



How to use FI/ESF to finance social innovation: the Portuguese Social Innovation Fund

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THE SOCIAL INNOVATION FUND

- A key component of the “Portugal Inovação Social” Initiative (*RCM n.º 73-A/2014*)
- One of Portugal 2020 (2014-2020) Financial Instruments:

OP Social Inclusion and Employment
(less developed regions)

€ 2 130 million

SIF
€ 95 million

Regional OPs
(5+2)

€ 1 346 million

TO 9: Promoting social inclusion, combating poverty and any discrimination

IP 9.5: Promoting the social economy and social enterprises



SIF EX-ANTE ASSESSMENT

MAIN MARKET FAILURES:

- Weak capital structure, high financing needs and growing demand. No spare resources to organizational improvements and innovation (SEOs)
- No appropriate response from mainstream banking solutions:
 - ✓ *Risk: perception of high risk and no collateral*
 - ✓ *Return: high transaction costs for expected below-market returns*
 - ✓ *Impact: positive externalities not recognized / taken into account*
- Maturity gap (no availability of longer maturities)
- Lack of intermediaries in social financing and social investment
- Reduced diversity of available financing options. High fragmentation and short-term drive of existing philanthropic financing



SIF EX-ANTE ASSESSMENT

FINANCING GAP AND SIF DESIGN RECOMENDATIONS:

Total gap: € 433,9 million

For investment in SEO innovation: € 281,2 million

For investment in social start-ups (*high potential*): € 28,6 million

For investment in social start-ups (*average potential*): € 28,6 million

SIF to include 2 differentiated approaches to FI ...

1. Innovation in established SEOs
(*more “process innovation centric”*)
2. Social start-ups
(*more “product / services innovation centric”*)

... with 2 well defined target groups

1. SEOs (*innovation for organizational improvement and increased efficiency*)
2. Social start-ups (*innovation for SISEI growth, expansion and/or consolidation*)



INVESTMENT STRATEGY SIF

(MONITORING COMMITTEE – JOINT-MEETING, NOV 2015)

1.

Financing innovation in
established SEO



Loan Funds

DEBT

Asymmetric risk sharing

2.

Financing growth and consolidation of social
start-ups

(Reg. EU nº 346/2013, Law PT nº 18/2015)



Social
Entrepreneurship
Funds



Business Angels Social
Investment Operations

EQUITY & QUASI-EQUITY

Asymmetric return sharing



INVESTMENT STRATEGY SIF

KEY ISSUES

1. How to implement EAA recommendations on preferential remuneration with no available data?

Using competitive tendering procedures to finding the adequate level of remuneration for financial intermediaries (*ALTMARK*)

2. How to apply equity and quasi-equity FI to finance social organisations?

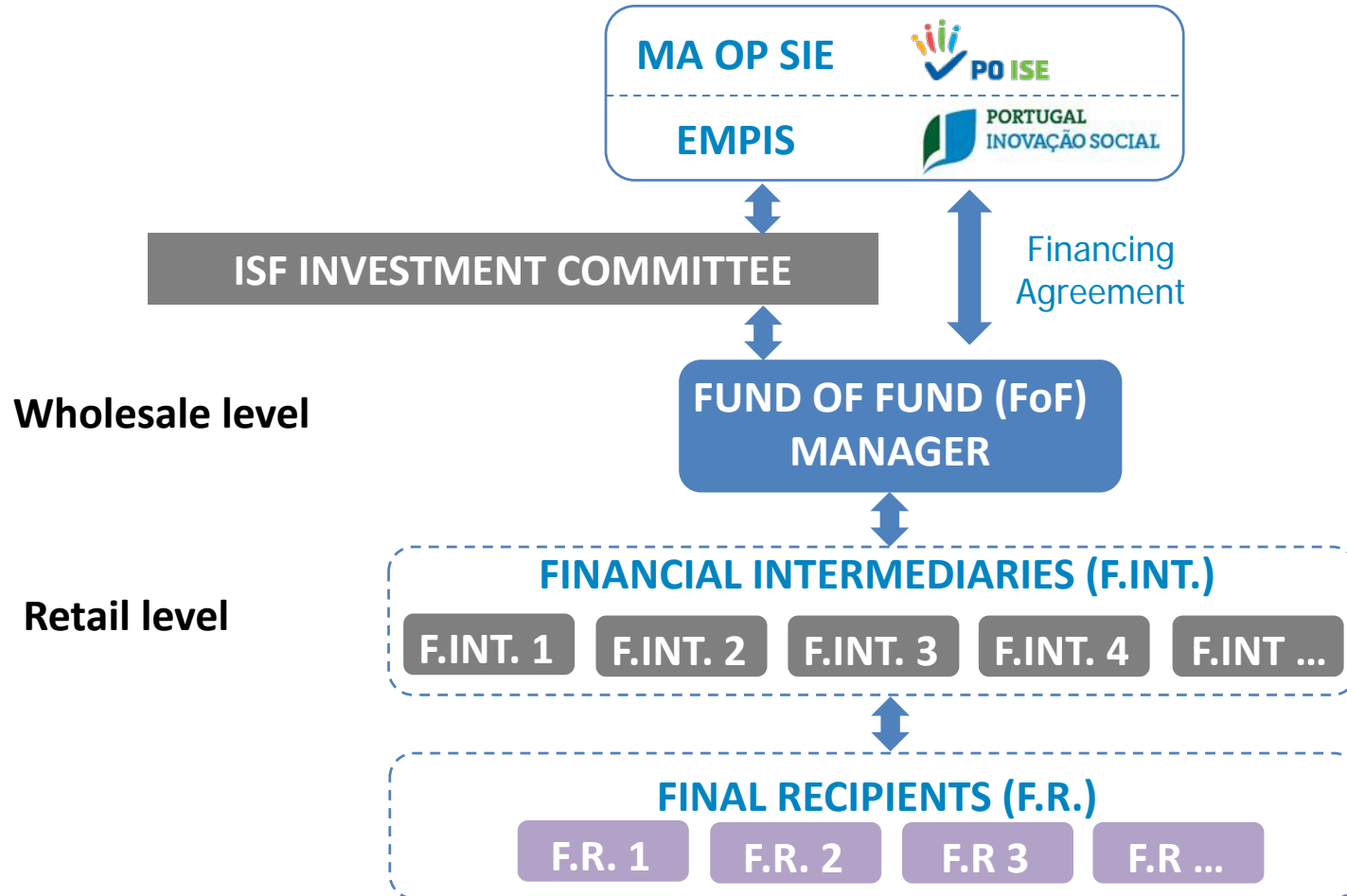
Using hybrid / quasi-equity products, eg. Revenue Participation Agreements

3. How to attain national scope?

Using private co-investment (*retail level leverage*) to reach non-eligible regions (Lisbon, Algarve) + using the revolving effect at a later stage



GOVERNANCE MODEL SIF





GOVERNANCE MODEL SIF

KEY ISSUES

1. How to align public policy objectives with FI long term financial sustainability and appeal for financial intermediaries?

EMPIS as intermediate body (IB) + FoF Model

2. How to avoid crowding-out potential financial intermediaries?

Public (“out of the market”) FoF Manager

3. How to avoid overlap?

Very clear detailed definition of roles and responsibilities, namely between MA, IB, FoF Manager



STATE AID

- *de minimis* aid
- Block exemptions



Relevant Case Law directly applicable to SIF:

C(2011)9341 final - SA.33683 (2011/N) - UK: Big Society Capital (BSC)

“a social investment wholesale institution, which will invest capital into existing and new SIFs and social investment funds to invest into frontline social organisations”

BSC financing considered compatible with TFEU - article 107(3)(c)

Thank you

www.fi-compass.eu

Questions, comments, suggestions related to SIF:
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