PORTUGUESE SOCIAL INVESTMENT TASKFORCE

A BLUEPRINT FOR PORTUGAL'S EMERGING SOCIAL INVESTMENT MARKET

GRUPO DE TRABALHO
PORTUGUÊS PARA O
INVESTIMENTO SOCIAL

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A NEW APPROACH TO INVESTING IN SOCIETY

Executive Summary

We are living in times of increasing social challenges. Portugal also faces many of these challenges: whether it's the 17.4% of young people who are dropping out of school[1], the 34.5% of youth who are unemployed[2] or the 46.9% of Portuguese citizens who are at risk of poverty before social transfers[3].

At the heart of Portugal's response to these challenges is the work of social organisations. There are over 55,000 social organisations operating throughout the country, accounting for 2.8% of Gross Value Added and 5.5% of all paid employment[4]. They are the backbone of social service provision and new entities are forming every day to tackle the issues the country faces. Organisations like Fruta Feia and ColorADD are leading the movement in Portugal to rethink and reshape how to approach solving social problems.

Social organisations are able to develop innovative and impactful solutions to different social issues because they are value-driven and have strong connections to their communities. They are willing to prioritise impact over profit and embrace innovation in order to provide better and more effective services.

Despite its impact, the sector faces a funding gap that threatens to disrupt progress and prevent social organisations from realising their full potential. Recent figures from INE Satellite Account for Social Economy suggest that social organisations have a net financing need of around €750 million per year[5]. Many social organisations only have enough cash to cover a few months of costs. They operate month-to-month without the ability to plan for the future, leaving them vulnerable to changes in funding and/or increases in prices.

This financial vulnerability limits their impact and impairs their ability to fully realise their mission. Instead of focusing their attention on providing support and delivering services, they spend a significant amount of time and effort raising money.

1 INE, PORDATA, http://www.pordata.pt/Portugal/Taxa+de+abandono+precoce+de+educa%C3%A7%C3%A3o+e+forma%C3%A7%C3%A3o+total+e+por+sexo-433
2 OECD.org. 'Harmonised Unemployment Rates (Hurs), OECD - Updated: January 2015 - OECD'. N.p., 2015. Web. 25 May 2015.
3 Eurostat, PORDATA, http://www.pordata.pt/Europa/Taxa+de+risco+de+pobreza+antes+e+ap%C3%B3s+transfer%C3%AAncias+sociais-1940
4 Satellite Account for the Social Economy (2013), Lisbon: António Sérgio Cooperative for the Social Economy
5 Satellite Account for the Social Economy (2013). Lisbon: António Sérgio Cooperative for the Social Economy

Consequently, resources are often diverted towards fundraising and away from mission-related activities. Funding is often ring-fenced for a particular project and is not available to strengthen capacity within the organisation.

For example, few social organisations have the resources to fund business development, performance management, evaluation or staff development. As a result, organisations are unable to invest in building their team or in becoming sustainable over the long-term.

Social investment – the use of money to generate both social and financial returns – offers a way to help social organisations access suitable financing and improve their ability to deliver impact. Social investment can be used to finance the day-to-day delivery of a specific programme, such as upfront funding to deliver an outcomes- or outputs-based contract. Or it can be used to help organisations realise their mission over the long term by helping them develop their strategy and service model and expand their operations.

Interest in developing a Portuguese social investment market is growing: social organisations are demanding access to adequate financing, investors increasingly have an appetite for investing in social impact and regulators and government are taking steps to promote this new source of funding.

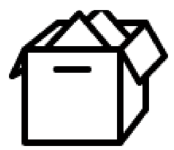
Recognising the need to harness momentum, the Calouste Gulbenkian Foundation convened the Taskforce in July 2014, funded by the European Commission, to support the development of and provide leadership to Portugal's emerging social investment market.

In the course of its work, the Taskforce sought to understand how the different parts of a market encompassing social organisations, government commissioners, intermediaries and investors, work together to create a successful environment in which the needs of the different stakeholders are addressed and better outcomes are achieved for vulnerable people.

The Taskforce makes five recommendations for the growth of a social investment market in Portugal

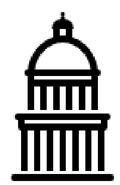
DEMAND

1. Strengthen social organisations through capacity building programmes.



SUPPLY

2. Introduce financial instruments suited to social organisations and social innovation.

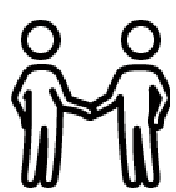


PUBLIC SECTOR

3. Promote an outcomes-based culture in public services.

MARKET INTELLIGENCE

4. Set up a knowledge and resource centre.



INTERMEDIARIES

5. Promote specialist intermediaries to facilitate access to capital.

The global social investment market accounted for around US$ 10.6 bn of committed funds in 2014, expected to grow by 16% in 2015[6]. The Taskforce benefitted from the experience of international hubs of social innovation and other national taskforces. It looked to the UK, USA, Canada and Europe as established and maturing social investment markets, as well as comparing its experience and learning with early stage social investment markets such as Latin America. The Taskforce drew on these and other international examples for its methodology and to inform its recommendations for the Portuguese market.

The five recommendations made by the Taskforce reflect the main challenges for the impact investing industry highlighted in the most recent global market survey. Leading practitioners identified key barriers to growth such as the lack of appropriate capital across the risk/return spectrum, shortage of investment opportunities and a lack of common way to talk about social investment[7]. The Taskforce also acknowledges the observation from a 2013 Australian market report:

"practitioners agree that, for impact investing to work, attention needs to be paid to all the key dynamics of the marketplace"[8].

The publication of this report is timely: it coincides with the launch of Portugal Inovação Social, a new institution endowed over the next five years with an allocation of €150 million from the European Structural Funds. Portugal Inovação Social will undoubtedly become an accelerating force for the development of the Portuguese market as well as provide a context in which the recommendations set out in this report can be realised. Moreover, as highlighted throughout this report, there are already concrete examples of social investment initiatives and social innovation that is taking place, most recently the announcement of Portugal's first Social Impact Bond in Lisbon to improve childhood education and achievement.

In light of these achievements, and the recommendations of the Taskforce, Portugal is now at an inflexion point. The market is poised to grow and is ready to share its experiences with other European and international partners as part of a global social investment market, helping to address some of society's most pressing social challenges.

6 Saltuk, Y. et al, "Eyes on the Horizon", J.P. Morgan and The GIIN (May 2015)
7 Saltuk, Y. et al, "Eyes on the Horizon", J.P. Morgan and The GIIN (May 2015), table 4, page 8.
8 Addis, R., McLeod, J., Raine, A., IMPACT - Australia, Investment for Social and Economic Benefit, DEEWR and JBWere (March 2013)

STRENGTHEN SOCIAL ORGANISATIONS THROUGH CAPACITY BUILDING PROGRAMMES

Recommendation One

Capacity building is support designed to strengthen social organisations so that they can deliver more effective services and greater impact. There are two types of capacity building: impact readiness and investment readiness.

Impact readiness helps organisations reliably deliver social outcomes and define, measure and demonstrate the impact of their services. It can include: (1) more closely aligning programme design with an organisation's mission or theory of change; (2) the development of data collection systems and data analysis skills; (3) the creation of feedback loops whereby data is used to inform day-to-day service delivery; and (4) the building of contract management processes that allow stakeholders to be informed in real-time about how delivery is progressing and the results the programme expects to achieve.

Investment readiness helps organisations reach financial sustainability and access suitable capital. An organisation is investment ready when suitable investors (e.g. those who have capital to invest on terms that meet the needs of the social sector organisation) perceive it to have the elements of an investible proposition.

The process for becoming investment ready will vary depending on the organisation and its goals. Support offered might include: building financial and operational models, supporting business and financial planning, developing marketing strategies to better explain their programme and its social impact to potential investors, or providing legal advice and support. Impact and investment readiness can complement each other and occasionally there will be overlap between the different functions. It is not uncommon for a social organisation to have a need for both types of support.

The table below, based upon the feedback received from market consultation, summarises the type of support available and needed in Portugal.

Support currently available in Portugal	Areas for additional support
Social businesses and enterprises certification	Performance management
Pilot implementation training	Outcomes measurement
Support for scaling interventions	Business planning
Leadership training for social sector leaders	Financial modelling and planning
Start up support for new initiatives	Investment raising
Networking for social sector organisations and enterprises	Contract management
Fundraising training	

MIES – Mapa de Inovação e Empreendedorismo Social, a recent initiative to map social innovation projects in Portugal, found that the most common barriers faced by the hundreds of social organisations it surveyed are: social impact assessment, business development, planning and strategy, and writing applications for funding [9]. This suggests that capacity-building programmes will need to address a range of competencies and needs.

In Portugal, social organisations can already access a variety of impact and investment readiness support, from fundraising to scaling interventions. However, as the demand for social sector organisations to deliver more complex services increases, additional support such as financial modelling and contract/ performance management[10] is required.

With the introduction of new sources of capital from social investors and the shift in government contracting, there is an opportunity to fund sustainable and scalable interventions, delivered by strong social organisations. The Taskforce recommends that social organisations take advantage of the capacity building programme offered by Portugal Inovação Social so that they can play a role in shaping this new market.

IMPACT READINESS PROGRAMMES IN PORTUGAL

In January 2015, CASES and Montepio launched the second edition of a training programme to help social organisations demonstrate the value they create. The training is delivered by 4Change, a social impact consultancy, who use the SROI (social return on investing) approach to impact measurement.

Over the course of six months, ten organisations will learn how to better analyse their impact. Social organisations who complete the course will be able to evaluate their interventions and measure the economic and social value they generate. On completion, participants will meet with a panel of funders to discuss potential funding opportunities.

Current programme participants range from Silêncio Sonoro, an organisation promoting the culture of the Azores to young people, to Taríssimas, an organisation that supports people suffering from mental health issues and rare disabilities, and their families.

9 Read more about MIES - Mapa de Inovação e Empreendedorismo Social, please go to www.mies.pt
10 The table was built with information collected from the focus group – Capacity building for impact and investment readiness (See Appendix A).

VENTURE PHILANTHROPY

Venture philanthropy is a typically intensive approach where capacity building support is funded, often alongside investment, so that successful social organisations can become sustainable, grow and improve their ability to deliver impact consistently and at scale.

EDNA MCCONNELL CLARK FOUNDATION (US): The Edna McConnell Clark Foundation looks to expand impactful programmes. It believes that major expansion requires major growth capital: substantial and flexible resources, committed upfront, that an organisation can use to pay for infrastructure, capacity and whatever else is needed. Expanding programmes while maintaining and improving their effectiveness also requires continually collecting evidence of their success.

BBVA MOMENTUM (Spain): In 2011, BBVA created the Momentum project in partnership with ESADE Business School and PwC (a professional services company). The mission of this project is to contribute to developing social entrepreneurship in Spain by implementing a support programme that allows social ventures to consolidate, grow and scale their impact, by providing financial and non-financial support. Each year, 10 social ventures are selected for support, receiving training sessions within ESADE's MBA programme alongside support from a BBVA mentor. At the end of the year, PwC conducts an independent due diligence of the organisations supported and an investment proposal is prepared for each. At this stage, BBVA provides 8-year loans starting with a 4-year interest-only period where no capital repayment is necessary. Since its creation, the project has allocated € 7 million through its Momentum Social Investment Vehicle.

LESSONS LEARNED

Funders and funding programmes should facilitate both financial and non-financial support to grantees. Grant funders have knowledge and expertise that can be combined with financial support not only to fund organisations but to build their capacity.

Venture philanthropy combines traditional philanthropy and social investment. Many international examples highlight the importance of venture philanthropy in strengthening social organisations and preparing them for social investment, playing an important role as pipeline-builders.

TARGETTED CAPACITY BUILDING FUNDS FOR THE SOCIAL SECTOR

There are a number of examples where government or non-government funders have created programmes to help social organisations build their evidence base, improve their organisational capacity and win government contracts.

THE SOCIAL INNOVATION FUND (US): The Social Innovation Fund (SIF) was designed to help the social sector improve its evidence base and organisational capacity. It was developed in response to a central government belief that innovative programmes exist at the local level and need support to scale.

The fund has two key features. Firstly, funding from the SIF needs to be matched by funds raised by the intermediary providing support as well as the social sector organisations receiving help (usually, from external philanthropic sources). This allows government to leverage its funding and encourage intermediaries and social sector organisations to engage and build relationships with different funders. Secondly, the SIF measures success by requiring recipients to have evidenced their social impact by the end of the grant period. This focus on measuring impact helps build a stronger marketplace of evidence-based organisations.

THE INVESTMENT AND CONTRACT READINESS FUND (UK): The Cabinet Office launched the £10 million Investment and Contract Readiness Fund (ICRF) in 2012, managed by The Social Investment Business, to build social organisations' capacity through business support and help them become investable, scalable and able to bid for government contracts.

To access ICRF funding, organisations must be seeking support to raise more than £0.5 million of investment or bid for contracts of over £1 million. This requirement helps ensure that capacity building support is purpose-driven and focused on achieving a significant financial growth.

NATIONAL AUSTRALIA BANK IMPACT READINESS FUND (AUSTRALIA): National Australia Bank launched an A$1 million Impact Readiness Fund in March 2015 to provide capacity building support to mission-driven organisations seeking investment to scale their social and environmental impact. Organisations, including charities and social enterprises, can receive grants up to A$100,000 to buy support from specialist providers. The fund was inspired by the UK's ICRF and demonstrates how concepts and ideas developed in one market can be adapted to another country to support market development.

LESSONS LEARNED

Government capacity building programmes can promote partnerships between social organisations and capacity building providers. Requiring them to apply together for funding fosters collaboration.

Government capacity building programmes should tie access to funding to capital raising and/or contract goals. Linking funding for capacity building to specific capital raise targets and/or government contracts ensures that recipients are working towards a concrete goal.

ROADMAP FOR IMPLEMENTATION

SHORT-TERM [IN THE NEXT 6 MONTHS]	MEDIUM-TERM [IN THE NEXT 1 TO 2 YEARS]	LONG-TERM [IN THE NEXT 3 TO 5 YEARS]

Task: Promote the benefits of capacity building through (1) the knowledge and resource centre should list the services provided by specialist providers and how they can help improve organisations, and (2) mapping the impact, business and finance needs of social sector organisations.

Outcome: Social organisations are more aware of the support needed to become impact and investment ready and know how to access available support and resources.

First-Movers: Social investment intermediaries, consulting firms, universities and research centres.

Task: Creation of an accreditation system which measures the operational performance and impact of social organisations.

Outcome: Funders and public sector commissioners have more confidence in the impact of social organisations on the ground and the effect of the funding they provide.

First-Movers: Universities, research centres and consulting firms.

Task: Provide social sector organisations access to funding to purchase capacity building support (impact and/or investment readiness).

Outcome: Social organisations are able to access and fund capacity building support.

First-Movers: Portugal Inovação Social through the recently announced programmes: (1) capacity building programme, and (2) partnerships for impact; CASES through the Social Impact Programme.

INTRODUCE FINANCIAL INSTRUMENTS SUITED TO SOCIAL ORGANISATIONS AND SOCIAL INNOVATION

Recommendation Two

The Portuguese social sector has been revitalised by the emergence of new organisations focused on addressing some of the most challenging issues the country faces, such as youth unemployment, children in care, and underperforming schools. But its future depends on its ability to meet its annual net financing needs of more than €750 million.

Portuguese social organisations have traditionally been funded by grants, charitable donations and public contracts under which they deliver services. They have limited access to other sources of suitable financing such as debt and equity. Debt is available but it often needs to be supported by guarantees or other security, which is a barrier for most social organisations. In addition, social organisations in Portugal are not allowed to issue shares, limiting their ability to raise equity financing.

Social investment can help social organisations overcome these obstacles. Social investors want to see positive social change take place as a result of their investment but also expect to get their money back with a return. Innovative financial products are those that balance the needs of both the investee (social organisation) and investor. They recognise that many social organisations have viable business models that can be scaled and deliver returns, but that unlocking this potential requires appropriate and affordable finance.

Social investors appreciate both the reasons social organisations seek capital and understand the constraints they face. For example, social organisations often have seemingly higher-risk business models (e.g. lack of a track record) and long-term repayment and return horizons. Successful innovative financial mechanisms address these needs and constraints, resulting in transactions that are attractive for investors and suitable for the investee.

Social investments can be grouped as social investment FOR social organisations and social investment IN social organisations.

- **Social Investment FOR social organisations:** Investment into a specific project or programme. The investment is used to fund day-to-day service delivery. This type of investment is often raised on the back of an outcome- or outputs-based contract where the return to investors is linked to the organisation's ability to reach pre-defined targets. Social Impact Bonds are an example of social investment FOR social organisations.

- **Social Investment IN social organisations:** Investment that helps social organisations realise their mission over the long-term by providing capital for building the scale and capability of the organisation. It can, for example, help create a capital reserve (to protect and sustain the organisation's financial health), to finance improvements in process and training, to build a management infrastructure to deliver large contracts, or to purchase assets. Venture philanthropy follows this approach.[11]

The Portuguese Social Investment Taskforce recommends the adoption of innovative financial instruments such as Unsecured Debt, Revenue Participations Agreements and Social Impact Bonds.

11 For more information about Venture Philanthropy, please see: Laboratório de Investimento Social, "Filantropia de Impacto"- Research Note #6, (July, 2014).

Unsecured Debt

Unsecured debt is a form of lending in which the lender agrees to repay the initial investment plus a return. The lender does not take security over an organisation's assets nor require a guarantee.

Although a staple of mainstream finance, social sector organisations in most countries struggle to access unsecured debt despite their demand for it. This is often due to uneven cash flows and unconventional risk profiles. Making unsecured debt available to the social sector requires overcoming these obstacles so that the needs of both investor and investee are met. (See Examples of National and International Best Practice: Futurebuilders Fund case study).

Unsecured debt offers several advantages:

For social organisations: (1) access to debt financing without needing to have substantial assets, (2) no dilution of ownership, (3) relatively simple loan agreements, and (4) patient capital (e.g. if the repayment timeline is longer than conventional repayment terms).

For investors: (1) access to a new client base, (2) simple form of investing into a social organisation, and (3) can have rights attached to the debt that help focus the organisation on addressing a particular social issue or target a specific group of people.

Revenue Participation Agreements (RPA)

An RPA is a quasi-equity instrument. It is a legal arrangement through which investors acquire revenue participation rights that entitle them to a share of the social sector organisation's gross annual revenues or revenues arising from a particular contract or activity.

RPAs offer several advantages:

For social organisations: (1) better aligns the cost of capital with business performance, (2) an opportunity to access risk-based capital even where legal form does not permit equity finance, and (3) there is no dilution of ownership and control.

For investors: (1) overcomes the barrier that equity investment may not be permitted due to legal form, (2) offers an opportunity for risk-based (equity equivalent) investment in suitable projects, and (3) is a flexible method of investing directly into growing trading activities.

Social Impact Bonds (SIB)

SIB are a financial instrument where government agrees to pay and reward investors if defined social outcomes are achieved. The investors pay for and oversee social interventions. If the outcomes are not achieved, investors stand to lose all or part of their investment.

Social Impact Bonds offer several advantages:

For public entities: (1) shifts the risk away from public budgets, (2) assures public money is only spent on successful interventions, implying better value for money, (3) informs public policy by promoting evidence-based projects, and (4) in some cases, generates net cost savings.

For social organisations: (1) upfront funding, (2) no dilution of ownership, (3) flexibility to learn and innovate while the service is in operation, (4) development of an evidence-based intervention, and (5) develop skills to improve and manage performance.

For investors: (1) possibility of being reimbursed for initial investment plus a negotiable premium for the risk incurred, (2) opportunity to drive social impact,(3) can impart skills and expertise to new and socially oriented entities, and (4) diversify their investment portfolio.

Portugal Inovação Social has a mandate to promote financial instruments which are tailored to suit the needs of social organisations and the changing market environment. It will consider:

(1) Social investment funds committed to financing social organisations through the use of instruments such as unsecured loans with low interest rates, long maturities and grace periods; and quasi-equity instruments, such as Revenue Participation Agreements.

(2) An outcomes fund designed to promote the development of Social Impact Bonds in multiple social and geographical areas. The outcomes fund, potentially alongside central and local government departments, will pay for the results achieved through these projects.

For the Portuguese market this represents a timely opportunity to test innovative financial instruments that meet the specific needs of social organisations and help address complex social issues.

EXAMPLES OF NATIONAL AND INTERNATIONAL BEST PRACTICE

INNOVATIVE DEBT AND EQUITY FINANCING

CAF VENTURESOME (UK): CAF Venturesome launched a social investment fund that provides Revenue Participation Agreements, ranging from £25,000 and £250,000, to social sector organisations. Since it launched, CAF Venturesome has invested over £12.5m in 200 small or medium social enterprises through quasi-equity instruments.

FUTUREBUILDERS FUND (UK): The UK Government launched the £125 million Futurebuilders Fund in 2003 to provide debt financing to social sector organisations to help them deliver public services. The fund demonstrated that the sector needed unsecured debt. It also improved the market's confidence in the social sector's ability to repay debt and increased their understanding of the risks involved in providing the sector with this type of capital.

LESSONS LEARNED

Pilot funds are valuable to test what type of capital the sector needs. Such funds help build understanding of whether the supply of capital available matches demand. The Futurebuilders Fund demonstrated an appetite for unsecured debt and a number of funds have since launched providing similar types of capital.

The benefits of sector specific funds (e.g. health, education) depends on the maturity of the market. They are less relevant at an early stage of a market when market norms and the investment potential is not yet established, but are a strong addition to the market once the market starts to develop.

Social investment products should have a range of risk/return profiles in order to encourage the development of a wide investor base and meet the different needs of social sector organisations.

It is possible to create blended financial mechanisms that overcome existing obstacles of mainstream finance.

SOCIAL IMPACT BOND

ACADEMIA DE CÓDIGO JÚNIOR SOCIAL IMPACT BOND (Portugal):

In February 2015, the first SIB pilot was launched in Portugal. The Academia de Código Júnior SIB brings together a range of social sector stakeholders to tackle primary school retention in Lisbon. Calouste Gulbenkian Foundation invested €120,000 to fund the delivery of computer programming classes for 65 students, from three Lisbon schools for 30 weeks. The programme is aligned with the national curriculum.

At the end of the intervention, the Nova School of Business and Economics will assess the outcomes of improved logical thinking and improved school performance benchmarks. If these students perform better than the comparison group, the Municipality of Lisbon will reimburse the Foundation for its initial investment.

Laboratório de Investimento Social (a social investment intermediary) is overseeing the performance management of the Academia de Código Júnior SIB by monitoring the achievement of daily operational performance indicators through a data-oriented system that informs the fine tuning of the intervention.

At the end of the project, if the results are achieved, the Municipality intends to scale the project and to deliver it to all schools in Lisbon.

LESSONS LEARNED

The SIB model is an innovative financing mechanism which has shown to **be adaptable to different market contexts and social issues.** It was first pioneered in the UK and is now being used or explored in many countries for a wide range of social issues.

It is possible for a financial mechanism to align the interests of different parties, including investor, service provider, and public sector. The public sector is a key stakeholder for developing SIBs, as it is usually the outcomes payor.

Financial mechanisms also **have a value as capacity building vehicles for the social organisation.**

Performance management systems **contribute to the creation of an evidence base.**

Pilot projects are essential to create momentum so that other stakeholders understand the benefits and seek to apply the model in different areas.

ROADMAP FOR IMPLEMENTATION

SHORT-TERM [IN THE NEXT 6 MONTHS]	MEDIUM-TERM [IN THE NEXT 1 TO 2 YEARS]	LONG-TERM [IN THE NEXT 3 TO 5 YEARS]

SHORT-TERM [IN THE NEXT 6 MONTHS]

Task: Launch pilot projects to test the applicability of Social Impact Bonds and Revenue Participation Agreements.

Outcome: Understanding the potential of financial instruments and their suitability for social innovation initiatives; raising awareness of the benefits of these instruments.

First-Movers:
Social Impact Bonds: Government (local and central) and social investors (foundations, family offices and high net worth individuals);

Revenue Participations Agreements: business angels and social venture capital firms.

SHORT- TO MEDIUM-TERM

Task: Create the legal framework that facilitates the adoption of innovative financial instruments.

Outcome: Removal of legal barriers and improved access to adequate funding for social innovation projects.

First-Movers: Universities (e.g. Instituto de Ciências Jurídico-Políticas).

LONG-TERM [IN THE NEXT 3 TO 5 YEARS]

Task: Develop tax/fiscal incentives for social investment products.

Outcome: Mobilise further sources of capital to the sector; broaden the investor base.

First-Movers: Financial regulators (CMVM and Bank of Portugal).

PROMOTE AN OUTCOMES-BASED CULTURE IN PUBLIC SERVICES

Recommendation Three

According to official figures, public funding represents approximately 40%[12] of social organisations' revenues in Portugal. The figures indicate that since 2010, government service contracts for social organisations have a value of approximately €1.2-1.4 billion[13] annually.

The current commissioning and funding environment through cooperation agreements often results in the purchasing of either a set period of services (e.g. a year of support to children in care) or outputs (e.g. the number of children accessing support), social organisations are primarily focused on the outputs they provide rather than on the outcomes they achieve. However recent trends, including a change in EU funding, have created an opportunity in Portugal to change the way services are commissioned by government. Instead of paying for outputs, government would pay for outcomes, such as the number of children staying out of the care system and safely at home rather than how many children had accessed support.

The information below provides examples of social issues where government contracts services to social organisations:

Examples of social issues being tackled by social innovators in Portugal	**Government contracting (cooperation agreements)**
Unemployment	*Kindergartens*
Food waste	*Leisure time activities centres*
Child obesity	*Youth and children at risk institutions*
Urban blight and renewal	*Family support and advisory centres*
Employment and disabilities	*Homecare services*
Type II Diabetes	*Nursing homes and assisted living*
School dropout	*Food kitchens*
	Social canteens
	Emergency social housing
	Life support centres

12 Portugal's Nonprofit Sector in Comparative Context, John Hopkins Centre for Civil Society Studies, (April 2012)
13 Social Solidarity Institutions in a context of Economic Crisis, IPI, (2012)

Portugal 2020, the most recent EU funding framework, worth in total over €25 billion, has allocated €4 billion to social inclusion and employment. It includes incentives to move to an outcomes-based commissioning model which has benefits for both the public and social sectors. The public sector can, for example, use outcomes-based commissioning to develop an evidence base for ´what works'. This can be a tool which helps overcome barriers to social innovation by focusing organisations' attention on delivering outcomes rather than a 'tick the box' approach, requiring delivery of prescribed services. Commissioning for outcomes is also an opportunity to better align services to public policy priorities.

For social organisations, an outcomes-based commissioning environment encourages success to be defined based on the delivery of measurable social value and focuses their attention on improving their effectiveness. In the right context, this can be a powerful stimulus for innovation and continuous improvement in service delivery. Outcomes-based commissioning encourages social organisations to monitor their delivery, identifying where improvements can be made and which parts of their service are particularly effective, and to incorporate improvements into their programming. Being able to demonstrate the effectiveness of programmes brings the added benefit that the social organisation will have a stronger funding or investment case and be better placed to tender for public sector contracts.

However, outcomes-based commissioning also means there is a change to the payment profile of delivery contracts. If all, or part, of a contract payment is for outcomes, there will be a delay to the payments until outcomes are achieved – and reduced or no payments if outcomes are missed. This gives rise to a working capital/funding constraint for the delivery organisations since, depending on the projects and the payment model, the outcome may only be achievable after several months or, in some cases, even longer.

Social investment potentially has an important role to play in a more outcomes-focused environment, both to offer working capital to organisations with a demonstrable capability to deliver outcomes, and to provide more risk-based capital where there is a desire to pilot innovative new models or build up more robust evidence of what works.

The Taskforce recognises that commissioning for outcomes requires a culture shift. The public sector will also need to develop skills to support this new approach to commissioning public services, while the social sector will be required to develop their programmes with a focus on outcomes. There are many areas where a focus on outcomes will enhance the effectiveness of social service delivery and promote innovation. An exclusive focus on outcomes is not appropriate in all cases, for example if measurable outcomes cannot be defined or attributed to an intervention, or will only be determined after a very long period or are likely to be influenced by external factors.

With the launch of Portugal Inovação Social and the greater outcomes focus under the Portugal 2020 funding, this is a timely opportunity for the government and social sector to embrace this change and for social investment to be a powerful tool to support it.

OUTCOME- AND EVIDENCE-BASED INTERVENTIONS IN PORTUGAL: EPIS

Empresários para a Inclusão Social (EPIS) is an initiative created in 2007 by a consortium of Portuguese companies. EPIS developed a mentoring programme that targets 7th and 8th grade students (typically 12-15 year olds) most at risk of repeating the year and/or dropping out of school. The programme has 167 mentors that support 7451 students from 179 schools across the country.

The programme has been evaluated using a quasi-experimental methodology* and has shown that young people on the EPIS programme were 10 percentage points less likely to repeat a school year. EPIS hopes to use the evidence to influence public policy and roll out the programme nationally. Given the evidence basis, the focus on outcomes and strong intervention model, EPIS potentially represents a suitable programme for an outcome-based contract with the relevant public sector commissioner.

* Martins, P., Can Targeted, Non-Cognitive Skills Programs Improve Achievement? Evidence from EPIS, 2010, Institute for the Study of Labor

OUTCOMES-BASED COMMISSIONING

DWP INNOVATION FUND (UK): The UK Department for Work and Pensions launched, in 2012, a £30 million outcomes fund focused on preventing disadvantaged young people from becoming Not in Education, Training or Employment (NEET).

The DWP identified nine outcomes that would encourage social organisations to address the issues most commonly associated with NEET young people. They priced the outcomes based on the potential cost savings to government of having fewer young people disengage from school, training and employment.

In addition to providing better support to at-risk young people, the DWP Innovation Fund helped develop the UK social investment market by demonstrating the benefits of outcome-based contracting, such as how it can: (1) encourage organisations to measure outcomes, (2) test whether investing in prevention can create cost savings, and (3) build an evidence-base of 'what works.'

DWP Innovation Fund Round 1- Examples of maximum price of outcome, per person:

Entry into employment	Sustained employment	Improved attendance
£ 3500	£ 2000	£ 1400

LESSONS LEARNED

Transparent and standardised evaluation of outcomes brings consistency and clarity to funders, social organisations and public sector officials. The DWP Innovation Fund provides a common framework for measuring outcomes on a specific social issue.

The public sector can incentivise social organisations to shift from an output- to an outcome-based culture. DWP has simplified the process by defining a menu of outcomes considered important to reducing the number of disengaged youths and the amount they are willing to pay.

Establishing a track record of outcome-based contracts is important for building momentum. Outcome-based commissioning will grow as the success of funds such as the DWP Innovation Fund become clear. The UK's DWP has since launched a second (2013) and third (2015) round of commissioning building on this framework. To date, 10 SIBs have been launched trough this initiative.

BUILDING CAPACITY IN THE PUBLIC SECTOR TO SUPPORT OUTCOME-BASED COMMISSIONING

HARVARD SIB LAB (US): The Harvard SIB Lab was launched to provide pro bono technical assistance to public sector entities that are interested in adopting outcomes-based contracts for social services. It was established in 2011, with the support of the Rockefeller Foundation, to help build capacity in the public sector and develop a pipeline of Social Impact Bonds.

The Lab's assistance model includes 12 to 15 months of support to help guide procurement teams through the programmatic, budgetary, regulatory and procurement processes of outcomes-based contracts.

Since 2011, it has helped launch Social Impact Bonds in Massachusetts and New York State. The Lab is currently working with ten other states.

LESSONS LEARNED

Providing technical assistance for the public sector is critically important. Commissioning teams need training and technical support to help them design and implement outcome-based contracts as the process for developing these types of contracts is different from current government practice, which is focused on service specification or contracting for outputs.

ROADMAP FOR IMPLEMENTATION

SHORT-TERM [IN THE NEXT 6 MONTHS]	MEDIUM-TERM [IN THE NEXT 1 TO 2 YEARS]	LONG-TERM [IN THE NEXT 3 TO 5 YEARS]

Task: Launch outcome-based pilot contracts.

Outcome: Establish the advantages and disadvantages of this commissioning model.

First-Movers: Institute for Social Security, local and central government and other commissioners of social services.

Task: Develop a legal framework that enables outcome-based contracting for a wide range of social services.

Outcome: The Public Contracts Code encompasses the possibility of contracting outcomes.

First-Movers: Universities (e.g. Instituto de Ciências Jurídico-Políticas).

Task: Train public sector procurement and finance teams within central and local government.

Outcome: Upskilled public sector teams that are better able to design procurement processes and commission services that align to their intended objectives.

First-Movers:
Government: Local authorities and government bodies with public policy responsibilities (E.g. Departments of Health, Justice, Education);

Funders: Foundations and other social investors.

SET UP A KNOWLEDGE AND RESOURCE CENTRE

Recommendation Four

Portugal's emerging social investment market will need readily accessible information and resources which are tailored to suit the distinctive needs of the market. Building a common language and an understanding of market norms and expectations will accelerate the potential for collaboration, reduce uncertainty and build trust.

Building trust between stakeholders who are unaccustomed to working together is important, and can be difficult where there is no common frame of reference, as stated by Edelman in their 2015 Trust Barometer[14]. Recent studies by the OECD[15] suggest that greater transparency can be important in establishing trust, in particular in new innovations or policies:

"(...) measuring and evaluating performance [of public policies] enhances transparency and contributes to bolstering the accountability bond between governments and citizens, thus helping to build trust."

All stakeholders have a role to play. The market will benefit greatly from a public sector which is increasingly open about its commissioning goals. Social organisations can provide accurate and reliable information about their social and financial impact as well as their costs. Investors can be encouraged to explain their goals and interest in the market, such as the subject matter or geographic area in which they wish to focus their investment, as well their expectations for returns on their investments.

An accessible knowledge and resource centre, combining the use of freely available online resources as well as a forum for collaboration, networking and knowledge sharing, will be a critical resource to facilitate growth of the social investment market. The Centre's aims should include:

1) Establishing a common language: bringing together stakeholders from diverse markets can lead to confusion and misunderstanding. Jargon needs to be avoided and clarity about the use and meaning of unfamiliar terminology common to the social investment market should be promoted. Common definitions and a glossary of key terms will be important in promoting understanding and accelerating collaboration.

14 Edelman, 2015 Trust Barometer, accessed at http://www.edelman.com/2015-edelman-trust-barometer-2/trust-and-innovation-edelman-trustbarometer/
15 OECD, Better Policies Portugal: Reforming the State to promote growth, (May 2013)

2) Sharing best practice and stimulate innovation: as new entrants engage in the market, whether social organisations, public sector bodies, or investors, new knowledge and tools will be created. For example, more data will become available to assess what services and operational practices are most effective and how to price and value social outcomes. Sharing new knowledge and lessons learned will drive innovation and help accelerate the market.

3) Standardising outcome measurement: measuring programme effectiveness requires a set of social outcomes to be defined, as well as a method to measure and evaluate those outcomes. Developing common or standardised outcome measurement frameworks would help establish these practices. They would help social organisations, investors and the public sector better understand the effectiveness of different interventions and facilitate comparisons between them.

4) Promoting transparency and a shared understanding of the 'unit cost' of social issues: to truly understand the financial impact of a social problem and whether an intervention designed to tackle it offers value, a better understanding is needed of the cost of the issue and of the cost that can be avoided if it is effectively addressed. Data on the costs of social issues often sits with different government departments or academic studies, making it difficult to access.

COSTS OF SOCIAL ISSUES IN PORTUGAL

A unit cost database captures government spending related to social issues and outcomes. Below are examples of costs associated with crime, education, and employment.

14,600€/year **PER INMATE** (DIRECÇÃO GERAL REINSERÇÃO E SERVIÇOS PRISIONAIS, 2001)	**4,000€/year** PER STUDENT WHO FAILS A SCHOOL YEAR (TRIBUNAL DE CONTAS, 2012)	**8,790€/year** PER NEET (EUROFOUND, 2012)

The absence of a standard method of classifying and quantifying the cost of social issues exacerbates the problem of consistency and transparency. The knowledge and resource centre would set up a centralised data resource of the unit costs of key social issues that are validated and recognised by the government. Such a resource would help both public sector and social organisations better understand the financial impact of a particular problem and the potential value of effective interventions.

There are already a number of Portuguese initiatives to build on, such as PORDATA, CASES, GPS Funds and Everis. The centre would play a distinctive market building role, working alongside these existing initiatives. Its first initiative would be to build a unit cost database.

PORDATA, promoted by Francisco Manuel dos Santos Foundation (FMSF), is an extensive dataset covering municipal, national and European indicators on a wide range of areas including health and education. It is an example of best practice in Portugal for how data can be made readily available using interactive and user-friendly tools and interfaces. CASES collects data about the social sector, including the number and type of social sector organisations in Portugal, the issue areas they address and their geographical coverage.

The recommendation of the Taskforce to establish a knowledge and resource centre will facilitate building these early initiatives and developing a platform of good information sharing practices for the social investment sector as well as developing new resources for the market. It will also signpost users to other market resources and to examples of international best practice. As resources are added, it will evolve over time to become a vital resource for the sector and a forum for networking and convening.

GPS FUNDS

An information portal for social enterprise funding

GPS Funds was established in early 2015 as an online platform to connect social organisations seeking capital to potential funders.

It brings together detailed information about the registered organisations and investors, providing a central source of information about funding, capacity building and training opportunities and management tools such as reporting templates or operational due diligence forms.

The initiative is supported by a wide group of partners that fund, implement and manage the platform, including several foundations (Calouste Gulbenkian, EDP, Montepio and PT Foundations) and social sector intermediaries (CASES, IES – Social Business School, Call to Action, Stone Soup and TESE).

GRAIS

Impact measurement

Everis, in 2013, launched a cross sector initiative – GRAIS – to promote impact measurement in Portugal. A range of players – public sector commissioners and public policy makers, foundations, CSR departments and universities – were brought together to explore how an environment that supports robust evaluation by social sector organisations could be promoted.

As a result of this initiative the group issued a ‘code of conduct’ in 2015, which set out standards for impact assessment and the principles of robust evaluation. The goal was to integrate impact evaluation into the daily operations of social organisations. Recognising the need to build capacity within the social sector, the group is also currently focused on encouraging social organisations to seek specialist support for impact assessment.

EXAMPLES OF INTERNATIONAL BEST PRACTICE

BUILDING MARKET INFRASTRUCTURE

The Global Impact Investment Network (The GIIN) was formed in 2007 to help the emerging social investment market scale and realise its potential. The GIIN builds tools, conducts research and runs educational programmes to support market development and attract new capital. It has several key initiatives including:

(1) Outreach: an initiative to increase the profile of social investment by sharing examples of best practice, monitoring industry progress and disseminating information;

(2) Network Membership: a network that provides access to tools, information and resources as well as events and a forum to share experiences; and

(3) Impact Reporting and Investment Standards (IRIS): a set of metrics to capture an organisation's social, environmental and financial performance. IRIS seeks to provide transparency, credibility and consistency in how organisations and investors define and measure performance.

STANDARDISING OUTCOME MEASUREMENT

Big Society Capital (BSC) launched an outcomes matrix to help social investment financial intermediaries and social sector organisations to plan, measure and learn about the outcomes they deliver.

The matrix has been designed from the service user perspective and includes nine outcome areas such as employment, education and training. For each outcome area, BSC provides different ways of measuring outcomes.

By developing an outcomes matrix and incorporating it into the investment process, BSC has influenced how funds and intermediaries evaluate organisations and has incentivised funders to help social sector organisations measure outcomes.

UNIT COST DATABASE

The **Unit Cost Database** was designed by the UK Cabinet Office and New Economy to help commissioners, charitable organisations, intermediaries, investors and social enterprises develop Social Impact Bond and other outcome-based finance proposals and evaluate their interventions.

It was launched in 2013 and collates over 600 estimates of costs in different social issue areas into a single place, including costs associated with e.g. crime, education and skills, health and employment. Cabinet Office involvement was important to unlocking access to data that had previously sat in different government departments as well as providing credibility to the database.

LESSONS LEARNED FROM DEVELOPING MARKET TOOLS

An effective knowledge and resource centre needs to be a **trusted and reliable resource for all stakeholders.**

Stakeholders need access to information and resources as well as **opportunities to share experiences at events and conferences.**

Shared tools provide a common framework for measuring outcomes that provide **consistency and clarity to funders and commissioners of public services.**

Developing new tools to **frame and facilitate discussion** can be particularly useful in new areas such as impact measurement.

A unit cost database should be **developed in coordination with key stakeholders and validated by the government** to ensure it is **credible and trusted.**

Unit cost data should include short, medium, and long-term cost savings to capture the full economic benefit of an intervention.

It should include additional information (e.g. volume data or costs broken down by geography) **needed by key stakeholders when developing social interventions.**

ROADMAP FOR IMPLEMENTATION

SHORT-TERM [IN THE NEXT 6 MONTHS]

Task: Develop a website that includes tools, examples and glossaries to help stakeholders engage in the market. It must be updated regularly.

Outcome: Provide a central site where interested parties can access information relevant to social investment.

First-Movers: GPS Funds.

Task: Collect data on social outcomes and associated unit costs for several social issues.

Outcome: Social organisations can quantify their impact in social and financial terms.

First-Movers: research and information centres (e.g. Portugal Economy Probe).

MEDIUM-TERM [IN THE NEXT 1 TO 2 YEARS]

Task: Collect information about 'what works' with an initial focus on two specific social issues that are key public policy priorities in Portugal (Taskforce suggestion: youth unemployment and education).

Outcome: Social sector organisations and government implement innovative services.

First-Movers: Portugal Inovação Social in coordination with independent evaluators (e.g. Universities and research centres).

Task: Create a network of practitioners to encourage knowledge sharing. The network should hold conferences and workshops as well as establish online forums to help people exchange ideas and share best practice.

Outcome: Future projects build on the experience of previous work and in turn share their knowledge more widely.

First-Movers: GPS Funds.

LONG-TERM [IN THE NEXT 3 TO 5 YEARS]

PROMOTE SPECIALIST INTERMEDIARIES TO FACILITATE ACCESS TO CAPITAL

Recommendation Five

The Taskforce acknowledges the need for specialist intermediation capability that will help connect the supply of capital to the demand from social organisations. It recognises that funding should be available so that market participants can access and pay for intermediary support and so that intermediaries can offer services on a sustainable basis.

Intermediaries are part of the infrastructure of an effectively functioning social investment market. The role is well recognised in the commercial markets and is as relevant in the social investment market where distinctive, sector-focused skills and advice are required. Social investment intermediaries speak the language of the different stakeholders - social, public and financial – and can navigate the diverse range of skills, experience and expectations they each have.

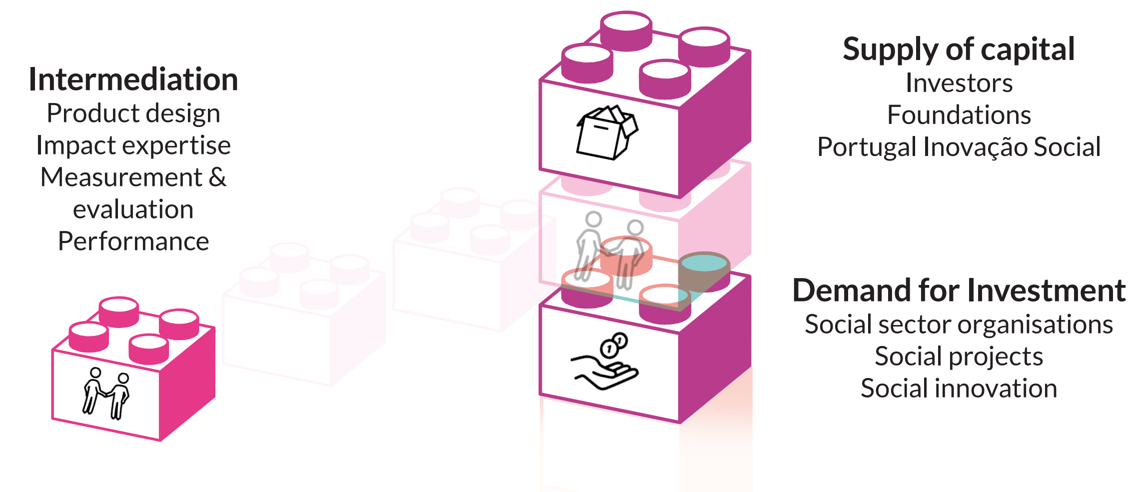
Intermediation can facilitate transactions in different ways. For investors, intermediation represents a route to market, enabling them to deploy their capital among organisations which need it and are 'investment ready'; for social organisations, intermediaries offer access to investment capital, providing support and guidance to organisations with little experience of the range of funding options beyond grants.

Intermediary support might include:

- Advising social sector organisations on financial and business issues: e.g. support social sector organisations to become investment ready and to provide on-going support after investment has been made (performance management support, financial advice).
- Building the investor base: work closely with investors e.g. carrying out due diligence, helping understand the business model and risk profile of different social issues; assess social organisations' intervention model(s).
- Structuring financial products: design and structure ways of financing social innovation that meets the needs of social organisations, beneficiaries, commissioners and investors.
- Managing performance and outcome evaluation: help social organisations monitor operational performance and evaluate social impact.
- Building and disseminating evidence of ´what works´: share learnings to educate and grow the market.

- Promoting collaboration between public sector entities, investors and social organisations: aligning the objectives of the different market participants - collaborating to find solutions to complex social problems.
- Providing or facilitating access to legal support.

With such a diverse set of support and services required to develop the market, different types of intermediaries are needed e.g. specialist social investment finance and non-financial intermediaries. Portugal is well placed to build upon the need for specialist intermediation by the market. Historically, investors, such as Santa Casa da Misericórdia (who manages the Lottery Fund), has played the role of the intermediary. But more recently, as the market is poised for growth, a number of organisations have been established or launched initiatives including: IES-SBS, Stone Soup, CASES, Sair da Casca, Terceiro Quadrante and Laboratório de Investimento Social, among others.



Specialist social investment finance intermediary	Advise on financial issues, structure financial products and work alongside investors, social organisations and/or the public sector when developing investment projects.
Specialist social investment non-financial intermediary	Support social investment projects through capacity building, impact and programme design, legal support, performance management and evaluation.

MDRC (US) - Specialist social investment non-financial intermediary: MDRC supports the implementation and roll-out of evidence-based interventions. It performs a variety of roles including: (1) working alongside social organisations to design and implement effective social interventions, (2) evaluating social interventions to inform public debate and social policy, and (3) providing capacity building support to evidence-based social organisations seeking to scale. Recently, MDRC has begun working on Social Impact Bond development and helped launch the first US Social Impact Bond in New York City.

SOCIAL VENTURE FUND (EU) - Social investment vehicles: The Social Venture Fund is a ~€30 million pan-European social investment fund that provides financial and non-financial support to social enterprises. The Fund is able to offer between €500,000 to €5 million in equity and/or quasi-equity financing to organisations with a demonstrated ability to deliver social and financial returns. The Fund also provides investees access to a range of capacity building services through its extensive network.

LE COMPTOIR D'INNOVATION (France) - Social investment financial and non-financial intermediary: Le Comptoir de l'Innovation (CDI) is a certified social enterprise created in June 2010 with €850,000 initial capital. CDI acts as a fund manager for a €10 million fund created by Aviva, an insurance company, aiming at investing in early-stage social organisations seeking to scale. Investments are made over a 7 year period with returns targeted at 3.5-4.5%. CDI also developed a rating method/diagnostic tool for evaluating social organisations that identifies their strengths and weaknesses from a business and impact perspective. The CDI rating tool is widely used by investors in France when investing in social organisations.

BERTHA CENTRE (South Africa) - Specialist social investment non-financial intermediary: The Bertha Centre for Social Innovation, at the University of Cape Town Graduate Business School, is focused on developing a social investment market domestically and across Africa. It teaches an academic programme on impact investing as well as providing courses on impact investing for high net worth individuals and money managers across Africa. It is also working to develop a Social Impact Bond capability in the region and conducting feasibility studies on matters such as early childhood development and regional health issues.

MaRS (Canada) - Specialist social investment finance intermediary: The MaRS Center for Impact Investing works to promote the effective use of social investment in Canada by designing new financial products, such as Social Impact Bonds and social investment funds, conducting research on social investment, developing and implementing social interventions, promoting the use of impact measurement tools and providing educational programmes for people and organisations interested in social investment.

SOCIAL FINANCE (International) - Specialist social investment finance intermediary: Social Finance is a not for profit organization working in partnership with government, the social sector and the financial community to enable sustainable social impact at scale. It has sister organisations in London, Boston and Tel Aviv. In the UK, Social Finance UK has mobilised over £62 million of social investment and designed a series of programmes to tackle social challenges. These include support through Social Impact Bonds for 2,000 short sentence offenders released from Peterborough Prison, 380 children on the edge of care in Essex, 2,500 young people at risk of becoming NEET, 600 homeless youth and 800 rough sleepers in London.

LESSONS LEARNED

Intermediaries are key to developing new ways of financing social organisations that address their needs.

The Social Venture Fund is an example of a social investment fund whose capital is tailored to the needs and capacity of social organisations. It targets social enterprises whose interventions have been tested and aims to help them grow.

Intermediaries can play distinct roles in developing the social investment market.

Social Finance has been instrumental in working with government to encourage outcomes-based contracting and co-commissioning of public services as well as helping to build government and local authority capacity to develop Social Impact Bonds.

Intermediaries need to be able to access adequate sources of funding ito play their role in building the market.

MDRC has been able to pursue its mission of generating knowledge on the most critical social issues through creating and sustaining strong relationships with its funders. MDRC is supported by 70 foundations and government agencies, since its launch in 1974, that recognise the value it creates.

ROADMAP FOR IMPLEMENTATION

SHORT-TERM [IN THE NEXT 6 MONTHS]	MEDIUM-TERM [IN THE NEXT 1 TO 2 YEARS]	LONG-TERM [IN THE NEXT 3 TO 5 YEARS]

Task: Create programmes to help social sector organisations access and pay for intermediary support.

Outcome: Intermediaries are able to work on helping social sector organisations to become impact and investment ready and develop a pipeline of social investment opportunities.

First-Movers: Portugal Inovação Social through their funding programmes.

Task: Foster constructive collaboration between social investment financial and non-financial intermediaries through regular events and roundtables.

Outcome: Social investment intermediaries share learnings and frameworks from existing social investment deals in a transparent and constructive manner, contributing to market development.

First-Movers: Social investment financial and non-financial intermediaries.

Task: Provide capital and capacity building support for intermediaries that either want to enter into the market or are at earlier stages of development.

Outcome: Enable intermediaries to focus on their core business and incentivise more deals (e.g. pilot projects) in the market.

First-Movers: Foundations, Corporate Social Responsibility (CSR) departments, and high net worth individuals.

CONCLUSION AND NEXT STEPS

A social investment market is emerging in Portugal. Its development over the next five years will have important implications for how we solve social issues in the future.

At its best, social investment can align the objectives of social organisations, government and investors, focusing their attention on addressing complex social problems. It can encourage investment in prevention, scaling innovative and proven programmes, building capacity within the public and social sectors and delivering social impact.

Today, we have the opportunity to shape the market's direction and purpose. We must work together – social organisations, government, intermediaries, universities, consultancies, and investors – to help the market realise its potential. The recommendations in this report provide a roadmap that, if followed, will result in the establishment of a robust and well-functioning social investment market.

To achieve this vision for the Portuguese social investment market, stakeholders must be ready to actively support its development.

Portugal Inovação Social

with its €150 million fund, should play the role of leader and coordinator. It has the funding and mandate to spend the next five years promoting market development. It should consider developing its four pillars – the Social Innovation Fund, Social Impact Bond Programme, Capacity Building Programme, and Venture Philanthropy Programme – in a manner that both encourages the development of a sustainable social investment market and allows for other organisations to champion these initiatives in the future.

Foundations, CSR departments, family offices and high net worth individuals

are in a position to be early adopters and advocates for social investment. They should consider: (1) funding capacity building, (2) investing in Social Impact Bond pilots, (3) supporting the public sector in developing outcomes contracts, and (4) funding support for specialist social investment intermediaries (including e.g. commissioning feasibility studies).

Universities, research centres or consulting firms

should create resources and tools that allow new players to join the social investment market. These types of organisations should consider: (1) developing an accreditation system that helps social organisations signal to the market their ability to deliver impact, (2) creating legal frameworks that enable innovative financial mechanisms to be developed and simplifies the process of outcomes-based contracting, and (3) collecting data on social issues and their associated costs to inform impact measurement and outcomes pricing.

Central and local government

should test different models of outcomes-based commissioning and create demand for social investment. Central and local government should consider: (1) launching a range of pilot projects that seek to demonstrate the different benefits of outcomes-based contracting and (2) commissioning more social services on an outcomes basis.

Social investment intermediaries

should work to create and test a range of financial instruments that are able to generate both social and financial returns. Social investment intermediaries should consider: (1) providing impact and investment readiness support, (2) working closely with social organisations to understand their financial needs and design products to address them, and (3) helping the public sector develop outcomes-based contracts.

Investors

including business angels and venture capital firms must ensure that appropriate capital is available to the social sector. Investors should consider: (1) informing the market of their interest in different types of social investment products, and (2) making different forms of capital available, such as secured and unsecured debt and quasi-equity.

Financial regulators

should work to increase the investor base by creating tax incentives for social investment products to mobilise new capital.

To implement these next steps, stakeholders are reliant on social organisations who want to participate in the market.

Social organisations

need to be open and willing to engage in this exciting new market. Those who wish to access social investment should consider: (1) seeking capacity building support, (2) bidding for larger scale government contracts, and (3) exploring innovation and new ideas on how to best support vulnerable people and tackle the root causes of social problems.

The next steps are clear. We must build the capacity of the social sector to deliver impact consistently and at scale while providing financing that meets their needs. We must demonstrate the benefits of outcome-based contracting and set up a knowledge and resource centre that is able to educate the market and provide a platform for sharing experiences. Lastly, we must create intermediaries to facilitate collaboration.

Implementing the recommendations presented in this report will require cooperation. Each stakeholder has its own role to play. The future of social investment in Portugal and its ability to help social organisations deliver impact depends on how we work together. If we get it right, our shared vision for a social investment market, one that helps Portugal better tackle the social issues it faces, will be realised.

APPENDIX A

Portugal Inovação Social: The Government's Agenda for Social Investment

Portugal Inovação Social represents a milestone in the promotion of social investment in Portugal. Its groundbreaking mission is to catalyse the social investment market. Established by the Portuguese Government, approved by the Babinet Council and endowed with €150 million from the European Structural Funds under the scope of the Partnership Agreement – Portugal 2020, it will have a strong mandate and substantial resources with which to drive the development of the social investment market over the next five years.

There are four pillars to Portugal Inovação Social's strategy. It will support the growth of both the supply and demand sides of the social investment market; it will target the lack of adequate funding for social organisations through the provision of investment capital, venture philanthropic capital and outcomes funding and it will provide capacity building support to help social organisations deliver impact at scale:

1. A Social Innovation Fund (expected to launch in early 2016)
Portugal Inovação Social will launch a wholesale fund that will co-invest in Portuguese social organisations and social investment products that have a demonstrated potential to generate social and financial returns. The aim is to mobilise capital and encourage investment into the social sector. Similar initiatives in other social investment markets have been essential, particularly in early social investment deals, often acting as a 'cornerstone' investor, encouraging other investors to invest.

2. A Social Impact Bond Programme (expected to launch Autumn 2015)
Under this programme, Portugal Inovação Social will make available outcomes funding to local and regional governments in Portugal that are interested in developing social impact bonds or similar structures. This facility is designed to improve the financial viability of early SIBs and incentivise local government commissioners to move towards paying for outcomes so that innovative solutions can be developed to address key social issues.

3. A Capacity Building Programme (expected to launch Summer 2015)
Portugal Inovação Social will make grants available to social sector organisations to enable them to access support from specialist providers in areas such as financial management, business modelling, impact measurement, leadership and governance. The programme aims to support social organisations to take on investment to develop, strengthen and grow, thereby improving their capacity to expand their valuable work.

4. A Venture Philanthropy Programme (expected to launch Summer 2015)
This initiative will provide match-funding to philanthropic organisations committed to adopting the venture philanthropy approach to grant making. Organisations must commit to providing both financial and non-financial support to grant recipients, thereby ensuring that grantees become more sustainable and effective. The programme aims to promote venture philanthropy in Portugal, benefiting recipient social organisations while simultaneously growing the market for impact and investment readiness support.

APPENDIX B

Portuguese Social Investment Taskforce: Promoting Cross Sector Collaboration

The Portuguese Social Investment Taskforce believes that addressing the financial obstacles faced by the social sector requires a collaborative approach. Convened by the Calouste Gulbenkian Foundation, with the support of Laboratório de Investimento Social and Social Finance UK, the Taskforce brought together a range of organisations and perspectives from across Portugal to think about how to support social innovation and build a social investment market.

The Taskforce launched in July 2014, as a 12 month initiative to promote meaningful and informed discussion about the potential of social investment in Portugal. The European Commission offered generous funding to support our work. The approach used by the Taskforce to develop the five recommendations and the report is outlined below.

The Taskforce divided into three working groups focusing on: (1) knowledge and market intelligence, (2) capacity building for impact and investment readiness, and (3) financing mechanisms for social innovation. Each group explored the topics described in the table below .

Working Group 1: Knowledge and market intelligence	**Working Group 2:** Capacity building for impact and investment readiness	**Working Group 3:** Financing mechanisms for social innovation
1.1 Create a common understanding of market terms and concepts	2.1 Improve the impact assessment capabilities and investment readiness of social organisations	3.1 Assess the potential of innovative social finance mechanisms to finance social innovation
1.2 Promote an outcome-oriented mindset and culture	2.2 Promote an ecosystem of intermediaries to support the broad social investment market	3.2 Identify incentive structures and legal frameworks that are favourable to attract new sources of capital to the sector
1.3 Build a unit cost database of social issues	2.3. Promote evidence- and outcome-based commissioning of social services	
1.4 Promote accreditation systems for social organisations		

The plenary meetings held between July 2014 and May 2015 benefited from direct exposure to international examples:

- In July 2014, the inaugural meeting brought together the experience from the UK and Canada Social Investment Taskforces;

- In November 2014, the members had the opportunity to learn about the growing social investment market in Continental Europe and hear from case studies from Spain, France and Italy. This presentation was given by EVPA – European Venture Philanthropy Association as part of their work to build connections among social investment practitioners in the European Union:

- In February 2015, the plenary session was focused on discussing the findings from the independent research by Calouste Gulbenkian Foundation, Laboratório de Investimento Social and Social Finance UK. Given the extent of the contents and findings, this session was moderated using a live voting system through iPads, giving members the opportunity to express their opinion on key topics and discussing the more divergent ones;

- The draft recommendations and working hypotheses were presented to the wider market in Lisbon and Porto. Workshops were held on youth unemployment, capacity building, financing mechanisms and social innovation, reaching approximately 100 entities;

THEMATIC-BASED FOCUS GROUP

- Youth unemployment: how to finance initiatives tackling youth unemployment through social investment?

STAKEHOLDER-BASED FOCUS GROUPS

- Capacity building for impact and investment readiness: how to build and develop competencies for impact and investment within social organisations?
- Financing mechanisms for social innovation: what mechanisms should be tested in the Portuguese market?
- Social innovation in the public sector: what can public sector representatives do to drive the social innovation agenda?

- In May 2015, the Taskforce members met to discuss and refine the final report. The Taskforce launched their report and roadmap for building a social investment market in Portugal on 26 June 2015.

APPENDIX C
Glossary

Capacity Building: the process of improving the capabilities and competencies of individuals and organisations. Capacity building can cover a variety of tasks including strengthening administrative processes, building operational and financial models, developing performance management systems and improving governance practices.

There are two main types of capacity building related to social investment: (1) impact readiness and (2) investment readiness. Impact readiness refers to strengthening an organisation's ability to measure and monitor social impact. Investment readiness refers to helping an organisation become financially sustainable and access suitable capital.

Debt: capital provided to an organisation with the expectation that the initial amount invested along with interest will be repaid at a future date.

Equity: capital invested into an organisation in exchange for a stake in the business. Investors get the right to a portion of the organisation's earnings that are distributed to shareholders. Unlike debt, there is no legal obligation to repay the amount invested or to pay interest. The legal structures of most charities and social organisations prevent them from raising equity.

Fee-for-service: a contract where the organisation is paid to deliver a set of services.

Financial Mechanism/ Instrument: a tool for raising investment, such as unsecured debt or Social Impact Bonds. A financial mechanism/instrument can be classified as innovative when it either: (1) creates a new way of providing capital to social organisations or (2) adapts a pre-existing mechanism/ instrument to the needs of social organisations.

Financial Return: payment to investors based on the success of the investment and the risk they have taken.

Philanthropy: a donation of capital, time and assets to an organisation or individual.

Grants: capital provided to an organisation without the expectation of any repayment. Grants can be earmarked for a specific purpose or project (restricted grants) or be given to the organisation to invest in any area of the business (unrestricted grants).

Impact Assessment: the process of analysing and evaluating social impact. There are a variety of impact assessment methodologies and approaches, including randomised controlled trials, focus groups and cost-benefit analysis, including methodologies such as social return on investment.

Social Interventions: a project or programme designed to address the needs of a vulnerable person or community.

Outcomes: specific changes in a person's or community's behaviour, ability or situation, such as securing employment, graduating from university, or reducing reoffending.

Outcomes-based contracts: a contract in which payment is made when a defined outcome or set of outcomes are achieved.

Outputs: are the activities carried out by an organisation and/or programme, such as the number of sessions delivered.

Outputs-based contracts: a contract in which payment is made based on reaching output targets.

Performance Management: the processes and systems used to monitor and measure how a programme, strategy or policy is being implemented and delivered to improve performance.

Quasi-equity: capital invested into an organisation in exchange for future payments based on the performance of the business or project, such as a fixed percentage of profit in a year or from a ring-fenced project. There is no dilution of ownership and control and the legal structures of most charities and social organisations allows them to access quasi-equity financing.

Social Investment Intermediary: an organisation that structures social investment products and/or transactions, invests in social organisations or programmes (e.g. a social investment fund) and/or provides capacity building support to stakeholders involved in social investment, including social organisations, investors and commissioners.

Social Impact: the effect of an activity (e.g. intervention, project, policy) on the well-being of an individual or community.

Social Innovation: a new and/or re-imagined solution to a social problem that is more effective, efficient and sustainable than the current solutions and creates value for society.

Social Investment: An investment into an activity, organisation or fund that intentionally seeks both social and financial return and measures both. Social investments can be 'impact first' or 'financial first'. 'Impact first' investments prioritise social and environmental impact over financial return. 'Financial first' investments seek market-rate returns while also targeting social and environmental impact.

Social Return: the social value (e.g. the number of positive outcomes delivered) created by an investment.

Social Sector Organisations (Social Economy Organisations): organisations that primarily exist to solve society's problems, in particular those that affect excluded, unprotected or neglected groups. Social sector organisations can include associations, foundations, cooperatives, mutuals or charities. Together they make up the social sector.

Venture Philanthropy: financial and non-financial support given to social organisations and/or entrepreneurs with a focus on helping them improve their social impact and scale. Support can include mentoring, impact measurement and evaluation, access to networks and performance management support.

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, members from leading public, social and private sector institutions from around the country discussed and debated how to best develop the market infrastructure in Portugal.

This report summarises their main conclusions and presents five recommendations for what is needed to advance the market.

The report's contents do not necessarily reflect the individual perspectives and opinions of the Taskforce members nor the official positions of the entities they represent.

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