

# THE FOURTH SECTOR IN PORTUGAL

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## Executive Summary

The Portuguese impact ecosystem has seen tremendous growth in the last decade. From a system that was mostly underpinned by charitable organizations, it has evolved to one that creates and diffuses innovation, is host to multiple organizations and pilot initiatives and has permeated the actions and policies of central and local governments. This has been achieved by focusing on three key dimensions: human capital, policy and funding.

This report begins by focusing on human capital and how a small but interconnected number of private and public players achieved this transformational change in a very short period of time. In demonstrating the role of cooperation, it underlines how the ecosystem grew by players building something that was bigger than their own individual contributions. Our initial historical overview of the development of human capital will also underline what types of players were key to this growth.

The development of advanced human capital led to innovation in two key areas: policy and funding. At the heart of this transformation one can see the importance of enhancing local and national public policies with an impact mindset along with the use of tested tools. The Portuguese example clearly demonstrates that reciprocal interaction between social and public players strengthens the overall ecosystem. By adopting new practices that emerged from the ecosystem, public policies continue to develop and advancing a direction of impact.

Portugal is home to one of the most advanced combined systems of core and innovative funding for impact. What is particularly interesting about the Portuguese case is how innovative forms of funding for impact -- for example, the social impact bonds or the Fund for Impact Investment - extend the reach and breath of traditional funding rather than replacing it. The result of this articulated system is that impact-led organizations can now benefit from new instruments of funding based on their life cycle, particular organizational structure and the impact generated.

We finish this report by discussing how engagement with markets is pivotal to continue leveraging on all achievements so far. A solid engagement with markets and the private sector would allow the ecosystem to incorporate the views of all key stakeholders working for impact - policy makers, social entrepreneurs, traditional charitable organizations and impact led corporations. We see this movement of engagement across all stakeholders has critical to achieve the Sustainable Development Goals (SDGs) that require cooperation across all interested parties.

In sum, our report showcases an impact ecosystem that has been built on very solid ground, based on a high quality empowerment strategy, with strong networks and human capital, innovative policy initiatives, diverse access to funding and finance and customers that understand the value added of impact-led organizations. We believe Portugal is ready for another successful decade of impact.

## Introduction

What makes the Impact Ecosystem – commonly known as 4th sector – distinct in Portugal? This guiding question is critical as it allows us to focus on the idiosyncrasies that have worked to build one of the most advanced impact ecosystems in Europe. The answer presented here takes the shape of three interconnected elements working reciprocally: human capital, policy and funding.

What we observe is that these three elements have been successful within particular drivers and mechanisms that appear to be unique to Portugal. A particular important one is the role of the private initiative. Private foundations and organizations have been central to generate robust innovation and advancements to the system. But as important to Portugal, public bodies have learned to leverage on this effort and create longstanding partnerships to develop deeper these three elements. *The Economist* ranked Portugal as one of the 7 countries in the world with the most stimulant policy for social innovation on its Social Innovation Index 2016.

This dynamic interplay of private, social and public organizations has been particularly fruitful in the development of the impact ecosystem bringing new opportunities for actors and players in Portugal. For example, in 2017, the country hosted the Opening up to an ERA of Social Innovation High-Level Conference, organized by European Commission<sup>1</sup>, bringing to Lisbon critical players for the impact ecosystem. Another important example, still beginning its first steps, is WebSummit – one of the largest gatherings of technology experts and start-ups linked to technology – that is being gradually converted in a space where tech for good materialises and technology is adopted as a driver for positive impact.

While Portugal has been actually at the forefront, we believe this report will help to understand what are the next steps. Our study highlights that engagement with markets will be a major opportunity in developing the ecosystem further. But, at the present moment, the lack of market forces operating for impact has led to small engagement with the Sustainable Development Goals (SDGs). Therefore, we see as critical that the SDGs become a future critical milestone for the impact sector in Portugal.

Clearly, Portugal has the ability to make success within the SDGs, as it is being doing until now on the impact field, as long as it is able to leverage on the strength of its human capital, public institutions and funding mechanisms, working together along with market forces.

## I. Overview

### 1.1. The development of the Portuguese impact ecosystem: connecting local, regional and national networks

The 4<sup>th</sup> sector in Portugal has been described as the impact sector. It has been characterised by the creation of multiple networks of actors working together to address and tackle societal and environmental problems. This network approach to the development of the impact sector is a key trait of the Portugal system, as it intertwines long established organizations with innovative organizations and new ways of addressing societal issues. This section characterizes how impact

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<sup>1</sup> The first conference totally dedicated to Social Innovation at the European level, promoted by European Commission

initiatives of distinct sizes, shapes, background and focus became connected through a national network. Taking a country level perspective helps to understand the main milestones underpinning this network development and the overall benefits of cutting across and connecting local, regional and national networks for impact.

### **Interfaces of impact and the origins of the network**

Like many European countries, until the early 2000s Portugal was a minor player in the impact ecosystem. Some projects with impact emerged but were scarce and often connected with long standing institutions like religion organizations or Santa Casa da Misericórdia (the largest charitable organization in Portugal). They normally emerged to provide alternative solutions to the provision of social services. Because of their origin, remit and focus, impactful initiatives were still somehow constrained in the innovation they were able to bring to the impact marketplace and often provided incremental rather than substantial change in the way particular problems were addressed in these regions. Anyway impact begun being created also due to their example. Companies were more concentrated in Social Responsibility strategies, not properly aligning their mission with impact creation and revenue streamings.

An example of initiatives emerging on this time is Escolinha de Rugby da Galiza, an initiative born out of Santa Casa Misericórdia Cascais, that uses rugby as a way of offering other possibilities to children at risk. It offers new perspectives about the way they think about themselves and the personal and professional possibilities ahead.

The rise of impact initiatives developed outside the umbrella of big institutions marked a significant change in the Portuguese impact landscape. These novel initiatives addressed the same problems but in distinct ways and in doing so, showed that social innovation could co-exist and regenerate traditional approaches.

Learning across innovative and traditional approaches, new institutions begun constructing a new path in Portugal. A symptomatic example is IES – the school for impact (IES-SBS). IES-SBS brought new learning techniques and approaches that helped to accelerate transmission of knowledge between these two distinct forms of impact – the traditional and the novel.

Naturally, the emergence of interface organizations -- especially this case of IES-SBS and its role as an impact driven school – encouraged individuals from different initiatives to work together. Indeed, it can be argued that the main novelty that interface organizations brought to ecosystem was that they relied on networks to develop solutions for societal problems. The rationale was that by putting individuals in connection, IES-SBS was able to leverage on particular features that they have, at the same time helping them and their organizations to achieve optimal impact in the world (Montgomery, Dacin, & Dacin, 2012).

As the first networks powered by IES-SBS, its methods and approaches began to yield results, many organizations begun being recognized and generate meaningful impact on the social entrepreneurial system. Naturally, others began joining this movement and doing by themselves, creating a movement that encompassed not only urban areas but was expanded to distant networks locally, nationally and internationally.

### **Connecting with geographically distant networks through local power**

As the interface networks were trying to pave way for social innovation to reach out other parts of the country, the building of this impact ecosystem attracted sponsors and ultimately local political interest (for example AMP - Area Metropolitana do Porto, EDP Foundation, Cascais Municipality, among others). Local and national government officials became involved as this was seen by many as a fast track way of building an impact strategy for Portugal. However, they were also contaminated by the enthusiasm shown by private players. Social innovation activity become more prominent, firstly, at local level. Cascais municipality, for example, engaged with IES-SBS to help devise a strategy to foster impact at the municipal level. This was soon followed by a similar exercise in Trás-os-Montes, a remote region of Portugal unknown to most of the country's population. Again, the latter engagement uncovered a very similar reality with successful initiatives feeling relatively isolated even if connected to a local level network. In terms of network, these experiences with Cascais and Trás-os-Montes are also particularly relevant in building understanding about the impact movements and how they were organized at the municipality level. Municipalities were, and keep being, very much the key defenders of impact led mindset, as this create an opportunity to integrate new knowledge in their decision making process and put local players from all sectors in connection.

What these two local examples show is that social innovation was indeed of similar nature in different contexts and geographical areas. However, what it also showed was that isolation and the lack of network was a particular problem for growth and sustainability of impact initiatives, because cooperation seems to be important in these cases. For the national actors it was clear that to leveraged on the positive outcomes being achieved in many parts of the country, a mechanism of connection between initiatives that were geographically remote had to be put in place.

### **Forming a country level network as growth and sustainability mechanism**

At this point in time, the core actors in the Portuguese ecosystem believed that the opportunity was ripe to bring together all the benefits of impact across the country under one large umbrella. Based on previous engagement with individual and local networks of impact initiatives, a framework was devised to identify, reach and support high impact initiatives across the country.

It began with a comprehensive mapping exercise of the main impact initiatives that would then feed in into the formation of a centralized map for social innovation in Portugal (see [www.mies.pt](http://www.mies.pt) for further detail). This mapping exercise was completely innovative across Europe and was important at a country level because it allowed the main actors of the ecosystem to understand which societal problems were being addressed and which were not. As the data began to emerge from the study it was apparent that some geographical areas had a reasonable match between the main identified societal problems and the solutions designed by impact initiatives. Other areas appeared to have a mismatch where societal problems affecting a region had almost been neglected by the networks of local social entrepreneurs.

Notwithstanding, the effects of recognizing the social value of initiatives generated a great boost in self-confidence in the local actors of the impact ecosystem. A learning network focused on growth and sustainability was developed as the main mechanism connecting these exemplars of impact. The potential benefits of a learning network were substantial. On the one hand, it offered ways of connecting actors working to address the same societal problem, through benchmarking. These peer-to-peer exchanges were powerful activities to accelerate transference of best practices. On the other hand, it also offered a tangible mechanism to feed back to the network any knowledge that was absent. If a problem was very pertinent to a region of the country and no solutions could be found in the network, that created an opportunity to address it in alternative ways. IES-SBS, the promoter of the project, was on the support of these initiatives capacitation.

Whilst the benefits of a national network of peer initiatives is of great value to address the issues of isolation and lack of knowledge and sharing, the benefits on growth and sustainability of the ecosystem as a whole were addressed later with the development of Portugal Inovação Social<sup>2</sup>. This was a key initiative sponsored by the central government to recognize to the best initiatives in Portugal and to supply funding and empowerment, allowing for strengthening and replication and growth of the ecosystem as a whole.

In sum, we observe that the main dimension underpinning the success and rapid growth of the Portuguese ecosystem is the willingness of the actors to work together and form local, regional and national networks for impact that cut across and connect different organizational shapes and forms. These networks were crucial at helping to attract funds to the 4th sector, disseminating and replicating positive projects nationally and internationally and developing consolidated growth strategies. They also contributed to educating local and national actors for the change to be operated and promoted the development of an impact mindset across the ecosystem (companies, public players and social sector).

The following section characterizes the main ecosystem players and their unique contribution.

### **Major types of impact organizations in Portugal**

As the above section describes, the impact sector in Portugal has been shaped by many types of players and organizations. This section summarises the key types of impact organizations into four main groups: private sector, public sector, the social sector and hybrids (the ones that regardless the sector where they operate and their juridical structure, have generating impact as their main objective). Table 1 helps us to understand the main traits of each of the typologies. Notwithstanding, as it has been stated, the main asset of all these organizations is their ability to work together.

Portugal has a very eclectic environment in what concerns to the immense ecosystem of organizations working with a social or environmental purpose. Categorizations and definitions can embrace a very different range of organizations. Nevertheless, analysing value/impact

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<sup>2</sup> Portugal Inovação Social was a pioneering initiative that made Portugal the first country to use European social funds to invest more than 100 million euros in social innovation

creation and revenue generation, we see that organizations are more and more oriented to combine both.

Internal financial sustainability is more and more in the central goals of social traditional projects. At the same time, companies are to a greater extent aware of the need to bring real impact to their operations.

In terms of statistical data, social sector is acutely being monitored by the regular statistical publication of Social Economy Account (Conta Satélite da Economia Social<sup>3</sup>). However, on this data, only Cooperatives are providing commercial activities. On the other hand, public and private sector are almost deprived of a real monitoring and data analysis.

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<sup>3</sup> <https://www.cases.pt/contasatelitedaes/>

Private sector:

[https://www.pwc.pt/pt/sustentabilidade/images/pwc\\_responsabilidade\\_social\\_coporativa\\_portugal.pdf](https://www.pwc.pt/pt/sustentabilidade/images/pwc_responsabilidade_social_coporativa_portugal.pdf)

Hybrid projects: EKUI: <https://ekui.pt/>; SPEAK <https://www.speak.social/en/>; CollorAdd

<http://www.coloradd.net/>; Doctor Gummy <https://doctorgummy.com/>; Fruta Feia

<https://frutafeia.pt/en/>; Planetiers <https://planetiers.com/>; BookinLoop <https://www.bookinloop.com/>;

Triger Systems <https://trigger.systems/>

**Table 1**

	Social sector	Hybrids	Private sector	Public sector
Data & numbers	<p><b>Approximately 2.117 cooperatives are operating in Portugal.</b> 2013 data shows this particular sector contributes at the time 0,5% of Gross Value Added.  <b>(total Annual revenue of 2332,1M€<sup>4</sup>)</b>                      Cooperatives employ 24.316 people representing 7% of the national employment.</p>	<p>In 2013 IES-SBS launched the MIES project and mapped the social innovative initiatives in the Portuguese territory. MIES methodology mapped and certified more than 200 initiatives in all the country. The mapping work continues and social innovative projects are popping up everywhere.                      IES-SBS already empowered 4000 alumni only in Portugal, being many of these potential social entrepreneurs/ intrapreneurs across different sectors.  <b>154 organizations that are maximizing the double-bottom line (1600 employees and annual revenues of 38,5M€<sup>5</sup>)</b></p>	<p>71% of the companies show to be aware of the importance of including social responsibility in their strategies, so there is a huge potential for companies act with more impact. 21% of them announce that sustainability is already included in a formal way in their strategies, but boards, having a crucial role on these strategies, should include more and more these objectives and their monitorization in companies' performance objectives.                      61% of companies in Portugal already show to have some kind of support for their boards strategy definition through impact or <i>social responsibility supporting committees</i>  <b>15 companies are certified as Bcorps in Portugal (1564 employees and 178M€ of annual revenue<sup>6</sup>)</b></p>	<p>The public sector involvement comes mainly through public administration, development, economy and social affairs ministries.</p> <p>Dozens of local municipalities are already looking to bring social innovation into their core strategy.</p>
Sectors of activity	<i>Culture, sports and recreation, Housing and Social Action.</i>	<p>Across all sectors: mainly social inclusion, environment, sustainable cities, healthcare, financial inclusion, education, etc                      More and more impact entrepreneurs align their objectives and challenges on the SDG's framework</p>	Across all sectors	Mainly social intervention, public modernisation, culture and economy
Types of organization	Cooperatives	Social entrepreneurs and impact initiatives/ startup, regardless thei juridical framework	Mainly companies and impact startups	Central Government, local public level, municipalities and Intermunicipality organizations.
Examples	Housing Cooperatives, Production Cooperatives such as AGROS.	EKUI, Speak, Coloradd, Dr. Gummy, Fruta Feia, Planeteirs, Book in Loop, Trigger systems	BCorps, GRACE, BCSD – networks and certifications Bayer Portugal, Accenture, L'Oreal Portugal, IBM, Cisco, BP, GALP, EDP are companies cooperating on a strategy to positively impact society	Incubation public projects, co-workings, capacitation and summits on the sector. Govtech, <i>Open up an era of social innovation in Europe</i> , Braga Human Power Hub Initiative are flagship projects.

<sup>4</sup> <https://www.cases.pt/contasatelitedaes/>

<sup>5</sup> 2017 – Estimated by the authors

<sup>6</sup> 2017 – Estimated by the authors

When describing the key types of organizations within the impact ecosystem in Portugal it is important to acknowledge the role of the growing social entrepreneurship movement and the work of many social entrepreneurs developing solutions to longstanding social and societal problems. These projects take various forms in what concerns the legal and organizational form, and this is why they are labelled hybrids. Some of them take a business, private company format, some others end up being cooperatives or associations, mainly according to their business modelling proficiency.

Actually social innovation and entrepreneurship is widely transforming the dynamics and operations of traditional social organizations and companies, so the future seems to show us a trend on more social innovation across impactful projects, regardless of their nature.

The main differentiation point from this social entrepreneurship projects and the traditional sector initiatives is their ability to focus on monitoring and monetize impact and going deeper on their revenue streams potentiality. At the same time, they look to empower their targets and concentrate on expanding and replicating solutions, in order to cut the roots of problems and eliminate them.

IES-Social Business School is making a remarkable work in what concerns social entrepreneurs and intrapreneurs empowerment, either with Bootcamps and Scaling programs, as well as with executive education. Casa do Impacto is beginning to work hard with these targets too and empower them with RISE and Santa Casa Challenge accelerators. Other incubation programs and accelerators are also expanding and allowing these projects to overcome some of their first issues, concerning pilot testing phase, the contact with investors, the creation of strong teams and the learning on the right tools to make their projects evolve from the paper to the ground. Some other examples are MAZE X accelerator and AMPlifica.

Public entities like municipalities, central government, and local public authorities have also been developing their way on the sector. While municipalities work more locally, gathering social organizations and supporting them also through alliance with private sector, government initiatives have been innovative on leveraging investment and innovation for this ecosystem.

Many benefits organizations are also on the traditional private sector and they include many for profitable companies. In Portugal, since we don't have a legal status for benefit companies, they look for being integrated in networks that give them that status in an indirect way. GRACE and BCSD are some of these ones, as we mentioned previously.

Social responsibility and Impact is increasingly seen not only as a marketing department extension, but has a mandatory consumer's demanding, that should be included in companies' central activities.

In Europe in general we know that in the last decade, for-benefit enterprises have increased significantly in visibility (GEM, 2016) and volume worldwide, to the point that they already represent around 8% of the European Union's total GDP and employ 7% of its working population (European Parliament, 2016), Rubio, Diego<sup>7</sup>

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<sup>7</sup> For-Benefit Enterprises & the Rise of the Fourth Sector in Latin America, Diego Rubio

In Portugal, it's quite difficult to estimate how many companies are already adopting the impact agenda and included in the 4th sector. Besides 15 companies already certified as BCorps, many uncounted ones, mainly big companies are increasingly committed with the impact agenda. This trend is clearly increasing, as companies feel the need to compromise on addressing environmental and social impact inside their operational activity.

In Portugal, banks are also still building their first steps on an active role on impact economy.

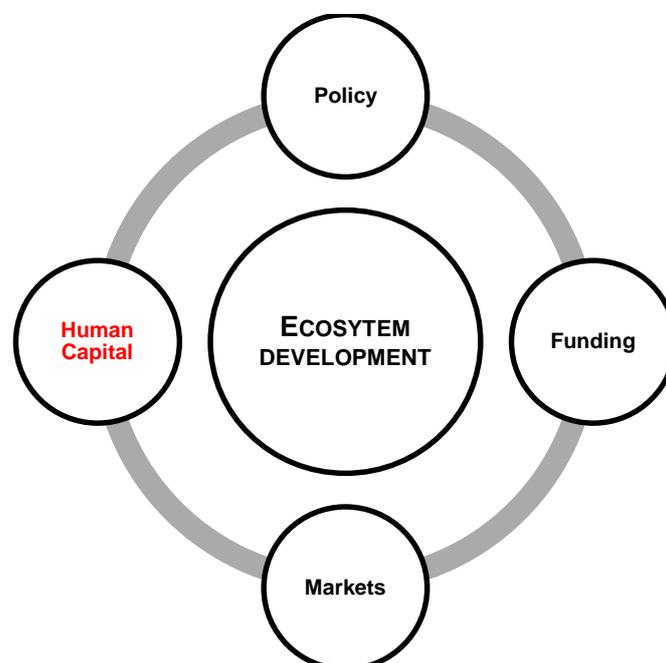
Banks like Caixa Montepio, BPI already have programmes to support social sector, and are clearly supporting social innovation. The mainstream ones concentrate their action on microcredit products and some advantageous credits to social sector, but in order to impact to be central in their operational activity, they need to bring more impact to their core business.

Impact organizations are then spread along different sectors and their nature is diverse. The main trends around the country have been the search to impact monitoring and the development of sustainability models that will allow these initiatives to be more autonomous and efficient regardless the sector they operate on. Private sector is nowadays more mindful on impact and value creation what seems to be designing a future of confluence and impact for the all economic system.

### **Relevant players and current trends**

As emphasized above, the Portuguese 4th Sector ecosystem has been developed through the efforts of different actors that encouraged and developed networks responsible for building the bridges for impact across different fields, organizations and regions.

Among these players, we can found 1) the ones working as the cornerstones of the ecosystem, operating on its empowerment and inner solidification (Human Capital), 2) others responsible for policy progress and innovation (Policy), 3) the funding mechanisms responsible to fuel the whole sector (Funding) and finally 4) the markets (Markets), with a dissemination role in the system – and the ones that still need a call to action in order to a real systematic change to take place.



The contribution of these players makes of Portugal a single, unique story worth to be told. Actually their role and influence can cross the boundaries defined above, but their categorization will certainly be useful to better understand the Portuguese ecosystem and its interconnections:

**1) Human Capital: the ones working as the cornerstones of the ecosystem, operating on its empowerment and inner solidification**

**IES-SBS: paving the way for social innovation across players and regions**

IES-SBS began operating as a school on the education field, providing trainings and bootcamps in social entrepreneurship, mentoring programs, as well as executive education, focused on managerial skills and impact creation. By doing so, it empowers actors across all the sectors, in order to bring more impact to their organizations and to their leadership. IES-SBS is working with the biggest companies in the country, entrepreneurs, public organizations and NGOs, in order to promote a mindset shift from value capture to value creation for society: the building of an Impact Economy.

IES-SBS had a critical role in the launch of MIES (Map of Social Innovation in Portugal) and its methodology to map social innovation. This led to the certification of more than 200 innovative initiatives solving social and environmental problems in the country. IES-SBS has also been the main player behind the institutionalization of a new mindset to the ecosystem by pushing the impact agenda into Universities and other mainstream educational providers, as well as traditional markets and public sector (local and national level).

**Universities working side by side to develop educational solutions:** Nova School of Business and Economics and Católica Lisbon of Business and Economics are some of the main players bringing the impact thinking into the education field. Nova SBE offers executive and Master level Education in Social Innovation and Impact and has a Research Center on Leadership for Impact. Católica Lisbon recently opened a new Chair of Social Entrepreneurship, offering executive and master level education on the field, as well as executive education and customized acceleration programs. University of Oporto, Universidade Europeia: IPAM and IADE, Católica University in Porto, Coimbra University, Instituto Politécnico de Santarém, Instituto Pedro Nunes among others, are also following this trend bringing more impact to their education fields. Recently, Singularity University arrived to Portugal through a partnership between Nova University and Beta i, one of the biggest startups incubators in Portugal. Being more focused on executive and exponential technological education for impact, it organized in 2018 its first Summit in Portugal, in order to discuss how exponential technologies could help to solve the country and the world's problems. What is interesting about the way Universities adhered to the movement is the extent through which they collaborated by sharing resources, drawing on the same individuals and ultimately findings ways to align their main message, so that the ecosystem could be developed.

**Incubation and acceleration:** Incubating and acceleration programmes are crucial in the establishment of local, regional and national impactful business ecosystems, as they support the efforts of different actors and entrepreneurs on the field. Portugal have been seeing the rise of distinct forms of acceleration that complement each other – programmes on the field, virtual

accompaniment and mentorship programs as well as acceleration of new ventures, that have been supporting the emergence of solid projects around the country.

Santa Casa da Misericórdia is an example of that. It is a private organization, that launched a new co-working space in Lisbon to impact start-ups & initiatives: *Casa do Impacto*. Casa do Impacto designates itself has a space for new impactful ideas and the development of new impact businesses, a new community for the ones that want to be on the lead of the impact trend. In order to accomplish that, it has been developing new incubation and acceleration programs (RISE<sup>8</sup> and Santa CASA Challenge), as well as the building of an empowered community, able to leverage the ecosystem. Their focus is on supporting the life cycle of impact initiatives at different stages of their development. Santa Casa, the main umbrella organization for this project, remounts its origins on the XVI century, when the first charitable Misericórdias emerged in the country to assist the poorer and people in need. Now they work as investors, empowering and funding early stage projects, as well as ecosystem developers.

Beta i, Startup Lisboa, Acredita Portugal, Bet 24, DNA Cascais, Startup Braga and startup Porto embrace more market oriented incubation programs and contests, while Impact hub co-working, IRIS incubator, Montepio Social Tech (accelerator), Impact generator (accelerator), Bolsa de Empreendedorismo Social challenge, IPAV Ubuntu incubator, Agência dos Empreendedores Sociais, Hack for Good and AMPlifica, are more centered in societal challenges and social businesses approach. These examples are an important face of the ecosystem as they attract players from different origins into the impact sector.

Besides this established players, we observe that many of the activities rooting this strong ecosystem are being lifted on the efforts and actions of civil society initiatives that bring a significant dynamism to the sector. Some of the most prominent communities like MakeSense – the biggest community of social entrepreneurs in the world-, Repair Café, Circular Economy Portugal are examples of formal and informal organizations bringing new trends, events and activities to the Portuguese agenda. Indeed, the numbers show that 3,2% of the Portuguese active population are involved in launching organizations with social mission, which means that around 160.000 people in Portugal are committed and engaged in constructing a better world<sup>9</sup>.

## **2) Policy: Organizations responsible for policy progress and innovation**

A very encouraging indicator of the development of the 4th Sector in Portugal is the way private, social and public organizations are working together on the construction of new frameworks that are empowering and leveraging the system to a new level. Actually they have all been quite entrepreneurial and supporting each other on this path.

In what concerns the public sector, it has been showing an immense ability not only to leverage private initiative innovative projects, as well as promote its own ones. For example, its flagship program, the already mentioned ***Portugal Inovação Social*** (responsible for allocating 150 million euros of European funds to social innovation) operates on the funding, capacitation and

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<sup>8</sup> Former PAES program

<sup>9</sup> <https://observador.pt/opiniao/vencer-o-desafio-da-inovacao-social/>

empowerment of impact initiatives, but it was an idea that was first nurtured and organized within social and private partners of this ecosystem, namely IES-SBS, MAZE and Calouste Gulbenkian Foundation.

Now, the Government of Portugal, through its *Ministério do Planeamento* is deeply committed to promote social innovation in public policy agenda and position Portugal as one of the most advanced countries on social innovation field. This was recently highlighted by *The Economist*<sup>10</sup> that ranked Portugal as one of the 7 countries in the world with a most stimulant policy for social innovation.

Moreover, many fiscal incentives for this sector, as well as taskforces and best practices applications, as well as new policies suggestions have been emerging from private players initiative, namely Maze through the *Taskforce for social investment*, as well as the *Social Innovation Agenda*, proposed by a citizen movement called *Portugal Agora*.

The links between public and private are also critical in the way they contribute to the 4th sector advance at municipal level. Many municipalities, metropolitan/inter-municipal areas are already working on their own ecosystem development and policy development, promoting incentives, incubation and acceleration, as well as investment strategies for social innovation structuration (most expressive examples are municipalities of Cascais, Amarante, Braga, Área Metropolitana do Porto, among others). On this context they deeply rely on investment and insights of private players, that work on the ground with the main territorial challenges and bring to the table valuable practical knowledge.

Moreover, more formal legislation settings, they are also been developed in the context of the Economic and Social Council<sup>11</sup>, that brings together, as an advisor board, many of the already mentioned cupula organizations for the sector.

### **3) Funding: as a critical mechanism to the whole sector**

On the funding field Portugal has been doing extraordinary evolution. Some organizations have been performing a key role in the innovation of the funding mechanisms, naming Maze and Portugal Inovação Social. Other entities have been contributing also for this change like Santa Casa da Misericórdia, Fundação Calouste Gulbenkian, Fundação EDP, Fundação PT, CASES, Fundação Montepio, Fundação Aga Khan, Fundação Manuel António da Mota among others, that continue reinforcing their role as the main philanthropists and impact investors on the country, along with some companies actively financing impactful projects.

MAZE – former Laboratório de Investimento Social – was the first player dealing with impact investment in the country. They were launched in a cooperation between Gulbenkian Foundation and IES-Social Business School. Nowadays its main focus is on building capacity through its accelerator program– impact generator and MAZE X -and connecting impact investors with valuable projects. MAZE is also responsible for the launch of the first social impact bond in

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<sup>10</sup> *Social Innovation Index 2016, The Economist*

<sup>11</sup> <http://www.ces.pt/>

Portugal, as well as the One Value initiative, a free and user-friendly platform that aggregates information about the unit costs of different social problems in Portugal<sup>12</sup>.

Now they are launching a new Fund for Impact Investment in tech solutions for climate and social change (MusterSeed MAZE fund), aiming to reach at least 30 million euros in the coming years, as well as advising many investors to play more inside this field.

Santa Casa da Misericórdia is also working on the launching of a strategic philanthropic fund, whose main objective is to support early stage social start-ups and initiatives on the field, in order to increase the pipeline of projects aligned with the UN Sustainable Development Goals. This fund estimates to reach an investment of 500.000 eur per year.

Portugal Inovação Social is the promoter of another fund for social innovation in the country. The Social Innovation Fund is a 55M€ public investment fund aimed at stimulate the social investment market and facilitate access to finance for social sector organizations and small medium enterprises<sup>13</sup>. It has two instruments: 1) a Debt instrument - with a wholesaler approach, it provides guarantees to the credit institutions, allowing them to make loans at below the market conditions and 2) Equity - equity and quasi equity instrument, that will co-invest alongside private investors directly in impact projects, becoming a hands off shareholder of the venture. Henceforth, the main objective is to allow impact projects to access in an easier way to financing instruments and develop more solid operations.

On this ecosystem, another key initiative is GEOfundos<sup>14</sup>: an innovative project that emerged from the cooperation of many players on the market (mainly foundations, public and social players) and it brings together, in the same web platform, all the funding opportunities available in the market for social sector organizations, with operations and headquarters in Portugal. It's already a project taking the first international steps with Italy adopting a similar *GEOfundos* model through a social franchising strategy.

#### **4) The markets: connecting social and commercial approaches**

It's also worth to mention the importance of the private companies' involvement and their importance and contribution within the fourth sector framework. Some networks are doing their effort on this direction. like the BCorp movement (Benefit Corporations for Portugal and Portuguese African speaking countries), networks of Social Responsibility like BSCD and Grace<sup>15</sup>, and many consulting firms that advice not only on corporate social responsibility but also advice many impactful entities in their innovative projects. Sair da Casca, Stone Soup consulting, TESE, Skillent are some examples of these players.

GRACE for example produces many studies with its associates and shows a big evidence on how Portuguese companies are working directly in order to produce environmental and social impact,

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<sup>12</sup> <https://onevalue.gov.pt/>

<sup>13</sup> <https://www.fis.gov.pt/en/>

<sup>14</sup> [www.geofundos.org](http://www.geofundos.org)

<sup>15</sup> <http://www.grace.pt/>; <https://www.bcsdportugal.org/>

as well as to give better working conditions to its employees, incorporating impact in all their value chain. Studies on environmental and social impact, case studies and guides for social responsibility are available on their website<sup>16</sup>.

Talking about Bcorps, for example, we see that the Portuguese ecosystem is very diverse. We can find the start-ups and small companies joining this new movement, but also big and sustained organizations like Hovione - a Portuguese company that produces active pharmaceutical ingredients and drug manufacture – that have been actively contributing to a fairer and healthy future on the planet.

BCSD is an international organization with a chapter in Portugal and they have been deeply working on the alignment of their members into a Sustainable Development Goals agenda, creating taskforces, capacitation programs, executive education and setting the roots for further discussion around companies sustainability and contribution to society.

These networks they connect not only private players in order to make them be more impactful in their activities, but also maintain them very close to the country challenges and main societal problems, making them more active as impact makers.

Since the moment Portugal attracted the first Social entrepreneurship conference in 2008 by the hands of IES-SBS - The Conference in Social Entrepreneurship in partnership with INSEAD, many things evolved. Now Portugal is also the base for the largest tech, innovative world fair - WebSummit. Here, impact and how it affects business (as well as the other way round) is widely discussed. Players of the whole 4th sector, mainly companies, can openly interact and have strong discussions on how they can contribute to a more open, effective and promising future. Singularity University is also approaching companies, helping them to set their agenda on exponential growth and impact.

We believe this loop of innovation, technology, business and compromise are making Portugal a world class country where there is a space for a growing 4th sector and much more cooperation on our shared challenges.

### **Bringing it all together: the power of advanced public policy in developing the impact ecosystem**

Portugal is considered a blueprint when it comes to policies that aim to foster social innovation and to boost the fourth sector framework and impact ecosystem.

Our research shows that the transformation being operated in Portugal emerges deeply from a system that was very much rooted on public funding and also on its support for more innovation. As showed before, our research attributes this to the work of many players (local and national public entities, as well as some private ones), however this section describes the role and influence of advanced public policy within the ecosystem.

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<sup>16</sup> <http://www.grace.pt/publicacoes/fichassetoriais>

The most notable example of advanced public policy was the creation of the **Mission structure “Portugal Inovação Social” (EMPIS)**, already referred before. EMPIS is a governmental initiative that aims to promote, foster and boost social innovation in Portugal, created by Ministers’ Council Resolution nr. 73-A/2014 and changed by Ministers’ Council Resolutions nr. 74/2016 and nr. 157/2017. This particular initiative is using EU funds in order to create a social investment friendly ecosystem in Portugal.

The program has an endowment of one hundred and fifty million euros and supports social entrepreneurship ventures through four axis of intervention:

- *Capacity building vouchers*<sup>17</sup> – these vouchers intend to help impact venture to become investment ready. It might be used to improve the business, growth model or management skills on the organization;
- *Match funding*<sup>18</sup> – it is a financial philanthropist mechanism. This instrument aims to help impact ventures to implement a particular development through a match funding process, where private investors are invited to cover 30% of the development costs and EMPIS would cover the missing 70%.
- *Social Impact Bonds*<sup>19</sup> – This is an innovative financial instrument to support innovative projects in domains of public policy such as health, education, justice. Private investors are invited to support a specific venture and contract impact KPIs. The payment/reimbursement of the private capital will be done according to the projects’ outcomes and impact.
- *Hedge fund*<sup>20</sup> – This is a hybrid fund that operates on both ends – capital (as a guarantee to financial institutions) and debt (equity and quasi-equity operation directly to impact ventures).

Also of great relevance on public policy within the impact ecosystem are the **Social Security Cooperation Agreements**<sup>21</sup>. Cooperation agreements are a compulsory regulation mechanism in cooperation relationships between social security regional poles (CRSS<sup>22</sup>) and Private institutions of Social Welfare (IPSS)<sup>23</sup>.

Beyond IPSS, House of People and Cooperatives<sup>24</sup> are also comprehended by these agreements, as long as they pursue social action related to the creation and maintenance of social services and equipment.

Cooperation Agreements<sup>25</sup> have as main objective the pursue of actions such as all that are linked to prevention or amendment of needed situations, dysfunction or social marginalization, as well as community development and social promotion and integration based on a stimulus and support to these institutions initiative (Norm III). Therefore, this Government-decree regulates

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<sup>17</sup> <http://inovacaosocial.portugal2020.pt/index.php/programas-de-financiamento/capacitacao-para-o-investimento-social/>

<sup>18</sup> <http://inovacaosocial.portugal2020.pt/index.php/programas-de-financiamento/parcerias-para-o-impacto-2/>

<sup>19</sup> <http://inovacaosocial.portugal2020.pt/index.php/programas-de-financiamento/titulos-de-impacto-social/>

<sup>20</sup> <http://inovacaosocial.portugal2020.pt/index.php/programas-de-financiamento/fundo-para-a-inovacao-social/>

<sup>21</sup> Law n° 32/2002, 20<sup>th</sup> of December

<sup>22</sup> Centros Regionais da Segurança Social

<sup>23</sup> Instituições Particulares de Solidariedade Social

<sup>24</sup> Cooperatives are foreseen in numerous areas, in respect to the legislation that is applied to them, but only are acknowledge for this measure, educative and socio-economic development ones, constituted by beneficiaries or their parents.

<sup>25</sup> Government-decree n° 75/92

cooperation relationships between social security and IPSS, Cooperatives and Houses of People that pursue, without profit seek, social actions on needed people (Norm V), handicapped (Norm VI), children and youth, family and community (Norm VII), handicapped adult (Norm VIII), aged population (Norm IX) and develop these activities within social establishments, such as kinder gardens, crèches, supportive day-care centres for children, young or aged persons, occupational and supportive centres for handicapped citizens, holiday centres, therapeutic communities, centres for addicted population or social refectories (Norm X), as well as other parallel services like support measures to familiar collocations, nannies, domiciliary services or people accommodation (Norm XI).

Public policies also promoted a **Tax-exemption status given to Non-profit organizations** (non-exhaustive), in terms of VAT, realties and others. These exemptions are granted to public collective people, from the associative kind, employers' associations and confederations, organizations working for public good, trade unions and parental associations, among others. Different tax exemptions also apply to impact led organizations, according to particular cases. For example, private investors that invest in social impact bonds, can have fiscal benefits until 30% on their profits each year, having the possibility to consider these investments as costs for the company<sup>26</sup>.

In sum, experimental and other more traditional policies are being implemented in order to foster social innovation and impact investing.

EMPIS was created as an experimental set of policies to support innovative solutions for important and neglected societal problems that are not being tackled by mainstream solutions or policies. Regardless the bold approach, EMPIS has not still been able to achieve all their goals, since the ecosystem needs time to answer to incentives. At the same time, more work still needs to be done to promote more align for impact in both social and private sector.

We believe that this will be accelerated when policy makers begin to look at organizational purpose and outcomes, rather than legal form<sup>27</sup>. This is an important question as it puts focus on outputs rather than legal form. The benefits would be obvious for bringing players together, but they are still not very perceptible for government structure.

Moreover, a purpose driven policy would help to tackle the current lack of capacity in building initiatives that enhance the performance of impact driven organizations.

The good news is that the ecosystem is now changing and public entities seem to be more aware of these needs. There is also an unprecedented engagement with markets, seen for example in GOVTECH initiative<sup>28</sup>, that we believe will reshape ecosystem very soon.

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<sup>26</sup> Portugal was the second country in the world to implement this kind of benefit for investment in social impact bonds: <http://inovacaosocial.portugal2020.pt/index.php/programas-de-financiamento/titulos-de-impacto-social/>

<sup>27</sup> *Something Portugal Inovação Social* seems to be working with vanguardism.

<sup>28</sup> <https://govtech.gov.pt/>

## II. SDGs and the impact ecosystem: the importance of markets

This report has argued that the Portuguese ecosystem has seen a tremendous growth in the last decade based primarily on the effective and innovative articulation between private, social and public organizations. This section builds on this insight to look into the future. Our research has shown engagement with Sustainable Development Goals (SDGs) as critical to be developed over the next decade.

The reasoning is simple. The SDGs are world commitments around different subjects that aim to positively transform the way societies work and tackle societal and environmental challenges. Impact organisations in Portugal are, at different levels, recognising the importance and potentiality of SDGs to allow for a common language for action and to tackle country's internal challenges in a collaborative way. Under SDG goals we can observe how commercial organizations driven by market logic, public and social organizations can work and act together on specific societal goals.

In what concerns public initiative, the GovTech<sup>29</sup> contest/challenge is an example of how a common language allows organizations to act. This initiative aimed to create awareness on the alignment of companies' operations and their contribution to the SGD goals (many of them were not aware they were creating impact), as well as bring citizens and traditional social initiatives to a common ground. To achieve this, SGD objectives were used as a basis for action and to present proposals for the government contest. Definitely, the success of this initiative lied on the way it showed citizens, private and social organizations that their efforts could be aligned and contribute to a common goal.

One of its bigger contributions was also to put SGD's objectives, technology and the Portuguese government in alignment, and set this agenda for the future.

In terms of private initiative, we see a great potential for impact in expanding the SGDs into mainstream markets. At the moment there are few but relevant initiatives operating in this space. Global Compact Portugal, for example, has operated since 2007 and continues to do a remarkable job bringing SGD's to companies' discussions. Moreover, BCSD Portugal has also organized particular activities and taskforces aligned with the SDG's objectives. Finally, GRACE Portugal is also guiding the work of all their associates (private companies) into SDGs, following a specific guide published in 2015.<sup>30</sup>

Other flagships projects have also been emerging in alignment with SGD. Casa de Impacto is a recent example, aligning its policy on SGD with a clear orientation on its purpose, and bringing them inside their acceleration programs and agenda. Portuguese rockstar projects like Wechangers, Trigger Systems, Color Add, MakeSense Portugal, among others are some of the examples of initiatives that not only work with purpose but also in alignment it with SDG agenda. For the moment, this agenda is not so strongly emphasized in the core of the traditional social sector yet, so here the challenge is making more traditional entities addressing their causes in line with SDG language.

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<sup>29</sup> <https://govtech.gov.pt/>

<sup>30</sup> [http://www.grace.pt/conteudos/00/62/00/00/Guia\\_Desenvolvimento-Sustent%C3%A1vel\\_5901.pdf](http://www.grace.pt/conteudos/00/62/00/00/Guia_Desenvolvimento-Sustent%C3%A1vel_5901.pdf)

Finally, we see the SDGs as a source of innovation for the ecosystem. By focusing on areas that cut across the traditional social sectors they had opened opportunities for different players to reshape or complement the way impact is delivered and establish a common language and orientation. A clear example is the clear growth of private, public and civic society initiatives that are working under goal number 11 - sustainable cities and communities. BCSD network is a clear example of that, with its orientation through a new vision on a Society 5.0. Other organizations have actually come together to embrace this goal and have acquired shared land for growing organic produce, bike, scooters and car sharing solutions and other mobility solutions that are underpinned by the sharing economy concept. This movement is already represented by many other businesses like uber, lime, drivenow, etc and should continue its expansion in the times coming.

Bringing SDG's to the centre of economy, society and impact creation models, is the next big step in Portugal. Here all the sectors have a play to role and collaborate and companies will have a central role, not only on making this a real possibility, but also creating the incentives for a wide and exponential replication of impact, through their structure and economical and advocacy power.

## **Recommendations and conclusions**

This report has detailed the evolvement of the impact ecosystem in Portugal, its main players and strengths. We have argued that the success of the Portuguese ecosystem has been rooted on the interplay of three key dimensions: human capital, advanced public policy and funding. In addition, we have argued that bring market oriented players into the impact agenda and action through the SDGs is the next relevant milestone for this ecosystem. We conclude this report by leaving three important recommendations for the continued success of Portugal in the impact economy:

1. **Next big step: bringing the corporate sector to the central stage of impact creation.** It has been clear to us that the SDGs have allowed for a joint dialogue between impact actors and organizations. However, if societal transformation is to happen, corporate partners must have a central role to play and intrinsic ownership of the SDGs agenda. This could be easily achieved if the government continues to leverage on the great dialogue with impact players and found ways of rewarding purpose and impact outcomes rather than legal structure. The immediate benefit would be a wide set of players working together to achieve a structured and comprehensive impact agenda.
2. **Create a common impact agenda and ways to measure it across the country:** While we celebrate the tools brought to the fore by consulting and think tank organizations, we believe that is also critical to find common measuring mechanisms that can measure impact across multiple organizations and places. We believe that this should be achieved by building on the forums that already exist. By bringing the multiple efforts together, a clear Portuguese agenda could emerge alongside with simple tools to measure progress and impact goals.

3. **Bring the impact agenda to the education system.** Our study has demonstrated that Universities are at the forefront of impact education with multiple programmes and initiatives at this level. However, we see that impact could be easily introduced earlier. The immediate benefit would be the acceleration of learning in this domain and the potential creation of further and more advanced initiatives at all levels, including academia. If students contact with impact concepts earlier, they will be more informed citizens and later arrive at the University with more awareness of impact. This is the cornerstone to develop an impact mindset, more impactful skills and profound transformation.