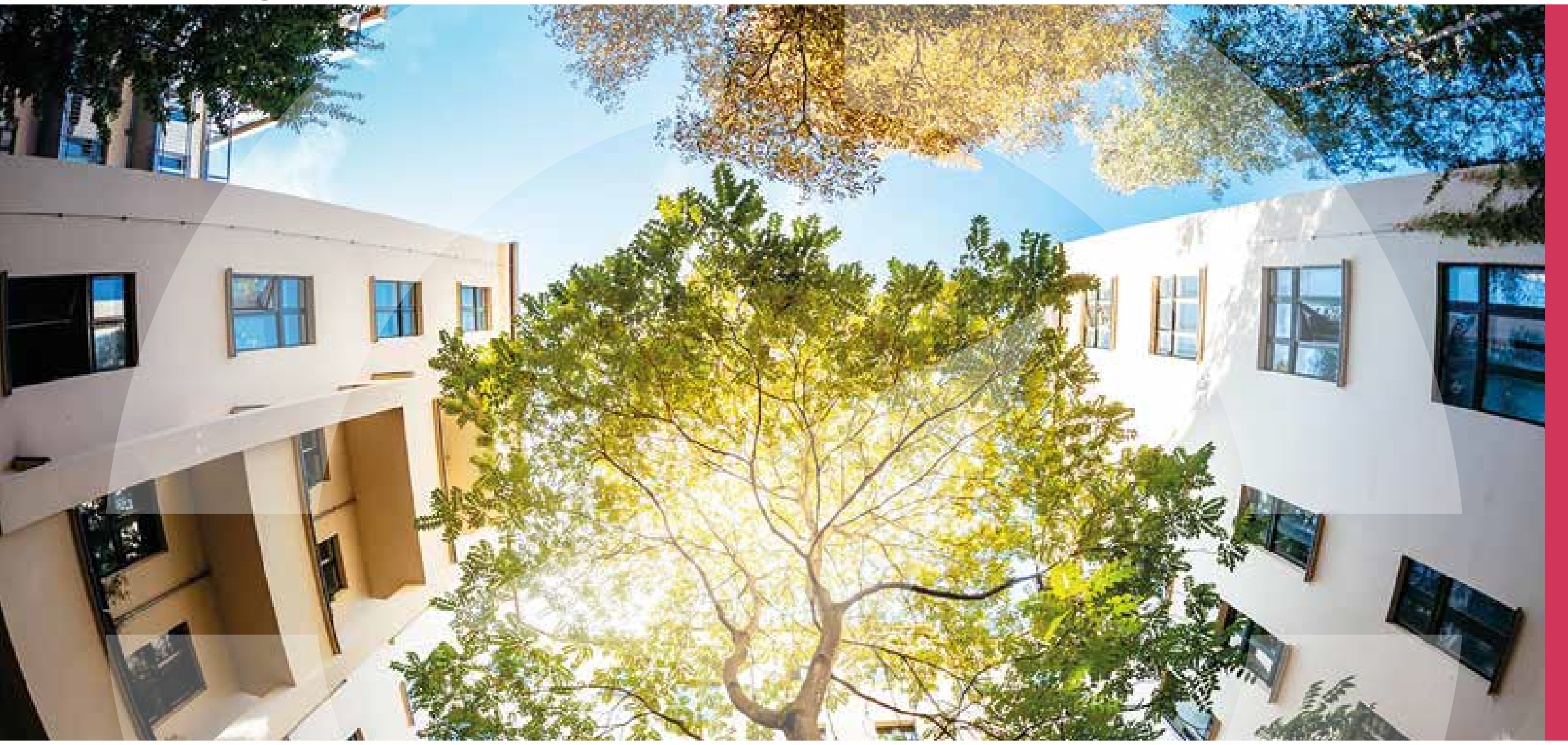
fi compass ESF

Advancing with ESIF financial instruments



Supporting the development of Social Finance Ecosystems in Member States under ESF

Lessons learned from the Portuguese Social Innovation initiative

European Commission

European Investment Bank The EU bank

CONTENTS

LIST OF ACRONYMS

AA	Audit Authority
BA(s)	Business Angel(s)
BSC	Big Society Capital
CA	Certifying Authority
CPR	Common Procedures Regulation
CSR	Corporate Social Responsability
DG EMPL	Directorate General for Employment, Social Affairs and Inclusion
EAA	Ex-Ante Assessment
EaSI	EU Programme for Employment and Social Innovation
EC	European Commission
ECB	European Central Bank
EFSI	European Fund for Strategic Investments
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
FAQs	Frequently Asked Questions
FoF	Fund of Funds
HR	Human Resources
ICT	Information and Communication Technologies
IMF	International Monetary Fund
IRR -	Internal Rate of Return
JAP	Joint Action Plan
MoU	Memorandum of Understanding
MS(s)	Member State(s)
OP(s)	Operational Programme(s)
PA	Partnership Agreement
PbR	Payment by Results
PSI	Portugal Social Innovation
PSIMS	Portugal Social Innovation Mission Structure
SCO(s)	Simplified Cost Option(s)
SCO-LS	Simplified Cost Option - Lump Sums
SIB(s)	Social Impact Bond(s)
SIF	Social Innovation Fund
TA	Technical Assistance
VC	Venture Capital

1. INTRODUCTION

Social innovation is emerging as a long-term priority in policymaking across Europe, aiming to provide new responses to growing societal challenges. It is widely accepted that its success depends on the existence of a solid social finance ecosystem, comprising policymakers and social organisations, but also social investors, intermediaries, evaluators, etc.

In recent years, an increasing number of Member States (MS) and Regions across the EU have been engaged in social innovation pilot projects and proofs of concept – most with positive results. To finance those projects, innovative social finance and impact investing instruments are also gradually being adopted.

However, with few exceptions, an integrated approach to support the development of social finance ecosystems is still missing.

In several MS, the use of European Structural and Investment Funds (ESIF), and in particular of the Social European Fund (ESF), might play a crucial role for the take-up of these broader, more encompassing approaches.

Right now, the preparatory works and negotiations for the 2021-2027 ESIF programming cycle present a unique opportunity to shape priorities for the next +6 years. It is the right time not only to align investments to priorities, but also to move from fragmented pilot projects into more structured approaches, using ESIF to finance innovation in policymaking, and in particular to promote the emergence of solid social finance ecosystems throughout the EU.

As the only integrated social innovation initiative using ESIF-ESF as a funding source, the Portuguese Social Innovation initiative (PSI) offers relevant lessons learned and recommendations for both MS and the European Commission (EC), at a time when social innovation and social finance are becoming key ESIF and InvestEU priorities for the coming years.

Developed for the European Commission/DG Employment, Social Affairs and Inclusion (DG EMPL) and the European Investment Bank (EIB) under the *fi-compass* initiative, this document builds on the Portugal Social Innovation experience to provide practical guidance and recommendations to MA and other relevant stakeholders willing to set up a framework to build a social finance ecosystem to finance social innovation under ESIF-ESF, focusing on its two key aspects:

- the creation of an integrated initiative using ESIF-ESF to finance the creation of a social finance ecosystem in Portugal to support social innovation and social entrepreneurship projects;
- the design and implementation of its financing instruments.

2. HOW TO SET UP AN INTEGRATED SOCIAL FINANCE INITIATIVE UNDER ESF: KEY LESSONS FROM THE CREATION OF PSIMS

2.1. Key initial political requirements and decisions

Although growing fast over the past few years, social finance ecosystems supporting social innovation projects are still emerging realities in most EU MS and far from being a top priority for most governments.

Meanwhile, the exact societal challenges they seek to address are increasing, becoming more complex and remaining mostly unresolved. With current public policies, responses and models increasingly under pressure, this is the perfect time for developing wide-ranging social innovation and impact investment agendas.

However, to move these agendas forward three factors must be successfully created:

Political leadership and ownership

An integrated social innovation agenda can only be effectively shaped with strong, forward-looking political leadership assuming clear ownership of this area of intervention. This ownership needs to be high in the government structure, as social innovation is transversal in nature, touching upon several public policy domains, usually under the responsibility of different ministries (e.g. social inclusion, environment, education, health, justice, employment, environment, etc.).

Placing social innovation themes high in the political hierarchy is a common aspect visible in countries during times when this agenda progresses the most[1].

This doesn't mean that other smaller, segmented or sectoral approaches can't also be successfully established. It does take more than political leadership and drive for social innovation to happen, as will be further analysed in this section. Moreover, these two political features do also exist at many other levels and in other areas of government.

In the case of Portugal, building on some early-stage initiatives developed in the mid-2000's[2], an integrated social innovation and impact investment agenda was first politically explored by the Minister Assistant to the Prime Minister and for Regional Development, who at the time was leading the PT/EC 2014-2020 ESIF negotiations at the level of the Portuguese Presidency of the Council of Ministers.

1 In the US, President Obama assumed direct ownership of his Social Innovation Agenda, by creating, in 2009 (his first year in office), directly within the White House the Office of Social Innovation and Civic Participation, to 'catalyse new and innovative ways of encouraging government to do business differently'. In the UK, under Prime Minister David Cameron a Social Investment Strategy was launched, and a Social Investment Team was created within his Cabinet Office.

2 E.g. the 2001-2008 ESF EQUAL Programme and the work on social innovation developed in Portugal and at European level by Diogo Vasconcelos, an early social innovation pioneer.

Partnerships

Political leadership and ownership scenarios differ substantially across government areas and over time, therefore the establishment of partnerships is critical not only between different sectoral ministries, but also with those regional/local public authorities which are closer to end beneficiaries and key private/social economy stakeholders, thereby strengthening the level of integration of relevant actors.

Despite the risk of slowing down the process by adding additional perspectives and complexity, gradually establishing partnerships with relevant public stakeholders at a very early stage is the best way to engage counterparts that can not only provide relevant support and/or inputs for the initial design of the initiative, but that are also vital for its future implementation.

Moreover, setting up an integrated social innovation initiative can take some time to consolidate and to start delivering results (e.g. some SIBs may require more than five years for outcome validation and payment, the results of investments made by a Social Innovation Fund might only begin to be known 5-7 years after its initial setting-up, etc.). Consequently, even if not common in this particular domain, bipartisan partnerships might help these types of long-term efforts to continue independently of political changes.

In Portugal, a political partnership for the development of the PSI initiative was first established between the Minister Assistant to the Prime Minister and for Regional Development and the Minister for Solidarity, Employment and Social Security, and a few months later, as the PSI concept had progressed, with the Minister of Education and the Minister of Health[3]. Moreover, following the 2015 elections and before the effective change in Government took place, several transition meetings were held to ensure the continuity of the initiative.

Ecosystem readiness

Finally, the existence of a diverse and robust social ecosystem is also fundamental for the take-up and sustainability of a public-driven, integrated social innovation initiative.

The Social ecosystem can promote or bring down such an initiative. In many countries, well before public sector intervention, such civil society players (e.g. foundations and other philanthropic institutions, social banks, mutual funds, cooperatives, church organisations, associations, NGOs, social organisations, social startups, social enterprises, etc.) have been at the forefront of the social innovation and impact investment agenda, at both a national and an international level, in a strong display of collective action[4].

In most cases, these players already have well established networks and links that can be used as collaborative platforms, thereby facilitating interaction at administrative/political level and supporting the implementation of the social innovation initiatives. In fact, they constitute a large part of the demand side of such initiatives, while at the same time they actively contribute to developing the ecosystem (which is, in turn, one of the main public objectives of such initiatives).

3 Currently, there is a broader range of Ministries and Public Sector Authorities involved in the Portugal Social Innovation initiative, especially as an element of SIBs implementation. In Portugal, most areas of public policy implementation are historically coordinated at central Government level. As a result, regional and local Government were involved at a later stage (see section 2.6.).

4 A current example of a global civil society-led initiative and network focused on driving the social innovation and impact investment agenda is the Global Steering Group for Impact Investment (GSG), an independent global steering group catalysing impact investment. It was created in 2015, as the successor to the Social Impact Investment Taskforce established under the UK´s presidency of the G8. The GSG currently has 21 member countries, that in turn are organised into National Advisory Boards (also named 'Impact Investment Taskforces'), gathering the main ecosystem players in each country and producing reports, policy papers and recommendations on impact investing matters.

The Portuguese social ecosystem combines the diverse deep-rooted traditional players of the Portuguese social economy with an emerging group of social entrepreneurs and social startups. In the context of the Portuguese sovereign debt crisis and the economic crisis that followed, the Portuguese social ecosystem was a key trigger for the development of the Portugal Social Innovation initiative, in particular after the creation of the Portuguese Social Investment Taskforce in July 20145. In addition, EaSI resources played an important role in enhancing the Portuguese social ecosystem: thanks to EaSI support received in 2016, Laboratório de Investimento Social (currently Maze-X) developed an incubator/accelerator programme that supported 19 social innovation projects over 17 months, making them investment ready and preparing them to apply for Portugal Social Innovation financing at a later stage. Such example paved the way for the setting-up of a number of other social incubators/accelerators in the Portuguese social finance ecosystem.

Responsive regulatory environments are the final relevant element for the setting-up of any type of social innovation initiative. Within the regulatory framework, there should be effective mechanisms for public sector innovation, and especially for the experimentation and testing of emerging approaches (e.g. social innovation and impact investing) and new instruments (e.g. SIBs, Social Innovation Financial Instruments, etc.). However, between applicable European and national rules, with only a few minor exceptions (like the SIBs-related tax relief rules implemented in the UK and in Portugal), no current regulatory framework nor legislative process is yet taking into consideration this new reality, creating additional barriers to its development and legal uncertainty. This situation is expected to improve substantially with the adoption of the new – more 'social innovation friendly' – ESIF regulatory proposals for the 2021-2027 programming period.

2.2. Key initial technical requirements and decisions

As expected, initial political constraints and decisions largely determine the structure and scope of the technical approach to the design of an integrated social innovation initiative. For the purpose of this section, building on the PSI experience, the analysis will focus exclusively on the work developed by the technical working group that designed the initial concept, up to the creation of PSIMS[6].

Reporting directly to the Minister Assistant to the Prime Minister and for Regional Development, this working group adopted the typical transversal approach of social innovation, replicating the cross-cutting partnerships already established at political level. As a result, it was composed of five professionals with complementary backgrounds, professional experiences and expertise – from ESIF and regional development to social-related public policies and social economy, to social innovation and civil society, to financial instruments. Moreover, for particular aspects (e.g. public procurement, legislative process) the working group was supported by a legal expert.

Combined with strong empowerment and political support, both the size (a rather small team) and the multidisciplinary approach proved to be the right choices for this initial stage and an essential factor for the success of the initiative's initial design.

5 The Portuguese Social Investment Taskforce is an independent commission set up in July 2014 to promote the development of a social investment market in Portugal. Over 12 months, its members (a diverse group from public, social and private sector organisations) debated how to best develop the social investment market in Portugal. It summarised its conclusions and presents five in its report 'A blueprint for Portugal's emerging social investment market' available, in English, at: https://gsgii.org/wp-content/uploads/2017/07/AF-Relatório_GT-en1.pdf. Its work was partly financed by a European Parliament Preparatory Action grant.

6 PSIMS' work on the setting-up of the financing instruments will be covered later in this report in section 3.

Thanks to the support of existing information, available reports and policy papers[7], it was possible for the technical working group not only to identify needs and gaps to be targeted by the initiative, but also to back key decisions throughout the design process, such as the following three which ultimately steered the PSI:

- To create several differentiated instruments to be able to **finance the full life cycle of social innovation projects**, rather than focusing just on one specific instrument (e.g. the Social Innovation Fund FI, as initially thought);
- To focus on **supporting projects rather than the institutions** that implement those projects. This decision enabled PSIMS to be neutral/equidistant on institutional formats and to avoid narrowing down the number and type of organisations supported by the initiative (e.g. in Portugal there is no legal definition of social enterprise, so these types of companies are usually not supported as they don't fall within the scope of the Portuguese social economy);
- To focus on developing a **testbed** for experimenting with 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.

However, the large majority of technical decisions at that stage were taken in relation to the fundamental political decision that followed the creation of the initiative: the use of ESIF as the main funding source. The task of the technical working group was embedded in the PT/EC 2014-2020 ESIF negotiations process.

2.3. Using the ESIF budget for social innovation

2.3.1. Why use ESIF?

The case for using the ESIF budget to finance this type of integrated social innovation initiative is straightforward:

- social innovation has been a **transversal ESIF-ESF priority** for decades;
- **every seven years**, the start of each **ESIF programming cycle** presents, for most MS, an **opportunity for strategic forward planning**, shaping public policy priorities for the years to come. The timing is right therefore for MS to include social innovation, and in particular the creation of an integrated social innovation initiative, in the pool of policies to be financed under ESIF. Embedding such long-term initiatives in the ESIF framework for a full programming cycle can represent an additional factor of **policy and budget stability**;
- national public budgets allocated to the social area are mostly spent in the provision of a wide range of mainstream responses to growing social needs, leaving no space for financing systemic innovation and for shaping future policies. ESIF-ESF can therefore be a complementary funding source to **finance public policy innovation and multiyear experimentation initiatives** (e.g. an integrated social innovation initiative).

7 Besides the above-mentioned report of the Portuguese Social Investment Taskforce, at the time there were several other reports and diagnostic frameworks targeting the Portuguese social economy and its needs, mapping ongoing social innovation initiatives, etc. International technical papers and direct contacts provided relevant benchmark information on key references and best practices (e.g. UK's Big Society Capital for SIF, Australia's Impact Investment Readiness Fund for Capacity Building for Social Investment, etc.)

The PSI was created in a very specific context:

- Portugal was under a three-year Economic Adjustment Programme, signed in 2011 with the EU, the European Central Bank (ECB) and the International Monetary Fund (IMF), with no access to international financial markets. Strong austerity measures followed, increasing social needs and putting additional pressure on the limited public sector budget available to address those needs;
- Portugal was, like all EU MS, starting the definition of priorities and the negotiation with the EC of its 2014-2020 ESIF Partnership Agreement and OPs.

In this context, the political decision to use the PT 2014-2020 ESIF to finance its integrated social innovation initiative was clear as there were no other funding alternatives available.

2.3.2. How to use ESIF?

When using ESIF to finance social innovation, we identify a set of key initial decisions that are to be taken by the public authority and ultimately shape the design of the initiative:

1. Which Fund to use – ESF or ERDF?

Adopting a narrow definition, social innovation would fall directly under ESF[8]. However, social innovation and social entrepreneurship projects are implemented across all public policies (Education, Inclusion, Justice, Social Protection, Culture, Health, Employment, Energy, Environment, Agriculture, etc.). Moreover, even where projects target social challenges only, most of these challenges are becoming increasingly complex and multi-factor. As a result, some might fall outside the traditional ESF scope, namely in more infrastructure-related societal areas such as climate change, environmental sustainability, social farming, clean energy, social housing, etc. For those types of projects, eligibility of expenditure might become an issue, narrowing down the implementation choices and potentially reducing the take-up and impact of the initiative.

So, depending on the objectives and focus of the social innovation initiative being designed, two alternatives (with variations) might be considered under the current ESIF 2014-2020 regulatory framework:

- Using **ESF only**, thus reducing the range and scope of financed projects to non-infrastructure related projects and expenditure[9], *unless using the cross-funding mechanism*[10];
- Using **ESF and ERDF**, which would require either:
  i. including the initiative in a multi-fund OP and Axis;
  ii. using one of the integrated approaches available under the ESIF regulation (e.g. Joint Action Plans, in the context of the ESIF 2014-2020 programming period)[11].

Weighing up the pros and cons, at the time Portugal decided to exclusively use ESF to fund the Portugal Social Innovation initiative.

8 Thematic Objectives 8, 9, 10 and 11 in the current ESIF regulatory framework (Articles 3(1) and 9(1) of Regulation (EU) 1304/2013).
9 See Article 13(4) of Regulation (EU) 1304/2013, under the current ESIF regulatory framework.
10 A possibility already provided for in past ESIF rules, as well as currently in Article 98 (2) of 2014-2020 ESIF CPR.
11 Mostly public sector-led initiatives with complex governance and reporting structures. In its current format, JAPs would not be fully adjusted to the setting-up and implementation of a social innovation initiative.

2. Which OP to use? Transversal? Regional?

Societal challenges addressed by social innovation and social entrepreneurship projects cover a wide range of themes and geographies. So, this decision ultimately depends on two interrelated factors:

- The thematic and geographic scope intended for the initiative:
  - i. Would it be focused on one domain (e.g. education)? Or would it cover multiple domains?
  - ii. Would it be focused on one region? Or would it cover multiple regions or even have a national scope?
- The global ESIF OPs structure in each MS:
  - i. What domains will each OP cover?
  - ii. Would there be regional OPs only? Or would there also be multi-region OPs?

In the case of Portugal, the dialogue with the EC concerning the PSI was embedded in the negotiations for its main transversal financing OP – the Social Inclusion and Employment OP (an ESF OP covering Thematic Objectives 8 and 9), ensuring the later roll-out of the outcome to all other relevant OPs. Following a back-to-back strategy, the ESIF experts that joined the technical working group designing the PSI were also taking an active role in the Social Inclusion and Employment OP PT/EC negotiations directly related to the initiative.

3. Which financing instruments to set up and which ESIF funding models to use?

Using ESIF to fund an integrated social innovation initiative requires the basic features of its financing instruments to be already included in the final text of the OPs approved by the EC.

This means that:

1. *Regarding content*, the global concept of the initiative and an initial version of each of its financing instruments must be developed before the start of the MS/EC negotiation process.
   This is the main task of the technical working group mentioned in section 2.4, which will also be responsible for performing all the necessary adjustments to the initiative resulting from the negotiation interactions.
   By the time the negotiations start, some preliminary technical options will have to have been discussed and some initial key elements must already be defined, namely:
   - i. What will be financed under ESIF
     (a first approach to the objectives of each financing instrument and how it will work, including a first choice of its ESIF funding model);
   - ii. Who will be financed and where
     (a first approach to the beneficiaries, target groups and geographic coverage of each financing instrument);
   - iii. The indicative budget
     (a first ESIF budget allocation per financing instrument);
   - iv. The decision to use financial instruments.

   Additionally, some initial reflection for each instrument on which indicators to adopt might also be useful at this stage.

2. *Regarding timing*, the negotiation process of the social innovation initiative must be concluded by the time the negotiations of its financing OPs are over.
   In the case of Portugal, after some rounds of PT/EC discussions, the negotiations on the creation of the Portugal Social Innovation initiative ended in December 2014, with timings matching the closing of the PT/EC agreements on PT ESF OPs.
   By then, the basic structure and the initial design of PSI and its financing instruments were complete, ending the mandate of the working group. In the following months, the remaining design details necessary for making the initiative fully operative as well as for the launch of its financing instruments[12] were already developed by the new Portugal Social Innovation Mission Structure (PSIMS) – formally created also in December 2014, alongside the creation of all the new PT 2014-2020 ESIF OP MAs[13].
   ESIF-ESF was in fact the key enabler for such an initiative in Portugal. At a moment in time when, due to strict austerity measures, there was no national budget available to support this type of much needed policy innovation, the creation of PSI would not have been possible without the commitment of all stakeholders involved, but mostly without the strong support of the EC - DG EMPL for this initiative.

2.4. The institutional format

Along with designing the initial features of the PSI, the technical working group was also responsible for studying the possible scenarios for its future management and implementation.

Described below, the framework developed for analysing and selecting the most adequate institutional format to manage the initiative is fully replicable by any other MS willing to engage in the creation of a similarly integrated initiative to finance social innovation and social entrepreneurship projects.

As a first step, a set of five principles – i.e. requirements the future initiative's managing entity ('initiative's manager') should fulfil – was defined:

1. **Neutrality**
   Being responsible for financing social innovation and social entrepreneurship projects, while promoting the social innovation and impact investment ecosystems, the initiative's manager must be independent and equidistant from potential beneficiaries.

2. **Sustainability**
   Given the need to ensure the continuity and stability of the initiative and its operations, its reference timeframe must encompass the complete 2014-2020 programming period and even go beyond it, through the 'revolving' nature of some of its financing instruments (namely SIBs and SIF) or by leveraging additional private social investment.

3. **Technical capability**
   Managing innovative ESIF-funded instruments in an emerging sector, the initiative's manager must have experienced, multidisciplinary leadership and an operational team with strong competences in the fields of social innovation and impact investing, ESIF and FI, social economy and ecosystem creation.

12 See sections 1.1. to 1.5. for a detailed description of Portugal Social Innovation's four ESF financing instruments.
13 In Portugal, OP MAs are created for each 6-year programming period, in the form of Mission Units.

4. **Management autonomy**
   Given the probable need for fine-tuning the initiative's structure along the way (including financing instruments), as well as the need for raising additional resources from social investors, the entity's manager must have management autonomy in line with its purpose and assigned responsibilities.
5. **Fast implementation**
   The entity's manager must be fully functional by the beginning of the programming period, in line with the expected timing for the start of the OP implementation. In Portugal, the PSI organisational structure was operative by early 2015.

These principles provided the framework for the identification of potential alternative institutional formats for the setting-up of the entity's manager, as well as for its comparative evaluation, working as selection criteria for the choice of the most adequate alternative to be proposed for political decision.

Three feasible alternatives were identified:

1. A new unit integrated in a pre-existing public sector entity
   i. a new unit in a sectoral entity;
   ii. a new unit in an ESIF-related entity.
2. A new public sector structure (to be created specifically for this purpose)
   i. a Mission Structure (a temporary body, e.g. similar to PT ESIF OP MAs);
   ii. a Public Agency.
3. Management outsourced to an external entity (including consortia specifically created for this purpose)
   i. National;
   ii. European/international.

In the Portuguese case, based on the performed evaluation and taking into account the constraints associated with Portugal's 2011-2014 context, it was decided to create a Mission Structure to manage the initiative, leveraging the process that was already in place for the setting-up of all new Mission Structures responsible for managing the 2014-2020 ESIF OPs.

2.5. Governance and operational models

As a potential benchmark for other similar initiatives and managing structures being deployed in other MS under ESIF financing, this section briefly presents PSIMS's key operational features.

The Portugal Social Innovation Mission Structure (PSIMS) was created in December 2014[14], directly under the Presidency of the Council of Ministers.

With its headquarters in PT Centre Region, it adopted a similar institutional format to all PT ESIF 2014-2020 OP MAs and a wholesaler role (neutral, independent and equidistant from all stakeholders), managing the PSI, with the following 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;
- 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;

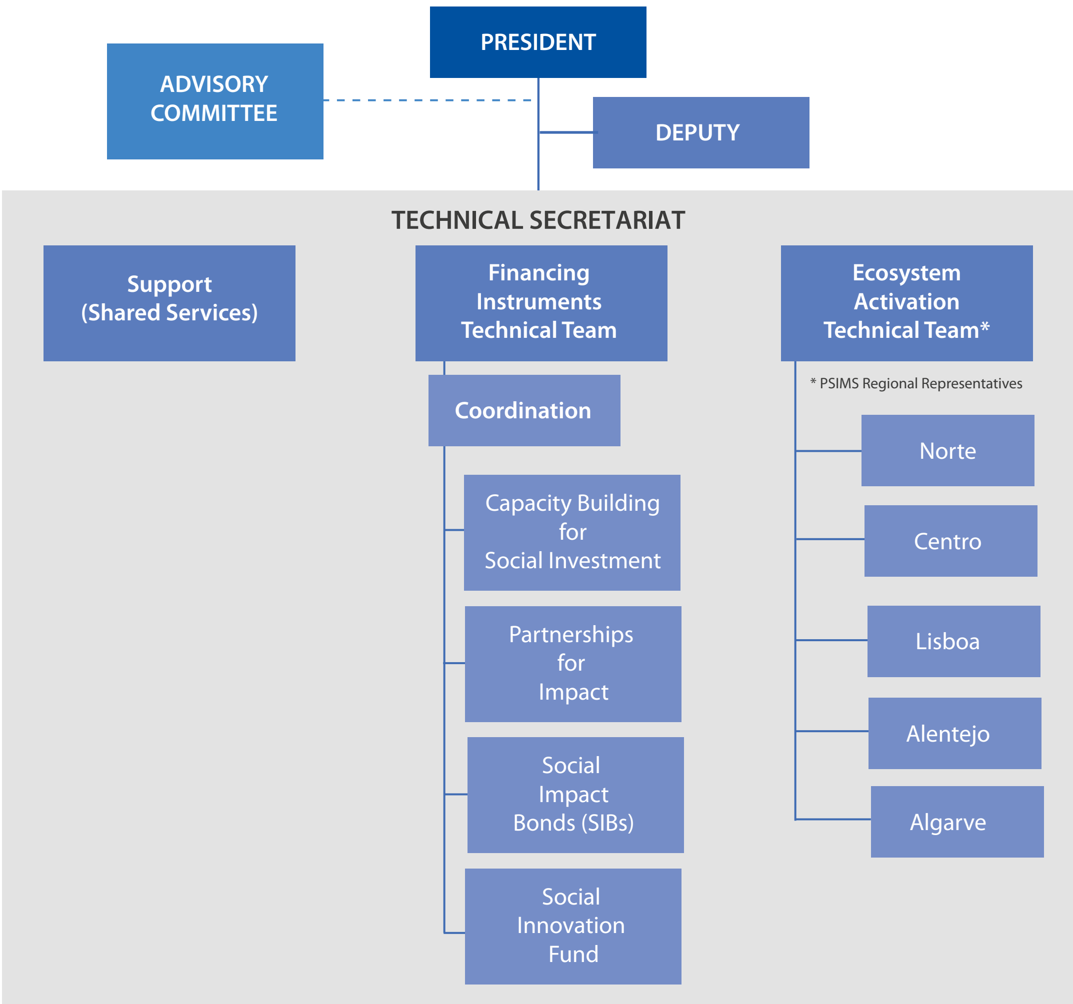
14 Relevant Portuguese Law: Resolution of Council of Ministers (RMC) 73-A/2014, 16.12.2014, changed by RCM 74/2016, 25.11.2016, RCM 157/2017, 19.10.2017 and RCM 177/2018, 18.12.2018.

- 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 organisations and contributing to its future sustainability.

In order to achieve those objectives, PSIMS was assigned the following responsibilities:

- Promote and coordinate the four ESIF financing instruments of the initiative: i) Capacity Building for Social Investment; ii) Partnerships for Impact; iii) Social Impact Bonds; iv) Social Innovation Fund;
- Develop and disseminate guidelines, procedures, methodologies, tools and models to support the implementation of the PSI;
- Provide technical assistance to supported social innovation and social entrepreneurship projects, being also responsible for its monitoring and evaluation;
- Promote the social innovation and social entrepreneurship ecosystem, also at regional and local level through the creation of a network of PSIMS regional representatives;
- Identify and stimulate, also through PSIMS regional representatives, a national network of regional and local focal points for the initiative;
- Coordinate the initiative's communication policy;
- Promote the attraction of new investments for the initiative;
- Submit yearly the initiative's execution report to the Presidency of the Council of Ministers.

PSIMS works as an Intermediate Body for all ESIF OPs that fund the initiative, and is composed of a maximum of 16 members:



Within the technical secretariat:

- the **support team** provides management support to the president and deputy, namely in relation to administrative procedures, HR, facilities & IT, legal support and communication;
- the **financing instruments team** supports the president and deputy in the design and implementation of PSIMS financing instruments. This team is in charge of the requests for applications, the selection process and the technical decisions regarding each application (including eligibility assessment and technical analysis). Moreover, this team deals also with the technical assistance to approved projects, technical verification of outputs and outcomes (whenever applicable), monitoring and evaluation of approved projects, etc.
- the **ecosystem activation team** (PSIMS regional representatives) provides direct support to the president and deputy on the promotion of social innovation and social entrepreneurship ecosystems. It contributes to the implementation of the PSI at regional and local levels, namely by raising awareness of 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.

Together with the strong technical know-how of the financing instruments team, the existence of PSIMS regional representatives in all regions addressed by PSIMS is one of the main reasons for the initiative's success – measured in terms of both its growing demand and growing impact.

The development of strategic partnerships with key investors and a close relationship with the public sector at a national and regional/local level was another key element (particularly relevant in the case of SIBs for the process of setting and validation of outcomes).

2.6. National *vs*. regional approaches

Depending on each MS government and administrative structure, as well as on its level of regional autonomy in terms of budget, decision-making and implementation in all public policy domains, the process of creating an integrated social innovation initiative at a national or regional level might be quite similar, following the same type of approach to most of its political and technical decisions.

The main disadvantages of creating a regional rather than a national initiative are mostly related to fragmentation, which might lead to:

- low levels of negotiation leverage and higher complexity, especially when using ESIF (although this is not always true, as it also depends significantly on the level of experience and structure adopted for ESIF negotiations);
- differences in potential scope and scale of addressable demand (however, within the EU, a single region of one MS might correspond e.g. in terms of area, population, number of addressable projects, social investors or other relevant stakeholders, to an entire country, e.g. in the case of other MS);
- potentially low outreach and impact of projects (although in terms of impact, supporting e.g. three projects with 100 end beneficiaries in one MS can be exactly the same as supporting three similar projects involving the same number of end beneficiaries implemented in one region).

On the other hand, regional initiatives tend to be faster to set up and easier to implement (yet again, this always depends on administrative arrangements or potential regional constraints). Moreover, considering the usually smaller addressable target population, they also tend to produce a more relevant impact, at least in relative terms.

Also, there are some solutions to mitigate this potential regional disadvantage, such as:

- creating points of contact with relevant national stakeholders, namely in the initial design and negotiation stage (in practice, the reverse of what was done by PSIMS when establishing regional representatives and identifying regional focal points);
- establishing links to other regions, e.g. following a first period of implementation, as a way to promote scale and replication of successful projects.

2.7. Lessons learned and recommendations

... on setting-up an integrated initiative to support social innovation under ESIF

For MS

- Social innovation is not an easy theme, as it is usually assumed as being 'too innovative' and 'nice to have' only after other priorities have been covered. Therefore, it is fundamental to have strong **political support** at the highest level to move the agenda forward.
- Rather than embedding a social innovation component in all ESIF-financed projects as a transversal priority, the best way to attain critical mass and generate effective impact is by **committing a dedicated ESIF budget specifically for financing social innovation projects** (even if just a small amount for a proof-of-concept).
- Covering different sectors (Education, Health, Social Protection, Environment, etc.) and levels of intervention (national, regional, local), it is very important to plan and organise well in advance the **alignment of social innovation with the ESIF OPs structure** concerning the type of fund, geographic coverage and governance, in order to minimise future constraints.
- **Focusing the financing instruments on funding projects** (regardless of the institutional format of its implementing organisations) rather than on funding specific types of entities (e.g. social economy organisations) allows for a more targeted and effective approach, while avoiding the pitfalls of an evolving legal environment (e.g. related to the legal definition of social enterprises).
- Social innovation projects tend to have different financing needs as they evolve, so it might be relevant to **finance the different stages of the life cycle** of social innovation and social entrepreneurship projects, thereby setting a comprehensive approach that effectively addresses all relevant needs and builds a sound project pipeline. The key is to adjust the type of financing structures and models to the characteristics of each stage.
- A **dedicated structure** (either part of pre-existing organisations or newly created for this purpose)**,** with work and inputs of a **dedicated technical team** that includes both ESIF and social innovation experts, is fundamental for the successful implementation of an integrated social innovation initiative.
- Financing social innovation alone won't work, if not complemented by a **strong focus on developing its ecosystem**, building networks and engaging with all relevant stakeholders (implementing entities, social investors, intermediaries, evaluators, public sector organisations, etc.).

- Regardless of the size or focus of the social innovation initiative (national, regional, thematic), **mechanisms to ensure scale, impact and replication** should be in place.

For the European Commission

- Social innovation, and the use of ESIF for financing social innovation projects, constitute emerging realities, therefore **EC Technical Assistance (TA) to MS** on ESIF applied to social innovation financing and the timely sharing of best practices might help.
- **Internal EC experts** with a sound knowledge of social innovation practices and ESIF financing options throughout the EU, could be involved in **on-demand support to the EC Desks** or even to MS **in the ESIF negotiation process with a social innovation component**.
- Building a **regulatory environment that takes into account the specificities of social innovation and impact investment**, namely on ESIF financing, might contribute to its take-off EU-wide.

RECOMMENDATIONS

• TO MEMBER STATES

AT A DESIGN STAGE:	AT IMPLEMENTATION STAGE:
1. **Political support**	1. **Dedicated structure** *(either part of a pre-existing organisation or newly created)*
2. **Dedicated technical team**	2. **Focus on developing the ecosystem**
3. **Dedicated ESIF budget*** *(even if small amount for PoCs)*	3. **Mechanisms to assure scale, impact and replication**
4. **Alignment with ESIF OPs structure**	
5. **Focus on financing projects** *(not entities)*	
6. **Focus on financing the projects' life cycle** *(with specific financing instruments per stage)*	

• TO THE EUROPEAN COMMISSION

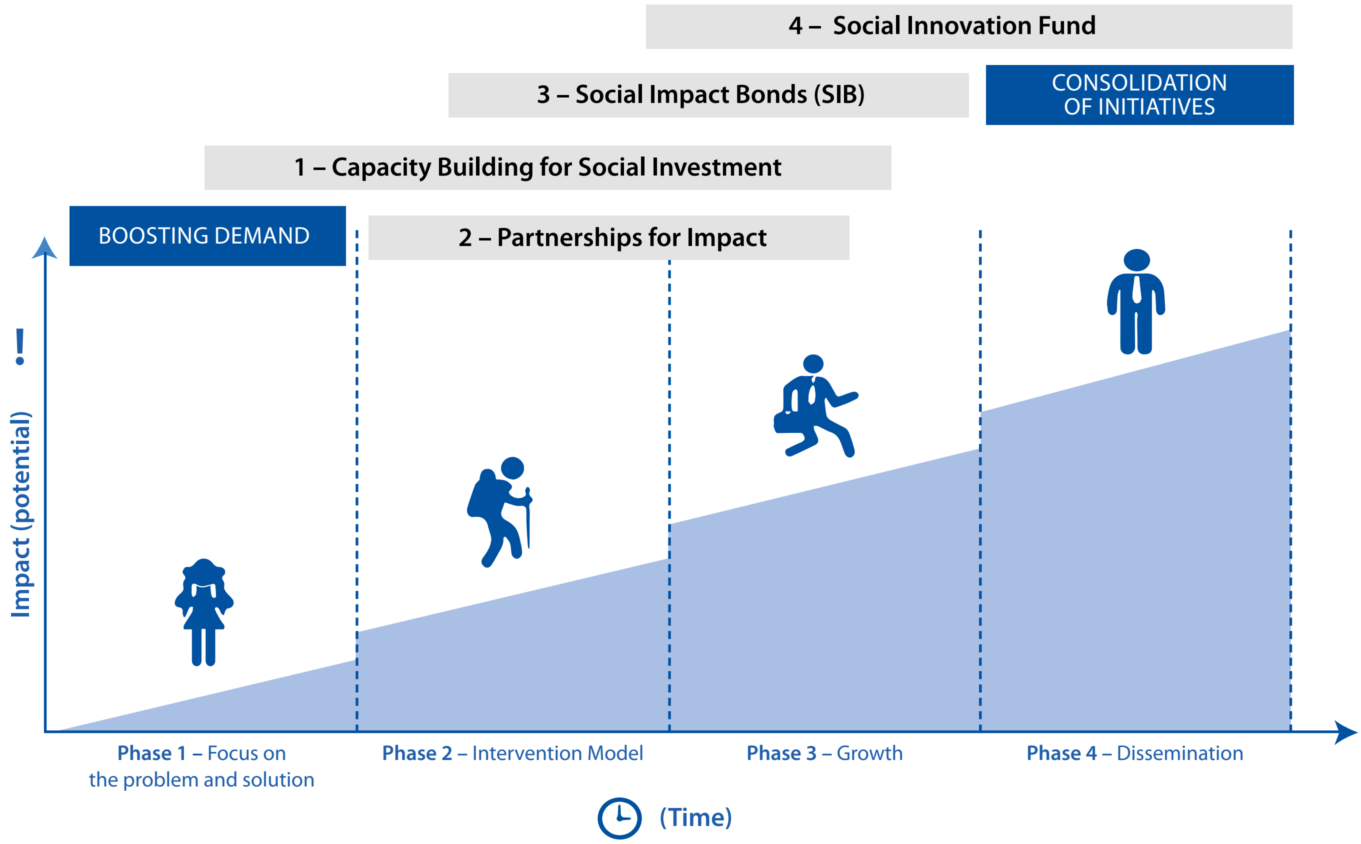
1. **EC Technical Assistance (TA) to MS**
   (on ESIF applied to social innovation financing)
2. **Internal EC experts in social innovation involved in on-demand support to the EC ESIF Desks**
   (for ESIF negotiation processes with a social innovation component)
3. **Adjusted EU regulatory environment, especially on ESIF financing**
   (taking into account the specificities of social innovation and impact investment)

** Ideally embedding the set-up of an ESIF-financed initiative into the EC/MS OPs negotiation process.*

3. ESF FINANCING SOCIAL INNOVATION AND SOCIAL ENTREPRENEURSHIP – ON-THE-GROUND EXPERIENCE: THE PORTUGUESE CASE STUDY IN DETAIL

3.1. Overview of the initiative's financing instruments

With an initial budget of approx. EUR 150 million, the PSIMS successfully launched four innovative financing instruments under ESF to support the full life cycle of social innovation and social entrepreneurship projects:



- ***Capacity Building for Social Investment***
  A simplified ESF grant scheme specifically addressing the skills gap and lack of investment readiness of most social innovation and social entrepreneurship projects.
- ***Partnerships for Impact***
  ESF grant designed to leverage other social investments supporting the initial stages of high-potential, high-impact social innovation or social entrepreneurship projects.
- ***Social Impact Bonds (SIBs)***
  A payment-by-results (PbR) mechanism under ESF to support innovative responses to social problems in specific public policy areas (e.g. Employment, Social Protection, Justice, Health and Education).

- ***Social Innovation Fund***
  One of the first financial instruments in Europe using ESF for social investment, supporting the growth and consolidation of social innovation and social entrepreneurship projects.
  The setting-up of PSIMS's four financing instruments also entailed an innovative approach to ESF funding, as it opened new fields of application and new ways of financing projects across the full spectrum of ESF support.

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

In fact, aligning the specific features and financing mechanisms of new impact investing approaches with current ESF rules promotes innovation in the design of ESF support, with current rules being applied to a new reality, where ESIF's results-oriented principles and this new focus on social outcomes and social impact of financed projects start converging.

The next sub-sections provide an additional in-depth description of the four ESF financing instruments launched by PSIMS.

3.2. Capacity Building for Social Investment

Capacity Building for Social Investment is an ESF grant scheme directly managed by PSIMS. It aims to improve the organisational and management competencies of organisations and teams directly involved in social innovation and social entrepreneurship projects.

It provides **up to EUR 50 000 of non-reimbursable support** to finance the implementation of a **capacity building plan** specifically addressing the skills gaps of an ongoing social innovation or social entrepreneurship project[15], improving its capability to attract and apply additional social investment.

The beneficiaries

Capacity Building for Social Investment is a demand-driven financing instrument. **Social economy organisations** are the applicants and the direct beneficiaries of the grant.

However, it provides **applied support**: rather than improving the skills of the entire beneficiary organisation, it focuses specifically on improving the skills of the team that is directly involved in the implementation of the targeted social innovation or social entrepreneurship project. It builds on the premise that, at a later stage, these team members are the most effective gateways for the dissemination of the acquired know-how within the organisation.

15 This PSIMS grant scheme does not support projects at a very early setting-up stage (when there are several alternative funding sources available, namely social innovation prizes or other types of small philanthropic donations providing the necessary initial capital). It rather focuses on the next stage: ongoing projects, e.g. following an initial proof of concept (PoC) or pilot test, when skill gaps blocking further project development can more easily be identified and addressed.

The application

To apply for funding under the *Capacity Building for Social Investment* grant scheme, beneficiaries must submit the following four elements:

- A **diagnostic framework** to identify the project's capacity building needs;
- A **capacity building plan** to address those needs;
- A **detailed budget**, identifying the capacity building plan implementation costs;
- An **expression of interest** in the project from a social investor.

As a way to reduce administrative burdens for applicants, all elements must be submitted under specific simplified templates, provided by PSIMS[16]. By heavily standardising format and size of applications, these templates also reduce the complexity and potential bias of its analysis and selection process.

The diagnostic framework

The process starts with an initial diagnostic framework developed by an independent service provider (the 'external expert') prior to the submission of the grant application. This diagnostic framework is intended to identify the project's capacity building needs and is the basis for the development of the capacity building plan.

If the grant is approved, the cost incurred by the beneficiary when paying the external expert for the diagnostic framework is considered eligible expenditure and reimbursed up to EUR 5 000[17].

The capacity building plan

To address up to five of the key capacity building needs identified in the diagnostic framework, the social economy organisation develops a targeted capacity building plan comprising up to five interventions to be implemented over a maximum of 18 months upon grant approval.

These capacity building interventions, which can be developed independently, may include any combination of the following activities:

- Consulting;
- Mentoring;
- Training (which may not exceed 20% of the total eligible cost of the operation).

Each intervention is to be developed in one of the following seven capacity building domains:

- Value Creation Model;
- Impact Measurement and Evaluation;
- Strategy, Partnerships and Growth;
- Marketing, Communication and Fund-raising;
- Structure, Governance, Leadership and HR;
- Financial Management, Control and Risk;
- Operations Management and ICT.

16 Detailed step-by-step instructions and FAQs on how to develop an application and fill those templates (identifying all the mandatory elements they must contain to be accepted) are also provided to applicants.

17 Considering the novelty of the Capacity Building for Social Investment instrument, there was neither relevant track record nor historical data sets available to determine the cost of this type of diagnostic framework. Therefore, the EUR 5 000 limit was set based on the findings of an extensive market consultation performed by PSIMS, while designing this financing instrument.

Each intervention must generate one or more outputs[18], which must be co-created by both the beneficiary's team and the external service provider involved in that specific capacity building intervention.

EXAMPLE:

A small social economy organisation fully involved in an innovative project on child protection recently ended its first pilot test with strong results, but also with some scope for improvement, particularly on internal project management issues. Therefore, before scaling its initial pilot, the organisation decided to apply for a grant under the *Capacity Building for Social Investment* instrument.

The initial diagnostic framework performed by the selected external expert identified a broad range of capacity building needs, including the project's value creation model and strategy was well defined, but it does not consistently measure its results and social impact; after a good initial effort (that resulted in the winning of a social entrepreneurship prize and the launch of its first pilot test), the project was currently not communicating well externally; it was also having some fund-raising problems, which in turn put additional pressure on its financial management processes.

Based on this diagnostic framework, the social organisation was expected to apply for a grant to fund a wide-ranging capacity building plan with four interventions, targeting its current impact measurement, communication, fund-raising and financial management issues, by means of a combination of training and consulting activities as well as some mentoring support on fund-raising aspects. Provided it would stay under the EUR 50 000 limit, this would have been an acceptable approach under *Capacity Building for Social Investment*.

However, the social economy organisation decided instead to apply for funding for a very targeted capacity building plan, focused on only one of the identified gaps – impact measurement, as it believed this to be its core problem and the area in which its team was currently lacking competences. Therefore, it was proposed to PSIMS a 'single-intervention' capacity building plan, consisting of initial external training on impact measurement methods, followed by consulting applied to the project needs. As a result of the joint work between the selected provider of consulting services and the project team, a framework for measuring the project's social impact will be developed and its current impact will be measured (output). This framework will remain available as a tool for the team to use after the capacity building activities are over, as it plans to keep measuring the social impact of the project in the future when communicating results to the public and approaching new social investors. This is also an acceptable approach under *Capacity Building for Social Investment*.

The capacity building plan is *the* key element for grant application. As some social economy organisations might still find it difficult to structure, the plan must be developed with the assistance of the external expert responsible for the initial diagnostic framework. As a result, in order to avoid conflicts of interest, this external expert cannot assume, in the same operation, the role of the capacity building service provider involved in the implementation of the plan should the application be approved.

18 Outputs or tangible products are the final result of each capacity building intervention, developed as joint work between the beneficiary (its social innovation and social entrepreneurship project's team) and the selected capacity building service provider. Strongly applied to the project, outputs are expected to be used (and updated) by the project's team on regular project activities long after the conclusion of the capacity building intervention.

The detailed budget and the use of SCO-LS

Capacity Building for Social Investment funds 100% of beneficiaries' eligible costs (85% ESIF-ESF + 15% PT State Budget).

Consequently, it requires social economy organisations to provide a detailed budget for each capacity building intervention, as an element of its grant application. Overall, this budget must identify the projected costs of implementing the proposed capacity building plan, up to the EUR 50 000 limit.

Due to mandatory ESIF-ESF requirements set under European and Portuguese regulations[19], *Capacity Building for Social Investment* was bound to adopt a Simplified Cost Option - Lump Sum (SCO-LS) financing model, without any prior track record of SCO-LS implementation in Portugal under ESIF[20], to support the design of the methodology. Consequently, before the launch of its first call for applications, it took approximately one and a half years of complex technical discussions between PSIMS, the relevant Portuguese authorities[21] and the EC to close all the necessary procedures for the adoption of the SCO-LS methodology, before the launch of the first call for applications. Although current ESIF rules are not yet designed to fully encompass this type of process innovation, at the time DG EMPL's support for this new approach was instrumental to its success.

The resulting financing model is structured in three major steps:

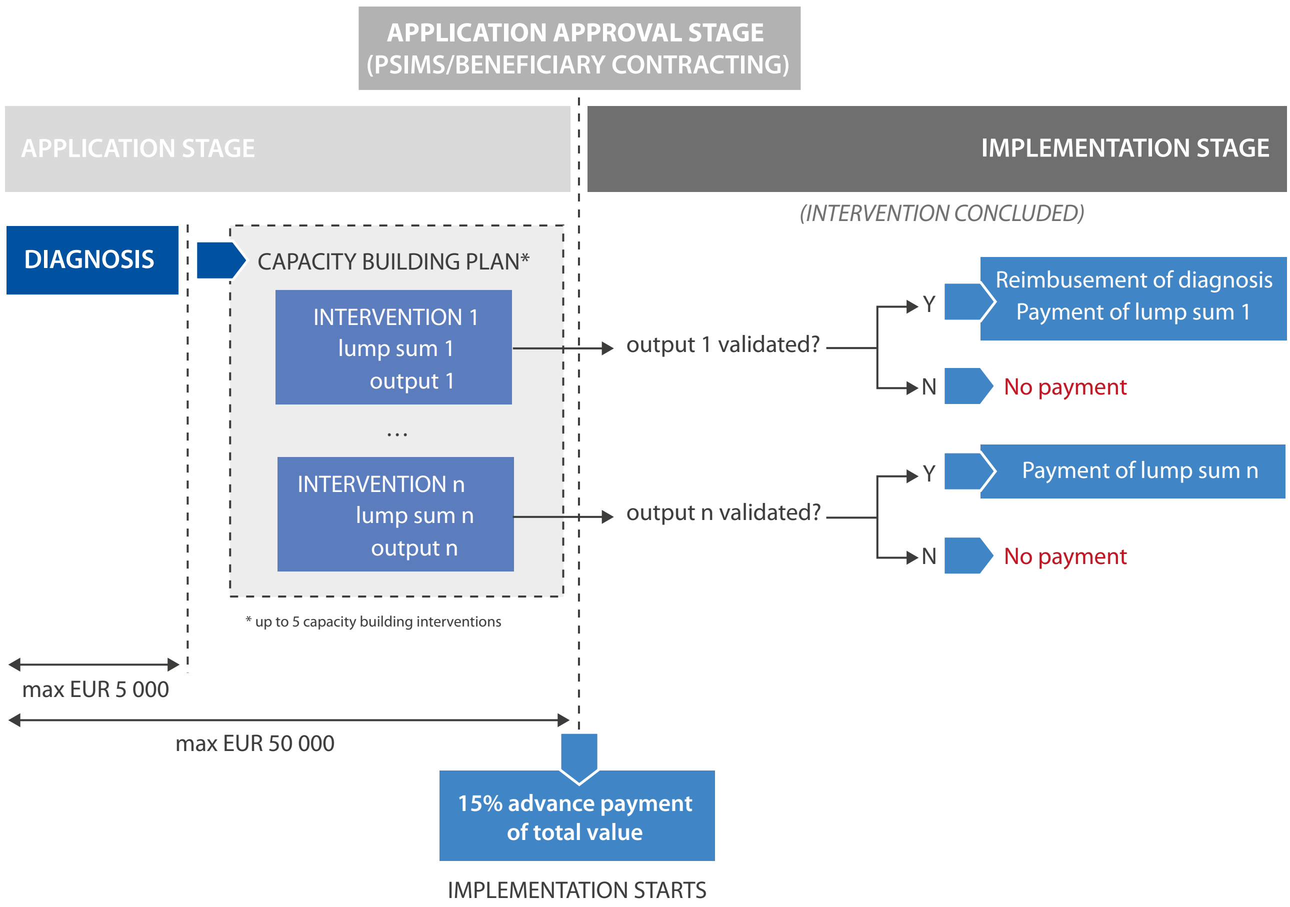
1. As part of the detailed budget submitted at the **application stage**, applicants must propose, for each capacity building intervention, a fixed cost value (lump sum) and an output to be achieved.
   With each output being developed as a co-creation effort between the beneficiary project team involved in the intervention and the selected capacity building service provider, both external and internal (direct, indirect) eligible costs are expected to be included in the calculation of each proposed lump sum;
2. Upon **application approval**, all lump sums and outputs are contracted with PSIMS. An initial 15% advance payment is also released to enable beneficiaries to kick off implementation without having to use their own (often limited) financial resources;
3. During the **implementation stage**, a payment (the pre-agreed lump sum, no invoices required) will be made to the beneficiary each time a capacity building intervention is concluded, and its resulting output validated by PSIMS[22]. **No payment will be made for interventions only partially implemented, or with non-validated outputs.**

19 European Regulations: CPR – Article 67 (1) (c); Regulation (EU) 1304/2013 – Article 14 (3); Portuguese Law: Portaria (decree) n.º 60-A/2015 of 2 March – Article 4(1).

20 Although there were some examples of SCO-LS use in other MS, they were mostly related to funding the organisation of events and workshops. None was a relevant benchmark for the Capacity Building for Social Investment grant scheme being designed by PSIMS.

21 Including the relevant Operational Programme management authorities (MA), as well as the Portuguese certifying and auditing authorities. PSIMS decided to engage with all the relevant stakeholders at a very early stage of the process to ensure compliance and regulatory certainty.

22 As a basis to analyse and validate capacity building intervention outputs, PSIMS has adopted a revised version of an evaluation matrix already used in Portugal for the same purpose of outcome validation, under the 2001-2008 ESF EQUAL Programme. Based on lessons learned from the first round of project financing, this matrix was further adjusted in 2018/2019.



The reimbursement of the cost incurred with the development of the diagnostic framework will also occur only at this stage, together with the payment released for the first validated output[23].

The capacity building plan proposed by the social economy organisation at the application stage integrates a chronogram, identifying the expected timing for the conclusion of each intervention. In most cases, beneficiaries have chosen to implement them sequentially, so the lump sums paid for one intervention can be applied to finance the implementation of the next one. Combined with the 15% initial advance payment, it creates a rollover mechanism of financial flows, requiring less upfront investment from the beneficiary.

Provided that the ESIF regulatory framework allows it, this type of SCO-LS financing model could be easily replicated in the design of other ESIF financing instruments – it is particularly appropriate for financing payment-by-results mechanisms, such as SIBs.

The expression of interest and the role of the social investor

The requirement to present, already at the application stage, an expression of interest from a social investor is a *Capacity Building for Social Investment* design feature aiming to promote links between social economy organisations and social investors at an early stage of project development.

23 This was a requirement from the MA, to avoid creating incentives for beneficiaries to use these grants to finance the diagnostic framework without implementing the related capacity building plans.

The existence of a previous relationship between the project and the social investor is not required, although it is positively evaluated in the application's selection process. In some cases, this might be the first contact between these two types of stakeholders, working already in the area of capacity building, namely for the teams presenting their social innovation project to obtain the mandatory expression of interest.

The expression of interest is a very simple letter written by any type of social investor (e.g. a foundation or other type of philanthropic or social economy organisation, a private company, a city council, etc.), following a template provided by PSIMS. It states the interest of the investor in the targeted social innovation or social entrepreneurship project and its potential future investment intention, should the project improve its investment readiness. However, it does not yet represent a binding investment commitment from the investor's side. In some cases, social investors may decide to assume the responsibility for performing or paying for the initial diagnostic framework identifying the capacity building needs of the project. In this case, it is considered a donation, not reimbursable at a later stage.

The role of the independent service providers

Capacity Building for Social Investment is an ESIF-ESF demand-driven financing instrument. This means that the social economy organisation is the direct beneficiary of the grant, being responsible for selecting and contracting *independent* service providers:

- for the development of the initial diagnostic framework ('external experts');
- for the delivery of all capacity building activities such as training, consulting and mentoring included in the approved capacity building interventions, and for working alongside the project team, co-creating its contracted outputs ('capacity building service providers').

The involvement of service providers must follow three general rules:

- in the same operation, the external expert responsible for the diagnostic framework may not be involved in the implementation of the capacity building plan;
- only one capacity building service provider can be involved per intervention;
- on the other hand, it is possible to involve the same capacity building service provider in several interventions; it may even be involved in all interventions.

Service providers are freely selected by the beneficiary[24] and are always evaluated per concluded capacity building intervention:

- by PSIMS, through the validation process of the output(s) it co-created;
- by the beneficiary, by means of a mandatory evaluation questionnaire to be filled in and shared with PSIMS at the end of each intervention.

The active involvement of a large pool of service providers in the *Capacity Building for Social Investment* instrument is an effective indirect way of developing the social innovation and social impact investing ecosystems.

24 To avoid barriers to entry, MA did not consent to the creation of a pool of service providers (either accredited or simply registered).

Results so far

The first call for applications for *Capacity Building for Social Investment* (OP Social Inclusion and Employment) was closed on 28 June 2017. The 168 applications received amounted to EUR 7.85 million of financing needs – more than 2.5 times the initial allocated budget. 99 applications were approved, with approx. EUR 3.5 million worth of ESF financing.

A second call for applications, also launched under OP Social Inclusion and Employment, with an available budget of EUR 7 million, closed in December 2018. 170 applications were received, of which 102 were approved.

The following table presents the calls for applications under the **Capacity Building for Social Investment financing instrument** between 2014 and 2019

Financing OP	Call launch	Call deadline	Available budget	No. Applications	Total demand for public financing (million euro)	No. Applications approved
			10 500 000 €	**338**	**15 650 000 €**	**199**
POISE	21.03.2017	28.06.2017	3 500 000 €	168	7 850 000 €	99
POISE	04.09.2018	18.12.2018	7 000 000 €	170	7 800 000 €	100

Source: www.inovacaosocial.portugal2020.pt

3.3. Partnerships for Impact

Partnerships for Impact is ESF scheme supporting the early growth of social innovation or social entrepreneurship projects. It aims at stimulating their development and sustainability by means of providing more diversified sources of financing and directly involving the investors in the projects, through mentoring and technical advice. It also intends to promote more structured social investment practices in Portugal.

The concept

Partnerships for Impact is a grant scheme, designed as venture philanthropy financing, leveraging other social investments to support high-potential and high-impact projects. It works as an incentive to address the often fragmented and diffuse approaches to grants by most donors, promoting longer-term (multiannual) and higher-engagement approaches to finance social innovation and social entrepreneurship projects with high social impact.

Of the four instruments run by PSIMS, this is the best suited to contribute to the growth of the venture philanthropy sector in Portugal.

This financing instrument provides grant support of at least EUR 50 000 to finance, during the first 1-3 years, projects that intend to further develop proven social innovation concepts – innovative products, platforms or services to help solve societal problems.

ESIF-ESF financing

It matches 70% to 30% the funding provided by social investors. It funds 100% of eligible cost to beneficiaries (85% ESIF-ESF + 15% Portugal State budget), with no maximum threshold per project.

Overall, it is a typical ESIF-ESF grant that reimburses real costs incurred and paid by the beneficiary, with a 15% yearly eligible cost advance to be paid upon application approval. ESF and social investors' payments are done *pari passu*, as the approval of each reimbursement is subject to the verification of an effective financial transfer from the investors.

The application

A Partnerships for Impact application is submitted by one or more social innovators (the project implementing entity(ies)) and must include the following two elements:

1. A 1-3 year development plan for the project, including a proposal of one or more result indicators, with quantified targets, to measure the project's social impact;
2. A letter of commitment from one or more social investors, stating their financial commitment to the project and the type of engagement they will have with the implementing teams during project development (e.g. capacity building, mentoring) and declaring no controlling relationship over any of the implementing entities.

To simplify application processes and reduce administrative burdens, templates for the development plan and the letter of commitment are provided ex-ante to applicants, along with an application guide and a memorandum of understanding between partners (for projects with two or more implementing entities).

Beneficiaries and social investors

Two major players are enrolled in a Partnerships for Impact application:

- implementing entities;
- social investors.

Implementing entities range from private entities to social economy and public organisations such as cooperatives, mutuals, misericórdias[25], foundations, non-profit organisations and associations. Social investors include foundations and misericórdias interested in financing innovative projects in the social economy sphere under their respective support programmes, private companies in the context of their Corporate Social Responsibility (CSR) activities, municipalities willing to support innovative projects in their respective regions, etc. Social investors can be both national and international players.

Recent developments

Following the first calls for applications, Partnerships for Impact has proven to be the financing instrument with the swiftest take-up of all four PSIMS instruments. Its demand has grown consistently from call to call which led to the decision to increase the initial available budget from EUR 20 million in 2014 to EUR 37.5 million in 2019. Its design has remained fairly unchanged and a total of seven closed calls have been launched since the financing instrument was made available.

25 Misericórdias are a specific type of association created in Portugal under canon law (Catholic Church) since the 15th century, with the purpose of satisfying a broad spectrum of social needs. Currently, there are approx. 400 misericórdias, serving around 165 000 final beneficiaries.

Without losing its broad scope of potential social challenges to address, there have been calls targeted at more specific social problems. The first was the call supporting social innovation projects to foster the emergence of new models and solutions in the field of education policy. The major social challenges to be addressed in the education and qualification system were the promotion of educational attainment, through the increase of retention rates and reduction of early school leaving (drop-outs), and the reinforcement of lifelong learning, qualification and employability. This call valued additionally all innovative solutions to develop and reinforce the digital competences of projects' final target groups.

In early 2019, there was another call focusing on a particular social challenge, the call concerning the regeneration of Pinhal Interior. This call was part of a larger Programme for the regeneration of a specific territory devastated by the rampant wildfires of 2017, and was expected to contribute to the promotion and development of social innovation and entrepreneurship initiatives aiming at this particular social challenge, in 19 municipalities of that region.

Other more recent calls, on the other hand, have enlarged the territorial scope of the financing instrument and of the initiative as a whole. The first calls for Partnerships for Impact covered the three less favoured regions of continental Portugal – North, Centre and Alentejo. Since July 2018, Regional OP Algarve has also launched two specific calls, enabling PSI to better fulfil its major objective of boosting a social investment market at national level.

Results so far

Partnerships for Impact is PSIMS's financing instrument with most calls initiated so far. Nine calls have already been launched under the programming period 2014-2020, mobilising a total budget of EUR 57.6 million, of which EUR 6 million targeting specific social challenges and EUR 7 million covering a wider territorial range.

The demand for these calls consisted of 563 applications and a total of EUR 57.6 million of public financing. To date, 157 applications have been approved, although information for the last three calls is not yet available.

Most applications were presented by associations, and a diversified set of social investors came into play, including foundations, companies, municipalities and international investors.

Examples of approved projects include: SPEAK (migrant integration), Colour ADD (daltonism), Beating Autism (autism), Apps for Good (several – ICT), Mozart Pavilion (integration by music – prison environments), U.Dream (children's health and wellbeing), 10 000 lives (Health – ICT), CARE (sexual violence affecting youths and children), Just a Change (deprived housing – volunteer urban regeneration), Pedagogical Villages (ageing), EKUI cards (discrimination – inclusive child alphabetisation), New grape seeds (civic education of disadvantaged youth in a specific wine region – wine associations and companies as investors), Smiling world (children's oral hygiene), Escolinha de Rugby da Trofa (educational attainment), Radio Miúdos (social inclusion of children).

The following table presents the calls for applications under the **Partnerships for Impact financing instrument** between 2014 and 2019.

Financing OP	Call launch	Call deadline	Available budget	No. Applications	Total demand for public financing (million euro)	No. Applications approved
			57 600 000 €	**563**	**107 800 000 €**	**157**
POISE	19.07.2016	31.10.2016	7 000 000 €	57	10 000 000 €	42
POCH	06.11.2017	16.01.2018	4 300 000 €	26	7 600 000 €	19
POISE	09.03.2018	30.05.2018	10 600 000 €	91	18 800 000 €	61
POR ALGARVE	13.07.2018	04.10.2018	2 000 000 €	11	1 900 000 €	9
POISE	08.01.2019	14.03.2019	1 700 000 €	29	3 700 000 €	17
POR ALGARVE	26.02.2019	06.06.2019	2 500 000 €	13	2 200 000 €	9
POISE	15.04.2019	17.09.2019	20 000 000 €	244	47 300 000 €	n.a.
POR LISBOA	22.07.2019	29.11.2019	7 000 000 €	92	16 300 000 €	n.a.
POR ALGARVE	17.10.2019	13.01.2020	2 500 000 €	n.a.	n.a.	n.a.

Source: www.inovacaosocial.portugal2020.pt

The first call for applications for *Partnerships for Impact* (OP Social Inclusion and Employment) was closed on 31 October 2016. 35 projects (from 42 applications) were approved, with approximately EUR 3 million worth of funding from social investors' commitments and EUR 7 million from public funding (ESF + state budget). Applications ranged from EUR 71 500 to EUR 980 000, most of them proposing 3-year development plans.

The second call for applications under OP Social Inclusion and Employment was opened from 9 March 2018 to 30 May 2018 and witnessed a significant increase in demand – 91 applications totalling EUR 18.8 million. This result led to the decision to launch a third similar call in 2019 (15 April) making available more than double the budget of previous rounds (EUR 20 million alone).

Calls for applications for Partnerships for Impact focusing on specific social challenges have also proved to be successful. The first, related to social innovation and social entrepreneurship projects in the fields of Education and Training (under OP Human Capital), had a total indicative budget of EUR 4.3 million, and closed on 16 January 2018, with total demand for public financing of EUR 7.6 million. From the 26 applications, 19 projects were approved. The second, targeting projects for territorial regeneration, closed on 14 March 2019. For an indicative budget of EUR 1.7 million, there were 29 applications and demand for public financing of EUR 3.7 million. From the 29 applications, 17 projects were approved.

There have also been two calls for applications for Partnerships for Impact in the Algarve region (Regional OP Algarve), one in 2018, with 11 applications for a total indicative budget of EUR 2 million and another in 2019 with 13 applications for a total indicative budget of EUR 2.5 million.

3.4. Social Impact Bonds (SIBs)

PSIMS's Social Impact Bonds Programme is an ESF scheme that uses an outcome payment mechanism to support innovative projects addressing societal problems in specific public policy areas – Employment, Social Protection, Justice, Health and Education. Taking the life cycle of any given social innovation project, the SIBs Programme is the third financing instrument made available by PSIMS. It is a resource that can be used to support social innovation and social entrepreneurship initiatives at a more mature level of development and for which the setting of outcome targets is feasible. It should be noted that while SIBs may promote the innovation and efficiency of service provision, further evidence is still needed on their effectiveness, efficiency and value added.

Involved stakeholders

By acting as the outcome payer, PSIMS uses ESF to remove a key constraint to the adoption of SIBs in Portugal – the current lack of public sector outcome-based commissioning – while proving the concept and helping to persuade public-sector entities to start shifting from the traditional output-focused approaches towards more outcome-oriented ones. Additionally, by involving private external parties as initial investors, SIBs may reduce the financial risk of innovation failure for the public sector, while attracting private funding for the provision of social goods and responses.

ESIF-ESF financing

It is primarily financed by the transversal multi-regional OPs (Social Inclusion and Employment, and Human Capital), allowing for better alignment between the SIBs Programme ESIF-ESF funding and public policy governance levels.

It consists of grant support to pay for validated outcomes achieved by specific social innovation projects in an area of public policy. It funds 100% of eligible cost financing to beneficiaries (85% ESIF-ESF + 15% Portugal State budget), upon validation of contracted outcomes, with no maximum threshold per project.

Project duration

Project durations are long, up to five years between project launch and outcome validation and payment. The structure of SIBs allows for multiple outcomes and consequently multiple payments, providing a mechanism for reducing risk for investors and for improving ESIF-ESF execution rates in a context of longer project durations.

Applications

In the case of PSIMS's SIBs Programme, any SIB application must be submitted by a consortium of:

- One or more private investors that are financing the project;
- One or more implementing entities responsible for executing the innovative solution;
- One or more public sector entities validating the alignment of the project with the relevant public policies, as well as the significance of the proposed outcomes.

The consortium might also hire one or more intermediary entities to manage the project.

The SIB application to be submitted by the consortium must include the following five elements:

1. A Memorandum of Understanding (MoU) signed by all the members of the consortium;
2. A declaration of the relevant public sector entity, agreeing with the relevance of the project and with the proposed outcomes;
3. The SIB's intervention model;
4. The SIB's budget and financing model;
5. The SIB's outcome measurement model.

To simplify application processes and reduce administrative burdens during implementation, templates for 1. to 5. are provided ex-ante to applicants, along with a detailed application guide and a guide for support on the reimbursement procedure.

Outcome measurement

The use of pre-existing public databases for measuring impact and validating outcomes is highly encouraged. It reduces the burden of data collection exercises, while involving relevant public sector agencies in the setting-up of metrics and targets.

The 'delayed grant'

PSIMS's SIBs Programme consists of 'delayed' ESIF-ESF grants, with no advance payment. Payment (meaning the reimbursement of real costs actually incurred and paid by the consortium) only takes place after the validation of outcomes.

In addition, it does not include risk remuneration to the social investor, as this type of expenditure was considered non-eligible under ESIF rules, based on the interpretation of Article 69(3)(a) of the CPR. It was chosen to apply a rather strict interpretation of this article, whereby the social investor's risk premium was considered to be equivalent to interest, and therefore not eligible.

Recent developments

PSIMS's SIBs Programme has shown a gradual take-up by implementing entities, social investors and public administration bodies. The fact that it is a more complex source of financing has demanded from PSIMS an additional effort to evidence its purpose and attractiveness and to create additional incentives and simplifications for the different players.

Following the experience of the first call for applications in August 2016, several options were followed – to rapidly expand the policy areas covered, to adopt a mechanism to compensate investors for the lack of risk remuneration, to improve the information available for outcome setting and to adjust the duration of the calls to the amount of time required to set up a SIB application through a consortium.

The first call was opened under the social inclusion and employment OP, and covered the policy areas of social protection, justice, employment and health. For the second call for applications, the range of public policy areas was enlarged to include education, vocational training and digital inclusion. This had a positive impact as potential projects identified were primarily focusing on challenges related to educational attainment and participation in the labour market.

As risk remuneration for SIB investors was considered as non-eligible expenditure under ESIF rules, PSIMS had been exploring the identification of other solutions to overcome this limitation. In October 2017, the decision was taken, and the State Budget Law 2018 included a tax benefit for investors in SIBs, where all financial flows to SIBs by any private social investor were recognised as eligible expenditure for scaling up by 130%. Such mechanism is equivalent to that already in place for donations. This small incentive was expected to stimulate the involvement of Portuguese private entities in the development of outcome-based social solutions and public policies, and encourage public outcome-based commissioning. In the following year, the National Parliament took a step further by passing an amendment to the Tax Benefit Status, to include this incentive.

To overcome the lack of data on the costs of public investment in dealing with specific social problems, PSIMS opted to make the relevant public policy actor a permanent player in the consortium of a SIBs application. More chances were created for a better-informed proposal on relevant outcomes to be achieved. However, ideally, both social investors and implementing entities should be able to estimate the value added of any given outcome. In June 2018, in the context of the protocol between the Portuguese Government and Fundação Calouste Gulbenkian, an on-line platform (One.Value) was launched to make available information on public investment in social solutions in specific policy areas. This information on unit cost public investment provides detailed information for the setting of outcomes, the analysis of social innovation and social entrepreneurship projects and the evaluation of the efficiency gains attained by innovative solutions.

Additionally, the third call opened under the social inclusion and employment OP on 9 May 2018 inaugurated a new format of calls for PSIMS. It was the first call to remain open continuously until 2020. It allows the programme to make its resources permanently available to projects as consortiums are set up and application procedures in co-creation are developed.

Results so far

PSIMS's SIBs financing instrument had opened four calls by 2019, mobilising a total budget of EUR 17.3 million. Total applications amounted to 27, of which 12 have been approved and are now under implementation.

Following an extended capacity building preparatory stage on how to set up a SIB, the first call for applications for SIBs (OP Social Inclusion and Employment) was closed on 28 November 2016.

Three applications were approved, with around EUR 1.5 million of financing from social investors and projects currently being implemented:

- *Code Academy (youth unemployment)*
  Implemented by Code for All and the Social Investment Lab (SIL), the Code Academy created an innovative training model in ICT programming for unemployed young people with a BA degree in any subject, who want to change their professional lives. ASSOP – Association of Shared Services & Outsourcing Platform and the Calouste Gulbenkian Foundation are the investors (around EUR 723 500).

- *Go Forward (youth unemployment)*
  Created and implemented by TESE and SIL, Go Forward is a capacity building project, focusing on self-knowledge, soft skills and networking to ease the entry of young people into the labour market, including a 10-month period of applied mentoring and coaching. It targets young people who are the first in their family to earn a BA degree, with migrant parents or unemployment in the family. The Calouste Gulbenkian Foundation and Deloitte are the investors (around EUR 387 800).
- *Project Family*
  Implemented by Movimento de Defesa da Vida and SIL, Project Family is an innovative intensive programme that aims to prevent the entry into the foster care system of children and young people at risk. It works with families identified by the Ministry of Solidarity and Social Security. The Calouste Gulbenkian Foundation and Caixa Económica Montepio Geral are the investors (around EUR 433 300).

A second call for the SIB Programme in the fields of Education and Training (under OP Human Capital), with a total indicative budget of EUR 5.8 million, closed on 12 March 2018. 15 applications were received, representing around EUR 5.2 million of potential financing from social investors. The call led to seven approved applications in total.

A third call for SIBs in all other fields (under OP Social Inclusion and Employment) opened on 9 May 2018 with an indicative budget of EUR 5 million. It will be opened in continuum until the indicative budget is depleted. The closing date is set for the end of the programming cycle in December 2020.

The following table presents the calls for applications under the **Social Impact Bonds Programme ESIF financing instrument** between 2014 and 2019.

Financing OP	Call launch	Call deadline	Available budget	No. Applications	Total demand for public financing (million euro)	No. Applications approved
			17 300 000 €	**27**	**9 700 000 €**	**11**
POISE	24.08.2016	28.11.2016	3 500 000 €	9	2 700 000 €	3
POCH	06.11.2017	12.03.2018	5 800 000 €	15	5 200 000 €	7
POISE	09.05.2018	31.12.2020	5 000 000 €	3	1 800 000 €	2
POR LISBOA	22.07.2019	30.01.2020	3 000 000 €	n.a.	n.a.	n.a.

Source: www.inovacaosocial.portugal2020.pt

3.5. Social Innovation Fund

The Social Innovation Fund (SIF) is one of the first ESIF financial instruments using ESIF-ESF for social investment.

Areas of intervention

It targets the last stage of social innovation and social entrepreneurship projects' life cycle[26], supporting the growth and consolidation of financially sustainable projects that generate relevant social impact, in areas such as:

- Employment, training and education;
- Social, financial and digital inclusion;
- Active ageing;
- Health and well-being;
- Other relevant areas and projects accredited by PSIMS on a case-by-case basis.

Market failures and financing gaps

SIF aims to improve access to finance for social economy organisations and social startups involved in social innovation and social entrepreneurship projects by seeking to address the market failures identified in its independent ex-ante assessment (EAA):

- Weak capital structure, high financing needs and growing demand, with no spare resources for organisational improvements and innovation;
- 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 or 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, not adjusted to the specific financing needs of these types of projects;
- High fragmentation and short-term drive of existing philanthropic financing.

As a result of these market failures, the EAA identified a total financing gap of EUR 433.9 million, split into two distinct segments: investment in established social economy organisations' innovative projects (EUR 281.2 million) and investment in social startups (high potential – EUR 28.6 million). Additionally, it pointed out the need for the adoption of asymmetric risk/return sharing mechanisms (preferential remuneration) to better attract financial system players into this market. An EAA update was developed in June 2018 to reassess the importance of the FI and to recheck the extent of the market failure. In this analysis, the financing gaps identified amounted to EUR 141.1 million – EUR 426.2 million for investment in established social economy organisations with innovative projects and in social startups.

Objectives

SIF financial activity under ESIF-ESF is based on the following goals:

- to improve the financial sustainability and the conditions for success of social innovation and social entrepreneurship projects;

26 See Section 2, page 6.

- to improve access to finance for social innovation and social entrepreneurship projects by offering financing options better adjusted to their specific needs;
- to attract additional investors to social finance and impact investing;
- to promote blended finance mechanisms, aligning financial return with social impact.

Governance model

SIF was formally created under Portuguese Law in May 2018 as an autonomous public investment fund[27], after an extensive design stage. Following a reprogramming initiative targeting some PT 2014-2020 OPs, it was transferred from the Operational Programme for Social Inclusion and Employment (OP SIE) to the Operational Programme for Competitiveness and Internationalisation (OP CI), established with EUR 55 million of initial capital, which was recently raised to EUR 82.353 million (85% ESIF + 15% Portugal State Budget)

Its governance model is composed of:

- a general council with a 3-year mandate, including: (i) a president, appointed by four Ministers (Presidency and Administrative Modernisation, Finance, Employment and Social Security, Regional Development); (ii) the chair of the Investment Committee; (iii) a representative of the Agency for Development and Cohesion, (iv) a representative of OP CI Management Authority; (v) a representative of PSIMS; and (vi) a representative of SIF's Fund Manager.
  The general council is responsible for the approval, under proposal from the fund manager, of: (i) SIF's regulations; (ii) annual activity/financial plans and budget, (iii) annual report and accounts, and (iv) ESIF execution reports[28]. The general council is also responsible for voting increases and reductions of SIF's capital, as well as for approving, under proposal of the investment committee, of equity investments over EUR 500 000[29].
- An investment committee with a 3-year mandate, including: (i) three people with relevant experience in the fields of social innovation and impact investment, to be appointed by the four above-mentioned Ministers, one of whom as president; (ii) two representatives of SIF's Fund Manager. A representative of PSIMS attends the investment committee meetings, although with no voting rights.
  The investment committee is responsible, under proposal of the fund manager, for the approval of equity investments under EUR 500 000, as well as for submitting for approval to the general council equity investments over that threshold.

In December 2018, PME Investimentos, a 100% public financial entity, was formally appointed as SIF's Fund Manager[30]. The direct awards of the contract was made in accordance with Article 12 of the EU public procurement Directive 2014/24/EU and article 7 of the Commission Delegated Regulation (No.480/2014).

Financial products

SIF is structured as a hybrid model with two compartments: a debt instrument with a wholesale approach *(not yet launched)*, designed to ease access to finance for social economy entities, and a retail equity instrument *(launched in April 2019)* to co-invest alongside public and private impact investors ('co-investors'), fostering the Portuguese social investment market.

27 Portuguese Law: Decreto-Lei n.º 28/2018 published on 3 May.
28 Points (ii) to (iv) needing additional ratification by the four above-mentioned Ministers.
29 The OP CI MA and PSIMS do not have voting rights on these equity investment decisions.
30 Portuguese Law: Despacho 12106/2018 published on 12 December.

Debt

Final Recipients: SMEs and social economy organisations promoting social innovation and social entrepreneurship projects, as accredited by PSIMS.

Target areas: Employment, training and education; social, financial and digital inclusion; active ageing; health and well-being; other relevant areas and projects accredited by PSIMS on a case-by-case basis. Projects must be developed in the North, Centre and Alentejo Regions of mainland Portugal.

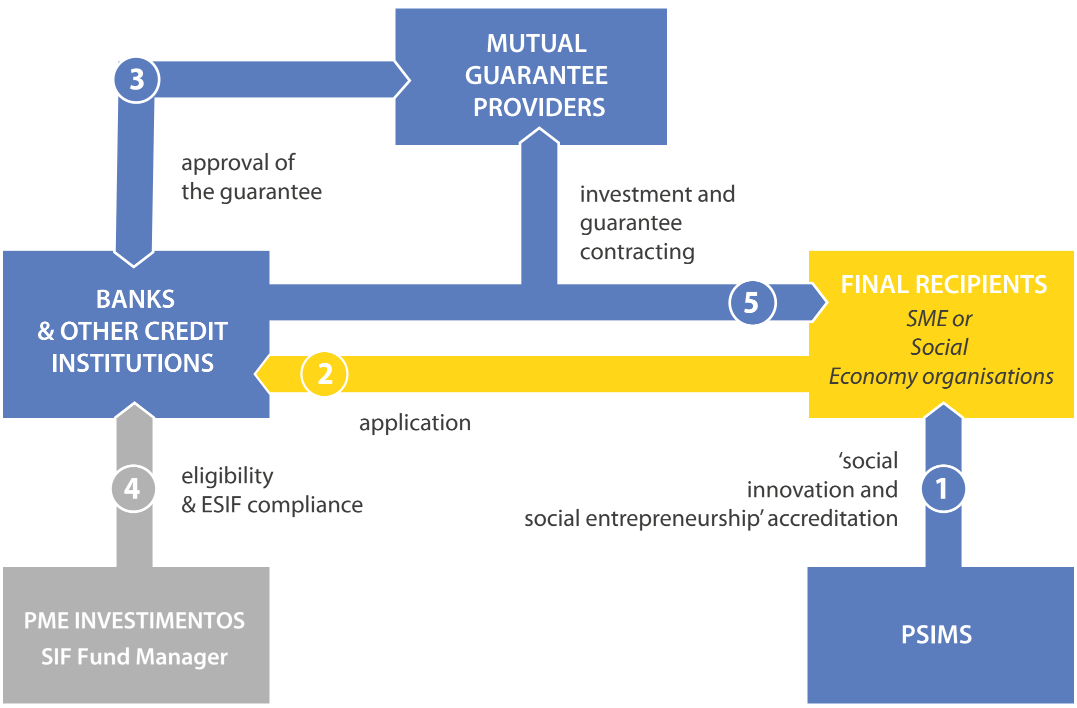
Eligible operations: SIF Debt FI finances the implementation costs of social innovation and social entrepreneurship projects. The loans cannot be used to: (i) finance restructuring or debt consolidation; (ii) directly or indirectly settle or replace financing which has been previously negotiated with the bank, regardless of the terms; and (iii) purchase land, property, financial assets, used goods, vehicles that are not considered a 'means of production' and road haulage vehicles purchased by road haulage companies on behalf of third parties.

Investment Policy: A deal-by-deal guarantee and counter-guarantee of 80% (fixed rate) to loans with subsidised interest rates, financing of up to 100% of costs associated with the implementation of social innovation or social entrepreneurship projects, with a limit of EUR 2.5 million. Long maturities – up to 10 years from the loan contract date, including a 3-year grace period. Loan requests are subject to approval by the financial intermediary, taking account of their current credit risk policy.

SIF support: Mutual guarantee + subsidised interest rate + guarantee costs. Aid is granted under the *de minimis* Regulation or the *General Block Exemption Regulation (GBER)*, based on the organisation's characteristics and type of aid. The maximum loan is limited to state aid availability for final recipients.

Deadlines: The credit line is open for 24 months and can be extended by a 6-month period, depending on available funds. It can be used until 30 June 2023.

Application process:



Equity

Final recipients: SMEs promoting social innovation and social entrepreneurship projects, as accredited by PSIMS.

Target areas: Employment, training and education; social, financial and digital inclusion; active ageing; health and well-being; other relevant areas and projects accredited by PSIMS on a case-by-case basis. Projects must be developed in the North, Centre and Alentejo Regions of mainland Portugal.

Eligible operations: SIF Equity financial instrument co-invests directly, alongside other public and private impact investors, in SMEs implementing social innovation and social entrepreneurship projects. The following operations are not eligible: (i) operations for financial restructuring or consolidation; (ii) co-investment operations in which the co-investor uses other public instruments or has received financing from European Structural and Investment Funds (ESFI) to co-invest with the SIF; (iii) investment operations related to exports to third countries or MS, namely aid directly associated with quantities exported, the establishment and operation of distribution networks or other current costs related to export activities, or investments in fixed assets abroad; and (iv) investment operations to purchase land, property, financial assets, used goods, vehicles that are not considered a 'means of production' and for the acquisition of road haulage vehicles by undertakings performing road haulage for hire or reward.

Investment policy: Pari passu co-investment operations, following a venture capital model: (i) for SMEs that have not been operating in any market, SIF can provide up to 70% of the total co-investment operation amount, with a minimum amount of EUR 25 000 and a maximum amount of EUR 2 500 000; and (ii) for SMEs that have been operating in any market for less than seven years following their first commercial sale (excluding limited sales to test the market), SIF will fund up to 60% with the aforementioned amounts.

Maturity of up to 10 years, with a call option to co-investors, who may exercise it in the first six years (from investment date) under the following conditions: (i) 3% IRR for SIF investment, should the call option be exercised by the end of year 4; (ii) 5% IRR for SIF investment, should the call option be exercised during years 5 and 6.

SIF support: venture capital investment support granted under the *General Block Exemption Regulation (GBER)* - Art. 21 and 22, depending on the characteristics of final recipients.

Deadlines: Co-investment operations must reach the final recipients by 31 December 2023.

Application process:
Applications to SIF Equity FI must be submitted online by any of the following public or private investors ('co-investors'):

- Institutional venture capital firms and social entrepreneurship organisations;
- Natural persons or organisations that, whether operating permanently in Portugal or not, are legally authorised to invest in companies in Portugal.

Applications may be submitted continuously, already with a portfolio of potential operations/final recipients, assessed according to the co-investors' usual due diligence methodologies.

For submitted applications, SIF is responsible for accrediting the project as a Social Innovation project (done by PSIMS) and is also responsible for assessing the eligibility of investment operations pursuant to applicable regulations, namely to ESIF rules (carried out by PME Investimentos, the Fund Manager).

In order for an application to be approved, both co-investors and final recipients have to obtain a minimum score, calculated based on the selection criteria presented in the following table.

SIF EQUITY SELECTION CRITERIA			
CO-INVESTORS			
VCs, CORPORATE		SOCIAL ECONOMY, OTHERS*	
Capital invested *(EUR million, in the past 10 years*)*	**25%**	**Management Experience** *(nr. years, in the past 10 years**)*	**25%**
Investments *(nr. investments in the past 10 years*)*	**25%**	**Business Investment Experience** *(nr. years, in the past 10 years**)*	**25%**
Social Impact Investments (SDGs) *(nr. investments in the past 10 years*)*	**25%**	**Social Impact Investments (SDGs)** *(nr. investments in the past 10 years**)*	**25%**
Investment team *(nr. HR/FTE)*	**25%**	**Investment team** *(nr. HR/FTE)*	**25%**

** Aggregated value for all the members of the co-investor management team*

** including individual investors*
*** Aggregated value for all the members of the co-investor management team*

FINAL RECIPIENTS	
Project alignment with SDGs *(nr. SDGs targeted by the project)*	**25%**
Investment raised by the project *(EUR 1 000)*	**10%**
% of private investment raised by the project *(% over total project investment)*	**20%**
Expected jobs to be created by the project *(nr. Jobs, according to project Business Plan information)*	**25%**
Local and regional partners involved *(nr. partners)*	**20%**

Results so far

The **Social Innovation Fund** is a newly constituted financial instrument that has been set up in the form of an autonomous public investment fund by a Decree Law published in May 2018. In December 2018, PME Investimentos, a 100% public financial entity, was formally appointed SIF's Fund Manager, and in January 2019 the members of its General Council and Investment Committee were appointed by the PT Government. SIF's Equity financial instrument is currently being launched. As of mid-May 2019, PSIMS had already approved 10 projects out of a total of 26 submissions. The call for projects opened in April 2019.

3.6. Lessons learned and recommendations

... in the case of Capacity Building for Social Investment

For other MS

- Capacity building of social innovation projects, teams and stakeholders is one of the main gaps that often gets forgotten when designing an initiative to finance social innovation. It is the most important dimension to include in any programme, as it has an important multiplier effect, helping to internalise new knowledge and know-how throughout the funded organisations. However, as the entry point of newcomers to social innovation and/or to ESIF financing, it is also the most vulnerable area to the negative impact of high transaction costs.
- Standardisation and simplification are key principles to avoid unnecessary administrative burdens, especially for beneficiaries. This can be achieved e.g. by streamlining processes and by adopting simplified mandatory templates. By heavily standardising the format and size of applications, these templates also reduce the complexity and potential bias of the analysis and selection process.
- Capacity Building for Social Investment diverges substantially from previous more traditional PT ESF capacity building grants. Therefore, broadly disseminating information (including by organising events to present the financing instrument to potential beneficiaries, *but also to service providers*) immediately after the launch of the call for applications is vital for take-up. This should also be complemented with support documents such as manuals and FAQs, as well as by establishing communication channels to support the submission of applications.
- Very diverse applications can be submitted to Capacity Building for Social Investment, as different projects, at different stages, have different capacity building needs. This flexibility is key to the success of the instrument. However, it should be supported by sharing in advance criteria for eligibility, selection, validation of outputs and evaluation with all interested stakeholders (applicants, service providers and investors), to ensure transparency and non-discrimination.
- The first call for applications should work as a test of the design of the financing instrument. It should start with a small budget, being assessed and eventually adjusted and calibrated with some design details before launching a new, more robust call.
- To be effective, capacity building should address the project and the team directly involved in its implementation, rather than the entire beneficiary organisation ('applied capacity building').
- As a complement to the validation of outputs by PSIMS, the evaluation by the beneficiary of all service providers involved in its capacity building works as an additional quality check mechanism and a way of increasing the beneficiary's commitment in the selection of service providers.
- Early involvement of relevant MA, CA and AA in the design stage of the financing instrument is the best way to ensure compliance and regulatory certainty, especially if it involves a strong degree of ESIF innovation.

For the European Commission

- Capacity Building for Social Investment was the first ESF financing instrument in Portugal to be based on small max. EUR 50 000 SCO-LS. As a result, it took over one and a half years to be adopted, following extensive technical discussions and negotiations with the Portuguese authorities. Therefore:
  i. As a way of improving regulatory certainty of involved parties and prevent gold plating, clear EC guidelines could be issued for simplifying and reducing the time necessary for the adoption of SCO-LS cases falling under Regulation (EU) 1304/2013 Article 14 (3) – lump sums defined on a case-by-case basis by reference to a draft budget agreed *ex-ante* with MA.
  ii. A specific mechanism should be created, under CPR – Article 67 (5), for SCO calculation methodologies of pioneer ESIF financing instruments, with no previous track record, data or benchmarks available, as in the case of Capacity Building for Social Investment.

RECOMMENDATIONS – *Capacity Building FOR SOCIAL INVESTMENT*

• TO MEMBER STATES

1. **Standardisation and simplification** *(streamlining processes; use of templates)*
2. **Dissemination and support** *(Roadshows; Manuals, FAQs, Helpdesk – email, phone)*
3. **Transparency and non-discrimination** *(criteria known in advance to all stakeholders)*
4. **First call with small available budget** *(for design testing)*
5. **Focus on financing projects and its team** *(not the entire beneficiary organisation)*
6. **Evaluation of all involved service providers** *(by PSIMS, as well as by the beneficiary)*
7. **Involvement of MA, CA and AA in the design stage** *(for compliance and regulatory certainty)*

• TO THE EUROPEAN COMMISSION

1. **Simplifying and reducing the time necessary for the adoption of SCO-LS** *(for cases falling under Regulation (EU) 1304/2013 Article 14 (3))*
2. **Specific mechanism under CPR - Article 67 (5)** *(for pioneer instruments, with no previous track-record, data or benchmarks available)*

... in the case of Partnerships for Impact

For other MS

- Matching funds from social investors should be flexible to avoid crowding out smaller investors and/or bigger projects. A minimum initial investment level should be set according to market and ecosystem maturity, which might increase at a later stage, as the instrument's take-up evolves.
- Specific conditions on ownership or control between investor and investee should be set in order to avoid the existence of conflicts of interest or undue self-financing. Further, to avoid distorting the instrument's philosophy, caps to some types of expenditure might be established (e.g. outsourcing).
- For approved applications, expenditure relevant to development and also included in the project plan should be considered eligible even when incurred before the actual submission of the application. Alternatively, some types of preparatory outputs required for application submission that need to be developed at an earlier stage might also be produced and financed in advance under the Capacity Building for Social Investment instrument, provided duplication of financing is avoided.

For the European Commission

- Rules concerning geographic eligibility should allow for multi-region applications, removing requirements to submit one application per region in these cases (currently there are issues, namely on budget allocation, financial reporting, etc. preventing it). Additionally, the case for intangible projects, with spillover effects in other regions is still not clear in terms of eligibility and definition of relevant financing OP.
- Also not clear are the mechanisms for allowing the investor's budget (the matching fund to the remaining 85% ESIF + 15% public budget) to potentially finance project-related but non-ESIF-eligible expenditure (e.g. ERDF-related expenditure in an ESF OP without cross-funding).

... in the case of Social Impact Bonds (SIBs)

For other MS

- Considering setting up a specific priority OP axis for social innovation and earmarking a specific budget for SIBs financing might be the best solution for effectively implementing a SIBs Programme, as this makes it possible to maximise EU co-financing rates.
- Setting an indicative value for a SIB but no maximum threshold is critical to allow/promote critical mass, as well as diversity. As gaps are addressed and the market grows, SIBs will tend to have higher values.
- There should be no co-financing requirements for SIBs applicants – a SIBs 'delayed grant' for outcome payments should be totally financed by the 'outcome payers' (ESIF and MS public sector budgets).
- In less mature markets, initial calls for SIBs applications should be broadly defined in terms of addressable public policy areas. This flexibility will not only optimise the number of applications in a first call, but will also allow potential SIBs to have the necessary time to adjust to this new model.
- Extended project duration from the traditional 12-36 months of most ESIF-financed operations is a central feature for implementing a SIB, together with no cash advance (advance payment).
- Ideally, MS should set up a dedicated structure (an Intermediate Body) responsible for creating a SIBs pipeline and for monitoring/supporting SIBs implementation. Promoting the development of a strong and diverse network of intermediaries, which might work as process facilitators and aggregators, will also improve the success rates of a SIBs Programme.
- Identifying, raising awareness and supporting potential SIBs parties in building a SIB application is essential for building a strong SIBs pipeline. Pre-application support and capacity building for potential SIBs participants is key, along with identifying and creating relationships from a very early stage of the implementation process with public sector stakeholders – namely the public agencies that will be supporting the validation of outcomes.
- To avoid conflicts of interest and self-financing through SIBs, social investors should not be implementing entities in the same SIB. Also, there can be no controlling relationship between the investor and the implementing entity.
- Templates, models, application guides and FAQs notes should be provided in advance to potential SIB counterparts, in order to simplify application processes and reduce administrative burdens, together with helplines and technical support.

For the European Commission[31]

- Perform minor adjustments to rules and especially to guidelines (e.g. by developing a specific Delegated Act for this purpose) in order to improve current regulatory constraints to the setting-up and adoption of SIBs or other public sector outcome-based payment mechanisms by MS under ESIF, namely to:
  i. Allow lump sums to pay for results/outcomes or create an alternative methodology specifically adjusted to payment-by-results approaches (including SIBs);
  ii. Whenever available, accept unitary cost data certified by MS relevant public sector commissioners;
  iii. Increase the limit to lump sums defined on a case-by-case basis by reference to a draft budget agreed ex ante with MA – Regulation (EU) 1304/2013 Article 14 (3) (relevant for less mature markets);
  iv. Clarify the relevant rules, namely Article 69(3) of the CPR, to consider a social investor's risk premium as eligible expenditure (even though eventually subjected to a cap);
  v. Allow for longer SIB project durations (currently collide with the n+3 rule for decommitment – Article 136(1) of the CPR, as well as with closure of OPs);
  vi. Improve the adjustment of the methodologies underpinning SCOs calculations (Article 67(5) of CPR), thereby facilitating the deployment of SIBs or any other type of outcome payment mechanisms;
  vii. Improve the Joint Action Plan framework so that it can be used for SIBs implementation.
- Adopt an EU-wide TA approach on SIBs to attain critical mass and avoid fragmentation/duplication, including a knowledge-sharing platform supporting MS-to-MS interactions, as well as working as a repository of templates and other relevant information (examples of contracts, due diligence reports, etc.) for the different steps of SIBs deployment, which might also be useful to reduce barriers and asymmetries in access to relevant information.
- Ensure that the new EU public procurement framework and its guidelines take into account the specificities of these new emerging innovative public policy approaches, such as impact investment and payment for outcomes/SIBs.

31 For more detailed analysis and recommendations to MS and EC, see EC/EIB FI Compass ESF, 'The Portuguese Social Innovation Initiative – The Social Impact Bonds Programme – Using ESF to finance Social Innovation and Social Entrepreneurship', 2018 (https://www.fi-compass.eu/publication/factsheets/factsheet-fi-compass-study-social-impacts-bond-programme-under-portugals).

RECOMMENDATIONS – *SOCIAL IMPACT BONDS (SIBs)*

• TO MEMBER STATES

1. **Earmarking SIBs budget**
   (e.g. under an OP specific priority axis)
2. **No SIBs threshold**
   (allowing diversity, as well as promoting critical mass)
3. **No co-financing from applicants required**
   (outcome payments 100% public budget + ESIF)
4. **Broad approach to public policy domains**
   (in calls for applications - especially in less mature markets)
5. **Extended project duration**
   (average 5 years; with no advance payments)
6. **Strong network of intermediaries**
   (to improve the success rate of SIBs)
7. **Raising awareness and providing support**
8. **Standardisation and simplification**
   (streamlining processes; use of templates)
9. **Avoid conflicts of interest**
   (between investors and service providers)

• TO THE EUROPEAN COMMISSION

1. **Delegated Act on SIBs and other social outcome contracting (SOC) mechanisms**
   (lump sums, PS certified unit cost, risk premium as eligible expenditure, longer project durations + 5 years, SCO-LS adjusted methodology, improved JAP or other type of aggregating mechanism)
2. **EU-wide TA for SIBs (and SOCs)**
3. **Public procurement rules for innovative social/societal services**
   (improving the EU regulatory environment for contracting of social innovation by the public sector)

... in the case of the Social Innovation Fund (SIF)

For other MS

- Adjust the financial instruments and financial products to be created not only to address the conclusions of the EAA, but also and mostly to address the specific needs of final recipients implementing social innovation and social entrepreneurship projects. Considering that some more social economy-related institutional formats might not be able to receive equity investments, the development of more hybrid instruments (such as quasi-equity revenue sharing agreements or social loans) can be useful to avoid reducing the addressable market for financial instruments, and creating barriers to access to finance for these types of organisations.
- Should you perceive the use of preferential remuneration to be required to attract private investors and financial intermediaries (that would otherwise not enter this emerging segment due to its perceived high risk), address this matter upfront in the financial instrument EAA quantitative analysis together with the identification of the financing gap.
- A way to protect public interest while promoting the attraction of private investment and market-driven expertise to the emerging market might be to adopt a segregated approach to financial instrument design, clearly identifying each stakeholder's role within the financial instrument.
- In order to build a steady pipeline for the financial instrument, work on both its demand and its supply side. Leverage the initiative's ecosystem promotion activities and the platforms created to systematically identify demand (addressable social innovation and social entrepreneurship projects). In parallel, use the possibilities opened up by the new EU public procurement regulatory framework (e.g. competitive dialogue) to engage financial intermediaries earlier in the process of designing its financial products.

For the European Commission

- To avoid fragmentation which in turn might lead to duplication of efforts, it would be fundamental to clarify and simplify the existing rules for the combination of ESIF and EFSI/InvestEU Funds and adjust them to this specific emerging area and its specific stakeholders.
- As part of the state aid modernisation process and as a way to improve the legal certainty for ESIF and EFSI investments in social innovation and social entrepreneurship projects, it would be fundamental to study the possible inclusion of this new type of investment under a new GBER block exemption chapter.
- Ensure that the new EU public procurement framework and its guidelines take into account the specificities of these new emerging innovative public policy approaches, such as impact investment and payment for outcomes/SIBs.

RECOMMENDATIONS – *SOCIAL INNOVATION FUND (SIF)*

• TO MEMBER STATES

1. **Financial instruments adjusted to specific needs of final recipients**
   (consider developing more hybrid FI – e.g. quasi equity - to avoid reducing addressable market)
2. **Preferential remuneration assessment (quantification)**
   (to be addressed upfront within the FI EAA analysis together with the identification of the financing gap)
3. **Alignment of public interest and private investment**
   (with clear identification of each stakeholder's role within the IF)
4. **Financial instruments pipeline creation mechanisms**
   (matching demand and supply; systematic identification of addressable projects)

• TO THE EUROPEAN COMMISSION

1. **Combination of ESIF and EFSI/InvestEU**
   (clarify and simplify the existing rules, aligning them with impact investing/blended finance approaches)
2. **GBER block exemption for social innovation and impact investing**
   (improving legal certainty to foster take-up of an innovative emerging market)
3. **Public procurement rules for innovative social/societal services**
   (improving the EU regulatory environment for contracting of social innovation by the public sector)

4. HOW TO IDENTIFY AND SELECT PROVIDERS AND MANAGE RELATIONSHIPS

4.1. Procurement *vs.* Grant

As previously described, the Portugal Social Innovation initiative has three main goals:

- To promote social innovation and social entrepreneurship in Portugal, as a way to generate new solutions, complementary to mainstream social products and services, for the resolution of key societal problems;
- To contribute to the growth of the social investment market, by creating financing instruments that are more suited to the specific needs of the social economy, of social innovation and social entrepreneurship projects;
- To improve the skills of all the players in the social innovation and social entrepreneurship system, increasing their level of response/impact and contributing to their sustainability.

In order to achieve these policy objectives, PSIMS designed and manages four financing instruments, making use of a European Social Fund resources from the total national allocation for the 2014-2020 programming period.

In short, all four instruments are intended to deliver the goods/services PSIMS is looking for, i.e. new solutions/projects for the resolution of key societal problems. The providers of these solutions are to be found in the context of the social innovation and social entrepreneurship ecosystem.

Since this ecosystem is still fairly immature in most EU Member States, it is likely that there are not many potential providers and that their capacity is not very high.

To overcome this constraint, the PSI initiative provides capacity building grants with the expectation that projects will be able to take part in a competitive process in the future.

However, in order to ensure increasing value for money and to develop a stronger market, all instruments were designed in such a way to promote competition between potential providers. It is expected that potential providers enter into a **competitive process for funding**.

To promote this competitive process, several legal commitments could be used to implement those instruments. However, the fact that Portugal opted to use ESF in this respect makes the implementation of PSI's four instruments subject to the ESF rule book. That is, they are run under a competitive grant process, with a few variations between them, rather than under a procurement process.

Procurement typically applies to the delivery of concrete services on an ongoing basis and it usually refers to longer-term service arrangements. It encompasses a legally enforceable agreement between a commissioner and a provider in return for payment, a fee, with specific reporting requirements.

A grant process, on the other hand, is frequently related to more experimental and startup initiatives for a predefined period. It is a financial donation given by a commissioner to specific grant beneficiaries, under detailed terms and conditions on how to spend it. It is commonly subject to fewer reporting and compliance requirements.

Both processes lead to a financial relationship. In the case of procurement, it results in the winning of a contract, while in a grant process the outcome is a direct financial contribution by way of a grant.

The two processes differ in several ways. The next table summarises the major differences between a grant process and procurement for identifying potential providers.

	Grant process	Procurement Process
Contract	Grant contract	Service agreement
Means of payment	Financial donation	Fee
Object	Proposal from an applicant, under the normal framework of his activity	Purchase of services, under the terms of reference defined by the commissioner
Ownership of results	Beneficiary of the grant	Commissioner
Financial contribution	There is usually a contribution from the grant beneficiary	No financial contribution from the provider
Taxation	n.a.	VAT applies
Amount	% and maximum amount of eligible costs	Fixed price (competitive bid normally)

The decision to use ESF as the financing source for PSIMS instruments sets the framework for the commissioning of social innovation and social entrepreneurship initiatives (projects) mainly under a Grant Process[32]. Such process is governed by the applicable Common Provision Regulation and ESF Regulation[33], the common rules and procedures for the implementation of the Partnership Agreement and National Operational Programmes, as well as the relevant basic acts at national level, such as *Decreto Lei N.º 137/14* on the governance model of ESIF for 2014-2020, and *Decreto Lei N.º 159/14* on the general rules for the application of the operational programmes financed by the ESIF for 2014-2020.

The different forms of grants under the ESIF are identified in Article 67 of the CPR:

- Reimbursement of eligible costs actually incurred and paid;
- Standard scales of unit costs;
- Financing which is not linked to the costs of the relevant operations (introduced by the Omnibus Regulation);
- Lump sums under EUR 100 000 of public contribution; and
- Flat-rate financing (application of a percentage to one or more categories of costs).

32 Article 66 of the Common Provision Regulation (EU), No. 1303/2013 refers to grants, prizes, repayable assistance and financial instruments, or a combination thereof.
33 Common Provision Regulation (EU), No. 1303/2013; ESF Regulation (EU), No. 1304/2013.

EU funds under the form of grants are typically awarded to beneficiaries to finance one of the following:

- Actions to support the achievement of policy goals – Action Grant;
- Operations of entities, which support a policy and pursue an aim of general interest – Operating Grant.

The ESF allocation of the PSI initiative aims primarily at financing actions. Thus, the financial allocation of each financing instrument presupposes the attribution of action grants, non-commercial payments, by PSIMS to grant beneficiaries.

4.2. Award Procedures

Access to financing is provided through specific calls for applications, which generally apply competitive processes. That is, projects will compete with one another for funding. However, exceptionally and in accordance with the applicable local legislative framework, applications may also be presented on an invitation basis[34].

Depending on specific legislation, calls for applications run in continuum or in predefined periods (usually between 2-3 months). For the latter, it is crucial to determine the optimal call duration:

- if the period between the date of publication of the call for applications and the deadline for submission of proposals is too short, it will jeopardise the chances of getting high-quality proposals;
- if it is too long, it will compromise the readiness to run successive competitive rounds, making room for improvement and for targeting calls that are more suited to the objectives of the programme or initiative.

Launching calls for applications

Several actions are to be taken to ensure the timely information of all possible interested participants. The formal ones include the publishing of the call and the provision of guidelines for applicants, usually on the website of the management authority. Additionally, information sessions are a useful and recurrent tool to spread sound information about the call and to fulfil the requisite of transparency, as well as the dissemination of any related documentation.

Moreover, to ensure access to further information prior to the deadline of the call, the Public Authority can identify a contact point in charge of answering potential questions and helping the applicants to fill in the forms. Common issues raised by several applicants constitute helpful information, which should be made available to all applicants through the website or a specific document (Q&A), in the interest of transparency and equal treatment.

A call for applications is composed of several key elements:

- the objectives and priorities of the call;
- the eligibility criteria of applicants;
- the types of actions and the areas of intervention supported;
- the selection criteria;
- the indicative financial allocation;
- the number of applications allowed, if relevant; and
- the rules and limits to eligible expenditure.

34 In Portugal, Article 16 of Decreto Lei N.º 159/14, 27 October.

It also provides information on the financing conditions, namely the nature, rates and minimum and maximum amounts, the technical rules applied to operations, the evaluation methodology that it will follow, the selection of projects, and the method used for publicly announcing the results.

The call also needs to provide information on the documents to be submitted by applicants, the duration of the call, the analysis and decision process and the contact points for further information.

The selection and award process

Applications submitted under a call are appraised by an evaluating team, which gathers the relevant expertise to assess proposals. The evaluating team is usually composed of qualified staff of the management authority or of an intermediate body possessing the appropriate skills, experience and knowledge in the field of the call.

PSIMS is composed of three specialised teams – the Financing team, the Activation team and the Management Support team. The Financing Team is a dedicated team responsible for the management of applications/projects, from the early contacts of clarification on financing opportunities until the monitoring and checking of approved projects.

End-to-end, the evaluation procedure begins with the receipt of full applications and finishes with the decision on the award of grants to applicants.

1. The analysis of applications starts with scrutiny of the eligibility criteria, i.e. the criteria that determine the conditions to participate in a call. These involve two aspects:
   a. the eligibility of the applicants, which refers to the legal and administrative status of applicants; and
   b. the eligibility of the action, which applies to the type of interventions, the fields of intervention and the geographical coverage.

In the case of PSIMS financing instruments, applicants take responsibility for meeting these criteria on a declarative basis. This includes for instance the validation of the legal existence of each organisation or the commitment that they possess the technical, physical and financial means and the human resources necessary to the development of the project.

2. The following stage corresponds to the evaluation of the merit of proposals, supported by an evaluation grid. This grid is composed of the selection and award criteria, all of which are approved by the monitoring committee of the OP:
   a. selection criteria allow for the assessment of the financial capacity of applicants and their operational capacity to implement the intervention;
   b. award criteria, in turn, assess the objectives and priorities of proposals, including the quality, expected impact and sustainability of the project.

The overall assessment is done based on the evaluation grid and the scores obtained under each of the criteria.

The evaluation grid below illustrates the evaluation tools of the Social Impact Bonds financing instrument of PSIMS (with the OP Social Inclusion and Employment), where each of the criteria is appraised qualitatively according to four different levels: non-existent, low, medium and high. A quantitative value is attributed to each level to obtain the final score of each application.

EVALUATION GRID	
1	Alignment with the public policy priorities;
2	Rationale of the efficacy and efficiency of the social intervention;
3	Credibility and commitment of the consortium partners;
4	Feasibility of the intervention model and consistency of the model to validate the proposed outcomes;
5	Relevance of the social outcomes and the social gain to the costs of the intervention;
6	Contribution to the objectives of the policy of equal opportunities and gender equality;
7	Degree of validation of contracted outcomes in other projects under the applicant's responsibility.

Additionally, there is an evaluation of the relative merit of applications. It consists of the comparison of the merit obtained by the application with the merit of all other applications at the same stage of the decision process.

After absolute and relative merit evaluation, the selection of proposals is made in descending order for those with a score of 50 or more points (scale 0–100), within the limits of the total amount of funding available for the call. Thus, the number of proposals selected depends on the available budget. The management authority will start awarding the grants upon approval.

3. Following the evaluation process, the MA officially obtains the final list of approved projects and grants to be awarded, and notifies all applicants of the outcome of the evaluation procedure by letter or by online notification (email).

   In summary, the different stages and respective timeline of open calls for proposals include:

   1. Date of publication of the call for proposals;
   2. Closing date of the call;
   3. The approval of projects and notification of the award decision to applicants;
   4. The date of signature of the grant agreements.

In PSIMS instruments, the management authority notifies the decision to the applicants within 60 days of the closing date of the call.

The preparation of the contract and its signature may involve corrections or other clarifications decided by the management authority, based on the evaluation report or on changes that have occurred since the closing date of the call. These corrections include budgetary errors, ineligible costs, or text clarifications. They may not lead to an increase of the amount of the grant nor of the rate of co-financing. The applicants may also be invited to provide further legal and administrative details not included in the proposal at this stage.

If the application is successful, the applicants become the beneficiaries of the grant awarded in the grant contract. A standard grant contract identifies the following features:

- The coordinator is the main interlocutor of the management authority;
- The costs eligible are the costs incurred by the grant beneficiaries;
- The contract recognises the beneficiary's independence of action and establishes simplified management rules;
- The beneficiaries are responsible for guaranteeing the visibility of the ESF financing and the compliance with the rules for awarding any procurement contracts under the project;
- The grant agreement must be submitted either electronically or by post by a pre-defined deadline (10 working days in the case of PSIMS calls).

Grants are usually paid out in several instalments over the duration of the project. The first corresponds to a pre-financing payment (15% of total financing needs of the project) which is followed by one or more interim payments. The final payment is only received upon completion of the project. In the case of some PSIMS financing instruments, interim and final payments are subject to project deliverables.

Actors involved in a competitive grant process

From the recipients' side, there are normally two types of actors involved in a grant contract under ESF: the lead applicant and the co-applicants (when applied). As the contract is awarded, they become beneficiary and co-beneficiaries of the grant.

The lead applicant becomes the beneficiary assuming the coordination of the contractual relationship with the managing authority, under the pre-defined terms. It is responsible for the coordination of the design and implementation of the project supported by the grant, and represents and acts on behalf of the co-beneficiaries.

The co-applicants are the co-beneficiaries who participate in the design and implementation of the project. Similarly to the costs incurred by the lead beneficiary, the costs incurred by co-beneficiaries are also eligible. The same terms apply.

Because social innovation and social entrepreneurship projects also promote innovative ways of providing for goods, services or outcomes, they contribute largely to wider participation of actors. Applications are encouraged to be submitted under partnership agreements, rather than by a single applicant.

Eligible beneficiaries to PSIMS are legal entities established and registered in Portugal, including public, for profit and non-profit private entities.

SIB applications must be submitted under a partnership[35] of at least three applicants – a social investor, a public sector body, and an implementing entity[36], resulting in a group of several applicants to be engaged in the signing of a 'multi-beneficiary agreement'.

Partnership applications require the concerted involvement of several entities in the implementation of a given project. They perceive one another as partners in the pursuit of a common objective, taking advantage of synergies generated in the development of the project's actions.

For the purpose of the application, the partnership is responsible for the designation of one of the applicant entities as the lead applicant, the 'coordinator'. All other applicants are co-applicants. The coordinator is responsible for managing the contractual relationship with the MA/IB[37], and for intermediating relations between co-beneficiaries.

The contractual relations between the different entities of the partnership are autonomous and the sole responsibility of the partnership itself. All applicants agree in writing upon appropriate internal arrangements, consistent with the provisions of the grant agreement, for the implementation of the interventions[38].

4.3. Managing relationships and co-creation

Actors involved in the social innovation and social entrepreneurship ecosystem are diverse and traditionally do not interact with one another and do not communicate using the same language. Mindsets and interests are often divergent at first sight, making difficult the perception of the juxtaposition of goals and common interests and ultimately the building up of medium to long-term relationships.

It is thus crucial to make a significant effort to build and manage these relationships and to promote platforms of understanding for co-creation to occur. PSIMS experience builds on what was at the time seen as an underdeveloped market of social innovation at national level. The considerations of the next sections may shed light on how to develop the dialogue and form strategies to manage the relationships to be created and nurtured under a less mature environment for social investment.

PSIMS activation strategy

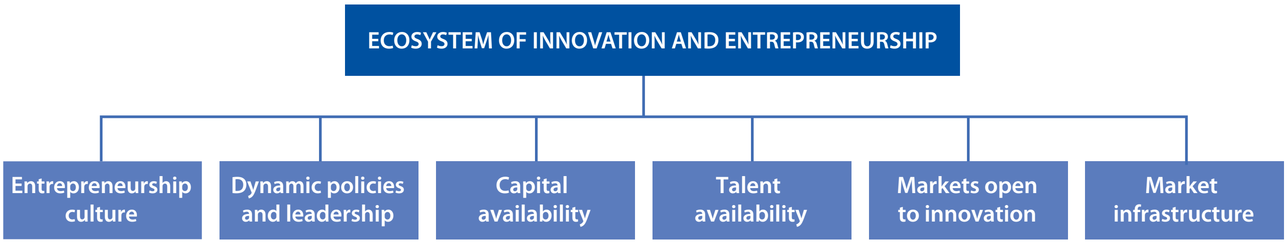
One of PSIMS's major goals is to promote an ecosystem of partner entities to capacitate, finance, and accompany social innovation and social entrepreneurship projects, helping them to grow and attain a higher impact. The motivation to adopt a proactive strategy towards the social innovation and social investment ecosystem is diverse:

1. Social innovation and social investment are recent policy objectives, which need broad dissemination to bring about demand and engagement from all relevant interested parties;
2. PSIMS is a relatively new initiative in the context of the Portugal 2020 Partnership Agreement, therefore requiring additional effort to advertise its financing instruments towards potential interested parties;

35 N.º (s) 1 and 2 of Article 242.º, Portaria N.º 97-A.
36 Portaria N.º 97-A, Article 240.º.
37 Portaria N.º 97-A, Article 242.º.
38 The written agreement is submitted together with the electronic application form as the uploaded document Memorandum of Understanding of the SIB consortium (template provided).

3. The PSI initiative's four financing instruments are inherently innovative when compared to other, more traditional, financing instruments available to the social economy. Closer engagement of main potential actors can prevent resistance to change and can facilitate the take-up of the new instruments;
4. From a conceptual point of view, social innovation is at the intersection of the public, private and social sectors, therefore reinforcing the need to focus on a strategy to involve all relevant actors;
5. PSIMS was created with a vision that goes beyond the standard allocation of ESIF support. Its mission is to develop a social investment market, which will grow beyond 2020. This justifies *per se* the need to develop a strong local presence, close to actors and to communities of practice.

The first step of the activation strategy was so to analyse the Portuguese ecosystem under the *Babson Entrepreneurship Ecosystem Project framework*, which describes an innovation and entrepreneurship system comprising the following six elements:



Source: *Babson Entrepreneurship Ecosystem Project*

This starting point allowed for the identification of major gaps in the context of the Portuguese social innovation and social investment ecosystem in Portugal at the time. The following conclusions could be taken from the analysis:

1. An entrepreneurship culture within the social economy was already in place in Portugal. Several prizes and support mechanisms were available for starting up and experimenting socially innovative solutions with significant take-up from social projects. The challenge for the PSI initiative was to bring about those social innovation projects from within the social economy organisations and make them grow on their own. A successful activation strategy could trigger the process.
2. At that time, the creation of PSIMS was in itself a statement of leadership and the evidence of dynamic policies in the field of social innovation and investment. Under this dimension, PSIMS communicates and disseminates its mission, the available financing instruments and related support schemes, reaching out to the largest possible number of relevant actors.
3. Availability of sufficient funds for the PSI initiative was not perceived as a major priority, as PSIMS was endowed with EUR 150 million in total to promote the social investment market and stimulate private match funding. However, for a better understanding of the available financing instruments and an informed evaluation of which one is more suited to each funding need, some segmentation of available capital took place. The total of EUR 150 million was allocated unevenly to the four financing instruments. As the four instruments targeted different investors' profiles and projects at different stages of the life cycle there was a clear message for each, enabling expectations and investment decision-making to be managed better.

4. and 5. In general, Portuguese actors are open to innovation. Talent and openness to innovation were regarded as a lesser priority: evidence was already in place that they would arise as a natural consequence of a more dynamic ecosystem for social innovation and social entrepreneurship.
6. Support to the development of a market infrastructure was instead considered a major priority for PSIMS. Social investment infrastructure corresponds to the interactions and relations built among relevant actors that help to correct market failures and bring more efficiency and efficacy to operations. It may refer to access to data on specific policy areas, the emergence of communities to share best practices and learning, communication on the performance of projects and information sharing, as well as documentation and information materials on the financing opportunities available to promote the take-up of the financing instruments.

PSIMS's dedicated Activation team was conceived to focus on and pursue the strategic objective of developing this ecosystem with a regional focus, a strong local presence, and the ability to bring about transparency, knowledge and collaborative practices between different relevant actors.

Recent amendments in the Council of Ministers Resolution[39] that had established PSIMS show some positive developments in this respect. In fact, the team has been strengthened in order to step up direct contact with private and public entities from any municipality in continental Portugal. Furthermore, PSIMS's advisory committee went on to include higher education and local authority representatives. In fact, implementation experience so far has shown that more importance should be given to higher education institutions for their contribution to knowledge creation and dissemination in the area of social innovation. In addition, there should be an increasing role for local authorities in the promotion of local and regional entrepreneurship and social investment ecosystems.

To clarify the rationale of the Activation team and the scope of its actions, PSIMS identified from the outset some guiding principles:

- Geographical equity, to ensure all regions access the same materials and information;
- Transversal detail, to ensure widespread knowledge of PSIMS's intervention and purposes, while retaining in-depth knowledge on each financing instrument;
- Customised supply, i.e. sharing segmented messages and information according to different groups of recipients/actors. Investors, public entities or social economy organisations should have a clear idea of what each financing instrument offers them;
- Format of presence, to promote interaction between different local actors, through actions for the dissemination of information, debates, dialogue sessions and transmission of physical knowledge to enable it to be passed on to other actors in the region.

From the very beginning, PSIMS has acknowledged the major importance of sharing information and of maximising mutual learning. In this respect, special attention has been given to regular communication of results, including information on the take-up of every commissioning round of each financing instrument. The intention is to provide relevant information to intermediaries to ensure market dynamism, to investors to evaluate general interest in the subject, and to implementing entities in general.

39 Resolução do Conselho de Ministros (Resolution of Council of Ministers) No. 177/2018, 18 December.

Actors, roles and interactions

The need to inform the different relevant actors on the opportunities created and work through the potential take-up of financing instruments gives rise to the identification of subsets of actors to which a segmented message would allow a better understanding of roles, mutual dialogue and potential collaborative interactions (**co-creation**).

The table below maps the groups identified as relevant actors in PSIMS's fields of intervention, their respective roles and examples of representative entities.

GROUPS OF ACTORS	ROLE IN THE ECOSYSTEM	EXAMPLES
Investors and enterprises	Available capital to finance social innovation and social entrepreneurship *Major role in partnerships*	Foundations Enterprises and Enterprise Associations Municipalities Banks and investment funds (including business angels and venture capital)
Public sector entities	Entities with the ability to contribute to alignment between the sphere of project intervention and policy priorities *Future commissioners*	Institute for employment and vocational training (IEFP) DG Health DG Education DG Reinsertion and prison services Institute of social security (ISS) *Cooperativa António Sérgio for the social economy* (CASES)
Social economy organisations	Entities looking for financing opportunities; recipients of social investment. These are the main promoters of social innovation and social entrepreneurship projects *Main providers/implementing entities - Major role in partnerships*	Social economy organisations (*Misericórdias*, cooperatives, non-profit organisations)
Intermediaries and universities	Entities with the ability to provide evaluation services, business development, management support, etc. *Major role in partnerships*	Universities and research centres Intermediaries for social investment

Source: Adapted from Portugal Inovação Social (2016)

The segmentation approach was applied in two complementary ways: segmentation by financing instrument and segmentation by subset of relevant actors.

Segmentation by financing instrument allows for detailed transmission of information on the opportunities of financing available in the context of PSIMS. However, this approach presents serious limitations when it comes to sharing customised information by subset of relevant actors. Each instrument requires and promotes the participation of different entities and sectors.

The adoption of an approach segmented by groups of actors opened up the opportunity to customise the information to different audiences and design the methodology followed by the activation team in order to develop detailed knowledge of and regional identification of each group of relevant actors. The efficiency this effort brings about enables the groups of actors to better understand the role(s) each one can play in the ecosystem.

The table below represents the intersection between the four PSIMS financing instruments and the groups of relevant actors.

Matching grid for relevant actors and PSIMS financing instruments

X – priority involvement O – secondary involvement	INVESTORS AND ENTERPRISES	SOCIAL ECONOMY ORGANISATIONS	PUBLIC SECTOR ENTITIES	INTERMEDIARIES AND UNIVERSITIES
Capacity Building for Social Investment	O	X	n.a.	X
Partnerships for Impact	X	X	O	n.a.
Social Impact Bonds	X	X	X	O
Social Innovation Fund	X	O	n.a.	n.a.

Source: Adapted from Portugal Inovação Social (2016)

From the point of view of management of interactions, all instruments rely on the assumption that more than one group of actors is expected to participate in the types of project supported. The Social Innovation Fund and the Partnerships for Impact programme are less demanding in this respect. The Social Impact Bonds programme is the most demanding in terms of the involvement of diverse types of actors.

Elaborating on the table above, the identification of the different actors involved leads us to understand that, regardless of the type of actors involved, there are four major roles to be played under PSIMS financing instruments:

1. **Social investors**[40]
   Social investors comprise entities from the private sector, the public sector and the social economy, both with commercial and philanthropic objectives that contribute financial resources to the development of an impact-generating social innovation project. These financiers are interested in integrating social innovation within their grant-making or investment approaches. They can also be viewed from the perspective of the asset owners. In this case, social investors are organisations that own or manage capital that can be used in impact investing.
2. **Public sector bodies**[41]
   Public sector bodies include government departments and public agencies with a remit in relation to a key area of public policy (i.e. an area of social need) covered by the intervention of the project that have an interest in testing an innovative intervention model.
3. **Implementing entities**[42]
   Implementing entities are key practitioners from the social economy or the private sector. They are either working within specific sub-sectors more open to social innovation practices (traditional social economy entities) or are already active in social innovation (social entrepreneurs).

40 Article 2, Portaria N.º 97-A/2015.
41 Article 239, Portaria N.º 97-A/2015.
42 Article 240, Portaria N.º 97-A/2015.

4. **Intermediaries**
   Intermediaries are organisations that provide implementing entities with support and guidance in order to make them more ready to develop impact-oriented social innovation projects, and to make them grow. They can also help in bridging the market gap by liaising with entities looking for funding and social investors. Finally, they can be key organisations with expertise in social innovation and resources that might generate greater social benefit or have an interest in innovation and a key area of social policy (including academia).

Notes

Notes

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