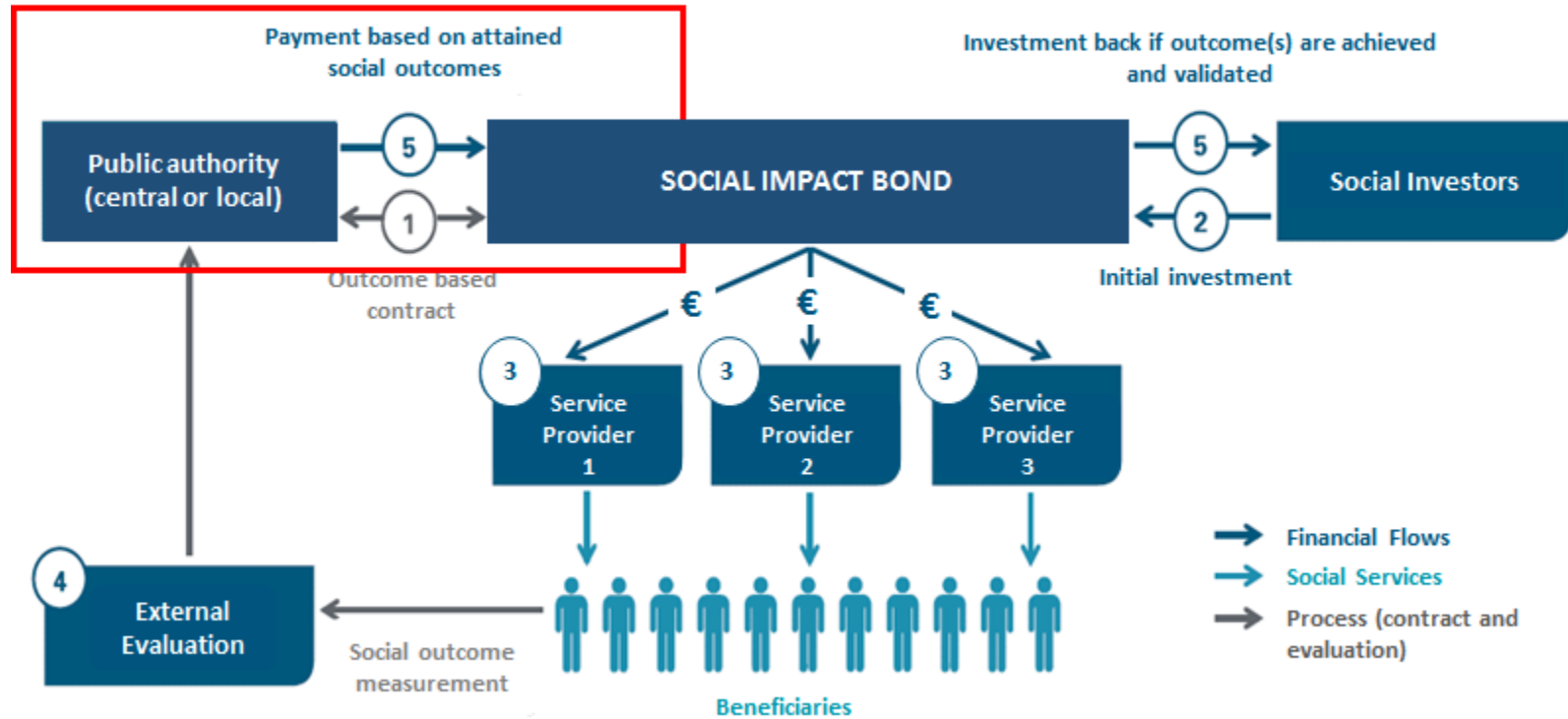


# THE 4 FINANCING INSTRUMENTS

## SOCIAL IMPACT BONDS (SIBs)



### ESIF-ESF "DELAYED GRANT"



SIB: an outcome payment mechanism involving 3 main parties



# THE 4 FINANCING INSTRUMENTS



## THE SOCIAL INNOVATION FUND (SIF)

The **Social Innovation Fund** is the ESIF-ESF Financial Instrument of the “Portugal Inovação Social” Initiative. It aims to address market failures in access to financing by more mature SISEI, while stimulating the PT social investment market.

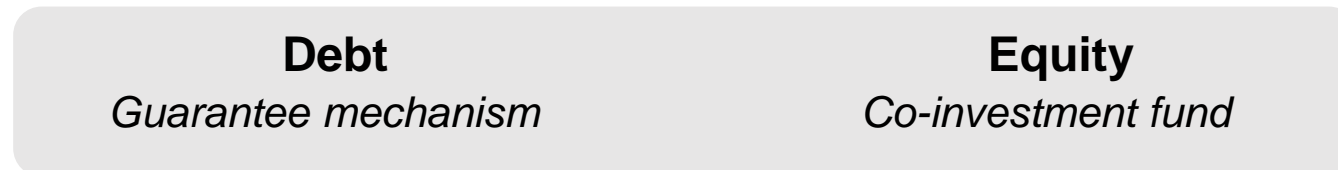


### No appropriate response from mainstream finance solutions:

- Risk: perception of high risk and no collateral;
- Return: high transaction costs for expected below-market returns;
- Impact: positive externalities not recognised nor taken into account.



Reimbursable ESIF-ESF support to SISEI (financial instrument)



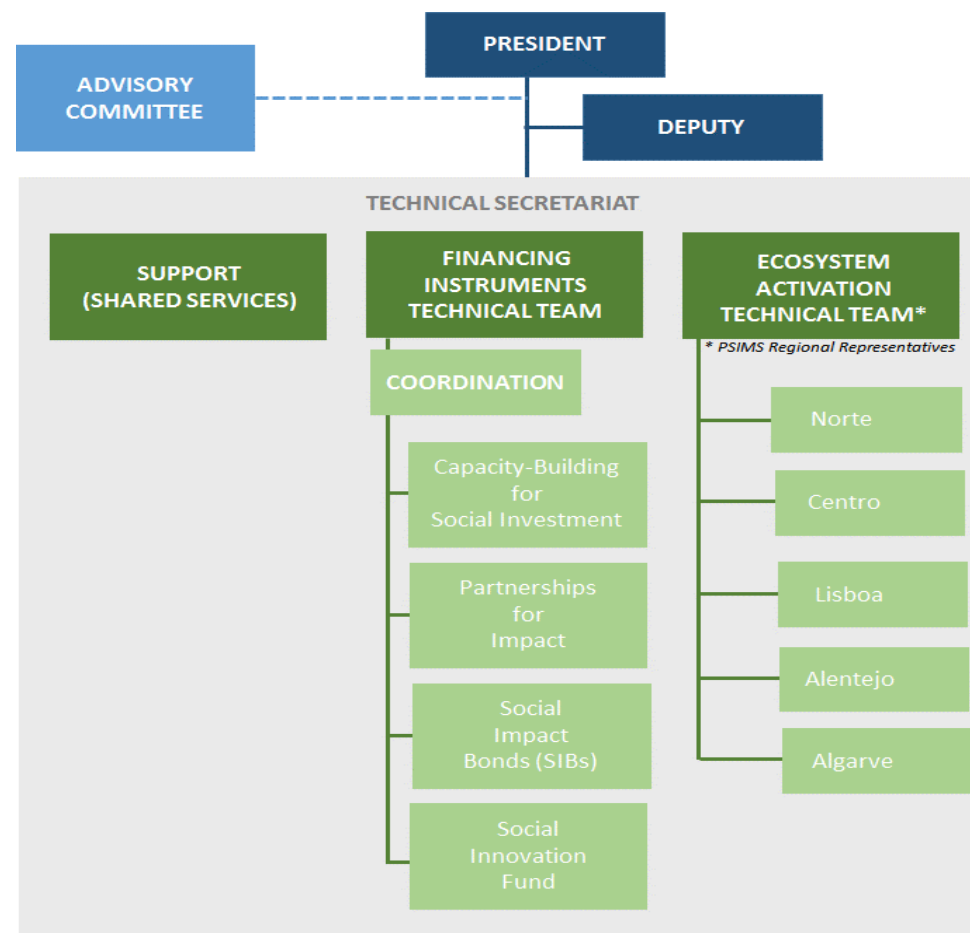
# ENGAGING WITH STAKEHOLDERS



## AND CO-CREATING THE ECOSYSTEM

Focusing on developing a **testbed** for experimenting new financing approaches and methodologies, while working, at the same time, close to potential beneficiaries and other players of the ecosystem to **create a steady demand** for it

### PSIMS GOVERNANCE MODEL



# ENGAGING WITH STAKEHOLDERS

## AND CO-CREATING THE ECOSYSTEM



### FINANCING INSTRUMENTS TECHNICAL TEAM

#### *Design and implementation of EMPIS' financing instruments*

Incl: development of requests for applications, selection and technical decisions on applications (incl. eligibility assessment and technical analysis), technical assistance to approved projects, technical verification of outputs and outcomes (whenever applicable), monitoring and evaluation of approved projects, etc.

### ECOSYSTEM ACTIVATION TECHNICAL TEAM

#### *Promotion of social innovation and social entrepreneurship ecosystems*

Contributes to the implementation of the Portugal Social Innovation initiative at a regional and local levels, namely by raising awareness to social innovation and impact investment, creating a pipeline for PSIMS financing instruments, supporting the development of applications, attracting regional and local social investors, fostering interactions and cooperation between regional stakeholders, supporting knowledge and the sharing of experience between projects.





# ENGAGING WITH STAKEHOLDERS

## AND CO-CREATING THE ECOSYSTEM



### 4 MAIN STAKEHOLDERS' PROFILES:

#### I. IMPLEMENTING ORGANISATIONS

Organisations responsible for the operational part of the project. They interact directly with the target populations and make sure that their methodology is adjusted to producing social impact on a specific social problem. Implementing entities correspond mainly to Social Economy organisations (incl. social enterprises) and social entrepreneurs.

#### II. SOCIAL INVESTORS

Social investors play a central role in this context. They are responsible for making more capital available to finance social innovation projects with high impact. These actors correspond to a wide range of organisations with diverse profiles of risk-return-impact requirements.

#### III. PUBLIC AGENCIES

Public Agencies are the entities responsible for specific public policies (and budget). Depending on each MS administrative structure, this competence may be positioned at central, regional or local level.

#### IV. INTERMEDIARIES

Intermediaries are external experts that play a central role in supporting the 3 other stakeholders namely acting as a hub/aggregator, providing capacity-building and end-to-end technical assistance, raising awareness, etc.



# ENGAGING WITH STAKEHOLDERS

## AND CO-CREATING THE ECOSYSTEM



### STAKEHOLDERS INVOLVEMENT

	CAPACITY BUILDING FOR SOCIAL INVESTMENT	PARTNERSHIPS FOR IMPACT	SOCIAL IMPACT BONDS (SIBs)	SOCIAL INNOVATION FUND (SIF)
<b>I.</b> Implementing Organisations	✓	✓	✓	✓
<b>II.</b> Social Investors	✓	✓	✓	✓
<b>III.</b> Public agencies		✓	✓	
<b>IV.</b> Intermediaries	✓		✓	✓



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# THE PORTUGAL SOCIAL INNOVATION INITIATIVE

## SUM-UP OF REGULATORY ISSUES



### #: THE CHOICE OF FINANCING INSTRUMENT

COMBINATION OF SUPPORT / DOUBLE FINANCING

### #: THE CHOICE OF ESI FUND

ELIGIBILITY / CROSS-FUNDING

### #: THE CHOICE OF GEOGRAPHIC SCOPE

MULTI-REGION PROJECTS / IMATERIAL PROJECTS

### #: PROJECT DURATION

N+3 / OP ELEGIBILITY PERIOD / DECOMMITMENT

ESCROW ACCOUNT MECHANISMS



# THE PORTUGAL SOCIAL INNOVATION INITIATIVE

## SUM-UP OF REGULATORY ISSUES



### #: PAYMENTS (PAYING BY RESULTS)

SCO – LUMP SUMS, UNIT COSTS

METHODOLOGIES FOR CALCULATION OF CONTRACTED VALUES

DATA GAPS

### #: CO-CREATION IN EMERGING INNOVATIVE AREAS

PUBLIC PROCUREMENT OF INNOVATION & SOCIAL IMPACT

TESTING AND EXPERIMENTING

### #: STATE AID

IN vs. OUT OF MARKET / SOCIAL ECONOMY ORGANISATIONS

MULTI-LAYER APPROACH (e.g. BIG SOCIETY CAPITAL)

FI PREFERENTIAL REMUNERATION



