

U. PORTO

FEP FACULDADE DE ECONOMIA
UNIVERSIDADE DO PORTO

Social Impact Bonds: The Portuguese Case

Francisco Silva Vicente Ferreira

Dissertation

Master in Finance

Supervised by

Cláudia Alexandra Gonçalves Correia Ribeiro

2019/2020

Abstract

Considered by some authors as an emerging social policy instrument capable of funding innovative social programs while generating profits for investors and savings for governments, Social Impact Bonds (SIBs) are still very marginally explored in Portugal in opposition to what happens in other countries.

In fact, Portugal is at the stage of a pilot project in the European level. The European Community decided to experiment the allocation of specific community funds into social developing projects and chose Portugal as the country to be the model. This specificity brings an increasing relevance to the Portuguese case analysis because it is seen as a reference for other countries who consider the same methodology.

This dissertation investigates which are the factors that lead the Portuguese social sector to select SIBs as the mechanism to finance social innovation and social development projects allowing the understanding of which are the conditions that make SIBs an appealing financing alternative. Additionally, the instrument's drawbacks are explored in order to understand why SIBs are not explored in Portugal with the same intensity as in other countries. The investigation will be developed through a multiple-case study approach and the main sources of empirical data are qualitative, namely, interviews with key SIBs participants. Data regarding the same dimension will be addressed considering the standpoint of the different participants. This approach is called Triangulation and is a method that enriches the research in terms of robustness.

Research findings indicate that the attachment to the European community funds framework brings multiple difficulties into the SIB development process. These obstacles are related not only with operationalization – high administrative burden and vast bureaucracy – but also in terms of return rates limitations for investors.

Key-words: Social Impact Bonds, social impact, community funds, social responsibility, innovation, social development, public savings, return rates

Resumo

Considerados por alguns autores como um instrumento de política social emergente, capaz de financiar programas sociais inovadores e ao mesmo tempo gerar lucros para os investidores e poupanças para os governos, os Títulos de Impacto Social (TIS) são ainda muito marginalmente explorados em Portugal ao contrário do que acontece em outros países.

De facto, Portugal é palco de um projeto piloto a nível europeu. A Comunidade Europeia decidiu experimentar a atribuição de fundos comunitários específicos a projetos de desenvolvimento social e escolheu Portugal como país modelo. Esta especificidade traz uma relevância crescente para a análise do caso português pois este constitui uma referência para outros países que considerem adotar a mesma metodologia.

Esta dissertação investiga quais os fatores que levam o sector social português a eleger os TIS como mecanismo de financiamento de projetos de inovação e desenvolvimento social, permitindo compreender quais são as condições que tornam os TIS uma alternativa de financiamento apelativa. Além disso, as desvantagens do instrumento são exploradas a fim de compreender por que os TIS não são explorados em Portugal com a mesma intensidade que em outros países. A investigação será desenvolvida através de uma abordagem de múltiplos casos de estudo e as principais fontes de dados empíricos são qualitativas, nomeadamente, entrevistas com os principais participantes nos TIS. Os dados relativos a uma mesma dimensão serão abordados considerando o ponto de vista dos diferentes participantes. Essa abordagem é chamada de Triangulação e é um método que enriquece a pesquisa em termos de robustez.

Os resultados da pesquisa indicam que a ligação ao quadro de fundos da comunidade europeia traz múltiplas dificuldades para o processo de desenvolvimento do SIB. Esses entraves estão relacionados não apenas à operacionalização - alta carga administrativa e grande burocracia - mas também em termos de limitação das taxas de retorno para os investidores.

Palavras-chave: Títulos de Impacto Social, impacto social, fundos comunitários, responsabilidade social, inovação, desenvolvimento social, poupança pública, taxas de retorno

Content Index

Abstract.....	i
Resumo.....	ii
Content Index	iii
Index of Tables.....	iv
1. Introduction	1
2. Literature Review.....	6
2.1. The debate around public savings.....	7
2.2. Risk transfer from the public for the private sector.....	7
2.3. Transaction Costs	8
2.4. Conditions for the success of SIBs	9
2.5. Ethical evaluation of SIBs	10
3. Methodology.....	13
3.1. Interviews.....	15
3.1.1. Portugal Inovação Social	17
3.1.2. Implementing Entities	19
3.1.3. Investors.....	20
3.2. Analytical Framework.....	21
4. Results	25
4.1. Choosing SIB as financing mechanism.....	26
4.2. Portuguese SIBs' Governance Model	28
4.3. The investors' standpoint	31
4.4. Willingness to readopt the SIB model	38
5. Recommendations.....	40
6. Conclusion.....	42
References.....	43

Annexes.....	46
--------------	----

Index of Tables

Table 1 - Social Impact Bonds launched in Portugal	15
--	----

Table 2 - Topics covered and respective respondents.....	23
--	----

1. Introduction

The global crisis of 2008 unleashed a wave of pressure among governments worldwide. Governments were imposed to reduce their deficits and apply severe budgetary cuts in many welfare areas. These circumstances brought the need to modernize social policies, promoting their effectiveness and efficiency. The necessity to restrict public welfare expenditures incited practitioners and scholars to propose changes in the welfare ground. Among them there was the fill of funding gaps by private philanthropy, the devotion of more resources to prevention of social problems rather than to their cure and finally giving more attention to the actual impact of social policies in order to get the most out of public resources (Maier, Barbetta, & Godina, 2018).

Moreover, the financial crisis generated another sense regarding the purposes of finance. This period was crucial for the development of Impact Investment which involves the financing of projects and enterprises that have an explicit social purpose. A response for the 2008 crisis has been the recommendation that finance could be put to good use embracing the spirit of ethical entrepreneurship which advocates that business models may reflect the inventors' civic-mindedness (Dowling, 2017).

In this context, Social Impact Bonds (SIBs) emerged as an innovative financial scheme for delivering public services. SIBs were proposed with the rationale of "payment-by-results" or "pay-for-success". SIBs are a financial instrument whose objective is to attract private capital to finance welfare programs tackling social issues. Social Impact Bonds provide investment to address social challenges and aim to fund preventive interventions. They link financial success to the delivery of measured social outcomes. If, and only if, the social outcome improves, the outcome payor repays the investors for their initial investment plus a return for the financial risks they took. Therefore, SIBs are viewed not only as a financial product but also as a template for social policy interventions, aiming to save government expenditure and to increase the quality of social service provision with the contribution of private organizations and financial markets (Berndt & Wirth, 2018). Despite the designation, SIBs are not proper financial bonds but rather future contracts on social outcomes and can be issued either as debt capital or, more frequently, as equity in the form of donations (Joy & Shields, 2018).

Considered by some authors as an emerging social policy instrument capable of funding innovative social programs while generating profits for investors and savings for

governments, SIBs are an innovative social scheme that involve, frequently, four different parties: commissioners – usually central or local government bodies responsible for guaranteeing the provision of services to target populations; service providers – normally a charity, non-profit organization or a social enterprise who will deliver the services commissioned; external investors who cover the up-front cost of the service provision, in exchange to the repayment – by the commissioner - of the initial investment in addition to predefined return if the targets of the investments are accomplished; finally, specialist intermediaries – normally called Special Purpose Vehicles (SPV) - who are involved in developing the project, securing the contract with commissioners, facilitating investment and managing the project's delivery. Additionally, given the importance of evaluating the outcomes of the investment, an independent evaluator may be appointed for measuring the effects and assessing the success of the intervention (Fraser, Tan, Lagarde, & Mays, 2018). SIBs are complex instruments which involve multiple stakeholders whose incentives are potentially problematic to align.

Notwithstanding the fact that SIBs are a recent financial instrument they have already been implemented in numerous countries. Since the first program launched in Peterborough (UK) in 2010, which was designed to reduce the recidivism in the Peterborough prison, SIBs have raised a total amount of \$440 million through 137 initiatives distributed across 25 countries and 5 continents. The issue area of SIBs comprises social matters such as workforce development, housing and homelessness, health, child and family welfare, education and early years, criminal justice and, finally, poverty and environment.

Being the country pioneering the initiative, the UK, is nowadays, the nation with the highest number of SIBs launched. In accordance with the Impact Bonds Global Database¹ provide by Social Finance, 47 initiatives were already unveiled in the UK. Secondly, comes the USA with a total of 26 projects launched. Despite the global dispersion, these two countries are, notably, the leading nations in what concerns the number of initiatives launched.

In fact, the British government developed several organisms to support SIB implementation close to the social agents and the entire community. One of the organisms created was the Centre for Social Impact Bonds which - working in partnership with a range of stakeholders, including local commissioners, service providers, academics, social investors,

¹ <https://sibdatabase.socialfinance.org.uk/> (consultation date: 11/02/2020)

intermediaries, and departments across government - aims to catalyse the development of SIBs at scale. Another example is the Government Outcomes Lab (GO Lab), a partnership between the Centre for Social Impact Bonds and the Blavatnik School of Government at the University of Oxford, whose mission is to support innovative public sector commissioning to achieve better social outcomes through world class academic research and practitioner engagement.

In spite of the considerable success regarding the instrument application, previous works on the topic of Social Impact Bonds have suggested the need for a systematic analysis of the benefits, costs, risks, and contractual schemes in SIB projects in order to understand if and how they can effectively contribute to the welfare issues and what are the key dimensions which need to be addressed in order to assess their applicability and success. This dissertation intends to contribute to the current debate on the role of SIBs for the future sustainability of the welfare state. More specifically, this dissertation focuses on the Portuguese reality, performing an analysis of the SIBs that were implemented in Portugal targeting the establishment of a parallelism between the Portuguese economic and social reality and the applicability of Social Impact Bonds.

The relevance of the Portuguese case and its analysis is enhanced by a unique characteristic of the Portuguese SIBs: specific community funds to finance SIBs. European Union decided to test the success of allocating community funds into the support of innovation and social entrepreneurship projects. Therefore, in Portugal there is a specific entity – Portugal Inovação Social (PIS) – which is leveraged to the current community framework working as a commissioner. PIS has a determining role on the development of Portuguese SIBs since it finances, through a contracting mechanism and payment for results, innovative projects in priority areas of public policy. Therefore, the Portuguese case constitutes a pilot experience at the European level and is seen as a reference for other countries who consider the same methodology.

This particularity provides a different character to Portuguese SIBs, since the connection to the European community framework has attached exactitudes that will differentiate the Portuguese case from the SIB reference model. In the Portuguese context there are three main participants: PIS who acts as the commissioner, repaying social investors when the initiatives accomplish its goals; Implementing Entities (IEs) who act as the service providers, working directly with the target population in order to reach the ambitioned social outcomes and, finally, the investors who provide the up-front capital to finance the designed

projects. In the Portuguese context, IEs also have the duty of measuring results and reporting these to PIS. The participants nomenclature is just on of the differences comparing Portuguese SIBs from the reference model and these differences are the key factor to understand Portuguese SIB state.

Therefore, this dissertation answers the following research questions: *What factors lead Portuguese policymakers to choose implementing SIBs over other financial mechanisms to provide social services? Why are SIBs an underexplored financial scheme in the Portuguese welfare state? Based on the launched experiences, how willing are SIB participants to readopt the SIB model?* In order to answer these questions, it is conducted an in-depth case study of the SIBs that were executed in Portugal analysing the development phase and the outcomes of the initiatives, perceiving which conditions were determinants of success or failure in the Portuguese SIBs.

In Portugal, the capital raised with SIBs is, approximately, €3.5 million through 10 different initiatives. Currently, there are 10 different projects taking place and some of them are multi-regional. These initiatives tackle social issues related with Education, Unemployment, Social Inclusion and Health and the cities that welcomed the projects were Lisbon², Porto, Amarante, Coimbra, Fundão, Setúbal and Évora³.

Bearing in mind this expanding prominence of SIBs on the Portuguese welfare system, it is important to study this innovative financial scheme considering the Portuguese reality. Therefore, this dissertation provides an overview of the state of art of the most relevant literature concerning social impact bonds and a comprehensive analysis of recent contractual models by focusing on the Portuguese Social Impact Bonds and on the Portuguese welfare state. This dissertation analyses the expanding interest of the Portuguese state and the Portuguese municipalities to outsource the funding of their services aiming to understand their incentives, motivations, and ambitions. Moreover, the functioning of a community-based financing model is scrutinized.

The work will be developed across three main sections: a literature review of academic and practitioner contributions concerning SIBs; the analysis of the Portuguese existing SIBs both already launched and in development phase using a qualitative approach;

² socialfinance.org.uk (consultation date: 11/02/2020)

³ inovacaosocial.portugal2020.pt/projetos/ (consultation date: 11/02/2020)

and, finally, a report of the qualitative research findings. Finally, there is a section containing Recommendations for policymaker based on the participants' insights.

The literature concerned with SIBs is progressively more abundant. Nevertheless, the analysis tends to perceive SIBs as a homogeneous and universal phenomenon. For that reason, this dissertation adopts a different approach performing an analysis under a national scope focusing on the Portuguese market conditions and on the Portuguese market players. Moreover, despite the increasing prominence of SIBs in the Portuguese welfare provision, they are still a financial mechanism very marginally explored in the country. Therefore, learnings from this dissertation may also be useful to practitioners interested in aiming social problem solving in Portugal.

2. Literature Review

As a modern phenomenon, the academic literature on Social Impact Bonds is not vast. Nevertheless, it is a matter spawning an emerging interest on scholars and practitioners since SIBs have been identified as one of the most promising pillars of the impact investing sector (Scognamiglio, Di Lorenzo, Sibillo, & Trotta, 2019). There are both unexplored and underexplored issues in what concerns the study of SIBs. In addition, in this field of research, the authors' positions are diverse and contradictory (Fraser et al., 2018).

Hereof, judgment is divided with both enthusiasm and caution around the potential that SIBs may hold for financing complex social interventions and reallocating performance and financial risk from the public towards the private sector. «For some, SIBs represent, in theory, a solution to postulated public sector sluggishness by introducing private sector entrepreneurship and linking the traditionally separate private financial and social services sectors (...). For others, it represents the worst of both sectors, involving the financialization⁴ (...) of the public sector (...) and the perverse incentivization of the philanthropic and non-profit sector to pursue commercial interests over social mission (...) as well as the risk that the public sector will encourage commercial investors to make social investments by offering generous terms» (Fraser et al., 2018).

Academic and more policy-oriented contributions paint a positive picture of SIBs which are represented as powerful tool that is capable of overcoming «inefficient» state intervention, bureaucracy and «unreliable» social service provision (Berndt & Wirth, 2018). On the other hand, Edmiston and Nicholls (2018), through an in-depth study of four SIBs in the UK context, provide a cautionary standpoint of SIBs concluding that «the introduction of private capital in outcome-based commissioning has had a number of unique and unintended effects on service providers, operations and outcomes».

Considering this constant debate around the instrument's pros and cons, it is important to identify the topics which generate the greater discord. Each of these factors will be introduced in the following sections and the main arguments supporting and opposing to SIBs standing in the literature related to the topic under analysis will be announced.

⁴ Financialization is the process whereby both micro-economic and public-making are subordinated to financial sector interests.

2.1. The debate around public savings

From a theoretical perspective, SIBs allow the government to privatize the upfront costs of social interventions and the correlated risks by reducing taxpayer expenditure in the short-term as well as eradicate the risk of public money being spent on initiatives that do not deliver the wanted outcomes (Care & De Lisa, 2019). For governments this is attractive – it gets the operation of expensive social services off their books and creates at least the illusion that money is saved (Berndt & Wirth, 2019).

Savings in public sector spending can occur due to two different factors. First, there is the reduction in future expenditure due to improved effectiveness of an existing service. Additionally, there are savings related to interventions that would have otherwise been a lingering problem for governments and taxpayers such as the costs of welfare provision (Dowling, 2017).

Nevertheless, literature is contradictory, and it is unclear if the proposed benefits of private finance materialise. For various authors, SIBs represent the inappropriate intrusion of private sector and financialized values in social policies. Additionally, cashable savings may be difficult to be estimated as they may be achieved in the long-term and results may not be clearly attributable to one single authority's budget (Vecchi & Casalini, 2019).

Notwithstanding, even if the cost-savings were unquestionable, according to Dowling (2017), the way that SIBs operate means that any savings that are rendered do not actually remain in the public purse and are not applied in other ways of promoting public interests. Instead, the savings are employed to remunerate private investors as a form of interest on the loans they provided. Hence, public funds are transferred to private investors as a source of profit. Furthermore, still presuming indubitable cost-savings, SIB payment metrics are erected based on the assumption that social outcomes accomplished are lasting, and can consequently be justified in light of the perspective cost savings they accrue to the public sector over time, overlooking the importance of service continuity and support infrastructures to offer a more intensive assistance to target population (Edmiston & Nicholls, 2018).

2.2. Risk transfer from the public for the private sector

Another relevant and highly scrutinised topic in the literature relates to the transfer of risk from the public for the private sector. This shift occurs, according to Dayson, Fraser, and Lowe (2019), because SIBs purport to promote «outcomes» for service users as opposed

to «outputs» by financing interventions in a way that directly connects financial reward for service providers and their investors to the achievement performance targets. According to Pandey, Cordes, Pandey, and Winfrey (2018), SIBs have the potential to be win-win arrangements with governments winning «by shifting the financial risk of social interventions onto private and non-profit investors/lenders». Warner (2013) supports this view expressing that compensating investors considering the savings that the government accomplishes reduces, in theory, the cost to the taxpayer by transferring the financial risk of performance to the private sector.

For governments unable or unwilling to take risks SIBs embody a pertinent alternative (Maier et al., 2018). As stated by Liebman (2011), government agencies, which might otherwise continue to fund the same old approaches they have funded in the past, would have an incentive to invest in promising new strategies – such as SIBs - because, under these, the risk of wasting taxpayer dollars if the new approaches fail is transferred to the private sector.

Nonetheless, some authors have an antagonist judgment, asserting that only few SIBs fully transfer risks to the private for-profit sector for the reason that, in most SIBs, philanthropic foundations or governments provide some kind of guarantee for the invested capital (Maier et al., 2018). Giacomantonio (2017) reaches an analogous conclusion saying that SIB-financed initiatives that are rational choices on the part of governments are improbable to be appealing to investors interested in financial returns, and vice versa.

According to Maier et al. (2018), even if we consider risk transfer from public to private agents a fact, this risk-transfer will not be cost-effective because of two aspects. First, SIBs have relatively high transaction costs for negotiating contracts and scrutinizing performances. Second, risk transfer to private investors will reduce the variation of financial effects on the public purse or service provider, which would otherwise bear this risk – investors will demand compensations for taking the risk which will lead to more costs for governments, therefore, the financial effects of a successful project would be weakened.

2.3. Transaction Costs

Social Impact Bonds are complex instruments which involve multiple stakeholders whose incentives are potentially problematic to align. Time, technical expertise and commitments to collaborate are indispensable in order to establish a SIB (Maier et al., 2018). As a result, they have entailed high costs related with setup and transaction costs.

SIBs are notorious for their high setup and management costs – so called transaction costs. They are often backed based on the novelty of the arrangements. An example of this is the Worcestershire Reconnections SIB which incurred in £200,000 of direct setup costs. The amount was covered by various development grants and evaluators believed that these costs were justified by the innovative nature of the SIB – it was the first SIB tackling social isolation (FitzGerald, Carter, Dixon, & Airoidi, 2019).

Nevertheless, there is the expectation that, with the rise in the number of active SIBs, the setup will become progressively more standardized allowing a gradual attenuation on setup and transaction costs (Del Giudice & Migliavacca, 2019).

Maier et al. (2018) present arguments converging with the above-referred authors. According to the authors, high transaction costs are, to a large extent, a transitional problem that will be mitigated as SIBs become more common. Additionally, a major part of the transaction costs comes from performance measurement. In cases where transaction costs for SIBs are too high, the solution will be to implement more - not fewer - SIBs. This would increase the incentive for social service providers to evidence the effectiveness of their interventions, helping the measurement process.

Pandey et al. (2018) offer a distinct perspective justifying the acceptance of high transaction costs under SIB contracts. Comparing SIBs with traditional financing methods, even though there are added transaction costs associated with SIBs, the fact that the financing comes from the private, voluntary sources of finance means that there is no excess burden of taxation associated with raising the funds needed for the intervention. Therefore, the judgement of which financing method is more efficient (SIB or traditional) is dependent on whether transaction costs of arranging the SIB are less than or equal to the excess burden of taxation.

2.4. Conditions for the success of SIBs

Another critical matter associated to the study of SIBs - but very slightly explored - is related with the assessment of which features are fundamental for the success of the initiatives – an assessment that will also be performed in this dissertation but constraining the analysis to the Portuguese reality. Liebman (2011) claims that SIBs only work for projects with the following characteristics: high net benefits and short-term pay-out; excellent performance measures; clearly defined treatment population, this is having clear criteria to define which individuals should experience the SIB social project, to avoid cream skimming

– serve only a reduced part of the target population, more precisely, the most capable individuals - and encourage integrated programs that meet multiple needs and, lastly, credible impact assessment through the execution of randomized, quasi-experimental, before/after studies with a neutral authority to measure results and resolve disagreements between financiers and government.

Care and De Lisa (2019) – focusing on Healthcare Impact Bonds (HIBs) - present a complementary approach, providing a preliminary theorization of the main enabling factors that can potentially contribute to the development of SIBs as sustainable welfare instruments. As stated by the authors above mentioned, the use of scalable and replicable frameworks could potentially facilitate the implementation of SIB projects and, consequently, increase the likelihood of achieving value for money for the public sector.

According to Baliga (2013), SIBs may only fund projects that sufficiently incentivize the private sector to invest – potential pecuniary gains of success must be large enough to induce a private investor to assume the risk of failure. Additionally, the author limits the range of SIBs' applicability arguing that SIBs are likely not the appropriate mechanism for funding projects that take longer than a couple years to evaluate. Finally, Baliga (2013) argues that – considering the high number of actors who have a stake in the project – it may be crucial the hiring of an intermediary organization to oversee the project as a whole in order to promote the efficient communication between the multiple actors in the project.

2.5. Ethical evaluation of SIBs

The academic debate around SIBs encroaches other fields beyond finance. The ethical status of SIBs is also scrutinised. Morley (2019), drawing on evidence from UK and US SIBs, finds that SIBs are morally permissible in principal but are at great risk of becoming unethical in practise. The author observes that many SIBs are characterized by «information asymmetries, power imbalances, and financial incentive structures, any of which can lead to a failure of informed consent, poor decision-making by vulnerable individuals, unfair contractual arrangements or a denial of service». This viewpoint is complemented by the perspective of Tse and Warner (2019) who claim that SIBs are part of the «public value governance» model that interprets public value in private value terms. According to the authors, this encourages «market penetration in social services and threatens to erode social rights». Additionally, SIB outcomes reimagine social welfare issues as narrower versions of

reality. Such interpretation can have a «constricting effect on the nature of social problems», which, ultimately, may lead to a «constricting effect on social rights and entitlements».

Care and De Lisa (2019) claim that one of the factors that provokes criticism regarding SIBs are the ethical issues such as the “financialization” and the “marketization” of social policies. Karwowski (2019) sustains this theory saying that SIBs exemplify the conflict of interest that financialization bestows on governments. For the author, the state acting as sovereign will have duties that conflict with the interest of the state acting as a financial market player. This conclusion is attained considering that the social service of a SIB is designed to fit the tradable financial asset tending to run for a shorter period what brings socially problematic but measurable aims.

Maier et al. (2018) allege that the main concern of the cautionary narrative regarding SIBs has an ethical character and has been expounded in a case study of the London Homelessness SIB. The case study revealed that this SIB «undermined systemic understandings of the homelessness problem and replaces them with an understanding centred on the homeless person as a failed individual who becomes securitized into the potential cashflow of investors». Tse and Warner (2019) present a convergent point of view claiming the capacity for SIBs to securitize a social domain for financial profit may eventually create a new investment class of vulnerable and marginalized people. The behaviour of this of these fragile people would be «tracked, measured, valued, and sold to investors, which could potentially generate a secondary market of traded investable products».

Altogether, the scientific debate regarding SIBs has become more firmly based on the description of this new financial mechanism, studying its potential and its downfalls and contradictions. Key topics of concern within the SIB sphere have become clearer, assessing SIBs’ politically contested effects on welfare systems, difficulties of keeping SIBs both outcome-oriented and flexible at the same time, along with difficulties involved in realizing cost-effectiveness risk transfer to the private sector (Maier et al., 2018).

This dissertation, aims to enrich this debate providing an innovative analysis, studying SIBs not as a homogeneous and universally consistent phenomena but considering a specific country, in this case, Portugal. This key literature review allows the identification of areas of discord which can shape the study presented in this dissertation. The Portuguese SIBs that will be studied will be analysed bearing in mind the multiple aspects discussed – savings, risk transfer, transaction costs, conditions for success, ethics – in order to make wider conclusions. Moreover, the analysis of the Portuguese case allows to comprehend if the

allocation of specific community funds to finance social programs, specifically under the SIB financing model, constitutes a virtuous resolution in what concerns the provision of social services.

3. Methodology

A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, particularly when the boundaries between phenomenon and context are not clearly evident (Yin, 1981). Case studies can be used to explain, describe, or explore events or phenomena in everyday context in which they happen. Therefore, the case study approach allows, amongst other things, critical events, interventions, policy developments and programme-based service reforms to be studied in detail in a real-life context (Crowe et al., 2011).

A key decision in case study design is the decision to study either one single case – Single Case design – or a set of cases – Multiple or Collective Case design (Cavaye, 1996). Bearing in mind that the purpose of this dissertation is to study the Social Impact Bonds as a whole, considering the national context, a number of cases is carefully analysed.

Under a Multiple-case design, conclusions are derived from a group of cases and this method is appropriate when the same phenomenon exists in a variety of situations. Hence, each individual case study is rigorously conducted but the collection of several case studies on the same topic is intended to be the basis for replicating or confirming the results (Yin, 1981). Although studying multiple cases may not enable the same rich descriptions of single cases, it enables the analysis of data across cases. Consequently, it is possible to substantiate that findings are not merely the result of idiosyncrasies of the research setting (Cavaye, 1996).

Once that the design of the study is established, it is necessary to define the type of research tools and techniques which will be used to collect empirical evidence. There are two basic types of data collection methods: quantitative methods – based on numerical data – or qualitative methods – based predominantly on verbal data. There is also the possibility of combining, in the same study, both methods.

The aim of this dissertation is to distil meaning and understanding from the evidence related with the Portuguese SIB's instead of being primarily concerned with measuring and quantifying the evidence. Therefore, the main source of empirical data used to conduct this dissertation will be qualitative data. Qualitative researchers consider that it is not possible to assign meaning to a phenomenon without describing the context and without understanding the position of the people who affect or are affected by the phenomenon (Cavaye, 1996). In what concerns the sources of evidence, multiple techniques will be applied. Data will be collected through interviews with key informants, in the case where a meeting is not possible

interviews will be completed through telephone, videoconference or e-mail. Agency records – including local statistical information – as well as project documents will be analysed. Because each method reveals distinct characteristics of empirical reality, multiple methods of data collection and analysis provide more grist for the research mill. This combination of multiple techniques is often named Triangulation and is a procedure to empower the research in terms of consistency.

Studies that use only one method are more vulnerable to errors linked to that particular method – for instance, loaded interview questions, biased or untrue answers – than are studies that use a variety of methods in which diverse forms of data provide cross-data validity checks (Patton, 1999).

Furthermore, it is important to examine the data from the perspective of various stakeholders' positions with different theories of actions about a SIB program. This process tackles the issue that arises from the fact that it is common for divergent stakeholders to disagree about program purposes, goals, and means of attaining goals (Patton, 1999). Therefore, this dissertation will examine data bearing in mind the multiple stakeholders involved in Portuguese SIBs programmes, interviewing service providers, public entities, and programme participants.

The first step relies on the recognition of the Social Impact Bonds that have been implemented in Portugal until the present moment. This will constitute the sample to be analysed. In this sense, the starting point are the projects presented by Portugal Inovação Social (PIS) on its website. PIS is a public mechanism that plays a crucial role on the development of Portuguese SIBs and the role of this agent will be deeply described later in this dissertation. A member of PIS organizational structure is consulted in order to guarantee that the information provided by the institution's website is accurate and updated. Besides this resource, other agents – bonded to other organizations further PIS - related with the SIB phenomena in Portugal will be consulted to assess if there are any missing projects on PIS database. Additionally, it was also conferred SIB database performed by Social Finance which is considered a reference organization at the international level.

This procedure allowed the identification of an additional initiative which is not mentioned on PIS website – Academia de Código Junior. As states the interviewee Afonso Fontoura, Public Sector Associate at MAZE, this initiative was performed before the creation of PIS which may explain the absence.

Furthermore, interviewing Helena Loureiro, representative of Portugal Inovação

Social for the northern region of Portugal, another initiative was identified. Breaking Bars Farm is the latest SIB implemented in Portugal. It was implemented in 2019 and, for that reason, the information regarding the project was not yet published in PIS website. Breaking Bars Farm, the latest SIB approved by Portugal Inovação Social, is a sustainability project that unites agriculture, employability, and the capacity of people in seclusion at the Pinheiro da Cruz Prison, in Grândola – district of Setúbal.

The identification of these SIBs led to the output displayed on Table 1 where are encompassed the 10 Social Impact Bonds that took place in Portugal. It is identified the social area of intervention attached to the initiative, the city (or cities) where they were implemented, the year of implementation, the project’s duration and the amount invested. For a more detailed description of each project please refer to Annex 1.

SIB Name	Social Issue	Region	Year	Investment
Junior Code Academy	Employment	Lisbon	2015	120,000 €
Faz-Te Forward	Youth Unemployment	Porto	2017	387,848€
Projeto Família	Children at risk of institutionalization	Porto, Coimbra	2017	468,457€
Bootcamp Academia do Código (BAC)	Youth unemployment	Fundão	2017	723,500€
Aprender e Ensinar Matemática com a Khan Academy	School failure	Porto, Coimbra	2018	528,069€
SAPIE	School failure	Porto, Coimbra, Évora	2018	553,416 €
Programa Intergrado de Promoção de Literacia	School failure	Porto	2018	270,400 €
SPOT	School failure	Évora	2018	50,000€
Cuidar de Quem Cuida	Overburden of informal caregivers	Porto	2018	239,660 €
Breaking Bars Farm	Valorization of prisoners	Setúbal	2019	104,860€

Table 1 - Social Impact Bonds launched in Portugal

3.1. Interviews

The main means to collect information in this qualitative research is through interviews with Portuguese SIBs’ key participants. These interviews represent valuable

opportunities to deeply explore matters which are unique to the experiences of the interviewees or the organizations they represent, allowing insights regarding how a specific event is experienced or perceived from different agents with different roles on the processes (McGrath, Palmgren, & Liljedahl, 2019).

Interviews constitute important sources of evidence in qualitative research will be used not only isolated but also combined with other methodological procedures such as documental analysis. Besides conducting interviews with participants on the Portuguese SIB processes the methodology to implement also comprises, together, the analysis of documents published by SIB agents, namely, Execution Reports from Portugal Inovação Social (PIS).

The conducted interviews were semi-structured. Thus, it is developed a protocol using open-ended questions based on the central focus of the research in order to obtain specific information and allow comparison across a variety of cases (Knox & Burkard, 2009). Therefore, the interview guide encompasses a series of broad themes to be covered during the interview to direct the conversation towards the topics which are necessary to cover in order to answer the research questions. This flexibility enables the disclosing of important and often hidden information and enables interviewees to provide answers on their own terms making it easier to express their perspectives considering the initiatives that are analysed (Dumay, 2011).

The interviews initiate with an explanation of the topics to be addressed on the research and the specific core of the interview. The interviewees belong to different organizations with different roles on the Portuguese SIBs process. The aim of the interviews is to collect those organizations' perceptions as well as interviewees personal experiences. The open questions allow the interviewee to go beyond straightforward answers and take a position as an active research participant.

The interviews were performed in agreement with the twelve tips for conducting qualitative research interviews presented by McGrath et al. (2019). Those recommendations make use of, not only, the understandings from the authors' own experiences as qualitative researchers, but also, from the widespread literature on qualitative research techniques. The tips considered are the following:

1. Identify when qualitative research interviews are appropriate.
2. Prepare yourself as an interviewer.
3. Construct an interview guide and test your questions.

4. Consider cultural and power dimensions of the interviewer situation.
5. Build rapport with your respondents.
6. Remember you are a co-creator of the data.
7. Talk less and listen more.
8. Allow yourself to adjust the interview guide.
9. Be prepared to handle unanticipated emotions.
10. Transcribe the interviews in good time.
11. Check the data.
12. Initiate analysis early.

Apart from conducting interviews with direct agents, also documental data is analysed in order to combine and validate both sources of information. Additionally, within the same SIB projects, different agents, with different roles and different objectives are consulted in order to triangulate the information by capturing different viewpoints.

Another decision that qualitative interviews involved was the actual method of carrying out the interview. Considering this topic, the main decision relates with completing interviews remotely – by phone or video conference – or, in opposition, completing interviews in person – face-to-face. According to the literature, each approach has its relative merits and drawbacks and there are not conclusive studies regarding this topic.

However, under the existing pandemic situation, this decision was obvious. In agreement with health and sanitary norms, all the interviews were conducted remotely – by videoconference or by phone call.

3.1.1. Portugal Inovação Social

Portugal Social Innovation (PIS) is a public initiative that aims to promote social innovation and boost the social investment market in Portugal. It mobilizes around 150 million euros from the European Social Fund under the Portugal 2020 Partnership Agreement. PIS is coordinated by Estrutura de Missão Portugal Inovação Social (EMPIS).

The above-mentioned amount is channelled into the market through 4 financing instruments designed to finance projects that propose alternative and innovative approaches to respond to social problems: Social Impact Bonds (SIB), Capacity building for social investment, Partnerships for Impact and Fund for social innovation.

This initiative is a pioneering experience in Europe, as Portugal is the only Member

State that has reserved part of the Community funds until 2020 to try out new financing instruments that aim to foster innovation and social investment.

Focusing on SIBs, PIS has a determining role on the development of Portuguese SIBs since it finances, through a contracting mechanism and payment for results, innovative projects in priority areas of public policy, in the fields of Employment, Social Protection, Education, Health, Justice and Digital Inclusion – therefore, bearing in mind the SIB reference model, PIS acts as a commissioner. In other words, if the results ambitioned by each initiative are achieved, PIS fully reimburses social investors for the amount they applied on the funding of these innovative projects.

For the reasons above mentioned, PIS constitutes a central player on the development and execution of Portuguese SIBs. For that reason, it was essential to interview someone very connoisseur of PIS' functioning but also connected with the operationalization of the SIB development process. Thus, an important point of this research was to interview Helena Loureiro, representative of Portugal Inovação Social for the northern region of Portugal.

Helena Loureiro has a profound knowledge of the experiences under study and has an ambivalent knowledge of the reality, combining a deep comprehension of EU funds politics and functioning but also being aware of the successes and roadblocks that SIBs in Portugal has faced. Furthermore, Helena Loureiro was available to expose her perceptions with low constraints adding very interesting topics that were not, in a first phase, on the interview's script but that were, in fact, relevant for the research.

The interview comprised 18 questions and took, approximately, 30 minutes. The interview's script can be found in Annex 2.

The interview started with an introductory question regarding the purpose of PIS and the context behind its creation. The following 5 questions have an informative character, tackling some issues where information was not available by other means or trying to validate information provided by PIS website and published reports. This was an important measure to conclude that some information was not updated, and that information was missing, namely, regarding the number of SIBs that were already launched. The following 7 questions focus on social investors, their motivations, the benefits offered to them to invest in these instruments and limitations regarding the gains they main attain investing on SIBs and the consequences of these limitations. The following 5 questions focus on the governance model, the difficulties Implementing Entities (IE) face and the downfalls that this instrument

still presents. This topic, as well as the one related with investment, will be analysed in depth later in this research. The interview is concluded with a generic question assessing the degree of satisfaction with the initiatives that already took place and the will to progressively increase the preponderance of SIBs as a means to confront social issues.

3.1.2. Implementing Entities

The Implementing Entities (IE) have the role of carrying out the project – acting as the service providers. IEs have the mission to establish the methods and procedures to accomplish the goals that the candidacies to PIS present. Depending on the social issue being challenged and on the aspirations that are aimed to achieve the procedures to implement can be shaped in a multitude of ways. For example, if the social concern of the project is related with youth unemployment, possibly, the IE will employ methods such as coaching or mentoring on the procedures it implements.

Furthermore, implementing entities have another fundamental role considering the SIB development process: assessing the results of the interventions. This step is crucial considering the result-based orientation of SIBs as a financial instrument. The measurement of the initiatives' success is indispensable because the reimbursement of investors is dependent on this factor – investors only receive the amount they invested if the proposed success targets are accomplished. Many times, each project has more than one organization as IE since this evaluation requires a high level of independence and one of the organizations may be entirely concerned on the projects' success valuation.

To capture IE's experiences and realize how efficient is the implementing framework of these initiatives 4 different IE's were interviewed. This multitude of points of view allows taking more solid conclusions since interviewing this 4 IE's permitted understanding the implementing process of 8 different initiatives since MAZE (erstwhile called *Laboratório de Investimento Social*) was directly linked to 6 different projects. The other IE's interviewed were *Associação Tempos Brilhantes* (ATB), TESE and SAPANA.

Considering the above mentioned, it is evident how critical it is MAZE in the Portuguese SIB panorama. For that reason, the first person that was interviewed in the entire research process was Afonso Fontoura who works as an Associate at MAZE.

This interview comprised 13 questions and it took 30 minutes. This was a decisive point in this research since it permitted the identification of key aspects regarding SIB implementing process and the main roadblocks that IEs face. Some technical aspects

regarding the instrument itself and the legislation behind it were also disclosed allowing the comprehension of differences in the Portuguese SIB context comparing to the universal analysis that the existing literature presents.

Considering this distinctive position of MAZE and the multitude of projects in which it was directly involved on the implementation, the interview with Afonso Fontoura had an exclusive script. On the other hand, considering the similarities between the remaining IE's, it was followed a shared script. As the questions are common between each of the interviews, it is possible to compare, accumulate and systematically analyse the results.

The shared script encompasses, generally, 15 questions and the duration of the interviews varied between 25 and 35 minutes. The interview's scripts can be found in Annex 3. The first 2 questions are generic questions considering the organizations' activities as whole (besides the SIB related activity). The next 2 questions focus on gathering information not available by other means, namely, understanding why SIB was the financial model chosen to finance the projects. The next 5 questions are focused on the SIB governance model, one of the evident problems regarding SIB implementation that Afonso Fontoura highlighted. The next 4 questions are focused on the investors, the process behind gathering them and their motivations on the eyes of IE's. The interview is concluded with an overview question evaluating the desire of IE's to implement further SIB oriented projects in the future taking into consideration the experience they went through.

3.1.3. Investors

Investors, commonly called social investors in the SIB context, are responsible for financing the projects. Investors cover the up-front cost of the service provision, in exchange – only if the ambitioned success rates are accomplished - to the repayment. This cause-effect relationship between success and reimbursement has some particularities in Portugal since investors on Portuguese SIBs can expect, in the best of scenarios, a full reimbursement of the amount they invested.

If we recall the first topic of this dissertation and the identification of the parties involved in the SIB process in the reference model, investors were described as agents who cover the up-front cost of the service provision, in exchange to the repayment – by the commissioner - of the initial investment in addition to predefine return if the targets of the investments are accomplished.

Comparing the definitions related to the reference model and the Portuguese case, it

is clear the difference in what concerns the existence of a rate of return in addition to the reimbursement. This difference is related with the particularity of the Portuguese context regarding the commissioner on the Portuguese market: Portugal Inovação Social. This disparity will be deeply exploited further ahead.

The interviews with the investors main goal was understanding the motivations to engage in SIBs. The interviews start with assessing how the investing organization is correlated to social innovation and in how many SIBs has the organization invested in. This is a way to corroborate report analysis in what concerns the nomination of the investors linked with the projects' funding. The following questions aim is to evaluate how the investors got in touch with the project and what project features spawned investors' interest. Subsequently, investors are questioned about its main motivations and their judgment of the investors' incentives set. Ultimately, a final question is presented appraising the investors' willingness to invest in further SIBs considering the experience with the SIBs they have been involved with.

To capture investors' sensitivities, two different investing organizations' representatives were interviewed. The fact that those organizations have different characters in what regards its purposes catch a multitude of perspectives. Regarding these agents, the same script was used to make it is possible to compare, accumulate and systematically analyse the results. The tiny differences on the scripts are related with the branch of activity in which the organization operates and its mission. The script is composed by 9 or 10 questions and the interviews took between 20 and 30 minutes. The interviews' script can be found in Annex 4.

3.2. Analytical Framework

As priorly discussed in chapter 3, under a Multiple-case design, conclusions are derived from a group of cases and this method is appropriate when the same phenomenon exists in a variety of situations. In the case under study, the phenomenon under analysis consists on the application of SIBs in Portugal and the variety of situations above mentioned comprise the multiple projects in which the financing instrument chosen was SIBs.

Hence, each individual case study is conducted through interviewing some of its key players; the collection of several case studies on the same topic is intended to be the basis for replicating or confirming the results (Yin, 1981). Therefore, in order to accomplish robust results, the central topic – SIBs in Portugal – is tackled considering the perspectives of

multiple players, linked with multiple initiatives and with multiples responsibilities on the development of the projects – Portugal Inovação Social (PIS), Implementing Entities (IEs) and Investors.

Consequently, it is important to build a framework that allows a smooth process of gathering and analysing data obtained from interviews with a broad set of interviewees, from different projects and with different functions. This was accomplished creating an interview script for the IEs' divided in into the main topics in scope - Table 2. These main themes emerged from the consultation of two main information sources: topics of concern regarding the SIB implementation developed in the global literature and the interview with Afonso Fontoura, Public Sector Associate of MAZE.

The position of MAZE in the Portuguese SIB market, participating directly in the implementation of the large majority of the SIBs that already took place in Portugal, allows a wide standpoint of the entire implementing process and the roadblocks that the last is facing. Furthermore, MAZE develops its activity in a close relation with the other projects' contributors – PIS and Investors – having its own perception on the benefits and the problems that the SIB model offers to these co-participants. This wide picture perceived by MAZE is, afterward, examined in conjunction with the feedback given by the very co-participants in question.

Interviews with Implementing Entities	
Interview with PIS' representative	Introductory/Context Questions: <ul style="list-style-type: none"> • Organizations' areas of intervention • Interventions' methodologies
	Informative Questions: <ul style="list-style-type: none"> • Number of projects implemented under the SIB model • Why picking the SIB model as the financing mechanism
	Governance Model: <ul style="list-style-type: none"> • Classifying the implementation process in terms of simplicity and speed • Level of Bureaucracy • Insights on how to improve the implementation process
	Investors standpoint: <ul style="list-style-type: none"> • Investors attraction process • Motivations of the investors • Incentives given to investors
	Conclusion: <ul style="list-style-type: none"> • Willingness to reuse the SIB mechanism
	Interviews with Investors

Table 2 - Topics covered and respective respondents

These topics – along with other relevant but more particular topics - will also be addressed in the interviews with the other participants on the SIB development process, namely, PIS and the investors. Therefore, the issues covered in the interviews with IE's that are experienced by the other participants and that are common to investors or to PIS are exploited in the interviews with the lastly mentioned participants. For instance, it is crucial to understand which the determinant variables are to attract the investment. This question should be confronted understanding both IE's standpoint – the entities who have the responsibility of presenting and describing the project in front of possible investors – but also investors, the financiers of the initiatives.

The analysis of the same matter understanding the point of view of the various contributors is critical. As previously mentioned, this approach reflects the tenets of Theory Triangulation. Through this process we are confronting the predicament that arises from the fact that it is common for distinct stakeholders to disagree about program purposes, goals, and means of attaining the last (Patton, 1999). Hence, pondering the multiple perspectives,

the research conclusions are enriched in terms of consistency and robustness.

4. Results

In this chapter the results of the qualitative research above described are presented. As mentioned before, the analytical framework was based on the Implementing Entities (IEs) interviews' script division in accordance with the topics under analysis triggering each group of questions. These different parts of the interview script are then crossed with the interviews with PIS or with Investors depending on the topics under analysis.

In section 4.1., the questions were submitted in order to understand two main dimensions: firstly understanding the rationale behind the adoption of a mechanism like the SIB in Portugal – this topic was mainly addressed in the interview with Helena Loureiro, representative of PIS – secondly, understanding which were the motivations of IE's to choose SIB as the financing mechanism to fund their projects. Considering this last dimension, results were retrieved not only from the interviews with IEs but also from the interview with Helena Loureiro because PIS is the organization with the mission to evaluate and approve applications, having a close perception of IE's motivations and purposes. Therefore, the answers for these questions will be the basis for the results contemplating the first research question: *What factors lead Portuguese policymakers to choose implementing SIBs over other financial mechanisms to provide social services?*

In section 4.2., the focus consists of identifying the main difficulties that IEs feel when it comes to implementing the projects. The governance model is scrutinized, and the results related to the project implementation's issues and difficulties are presented. Results associated to this section consist not only of the identification of main difficulties faced by IE's but also on the presentation of guidelines and suggestions to help solving these concerns. The results for this section were retrieved from the interviews with IEs – organizations that materialize the projects' implementation - and from the interview with Helena Loureiro (PIS' representative) – since PIS is the organism that regulates and supervises the projects' implementation.

In section 4.3., the results presented are centred on the investors' standpoint. Regarding this topic, the insights provided by PIS, IEs and Investors are crossed to assemble the results of the research. The main queries analysed are related to investors' gathering, investor's motivations and incentives given to invest in Portuguese SIBs.

The two last mentioned sections (4.2. & 4.3.) and the respective research results are applied to answer the following research question: *Why are SIBs an underexplored financial*

scheme in the Portuguese welfare state?

The last question of each interview was, in every case, related to the SIBs potential and the willingness to keep on implementing and investing in SIBs. The results of this research are presented in section 4.4. where the potential of the financing mechanism was expressed in the eyes of the different parties involved. The insights provided are the basis to answer the remaining research questions: *Based on the launched experiences, how willing are SIB participants to readopt the SIB model?*

4.1. Choosing SIB as financing mechanism

Before accessing results in what concerns the reasons behind the selection of SIBs – by Implementing Entities (IEs) - as the financing mechanism for implementing social projects it is crucial to understand what led to the construction of this instruments by public authorities.

Social Impact Bonds belong to a set of financing solutions offered by Portugal Inovação Social (PIS) to finance projects whose main aim is to tackle social issues. According to Helena Loureiro – representative of PIS for the Portuguese northern region – these financing instruments were built under a hierarchical logic matching to what is named the life cycle of innovation and social entrepreneurship initiatives. This set of mechanisms comprises: Training for Social Investment, Partnerships for Impact, Fund for Social Innovation and Social Impact Bonds (SIBs).

The creation of SIB was based on the existence of social projects which already had an impact on society, with effective and sustained results and on the possibility of making payments in accordance with these above-mentioned results. According to Helena Loureiro, the discussion around the SIB topic is a trend at the European level because of the different features that each country may adopt regarding the financing model. Furthermore, PIS representative highlights a decisive fact: Portugal is the only country at European level that has specific Community funds to support SIBs. The implications of this reality will be more deeply exploited in the results further to be presented.

Hereinafter, results presented will be centred on the reasons that conducted IE's to choose SIBs as the financing model for the initiatives they fulfilled. Many of the interviewed agents represent Entities that, beyond having projects implemented under the SIB model, also implemented projects under the above-mentioned remaining financing solutions preconized by PIS. Therefore, the projects' characteristics that led to the choice of SIB as

financing mechanism are clear and well defined by IEs.

Ricardo Coelho, SAPIE's Project Manager, identifies the development phase of the projects as an important dimension. Projects implemented by Associação Tempos Brilhantes (ATB), the association represented by Ricardo Coelho and that implemented project SAPIE, which were in a less advanced stage of development headed through a different financing methodology: Partnerships for Impact. According to Ricardo Coelho two main attributes of SAPIE led to the selection of SIB methodology: firstly, the dimension of the project that aspired to have a national reach; secondly, the expectedly high potential impact of the project. ATB had already implemented similar projects and, therefore, the uncertainty around potential impact was mitigated.

This diminished uncertainty around projects' impact was a component also indicated by Joana Guimarães – Faz-Te Forward Project Manager (project implemented by TESE). Before adopting SIB as the financing model, Faz-Te Forward project had already been implemented under a more traditional approach, with private investors. Before being implemented backed on the SIB mechanism, the project already existed in Lisbon for five years. According to Joana Guimarães' feedback: «our previous experience with the Lisbon editions allowed us to be relatively calm when it comes to achieving results, working as a relevant factor to captivate investors».

The feeling that the projected should be escalated geographically was, once again, a dimension that inspired the SIB adoption. According to Joana Guimarães, the upsetting youth unemployment figures regarding the Portuguese northern region fronted to the inference that the project's geographical scope should be expanded. This extended activity, led to the need to financially support the project in a stable way. Considering this, SIB was identified as the best way to achieve this stability.

Additionally, according to Joana Guimarães' words, TESE was also interested in promoting a reflection on the impact of public policies and on the greater emphasis that should be given in the social sector of the economy to the SIBs' assumed key element: projects' Impact.

A different perspective regarding the rationale behind the selection of SIB as project's financing model was presented by Carina Abreu – Breaking Bars Farm' (BBF) Project Manager, project implemented by Associação SAPANA. The explanation provided by Carina was highly sustained on the conceptual idea regarding SIBs connected with the attaining of savings. According to the Project Manager, the main variable that contributed to

the selection of this instrument was the ambitioned potential State savings that the project could propitiate. This idea was sustained by the average daily cost of €40 for the Portuguese State that each inmate brings about and the potential savings attained on this field.

Concluding, results are clear when it comes to answering the first research question: *What factors lead Portuguese policymakers to choose implementing SIBs over other financial mechanisms to provide social services?*

The main principles invoked are the maturity stage of the projects and the correlated lighten uncertainty around the projects' potential to accomplish the ambitioned goals; the need for high amounts of capital to escalate projects geographically and to implement projects in a stable manner; the capacity of projects generating significative public savings and the intimate connection of this principle with the conceptualization of SIBs, and, finally, the interest in promoting new methods within economy's social sector and the need of emphasise the social impact that this method provides.

4.2. Portuguese SIBs' Governance Model

When it comes to pinpointing the main roadblocks of the SIB implementation process development all the participants more strictly linked with the implementation operationalization (PIS and IEs) specify Governance Model related issues. The SIB Governance Model should be understood as the system that serves as the foundation and support for all the implementation steps. The main issues are related with high amounts of bureaucracy required, reduced agility and celerity in the implementation processes, increased transaction costs due to the aforementioned factors and an extraordinary challenging expense report demanded to every IE.

This Governance Model problems are not only identified by IEs but also by PIS, the entity responsible for the social investment. According to Helena Loureiro, PIS representative for the Portuguese northern region, the system supporting SIB sphere are, in this perspective of analysis, negatively affected by the fact that initiatives funding is leveraged by Community Funds. Community Funds systems are based on complex and bureaucratic structures and this features are also embraced by the Portuguese SIB model due to the fact that, as mentioned before, Portugal is the only country at European level that has specific Community funds to support SIBs. According to Helena Loureiro, every procedure must go through a multitude of hierarchical tiers in order to be approved which turns every plan very time consuming.

As stated by Helena Loureiro, the bureaucracy lessening necessity should essentially be tackled by EU entities. The problem is mainly caused by the structures in which EU Funds are set up and made available. EU Funds are very demanding because they require a lot of evidence and a lot of proof that procedures are being followed rigorously as planned. Helena Loureiro suggests that EU member states should arrange a common resolution with the objective of diminishing the processes' bureaucracy.

Entering the sphere of IE's perspectives, Afonso Fontoura, Public Sector Associate at MAZE states that the main focus of SIB responsible entities should be the analysis of a different governance framework that would allow a lessening of the bureaucracy, considering this issue as the main roadblock in the Portuguese SIB context. The process of allocation and management of financing funds and the definition of the payment terms should be examined with the objective of optimizing the implementation processes' celerity, autonomy, and agility. Afonso Fontoura states that this optimization would lead also to a cost optimization since transaction costs related with the administrative burden would decrease. Afonso Fontoura explains why this administrative burden is so heavy and why, in his perception, the process is so unagile. While IEs report the initiatives results, they must, simultaneously, report the expenses incurred. Those expenses must be audited and, only afterwards, reimbursements will be made to investors. MAZE Associate adds that, for the reimbursements to take place, the reporting process as to be immaculate.

Ricardo Coelho, SAPIE Project Manager, highlights that the existing Governance Model distances Portuguese SIBs from the genesis of the SIB instrument since the focus on impact is a bit distorted by «payment against expenses» regime highly centred in the implementation costs and its reporting, which, in Ricardo Coelho point of view makes SIBs in Portugal look like an hybrid mechanism between SIB in its genesis and traditional financing.

As stated by Ricardo Coelho, the current Governance Model is, still, very enclosed to the traditional financing methods and the dichotomy between impact and expenditures is too present. Every expenditure must be subjected to an exhaustive report since the financing happens «against expenses». These leads to an exceedingly high level of bureaucracy. In Ricardo Coelho's opinion, in order to improve the instrument's efficiency, the key is a rapprochement to the SIB original philosophy directing a greater focus into project's impact and results. Thus, IE's could aim their scarce resources more on the creation of impact and less on the administrative burden.

The continuous financial reporting requirement is a dimension also highlighted by Joana Guimarães, Faz-Te Forward Project Manager. Reimbursement requests submitted to PIS absorb enormous amounts of resources, considering TESE's reality (IE of Faz-Te Forward project). According to Joana Guimarães, the project implementation was, inclusively, delayed due to the bureaucracy behind the implementation process and the long periods waiting for PIS's responses and reimbursements.

The main difficulties faced by TESE were, according to Joana Guimarães, related to the submission of project's results and to the reimbursement requests. The logic behind the refund process implies a very bureaucratic and time-consuming process, consuming a lot of resources with the collection, systematization, and analysis of evidence.

Carina Abreu, Breaking Bars Farm (BBF) Project Manager, emphasizes the above mentioned bureaucracy related issues affirming that SAPANA (IE responsible for implementing BBF) is an association composed by a small group of people connected with the social area and not with accounting or management which leads to extraordinary costs related to financial reporting services outsourcing. It is a very expensive process both in terms of time, expertise, and financial resources. Carina Abreu underlines the high amounts of documentation regularly required as well as the systematic listing of expenses necessary to require reimbursements.

Concluding, the Portuguese SIBs Governance Model is interpreted as one of the main roadblocks for the SIB development process both in the eyes of PIS and IEs. For the above-mentioned reasons, the characteristics of the existing Governance Model may be seen as one of the answers to the following research question: *Why are SIBs an underexplored financial scheme in the Portuguese welfare state?*

The existing Governance Model is a discouraging factor for implementing entities. The Governance Model is seen as a framework biased from what is the SIB genesis pillar: social impact. The existing Governance Model is interpreted as being too much focused in cost reporting which results in excessive amounts of bureaucracy and in a vast administrative burden. IE's scarce resources – limitations in terms of human capital, financial resources and, in some cases, expertise – are allocated excessively in listing costs and presenting evidence which removes the focus to which should be the objective: social impact.

4.3. The investors' standpoint

In this section, findings regarding SIB investment conditions, investor's motivations and incentives given to investor's are presented.

When asked which were, in her perspective, the main difficulties that IE's face when it comes to project implementation, Helena Loureiro, PIS representative, referred to a prior step to the implementation itself: social investors gathering. Before presenting candidacies to PIS in order to implement SIB and have access to EU Funds, IE's must assemble investors inclined to fund their projects.

In Helena Loureiro's perspective, SIB investment teams must be very openminded in order to change the traditional socially responsible investment paradigm and embark in this new logic. PIS representative adds that investors, in general, still look at the SIB model with suspicion. Very often, according to Helena Loureiro, IE's are unable to implement SIBs because they cannot find investors and, for that reason, end up applying for Partnerships for Impact, a different financing model with distinct investment conditions.

Important findings regarding investment incentives are also achieved. As mentioned before, Portugal is the only country at European level that has specific Community funds to support SIBs. This fact has some specific conditions attached, namely in what concerns investor's incentives. In Portugal, the possibility of investors achieving positive IRRs (Internal Rate of Returns) for their investment does not exist under the PIS sphere. In the best of the cases, if the initiatives achieve total success, investors see their investment reimbursed. In addition, investors are given the possibility of getting a 30% bonification in IRC terms.

In Helena Loureiro's perspective, the incentives provided are excellent. Nevertheless, we should consider that the impossibility of getting positive IRRs is a biased reality comparing with other countries where SIBs are a more prominent mechanism. In addition, Afonso Fountoura, Public Associate in MAZE, recalls to the fact that, in normal times, inflation is seen in the macroeconomic field which leads, in real terms, and even in the best of the cases, to a loss of value to investors.

Confronted with this issue, Helena Loureiro reports that there is – although not directly – a protective mechanism for candidacy engineering where IE's may include in their application's budget costs related with possible inflation compensations. All the costs IEs cope with can be applied for and then, finance evaluator team must assess the reasonableness of the budget.

Although considering the existing conditions appealing for investors, Helena Loureiro believes that the existing IRRs limitations have an impact on the diffusion and prominence of SIBs in Portugal. In Portugal SIB are governed by very specific rules which are the rules of the community funds. The existing atmosphere demands «Control Relationship», that is, the investor cannot have any control relationship over the SIB in which he is investing, and this is a regular pattern when we analyse positive IRRs SIBs. Helena Loureiro believes that, when Portuguese SIBs cease to be under the community fund investment scope the logic of positive IRRs will be, unquestionably, verified.

Contemplating these conditions, it is important to evaluate which are the motivations behind investors action. In Helena Loureiro's point of view, there is a philanthropic basis for investment accompanied by the belief in a much more proactive social responsibility where investors work side by side with IEs. Helena Loureiro emphasizes the modern logic behind SIBs that allows a new social approach where companies can invest in social projects, be reimbursed, and reinvest in the same or in new social initiatives. PIS representative considers that it takes some open-mindedness to embrace this innovative approach but recognizes intelligence to the investors who perceive its potential.

After accessing the understanding of a PIS' representative, it is crucial to understand the perspective of the IEs, the entities whose activity comprises, in part, to convince investors of the projects' potential, pertinence, and applicability.

Afonso Fontoura, Public Associate at MAZE, believes that in Portugal, the logic behind the SIB model is based in an «Ethic Purism» in the perspective that it was established that it makes no sense that private investors profit from the resolution of social issues. In his opinion, the belief is distorting the genesis of the SIB mechanism and is compromising the incentive alignment that is supposed to exist. Therefore, Afonso Fontoura perceives the investment motivations under a logic of strategic philanthropy.

Afonso Fontoura considers that IRR limitation constitutes the main roadblock for SIB development in the Portuguese atmosphere. Nevertheless, he believes that, with the development of the SIB implementation in Portugal, new outcome payers (besides PIS) will appear which will allow the negotiation of new contract principles with more appealing conditions for investors.

Ricardo Coelho, SAPIE Project Manager, shared the difficulty of gathering investors. The number of Portuguese investors working with this financial model is very restricted, therefore, besides explaining the project also the mechanics of the financing instrument must

be explained to investors. Ricardo Coelho explains that the association he represents, Associação Tempos Brillantes (ATB), is experienced working with PIS, nevertheless, ATB follows, with much more frequency, Partnerships for Impact model due to the difficulty in gathering investors under the SIB model.

According to Ricardo Coelho, the key to attract investors is to «sell» the project as something investors would be proud participating. The faith in the project philosophy is seen as the key factor by Ricardo Coelho. ATB representative adds that, in opposition to he believed in an initial phase, the tax benefits were not determinant because the impact was residual.

In Ricardo Coelho's opinion, the entrance of new outcomes payers in the market (besides PIS) will lead to the negotiation of new contract terms contemplating positive IRRs. In his opinion, this convergence with the SIB genesis is logical because the social value created should be reimbursed and the benefits the project brings should be the basis for contracting. Ricardo Coelho enhances that this different IRR conditions would lead to the captivation of distinct types of investors because the investment atmosphere in Portugal is very polarized: philanthropist investors and traditional investors seeking financial returns. SIBs can occupy the space between these two poles. Ricardo Coelho highlights the example of Educoach, one of the investors in SAPIE, which is one of the few SIB investors in Portugal which is not a foundation. Educoach case will be deeply exploited further ahead in this section.

In the case of Faz-Te Forward project, the Project Manager Joana Guimarães, asserts that the relationship with the investors already existed before this SIB project due to the support in prior initiatives.

Joana Guimarães believes that the motivation behind the investment relates to the desire to create brand images with a socially responsible connotation. The companies' social responsibility policies own this philanthropic association but there is an interest of achieving a certain positioning in the market, in marketing terms.

In agreement with the remaining IE's representatives, Joana Guimarães believes that in case of positive IRRs different investor would be attracted into the SIB atmosphere because it would give the instrument a different character, beyond corporate responsibility policies. Nevertheless, Faz-Te Forward's Project Manager, considers that this financial incentive would distort, in some extent, the social work because Joana Guimarães deems that social missions does not align with the search for financial returns.

Once again in accord with the insights provided by Helena Loureiro, Carina Abreu, Project Manager of the project Breaking Bars Farm (BBF) and Chief Executive Officer of Association SAPANA - BBF's IE – discloses the complexities coupled with the investors gathering process. Carina Abreu states that the main concern for the investor related to the time between the investment and the PIS reimbursement which may cause a significative gap in the investor's treasury cycle.

In convergence to Ricardo Coelho's views, Carina Abreu, states that the key factor to captivate investors' concerns the identification with the project's mission and with the area of intervention – in BBF's case seclusion and social reintegration. According, BBF's Project Manager, in their case it was even harder because social investors tend to invest and support projects in social areas with a stronger emotional connotation than inmate's assistance and social rehabilitation.

Agreeing with the remaining IE's representatives, Carina Abreu, believes that the existence of different outcomes payers besides PIS would allow the negotiation of different contract terms which could culminate in the attraction of new investors. In her perspective, SIBs bring a very important dimension into the social economy sector: impact measurement. Carina Abreu provides the example of municipal councils believing that if this organizations intervened as PIS in the social sector it would be very beneficial in terms of further social innovation and in what concerns the introduction of impact measurement dimension. It could also be a good incentive for local industry because this sector could start looking at social sector and the awareness to invest in this type of initiatives could expand.

This attraction effect would be boosted adding the positive IRR vector. In Carina Abreu's words, investors could be raised not only by the emotional and philanthropic side but also by a logic of projects' potential and success. There would be more arguments to convince investors with whom IE's have not established dealings before. Notwithstanding, SAPANA's CEO states that it would be crucial that PIS could guarantee the investor's reimbursement shorter after the investments because of the treasury's limitations that small and medium-sized Portuguese firms face.

After assessing the perceptions of PIS and IE's representatives regarding the investors' motivations, incentives, and key factors for interest captivation, it is critical to capture investors insights considering these dimensions.

As exhibited in Annex 1, most of the Portuguese SIBs investors comprise foundations or associations whose core activity encompasses the resolution of social issues

and the provision of social support to needed people. Therefore, it is critical to understand the position of organizations who deviate from this paradigm and understand the standpoint of investing entities whose activity go far beyond the social economy sector.

Following the principle above described, Pedro Gomes, Administrator of Educoach S. A. (investor of project SAPIE) was interviewed. As Pedro Gomes explains, Educoach is an organization that encourages the creation of projects related with the educational field and, for that reason, works close to associations as ATB - IE of project SAPIE. From this close relationship – Pedro Gomes was, inclusively, one of the founders of ATB – resulted a direct contact to establish the investing relation.

Pedro Gomes asserts that his belief in the project's mission and pertinence was an important factor to capture Educoach's attentiveness. Being a person who worked in the education sector for many years, Pedro Gomes believes that the project allows the development of the interconnection between all the stakeholders in the educational community what, in his eyes, is one of the major issues in the Portuguese education system.

Additionally, Pedro Gomes does not hide from view Educoach's clear business interests. SAPIE is a project with a strong component related with technological education and, being Educoach a company which operates in technological areas, the training of this participants can serve the company. The education of these professionals brings an entrepreneurial motivation to the equation because the trained participants may, later, serve the company as employees. Thus, training costs are mitigated and the motivation of making Educoach's business more profitable is patent.

Moreover, Pedro Gomes states the tax benefit in IRC brings – in opposition to what Helena Loureiro, PIS representative believes - merely residual savings. In convergence to the IEs representatives' perception, Pedro Gomes states that the financial impact of the tax incentive was immaterial and that what truly triggered Educoach's attentiveness was the above-mentioned business connotation of the project. Nevertheless, Pedro Gomes believes that this incentive should be maintained because it may serve as a benefit in other circumstances, nonetheless it should be complemented with other incentives, namely, with positive IRRs.

The SAPIE investors believes that the attribution of positive IRRs would be advantageous to the development of the SIB prominence in Portugal and that things are going to move in that direction. Pedro Gomes asserts that there is fairness in the idea of attributing a return for the investment and the social developments generated. Moreover,

SIBs have embedded that investors should bet on the Social Sector because it can be profitable, and projects can be viewed in a business perspective. This logic and the attribution of positive IRRs is, in Pedro Gomes opinion, totally coherent.

After capturing the standpoint of Educoach S. A., another investor was interviewed to capture the different motivations that organizations operating in sectors detached to the economy's social sector may have. In this sense, Rui Miguel Santos, Head of Responsible Banking of Santander Portugal – investor of project SPOT – was interviewed.

Rui Miguel Santos reveals that Santander develops a responsible banking model to support the community working in different areas such as green financing, corporate culture, entrepreneurship, financial education, among others. In the case of project SPOT, Santander got aware of the project because it won a university volunteering contest in which Santander was performing mentoring.

The characteristics of the project that captured Santander's interest were there area of intervention – Education – which is the area Santander is more interested in supporting, the project's mission and the fact that Santander representatives already knew people from the IE and were conscious of their capabilities. Furthermore, Santander supported the replication of the project in Évora since the project had already took in place in Lisbon (not based on the SIB mechanism), what allows a more assured program design.

When it comes to explain Santander motivations, Rui Miguel Santos quickly refutes financial and taxation ease rationales. The motivation was to try this innovative financial instrument and supporting a project with a clear and reasonable purpose. Rui Miguel Santos adds that Santander's social support model works based on donations and, comparing with this model, SIBs offer a different component: reinvestment. Santander representative explains that SIB model allows reimbursements whose might later be reinvested in the project, permitting a multiplication effect on the impact of the initial investment.

Returning to the matter of the tax incentive, Rui Miguel Santos explains that considering the differences in the accounting models of banks which are based in ratios the tax incentive has no material effect for Santander. Nevertheless, the idea that this incentive can be valuable for different companies is not disproved.

Considering the IRR dimension, Rui Miguel Santos asserts that in the Santander Responsible Banking context it not an important factor. However, and from a more general perspective, Santander representative believes that this would generate a significant increase in the number of available investors. Rui Miguel Santos makes a parallelism with current

macroeconomic terms explaining that with null interest rates (or even negative) on deposits and with the exchange market at a bad time this could be an excellent solution for the investment model of many companies and could even open up to some individuals. Additionally, there would be business angels participating and many more people looking at SIBs as a profitable model.

All told, the analysis of the investors' standpoint permits us to understand that this dimension is one of the factors which answer to the following research question: *Why are SIBs an underexplored financial scheme in the Portuguese welfare state?*

The first big difficulty that IEs face in the entire SIB development relates with the investors gathering process. In a first phase, PIS representative, points to a mindset problem stating that investors still look at this mechanism with some suspicions considering that it is needed more open-mindedness to change the traditional socially responsible investment paradigm and embark in this new logic. Moreover, Helena Loureiro considers that the existent incentives given to investors are remarkable - total reimbursement in case of total success of the initiative, 30% tax benefit in IRC terms.

Nevertheless, consulting IEs and investors results indicate that this idea regarding existing incentives is not consensual.

The visions given IE's representatives indicate that, in fact, the investor gathering process was extremely challenging but – besides the existing conservatism in what concerns investors posture – steps should be taken regarding incentives alignment. In fact, IEs state the main reasons that led investors to participate relate to the identification with the projects' mission and area of intervention. This is crucial to understand why most SIB investors comprise Foundations and social sector associations.

IE's reveal that the null IRR dimension is something impacting the SIB exploration because traditional investors do not feel pleased with the current IRR conditions which makes the investing motivations step away from the financial field. Moreover, IEs' representatives asserted that the positive IRR hypothesis would be a key gamechanger in the Portuguese SIB sphere since the interest around this mechanism – as well as the social impact generated - would increase considerably.

The findings supplied by the interviews with the investors are coherent with IEs representatives' inputs. Moreover, it is explained that the tax benefit impact is an incentive with an impact almost immaterial since only a small amount of the costs can be swayed by this measure. Nevertheless, investors consider that in some cases this incentive can be

prolific, and, for that reason, it should be maintained. However, this incentive should be complemented with positive IRRs.

Even though the incentives dimension should be considered, it is important to recall the investors mindset factor evoked by Helena Loureiro. The cases of the interviewed investors are an indicator of how - even with no direct financial return – organizations can gain with the SIB mechanism if they are astute. In the case of Educoach, significant reduction costs in terms of employees training can be achieved while in Santander case an amount that, considering traditional social investment, would be applied one single time can, under the SIB mechanism, be reinvested allowing the multiplication effect of the social outcomes.

4.4. Willingness to readopt the SIB model

In this section, insights regarding the SIB model potential and the participants' willingness to reembrace a new SIB project are designated. Findings are derived from the views of the PIS' representative, IEs' representatives and investors.

In Helena Loureiro's (PIS representative) point of view, the projects that already took place constitute a good pronouncement that, in Portugal, SIBs will gain more recognition as a valuable way to deliver social services. In her perspective, this mechanism is one of the keys to attain an effective change in the social sector paradigm.

This perception is shared by IE's representatives, nevertheless, the issues mentioned in the previous sections are presented as a drawback. In Ricardo Coelho's (ATB representative) standpoint, the SIB concept – in its genesis, based on the reference model – is very interesting, however, the instrument's organization in the Portuguese context causes several complications for IE's. Ricardo Coelho gives a clear example, stating that in ATB's more recent projects, the financing model chosen was Partnerships for Impact because it is a model much clearer and simpler.

Joana Guimarães believes that the SIB model will be reembraced by TESE. In spite of, at the moment, the association is not planning any application to PIS regarding SIBs, the positive experience – despite all the difficulties that the model still contemplates – and the allowance of implementing the projects in a stable way are decisive factors to perceive SIBs as a valuable financing model for futures initiatives.

Likewise, Carina Abreu (SAPANA's representative) sees the development of new SIBs enthusiastically. In fact, the organization as another SIB candidacy in development and

hopes to implement another SIB-based initiative very soon. SAPANA's representative believes that SIBs are instruments that make perfect sense and that the future of the economy, social impact and sustainable development depends a lot on instruments like this.

In what concerns investors, the openness to reinvest in SIBs is also present. Pedro Gomes, Educoach Administrator, admits that SAPIE was a project demanding a very large investment considering the organization's dimension and, therefore, investing the same value in a new project is difficult. Nevertheless, the experience was very positive and Educoach is opened to reinvest in new initiative whose investment requirements are inferior.

In accord, Pedro Gomes (Head of Responsible Banking of Santander Portugal) states that the willing to reinvest in SIB-based initiatives is significative because the possibility to reinvest the reimbursed amounts is a very appealing factor. Santander representative states that the bank's traditional model to support the community – which is based in donations – allows a much more limited action because of its non-refundable character. The SIB model is perceived as a better solution because of the possibility to reallocate funds.

The arguments above presented allow answering to the research question: *Based on the launched experiences, how willing are SIB participants to readopt the SIB model?*

In sum, every participant who has been interviewed recognizes the importance and the capacity of SIBs as financing instruments. Although, for some IEs' representatives, the option may fall into more flexible and less bureaucratic financing models, SIBs present significative comparative advantages, specifically in what regards projects that seek a larger geographical range and demand larger investment. Despite the downsides already explicated, the instrument is perceived as a financing solution with great potential and as a key contributor for the advancement and innovation of the social development paradigm.

5. Recommendations

The Portuguese SIB context is highly influenced by the connection to the community fund policy. This relationship encompasses positive and negative elements which directly influence the operationalization and the development of SIB-based projects and gives a unique and experimental character to the Portuguese case within the global SIB framework.

Being linked to Portugal 2020, the capacity of funding is increased due to the high amounts that are allocated by community policies to build social development and innovation projects. In addition, this context allows the creation of different incentives to attract investment, namely, tax incentives to SIB investors.

Nevertheless, it is crucial to analyse SIB participants' visions to assess what is heavier: benefits or shortcomings of this community connection. Starting with the tax benefit above reported, PIS' representative believes that this is a great incentive. However, that is not the perception of the investors experiencing it. Investors state that this incentive does not bring palpable gains since only a small part of expenses can be deducted what sharply restraints the tax benefit. In addition, analysing who are Portuguese SIB investors, it is clear that these are entities with specific tax regimes which are not influenced by this incentive (for example Foundations or Banks). Investors consider the tax incentive principle positive, nevertheless, it should be reformulated to allow more definite and applicable gains.

When analysing the drawbacks of the Portuguese SIB implementation process presented by the key participants it is not possible to detach them from the community fund association.

Implementing Entities (IEs) present has their biggest difficulties the enormous administrative burden and the bureaucratization of processes. This organizations have scarce human and financial resources and the bureaucratic aspects deviate them from what is their core and their mission: social impact. These problems are closely linked to the community fund politics as they demand systematic and immaculate financial reporting and require very strict procedure guidelines.

Another shortcoming of Portuguese SIBs is the impossibility of investors achieving positive IRRs. PIS' and IE's representatives identify as an enormous difficulty the phase of gathering the investors who finance the projects and this dimension is enhanced by the impossibility of investors getting positive financial returns. PIS, the entity who manages the distribution of community funds, established that investors could not achieve positive

returns financing social development and innovation projects. Consequently, in the best of cases, this is if the predefined goals are entirely accomplished, investors get a total reimbursement of the amounts they invested. Thus, positive IRR existence would be a key gamechanger in the Portuguese SIB sphere since the interest around this mechanism – as well as the social impact generated - would increase considerably.

Overall, the main difficulties identified by Portuguese SIBs key participants are intimately correlated to the specificity of the Portuguese case in what considers the existence of specific community funds to finance social development projects. To face these issues and turn SIBs a more prominent instrument for the social sector is it decisive to move towards the original SIB model (reference model) where social development and financial returns move together. The distancing from the community funds context, would allow a wider variety of commissioners in the market (at the moment PIS is the commissioner of every project) and a consequent flexibilization of contract terms in order to meet the expectations of each participant.

6. Conclusion

This dissertation presents an in-depth study of the Portuguese Social Impact Bonds (SIBs), assessing the success of this instrument in what concerns the financing of social development projects. The Portuguese case is analysed, in depth, with the objective of evaluating the outcomes of allocating specific community funds into the provision of social developing projects and measuring the importance of this mechanism for the Portuguese social sector development.

The existing literature perceives SIBs as a global phenomenon, ignoring each country's particular context. Nevertheless, when it comes to analyse the mechanism's context it is crucial to consider the distinctiveness of the Portuguese case comparing with the SIB genesis and the global SIB spectrum. The European community is experimenting, in Portugal, the allocation of specific community funds into the provision of social developing projects. Therefore, the Portuguese case constitutes a pilot experience at the European level and is seen as a reference for other countries who consider adopting the same methodology.

The methodology used was based on qualitative research methods, namely, interviews with Portuguese SIBs key participants (Portugal Inovação Social, Implementing Entities and Investors). Every dimension was analysed considering the standpoints of agents with different positions on the SIB development process. This procedure of crossing the perspective of different stakeholders regarding the same object is called Triangulation. Hence, an Analytical Framework pondering the common dimensions which different agents face was built allowing a smooth process of gathering and analysing data.

The obtained results reveal that the attachment to European community funds framework brings severe difficulties: a very high level of bureaucracy and a vast administrative burden for each of SIB participants, mainly, IE's; and also the impossibility to obtain positive return rates for investors which strongly diminishes the capacity to attract investment. In addition to these complications which are caused by the community fund model, investors interested in the social sector are still very affixed to traditional financing methods and the shift on the social responsibility paradigm requires more open minds.

Further investigations regarding the Portuguese SIB panorama should be developed in the next years since Portugal 2020 timeframe is closing and it will be important to capture if this will lead to an approach to the SIB reference model or if the existing conditions will be maintained.

References

- Baliga, S. (2013). Shaping the success of social impact bonds in the United States: Lessons learned from the privatization of U.S. prisons. *Duke Law Journal*, 63(2), 437-479.
- Berndt, C., & Wirth, M. (2018). Market, metrics, morals: The Social Impact Bond as an emerging social policy instrument. *Geoforum*, 90, 27-35.
- Berndt, C., & Wirth, M. (2019). Struggling for the Moral Market: Economic Knowledge, Diverse Markets, and Market Borders. *Economic Geography*, 95(3), 288-309.
- Care, R., & De Lisa, R. (2019). Social Impact Bonds for a Sustainable Welfare State: The Role of Enabling Factors. *Sustainability*, 11(10), 15-19.
- Cavaye, A. L. M. (1996). Case study research: A multi-faceted research approach for IS. *Information Systems Journal*, 6(3), 227-242.
- Crowe, S., Cresswell, K., Robertson, A., Huby, G., Avery, A., & Sheikh, A. (2011). The case study approach. *Bmc Medical Research Methodology*, 11, 3-7.
- Dayson, C., Fraser, A., & Lowe, T. (2019). A Comparative Analysis of Social Impact Bond and Conventional Financing Approaches to Health Service Commissioning in England: The Case of Social Prescribing. *Journal of Comparative Policy Analysis: Research and Practice*, 12-16.
- Del Giudice, A., & Migliavacca, M. (2019). Social Impact Bonds and Institutional Investors: An Empirical Analysis of a Complicated Relationship. *Nonprofit and Voluntary Sector Quarterly*, 48(1), 50-70.
- Dowling, E. (2017). In the wake of austerity: social impact bonds and the financialisation of the welfare state in Britain. *New Political Economy*, 22(3), 294-310.
- Dumay, J. (2011). The qualitative research interview. *Qualitative Research in Accounting and Management*, 8(3), 238-251.
- Edmiston, D., & Nicholls, A. (2018). Social Impact Bonds: The Role of Private Capital in Outcome-Based Commissioning. *Journal of Social Policy*, 47(1), 57-76.
- FitzGerald, C., Carter, E., Dixon, R., & Airoidi, M. (2019). Walking the contractual tightrope: a transaction cost economics perspective on social impact bonds. *Public Money & Management*, 39(7), 458-467.
- Fraser, A., Tan, S., Lagarde, M., & Mays, N. (2018). Narratives of Promise, Narratives of Caution: A Review of the Literature on Social Impact Bonds. *Social Policy & Administration*, 52(1), 4-28.
- Giacomantonio, C. (2017). Grant-Maximizing but not Money-Making: A Simple Decision-T

- ree Analysis for Social Impact Bonds. *Journal of Social Entrepreneurship*, 8(1), 47-66.
- Joy, M., & Shields, J. (2018). Austerity in the making: reconfiguring social policy through social impact bonds. *Policy and Politics*, 46(4), 681-695.
- Karwowski, E. (2019). Towards (de-)financialisation: the role of the state. *Cambridge Journal of Economics*, 43(4), 1001-1027.
- Knox, S., & Burkard, A. W. (2009). Qualitative research interviews. *Psychotherapy Research*, 19(4-5), 566-575.
- Liebman. (2011). Social Impact Bonds: A promising new financial model to accelerate social innovation and improve government performance. *Center for American Progress*
- Maier, F., Barbeta, G. P., & Godina, F. (2018). Paradoxes of Social Impact Bonds. *Social Policy & Administration*, 52(7), 1332-1353.
- McGrath, C., Palmgren, P. J., & Liljedahl, M. (2019). Twelve tips for conducting qualitative research interviews. *Medical Teacher*, 41(9), 1002-1006.
- Morley, J. (2019). The ethical status of social impact bonds. *Journal of Economic Policy Reform*.
- Pandey, S., Cordes, J. J., Pandey, S. K., & Winfrey, W. F. (2018). Use of social impact bonds to address social problems: Understanding contractual risks and transaction costs. *Nonprofit Management & Leadership*, 28(4), 511-528.
- Patton, M. Q. (1999). Enhancing the quality and credibility of qualitative analysis. *Health Services Research*, 34(5), 1189-1208.
- Patton, M. Q. (2002). Learning in the field: An introduction to qualitative research. *American Journal of Evaluation*, 23(1), 115-116.
- Scognamiglio, E., Di Lorenzo, E., Sibillo, M., & Trotta, A. (2019). Social uncertainty evaluation in Social Impact Bonds: Review and framework. *Research in International Business and Finance*, 47, 40-56.
- Tse, A. E., & Warner, M. E. (2019). A Policy Outcomes Comparison: Does SIB Market Discipline Narrow Social Rights? *Journal of Comparative Policy Analysis*.
- Vecchi, V., & Casalini, F. (2019). Is a social empowerment of PPP for infrastructure delivery possible? Lessons from Social Impact Bonds. *Annals of Public and Cooperative Economics*, 90(2), 353-369.
- Warner, M. E. (2013). Private finance for public goods: social impact bonds. *Journal of Economic Policy Reform*, 16(4), 303-319.

Yin, R. K. (1981). The Case-Study as a serious Research Strategy. *Knowledge-Creation Diffusion Utilization*, 3(1), 97-114.

Annexes

(Please refer to Annex 1: Portuguese SIBs detailed description at the end of the document)

Annex 2: Interview with Helena Loureiro – Representative of Portugal Inovação Social

(Introductory/Context questions)

1. In what context was created Portugal Inovação Social (PIS)?

PIS emerged from an intention of the Portuguese government in 2014, combined with a pilot experience that the European Union also wanted to do to test how the application of a small portion of community funds would work specifically to support innovation and social entrepreneurship projects. In that sense, it was decided to proceed with the pilot experience in Portugal because it is a country in which it is easier to test. In other words, we are a country that has specific community funds to finance social innovation projects.

(Informative questions)

2. Shifting the focus towards SIBs. PIS's website indicates the existence, nowadays, of 8 different SIBs. Is this information updated?

No, it is not. At the moment we already have more titles underway. We have a contest running continuously. Later I can send you a grid with the description of these titles that we have not yet published on our website.

3. What led to the construction of this instrument?

We built the financing instruments under a hierarchical logic according to what we call the life cycle of innovation and social entrepreneurship initiatives. In other words, we realized that we had organizations with absolutely different needs. We had organizations that wanted to implement social innovation initiatives, but whose human resources were not trained (with management skills) for them, so we created the Training for Social Investment that aims, specifically the training of people so that they can then manage well your projects. Then we have a second hierarchy of need, which concerns the need for financial support to put a social innovation project on the ground, try it out and see if it has, in fact, an impact on the recipients - Partnerships for Impact.

Then we have the SIB. We had and we have projects in the field that we know already have an impact on society, already have effective results and then we can make a payment for the results they have. Much is discussed at European level in relation to SIB because there are different ways of financing, but we are the only country at European level that has specific

Community funds to support these SIBs.

As a last resort we have the Fund for Social Innovation which has two lines. A credit line using banking, in which we give many guarantees to banks so that entities can make bank credits. There is also a line of investment that what is done is to provide guarantees to investors so that they can invest with capital so that projects can proliferate.

4. When will occur the publishing of the 2019 Execution Report?

It should be published soon. It is ready, it is being analysed by the Secretary of State. I cannot point you a date, but it should not be too long.

5. I got knowledge of another project, in addition to those mentioned above, that is not present in PIS' website – Junior Code Academy. Why the absence?

This title was drawn out of the PIS spectrum. All our published SIBs are the ones that we are financing. This does not mean that there are no other SIBs going on with other private investors who decide to leverage their investment in SIB. It is good to explore this well and see if it is really a SIB because it is, at least, strange, with PIS making investments there are SIB that are not candidates for PIS. We only finance projects that have private investors.

6. Is there any SIB project outside the umbrella of PIS?

The Code Academy, for example, was a project outside the scope of PIS and financed by public policy - it was the Lisbon City Council, in conjunction with *Santa Casa da Misericórdia* - that made the investment in the Code Academy. There are projects that were not SIBs and that, meanwhile, have grasped the logic of PIS. I do not know about projects that are currently SIB in progress that have not been applying for PIS.

(Focus on IRR=0% - investors' perspective)

7. In the website it is stated that Social Investment = Portugal 2020. What interpretation must be taken of this statement?

Of course. PIS is leveraged to the current community framework that is within Portugal 2020. We have a community cake that the EU defined and articulated with the country in 2014 that sends community funds to Portugal to mobilize in certain areas. This community fund is part of Portugal 2020, which is the whole financial pie that Portugal has, coming from Europe, to leverage certain areas in need. We share this financial pie through operational programs (*Planos Operacionais*, PO's).

8. From what I captured from other interviews with different Portuguese SIB agents, in case of success of the initiatives, investors do not advantage any profit (IRR=0%). Do you confirm this statement?

I confirm and it is a marvel. The most they get is the totality of what they apply, it is great. In addition to having a financial increase after IRC in the amount of what is applied. Which is also wonderful. Within the scope of the Ministry of Finance, in 2017, the possibility for investors who invented SIB to have a financial increase of 30% in IRC was published. Therefore, not only do they see their money reimbursed in the event of successful initiatives, they also receive an additional 30% above that.

9. In opposition to other countries where SIBs are a more prominent instrument, in Portugal does not exist the possibility of getting positive IRRs from SIB investment. What is the cause for such a difference?

In Portugal, this does not happen because we are still leveraged to community funds for the implementation of SIB. What I admit is that the construction of SIB is in a crescendo that could end up in logics that include positive IRRs. For example, in other countries there is the possibility of a public investor. Let us imagine that whoever invests in a project like this, here in Portugal, is for example, the Ministry of Justice. What happens is that, in terms of the cost that a given problem has for the Ministry of Justice, the SIB can allow financial profitability because the cost decreases. In other words, if in Portugal, instead of the PIS financing the projects, it was a public entity, this scenario could be realized.

10. Do you believe that this impossibility has an impact on the diffusion and prominence of SIBs in Portugal?

Honestly, I believe so. In fact, it is no wonder that we have so many SIBs to be tried in Portugal. What happens is that in Portugal we have SIB to be governed by very specific rules, which are the rules of community funds. This blocks a lot. There are IRRs that may not be null IRRs. For example, if in the case of Academia do Código the social investor are technological companies that need those people, the company will have a huge profitability if they invest in SIB. In this case, it cannot be that way only because there is a logic of community fund, a term that is called "Control Relationship", that is, the investor cannot have any control relationship over the SIB in which he is investing. Therefore, when SIB ceases to be under this community fund investment scope, the logic of positive IRR will already be verified, without a doubt.

11. In case of inflation, even with an IRR=0% investors lose money. Is there any adjustment mechanism in these cases?

There is - though not directly - a protective mechanism for candidacy engineering. When the entity that makes the application and presents a budget, that budget may already consider the

costs that it will have each year. All these costs can be applied for and then the finance team must assess the reasonableness of the budget. This type of considerations can be taken care of by the entity when making the application.

12. Do you believe that, considering the conditions above mentioned, it is correct to say that investors are purely driven by philanthropic motivations?

I think it is, above all, a turning point, and a change in the logic of social responsibility. It has a philanthropic basis, absolutely, naturally. However, what I feel is that SIBs allow a turning point because they allow companies to make an investment and see the same reimbursed to return to invest. This logic is very modern in capitalizing funds for social responsibility. It takes teams with an open mind to understand this new logic, but whoever perceives it, in my view, is extraordinarily intelligent when it comes to investing. Therefore, the logic is philanthropic, no doubt, and embraces the belief of a much more proactive social responsibility in which the investor is working, side by side, with the entity that implements the project.

(Focus on governance model)

13. From your perspective, what are the main difficulties that implementing entities face when it comes to concretize implementation?

Before the implementation, the main difficulty that the entities have is to obtain social investors. Exactly for what I mentioned in the previous point. The teams must be very open minded to this change of logic in social responsibility, which is, in my opinion, a much more positive logic. Even regarding the financial management of the social responsibility groups of a certain company, this logic is very promising. What we need is a Portugal "without fear" and what we feel is that companies are afraid. They look at this, still, in a very suspicious way. This work of attracting and sensitizing investors, which we - Portugal Inovação Social - also do, is what is the greatest difficulty for implementing entities in Portugal. We have SIBs that are not implemented because they do not find investors, then what they do is apply for Partnerships for Impact.

14. What evaluation do you make of the current governance model? (Namely in terms of bureaucracy, agility, and celerity)

These problems are real and are mainly since funding is leveraged by Community funds. This is because the systems are bureaucratic and complex, because everything is a problem, because there is always a paper missing, because there is always something that is not right, everything is very time consuming ... Everything has to go through huge hierarchies for the

processes to be approved. It is the Portuguese bureaucracy combined with the bureaucracy of community funds.

15. What is missing to make SIB a more prominent instrument in Portugal?

Investors lack a very diverse view on the importance and relevance of SIB, without a doubt. There is still a need for more organizations, namely medium and large companies, that bet on social responsibility in a bolder way. There is a lack of agility in the scope of the administrative system that will unblock community support in convergence with what we talked about in the previous section. In short, there is still a need to attract more investors and make the system less bureaucratic.

16. This debureaucratization must be a task for European or Portuguese entities?

I think that it essentially goes through the EU and the way in which Community funds are set up and made available. This is not a conversation now. We before Portugal 2020, we had the previous time and these problems already existed. Therefore, community funds are very demanding because they require a lot of evidence and a lot of proof that things are happening. If we do not strictly comply with what is expected, we, the Portuguese, must return the money to the EU. In my opinion, there should be, among member states, procedures to ensure that processes are less bureaucratic.

17. So, do you consider that these difficulties caused by the bureaucratic system are also felt by implementing entities abroad?

Not in the scope of SIB since Portugal is the only country that finances SIB within the scope of the Community framework. This is unless there has been some recent change. Within the scope of other financing instruments, yes. This is a problem that cuts across all member states.

18. Do you consider that the projects that already took place constitute a good pronouncement that, in Portugal, SIBs will gain more recognition as a valuable way to deliver social services?

Of course, yes. The SIBs we are financing are a great example. We have had positive results. Through negotiation with public policy in the scope of validation, we have been able to achieve the proposed indicators. Therefore, I think that we have all the conditions, with these experiences, to show that SIB is an asset and that they have to continue on the ground for the effective change of the social paradigm.

Annex 3: Interviews with Implementing Entities' Representatives

Interview with Afonso Fontoura, Public Sector Associate at MAZE - Implementing Entity of Academia do Código, Projeto Família, Faz-te Forward and Cuidar de Quem Cuida

- 1. There are two databases containing Portuguese SIBs related information: Portugal Inovação Social (PIS) and Social Finance (SF). PIS states that there are 8 different SIBs in execution in Portugal now while SF indicates that there are only 4. Could you clarify this situation?**

I believe that none of the databases is updated because the number of initiatives in execution is 12. I think that SF is only accounting for the SIBs that were implemented by MAZE. Let me explain you the context, the first SIB that was launched in Portugal was structured by MAZE in a partnership with Lisbon municipality and Calouste Gulbenkian Foundation and it was Academia do Código. This initiative was performed before the creation of PIS which is, essentially, a public mechanism that was created to manage structural funds from the European Union (EU) for Social Innovation through 4 different funding instruments – Social Impact Bonds, Grants, a Co-Investment Fund and a Social Investment Fund (SIF). I am not 100% sure how many SIBs were already approved and implemented in Portugal. I know that MAZE structured, within the spectrum of PIS, 4 initiatives. The first one was Academia do Código as I mentioned before.

- 2. So, MAZE was the main booster in 4 of the 12 initiatives. Is this correct?**

Yes, it is. The role of MAZE in this SIBs financed by PIS was to provide support in the structuring process of the initiatives and the contracts, what also involved structuring the financing model of the policies. Nevertheless, these instruments are always made in consortium. That is, MAZE has the mission to intermediate the process, support the structuring of the process and measure the performance to evaluate the results but the entities that implemented the intervention also had a very important role as well as the investors. Another important thing to consider is that none of these 4 initiatives is already concluded. We are still performing the results evaluation.

Let me summarize the intervention of these 4 SIBs. The social issue tackled by Academia do Código was youth unemployment providing coding bootcamps in Fundão. Another initiative - Projeto Família - in cooperation with *Movimento de Defesa da Vida* which is a Lisbon

based social organization works with flagged families preventing children institutionalization, which is costly for the public sector. Faz-te Forward is the name of another project that also aims to mitigate youth unemployment but is more focused on the breeding of soft skills. Finally, there is a initiative performed alongside Castiis (*Centro de Assistência Social Terceira Idade e Infância de Sanguêdo*), named Cuidar de quem cuida.

3. Bearing in mind that none of the initiatives is already concluded, have you enough data to describe how successful have been the initiatives?

Although there are no final results, we have got preliminary data and preliminary results. Until this moment, all the results we reported were satisfactory and successful. Now, we already reported half of the results. These instruments are structured in multiple stages each one of them with ambitious results. The distribution of the result set into many stages allows the dilution of the risk that some results are not accomplished. The payment from the public sector to the investors occurs also divided on stages, for each positive result the investor gets paid.

4. Were these preliminary reports published?

Not yet. In none of the 4 initiatives. Soon we will do a preliminary report stating that until this moment the results have been successful in every metric. I can check the status of this report and tell you when it will be published.

5. Is the return rate for the investors published?

On these cases the return for the investors is 0. On the case of the Portuguese Social Impact Bonds there is not a premium. If the ambitious results are accomplished there is a total reimbursement of the amount invested. In fact, it cannot be considered a total reimbursement because the funding institution – Portugal Inovação Social (PIS) – responds to a superior structure called PO ISE (*Plano Operacional de Inclusão Social e Emprego*) which is an authority that manages EU funds. The projects that are financed under the PO ISE spectrum are financed «against expenses». While we report the results of the intervention, we must, simultaneously, report the expenses incurred by the implementing organization. Those expenses will be audited and only after that will be made the payment to the investors. This means that there is a huge administrative burden for the implementing entities because their financial report process must be immaculate to guarantee that investors are reimbursed. The level of bureaucracy is very high what is harming the natural benefits of an instrument like Social impact Bonds. Bureaucracy is making transaction costs increase

which threatens the effectiveness of the process. This is a situation that is inherent to the existing mechanism for funding SIBs in Portugal: PIS.

6. Stating that in the 4 initiatives that MAZE organized the return for the investor was 0, is it correct to say that the investment driver was pure philanthropy?

It fits in a strategic philanthropy. It is not pure philanthropy because it is not a grant. In a grant the funds are non-refundable, there is not a reimbursement expectation. In a SIB there is the expectation of reimbursement although there is not a profit expectation. For example, if an entity invested 500.000 dollars it will receive back this amount if the wanted results are accomplished. It is not paid any kind of interest or return rate.

7. Does this mean that the existing legislation does not presuppose the existence of an Internal Rate of Return (IRR) for the investor? This is contradictory to what happens in foreign countries. Why the difference?

In Portugal there was some «ethic purism» in the perspective that it was established that it does not make sense that a private investor profits from the resolution of social issues. This is something that might be questionable because, for some people, this is distorting the mechanics of a SIB. It is questionable if this idea is not compromising the incentive alignment that is supposed to exist.

8. What is your position regarding these conditions related with IRR limitations?

Currently, this is one of the main roadblocks in Portugal concerning SIBs. What may happen in Portugal is that with the development of new SIBs, the outcomes payer will no longer be PIS allowing the negotiation of new contract principles with different conditions for the investors.

9. Is that foreseen? And is that possible?

It is not foreseen. It is possible, but in political and reputational terms this is a delicate situation. Government reasoning is the following: «PIS has 150 million euros to support Social Innovation initiatives. Why would other entities bring more funds and profit from that? ». Only time will tell if Portuguese public sector is ready for this or not. This is a very sensible topic in political terms.

10. Were all the 4 initiatives organized by MAZE totally financed by PIS?

Yes, they were. Moreover, all the SIBs that took place in Portugal – except the first one, Academia do Código Junior – were totally financed by PIS.

11. Bearing mind that in Portugal the subject of measuring the investors IRR is missing, does that mean that the importance of measuring the success of the initiatives is less imperative?

The idea of performance measurement is still present but in a sense of reporting results. It is not correct to say that there is not an IRR. In fact, IRR is 0%. If the results are not accomplishing, eventually, IRR is negative. If everything runs as planned IRR will be 0%. Actually, it would be 0% if inflation is 0% because it is not even made an adjustment considering inflation what means that an investor who invests in a SIB is aware that, in a period where inflation occurs, is losing money.

12. What is the relation between PIS and MAZE? From my interpretation, PIS works has the project financier while MAZE organizes all the process. Is this correct?

PIS is a public organism that evaluates and approves which candidacies should be picked to receive financing from EU funds. The relation between PIS and MAZE is institutional. MAZE works, has the implementing entity for the projects that are financed by PIS.

13. Do you consider that subsists any SIB related topic that was not yet analyzed considering the Portuguese context?

The main roadblock in the Portuguese SIB context is related with governance. It would be valuable an investigation underlying the process of allocation and management of financing funds and the definition of payments by the public sector. This would be appreciated under a rationale of providing more agility, autonomy, and celerity to the profit in order to diminish the transaction costs. It should be analyzed the governance framework with the purpose of lessening the bureaucracy. A clear example of a governance issue that could be studied is related to the access of new investors – besides PIS – to this type of instruments, namely private investors. Lessening the level of bureaucracy and administrative burden it is possible to create new contacts in which the limitations for remunerating investors are null or very scarce.

Interview with Ricardo Coelho (Associação Tempos Brilhantes) – Project Manager SAPIE

(Introductory/Context questions)

1. In what way *Associação Tempos Brilhantes* (ATB) operates in the economy's social sector?

ATB is a non-profit association that operates, essentially, in social innovation and around education. The organization is based in the centre region, in the Coimbra metropolitan area, but has projects all over the country. It has projects developed in about 80 municipalities, from Bragança to Vila Real de Santo António.

2. What type of interventions operates, and which aims are usually targeted?

The main area of intervention is education. Most of ATB's intervention focuses on education, but then also projects on active aging and entrepreneurship. The SAPIE project, which is the Social Impact Bond (SIB), focuses on education.

(Informative questions)

3. Focusing on Social Impact Bonds. Was SAPIE the only SIB-oriented project that ATB implemented?

In the form of SIB, yes. It should be noted that there are three SIBs, one in the North, one in the Centre and one in the Alentejo. Then we have other projects also linked to Portugal Inovação Social (PIS) but which are Partnerships for Impact.

4. Which project features lead to the selection of SIB as the model to follow?

Other projects we had, as they were at a less advanced stage of development, we decided to move on to Partnerships for Impact. The SAPIE project embarked on the path of SIB for two essential factors: on the one hand, the dimension of the project that aspired to have a national reach, on the other hand, because of the potential impact that we had already expected in the area of education. We think the project was very suitable for what are SIB.

(Governance Model)

5. Which review do you make of the project's implementation?

In fact, things are simpler on paper than later in reality. So, when we talk to schools even more complex is the process. The school environment already has its way of acting, and its agents are usually very experienced. This on the one hand is good, but on the other there is some conservatism in the performance. The youngest generation of teachers is in their 40s or so.

The project foresaw, from the beginning, a very large scale with the implementation in 75 clusters joining the 3 regional applications. This raised a whole set of difficulties when it came to scale the project in so many groups. We knew it was a challenge, and complications were emerging that had to be overcome.

6. What evaluation do you make of the current governance model of Portuguese social impact bonds?

The basic idea of SIB is, in fact, very interesting. Basically, a project focusing not on the execution of activities, but on the impact. It is this basic principle that is very interesting. What it seems to me is that it ends up still, still, being very attached to the traditional model of financing by execution, due to expenditure, and did not take the leap that would be implicit in its genesis of moving towards the project's realization by impact. In other words, SIB could go as far as not interested in costs, but in the impact generated: "Did they have that impact? Okay, we're financing that impact."

The current governance model still seems to me very attached to the expense reimbursement regime. It still works almost like a hybrid between the traditional model and a model based on impact.

7. Was the implementing process quick and agile? Which were the main difficulties?

The project is proposed by the Implementing Entity (IE) and then the implementation depends only on the entity, basically the financing program gives some freedom to implement it in the way it considers most correct. The management part, in fact, has some problems.

We were among the first entities to submit a refund and we felt that factor. There were many things that were still to be defined as doubts arose. On the other side, too, we didn't always have the most immediate answers. The fact that it is still very attached to the traditional model, that is, having this double validation - impact and execution / expenditure - ends up making the process more complicated. It is a program that is taking its first steps almost in the world and my perception is that in other countries they are even looking at the Portuguese model with some attention.

8. Which evaluation do you make considering the existent level of bureaucracy?

It is exceedingly high, no doubt. I think that, in this respect, the model has yet to develop in the sense of simplification. I think it is one of the fields in which it can improve a lot.

9. Which measures should be adopted to optimize projects' implementation efficiency?

I think the essential thing would be to assume the philosophy that was prescribed and that served as a basis for the construction of this instrument. If there is a greater focus on the result and impact of the project and less on the administrative part, you can then free the

program technicians to focus more on the results. The suggestion that could remain in the air is that the model takes on more of this differentiating characteristic.

(Investors)

10. What involved the process of gathering investors?

It is a complex and difficult process because there are still not many investors in Portugal working with this financing model. Perhaps because it is a recent instrument, the range of options regarding investors was very small. It ended up going well. We managed to get the support of two entities, one of them a minority - Portugal Telecom Foundation - that already had experience in this type of instrument and another major investor - Educoach - that we were able to stimulate and that allowed the project to become viable.

11. Were the established goals entirely accomplished leading to an IRR=0%?

Yes. In fact, one of the conditions of the program was to achieve the goals to 100%. While, for example, in Partnerships for Impact there may be a partial achievement, in SIBs it is an "all or nothing", that is, either the goal is reached 100% or there is no refund.

12. From your perspective what were the drivers that led organizations to invest in SAPIE?

I think it is essential to "sell" the project very well. Represent the project as something that investors are proud to participate in and make them believe in the project. It is important that investors like to be associated with the project. In addition, there are a number of tax benefits, but I honestly believe they have a residual impact. Especially because it has very specific conditions: it is not about the investment in the totality, but about a reduced part. At the beginning we thought that this would be an important factor, but now this is not the perception we have - it has a very small impact.

13. Which would be the consequences if it were allowed the entrance of different outcomes payers in the market (besides PIS) allowing the negotiation of new contract terms?

I think that there should be a logic of having new agents that allow to negotiate different contracts. The prospect of positive IRRs, in my opinion, should be realized. Making a little limited parallelism, when I go to buy something for myself at the end I will assess if what I bought corresponds to my expectations and if it was interesting and contributed to what I wanted. What matters is what was provided. A project that presents a lot of value to society must be reimbursed for the value it provides to society. The benefit that the project brings to society should be the basis for contracting.

14. In your perspective which would be the impact if the possibility of negotiating new contract terms allowed the existence of positive IRR's (as we see in foreign initiatives)?

I think we would send the SIB in Portugal to what was the main idea when creating this model. It would make a positive contribution and have the potential to captivate new types of investors. Right now, the issue of social investment is very much left. We have a group of investors that bet on philanthropy and a set of other investors that - outside the social scope - are strongly betting on return on investment. In the middle, there is a whole grey area to explore and I think that instruments like the SIB have everything to occupy this space.

Investors are almost all from the perspective of "giving", of philanthropy. Which is the logic of the most traditional social investment models. If we analyse who are the SIB investors, Educoach is one of the few that is a company and the rest are almost entirely foundations.

(Overall)

15. Bearing in mind the experience related with SAPIE, which is ATB's evaluation regarding the possibility of establishing new projects under the SIB model?

Not so long ago, the PIS had open SIB applications for the Lisbon region and the truth is that we are not competing. However, we are competing for Partnerships for Impact in the Algarve region - with the SAPIE project as well. We took this option precisely because we consider that the model has some problems. The concept is very interesting, but in the way it is organized, instead of being the best of both worlds, it ends up almost having the complications of both worlds ... But the potential is there, I think it is a question of who manages the process to want or not reaching this potential. How it works today is an instrument that causes many complications that make a model like Partnerships for Impact clearer and simpler. I consider SIB a model, in its genesis, more interesting, but it still has some edges to be resolved ... The issue of return for investors, the issue of administrative burden, the issue of promoting the model together with new agents in the market are issues that must be analysed for the SIB to reach its maximum potential.

**Interview with Joana Guimarães – TESE Project Manager (Projeto Faz-te Forward)
Introductory/Context questions**

1. In what way TESE operates in the economy's social sector?

TESE is a Non-Governmental Development Organization (NGDO) whose mission is to provide innovative responses with the main objectives of promoting social development, equal opportunities, and quality of life for the population. To achieve these objectives, the organization is divided into two sectors: an international sector where it operates, essentially, in the *PALOP* countries and a national sector. In national terms, TESE projects are mainly linked to issues of employability and training of younger populations to enter the labour market.

2. What type of interventions operates, and which aims are usually targeted?

TESE bases its activity on social innovation methodologies. These are largely based on non-formal education in which the participant is always the center of action. Projects are always set up based on the participants' own path. The most used methodologies are coaching, mentoring, vocational experiences such as job tours. Technologies that are considered innovative and that have shown very interesting results.

Informative questions

3. Focusing on Social Impact Bonds. Was Faz-Te Forward the only SIB-oriented project that TESE implemented?

Yes, so far yes. It is the only SIB of TESE but we have another project that also works under the logic of payment for results organized in consortium with *IEFP* and *Universidade Católica Portuguesa*. However, the logic is slightly different from the SIB and the investment is public.

4. Which project features lead to the selection of SIB has the model to follow?

Faz-te Forward already existed in Lisbon having been developed there for 5 years. The financing model was more traditional, with private investors. Coming to the end of these 5 years, it was felt that there was room for Faz-te Forward to scale even at a geographical level. The youth unemployment figures in the north were particularly high and it was felt that it made sense to implement the project also in the north of the country. In view of this need to scale the project, we looked for a solution that would allow a stable implementation. The SIB provided that possibility. Another reason is that we were also interested in promoting reflection on the impact of public policies and looking at the impact of projects as SIB. In addition, our previous experience with the Lisbon editions allowed us to be relatively calm when it comes to achieving results, working as a relevant factor to captivate investors.

Governance Model

5. Which review do you make of the project's implementation?

TESE is implementing the project together with MAZE, which makes the evaluation of the results. Funders are the Gulbenkian Foundation - with a majority stake - and Deloitte. Finally, we have as partner the *Câmara do Porto*, namely, with the provision of facilities and with the *IEFP*. The assessment is quite positive. This consortium work flowed without major constraints. As an implementing entity, we made a point of giving feedback at the different stages of the project. We are already at an advanced enough stage to say, with confidence, that all 5 editions of the project will achieve the proposed objectives.

6. What evaluation do you make of the current governance model of Portuguese social impact bonds?

The financial reporting requirement associated with the reimbursement requests, in fact, absorbs an enormous amount of resources from the teams. It is a very bureaucratic process and there have been some delays in reporting results due, precisely, to the requirement of the process and the long periods of response by POISE. Things are not just centred on POISE and this whole bureaucratic process consumes a lot of human resources and presents costs. This leads to a shift away from what seems most important and to lose focus on what should be the goal: impact.

7. Was the implementing process quick and agile? Which were the main difficulties?

The implementation process did not have major constraints. The main difficulties arose with the submission of results and requests for reimbursement. There are some constraints created by POISE itself, namely, that we cannot submit more than 3 results at once. We can have all the documentation ready and everything operational, but we cannot submit more than 3 results, which prevents the process from flowing. There are difficulties because of this bureaucratization of processes, submission of results, requests for reimbursement and coordination between all entities.

8. Which evaluation do you make considering the existent level of bureaucracy?

The required level of reporting, and the logic behind the refund process, implies a very bureaucratic and time-consuming process. It consumes a lot of resources with the collection, systematization, and analysis of evidence. Thus, and in conjunction with what I said in the previous responses, the process is too bureaucratic and should be more streamlined.

9. Which measures should be adopted to optimize projects' implementation efficiency?

It is hard to point effective measures, but everything that would allow a decrease on the level of bureaucracy and more simple processes would be welcome.

Investors

10. What involved the process of gathering investors?

The relationship with some investors already existed from previous TESE projects. We met with some investors that we knew were interested in the social area and we had contact with some organizations that might be interested in joining the project. The Gulbenkian Foundation's mission is, among other things, to support projects of this kind and we knew that we could be interested in participating. However, we have to admit that, especially when it comes to Deloitte, it was not the organizations we counted on most to join. It was very important to demonstrate to investors that this project already had a history and that these were a good sign for SIB's success.

11. Were the established goals entirely accomplished leading to an IRR=0%?

Officially we are still in the evaluation phase, however, I can tell you that the results have been achieved. The training phase of the project has already ended, the evaluation phase is underway, but from the evidence we have already collected, we can say that the intended results have been achieved. We cannot guarantee this in terms of refunds, but we have not yet had any refund requests that have been declined and we believe that refunds will occur entirely.

12. From your perspective what were the drivers that led organization to invest in Faz-Te Forward?

I think that pure philanthropy does not exist and that there is always a strategic motivation on the part of companies. There is a desire to create brand images and show society that they have a role in social development. Social responsibility policies have this philanthropic side, but they also have this marketing and positioning side of companies in what is the market. The Gulbenkian Foundation, by itself, has this philanthropic aspect, however, a company like Deloitte, does not have this aspect, but ends up having an interest in saying that it is investing in youth employment in what is its communication strategy.

13. Which would be the consequences if it were allowed the entrance of different outcomes payers in the market (besides PIS) allowing the negotiation of new contract terms?

In case there are more public institutions as financiers, I do not know if that will be very interesting. What could exist were institutions that reinforced the PIS's response capacity and, in some way, the amount associated with the investment in SIB. On the other hand, when there is competition, there is an attempt to invest in the work performed and the quality of the work developed tends to be higher.

14. In your perspective which would be the impact if the possibility of negotiating new contract terms allowed the existence of positive IRR's (as we see in foreign initiatives)?

I think that in that case we would have different investors because that would go a little against what are the corporate social responsibility policies. This could distort, in some way, what social work is because, in my opinion, the social mission does not align with the search for financial returns. For example, TESE as an NGDO has no profit objectives although it aims to be a sustainable organization.

Overall

15. Bearing in mind the experience related with Faz-Te Forward, which is TESE's evaluation regarding the possibility of establishing new projects under the SIB model?

TESE assumes this possibility. We are not currently planning any application to the SIB, however, taking into account that this model allows the development of the project in a stable way, it is a probable hypothesis that TESE will again resort to the SIB even taking into account the difficulties that the model still contemplates. The experience was positive and the feedback from all members of the consortium also goes in this direction.

Interview with Carina Abreu, Project Manager at SAPANA – IE of the Project Breaking Bars Farm (BBF)

(Introductory/Context questions)

1. Could you explain in what way SAPANA operates in the economy's social sector?

SAPANA was founded in 2012 with the great purpose of empowering people for their best version. We believe that by developing our personal and social skills, we can be a better version of ourselves. We have a methodology that is essentially based on Daniel Goleman's 5 emotional intelligence stages and where we apply coaching tools and other techniques. We started working with unemployed people in 2012. We had financing from Barclays, which

was a great investor and was the one who launched us. As part of this project, we trained more than 800 people and had a success rate in the field of employability of around 80%.

2. What type of interventions operates, and which aims are usually targeted?

After all our programs are over, we have a mentoring phase where we accompany each person, this monitoring being optional. Then this methodology is being adapted to people in different contexts. We work with unemployed people, prisoners and young people in a vulnerable context (mainly in social neighborhoods). It has always been our intention to work in prisons because we believe that people are not their context and that we all have potential and can be our best version.

(Informative questions)

3. Focusing on Social Impact Bonds. Was BBF the only SIB-oriented project that SAPANA implemented?

Yes, it is the only one we have right now. We have another project that is also being analyzed and evaluated for SIBs. This other project, which is still under evaluation, is for us to work in educational centers, therefore, with young people between 12 and 16 years old who have committed crimes, but who are not judged as adults due to their age. This project has more of a preventive nature and aims to prevent criminal recurrence of young people.

4. Which project features lead to the selection of SIB has the model to follow?

We know that each inmate has a cost of €40 for the Portuguese State per day. SIB's objective is to have a result that generates savings for the State. The choice of this model follow this ambition. We also wanted to show the potential of the project and I think that in this sense this financing model is the most suitable. By integrating these people into the job market, we are generating savings for the State. We know that there is a criminal recidivism rate higher than 50%, which is a lot considering the expenses that an inmate generates for the State.

(Governance Model)

5. Which review do you make of the project's implementation?

Implementation is still ongoing. We are in the middle of the first edition. The project is currently suspended due to the pandemic, which does not allow us to work in prisons. The implementation has always taken place in a very close way to the General Directorate for the Reintegration of Prison Services and the prison establishment. Everything we do that has to

have the consent of the prison establishment and even the project itself before the application was submitted had to be validated by the General Directorate beforehand.

6. What evaluation do you make of the current governance model of Portuguese social impact bonds?

7. Was the implementing process quick and agile? Which were the main difficulties?

We are working in a prison establishment, so nothing is fast, and nothing is agile. We must be agile to overcome some problems that arise. We must deal with a lot of regulations and a lot of suspicion. We must deal with a director of the prison, with technicians, with a whole structure that did not know us. It is a very hermetic structure for obvious reasons. We are somewhat protected because, ultimately, decisions are made by the general management. However, we must work in partnership and in collaboration.

8. Which evaluation do you make considering the existent level of bureaucracy?

It is a very bureaucratic process that requires a large allocation of resources. Constant reporting is necessary, particularly regarding expenses. A lot of documentation is always needed. Periodically, we must list expenses, send them to the investor and ask for their reimbursement. It is a lot of bureaucracy, because we always have lots of documents to present ... especially regarding wages, we need the accounting statement, the social security statement, and every month we have to deal with all this documentation. It is not because of the difficulty of the process, but it involves several steps and a lot of bureaucracy. Our investor has been impeccable because as soon as we send the refund request, in a matter of days, he proceeds with the payment.

It is a very expensive process in terms of time, but also in terms of expertise. We are an NGDO and we are people connected to the social area and not to accounting or management. Bureaucratically it is very heavy, and organizations do not have the capacity to deal with all this administrative burden. Our great advantage is having a very close relationship with the investor, which makes the process much easier.

(Investors)

9. What involved the process of gathering investors?

It was a very long phase of persuasion. Everything is done based on relationships, partnerships and this is a risky project. There is an associated risk here, so it is not any

organization that is willing to invest, and the risk associated with it. There is a legitimate concern for the investor because it is money that comes out of their treasury because it also takes some time for them to be reimbursed for PIS delivery.

In our case, the investor is a company that we have known for some time, we are even based in their office, which allows us not to have a cost associated with having our own space. We made the project proposal and it was a very long process, which was very negotiated and took more than 1 year to complete.

10. Were the established goals entirely accomplished leading to an IRR=0%?

It is still too early. Of the inmates we work with, only 2 left the jail. We will carry out a mentoring process with these two people. Our goal is an employability rate of 30% per group. Each group has 20 people, so the idea is to be able to employ 6 people in the group, per year.

11. From your perspective what were the drivers that led organizations to invest in BBF?

Above all, believe in our project because you already know us and the relationship, we already had with it. In addition, he had a special interest in this area of seclusion. He already had some projects in the social area and, therefore, wanted to be more involved. It was a topic that fascinated him and that was something very important. This financing instrument is closely linked to emotions and our investor has always had a very special appreciation for this area of seclusion. Companies always outline in detail the areas in which they want their social responsibility policies to focus. Sometimes, in terms of social responsibility, they end up choosing areas that are "in fashion" - social problems that appeal to the heart a lot. What does not appeal to the heart are the prisoners, who are often seen as bandits, so you have to be an investor who is sensitive to this area and who believes that people deserve a second chance. I think that the tax benefits were far from being a factor that weighed in the decision to invest and that the knowledge and confidence in SAPANA's work were fundamental.

12. Which would be the consequences if it were allowed the entrance of different outcomes payers in the market (besides PIS) allowing the negotiation of new contract terms?

If we were talking about other types of benefits for investors and better exploiting the potential of SIBs, we could attract new types of investors. We could even have companies looking for projects in the areas they like to support to invest their money.

It would be very positive for the social sector. SIBs bring a very important dimension to the social economy sector: measuring impact. This obligation to measure our impact is fundamental for reforming assistance. For example, if municipal councils adopted instruments such as SIBs, it would be very good for the social sector with a view to further social innovation and to introduce this issue of impact measurement. The local industry itself could start looking at the social sector and there could be an awareness of investing in these projects.

13. In your perspective which would be the impact if the possibility of negotiating new contract terms allowed the existence of positive IRR's (as we see in foreign initiatives)?

That would be a big step towards getting investors not so much because of the confidence in whoever implements it or the more emotional side. Investors could be raised not only by this emotional side of connection with the project's cause, but also by a logic of the project's potential and confidence in the success of the initiative. There would be more arguments to convince investors with whom you do not already have an established relationship.

Companies in Portugal - which are a potential investor in SIBs - particularly small and medium-sized ones, have some difficulties with treasury and, in this sense, in addition to the positive rates of return, it could be important to take steps to guarantee reimbursements by the PIS faster.

Another thing that could be very interesting would be for PIS to raise awareness among companies and create a kind of company exchange that was more attentive to these projects and more open to contact to be an investor. This could be a good help for other organizations to apply for SIBs. In our example, we were fortunate enough to know our investor before, but if that were not the case, we would have had immense difficulties in finding an investor.

(Overall)

14. Bearing in mind the experience related with BBF, which is SAPANA's evaluation regarding the possibility of establishing new projects under the SIB model?

The fact that we already have another project in progress is a good example of how we believe in SIBs as a means of financing. It really is an instrument that we believe in a lot and that makes perfect sense. The future of the economy, impact and sustainable development depends a lot on instruments like SIBs. Until we join the 3 sectors of the economy (Public,

Private and Social) to work in partnership and have confidence, we will not be able to solve social problems. It is necessary to sensitize the private sector, namely companies (which also have a responsibility to contribute to society), that the State is involved in this awareness and that social organizations develop social innovation and that they have ideas to solve some of the social problems that we have .

Annex 4: Interviews with Portuguese Social Impact Bonds' investors

Interview with Pedro Gomes, Administrator Educoach S. A. - Principal investor of SAPIE

1. How does Educoach develop its activity to support Social Innovation?

Educoach itself encourages the creation of projects. We are very actively involved in the field of education and that is why we always encourage the creation of educational projects. We support this type of projects because this is our way of being and being in society. I personally have been involved in education in professional terms for a long time and, therefore, I have a special interest in this type of project.

2. Did Educoach invest in any other SIB besides the SAPIE project?

The SAPIE project was the only SIB in which we invested. It was already a very large investment considering the dimension of Educoach.

3. How was Educoach made known the SAPIE project?

I have always been very close to the Associação Tempos Brilhantes (ATB), which was the project's implementing entity. I helped create and found ATB. I was even director of the association. However, I left, but I kept a very close relationship with ATB. So, they spoke directly to me about the project and it piqued my interest. Having a very close relationship with the association, I end up knowing almost all the processes that it develops.

4. Did Educoach get its investment fully refunded?

The project spans 2 years. In the first year, the objectives were achieved and, therefore, the amount invested was repaid. This second year, with the current situation associated with Covid-19, there is still some uncertainty about what will happen. In the first year the investment was 2/3 of the total investment and the amount was reimbursed to us. Regarding the remaining 1/3 for this year, we still have to receive a portion.

5. What were the characteristics of the project that captivated Educoach's interest in wanting to get involved in it as an investor?

The project has a technological component, linked to education, which we like to bet on. In addition, it is a way for us to intervene in a strategic and structuring way in education. It is a project that can help to anticipate problems and the respective solution. This combination of being able to reduce school failure and dropout as well as reducing the money that it is spent on these problems is a perspective that the project presents and that pleased us. In addition, it is a project that can help improve the interconnection between all stakeholders in the educational community. In my experience, this lack of interconnection is, in my opinion, one of the gaps in our education system. I strongly believe in the pertinence and mission of the project.

6. What are Educoach's main motivations for investing in the project?

Educoach clearly has business interests. Despite these interests, I have been linked to education, supporting, and promoting projects for 30 years. I am interested in this area and I believe I can help with the success of the project. In addition, I have a perspective of making my business more profitable and, therefore, my motivation is entrepreneurial. Educoach operates in technological areas and, with the SAPIE project, the training of these professionals can serve the company.

7. Do you consider that the tax benefit in IRC, made available to entities that invest in SIB, was a strong incentive to attract Educoach's investment?

Effective savings are residual. This was far from one of the reasons that led us to invest in the project. In the case of Educoach, tax savings were almost irrelevant. The financial impact of this incentive was residual and what led us to invest was, in fact, the impact of the project that we want socially in terms of business. In fact, the Portugal Telecom foundation is also involved in this project and it is not interested in reducing its tax burden. However, I think it should be an incentive to maintain because perhaps, in the future, it may serve as an incentive for other investors. This incentive should be complemented with other types of incentives.

8. What do you think would be the impact of the possibility of positive rates of return for investors if the initiatives are successful?

I think it would be advantageous. Basically, we would be attributing a return for the investment and for the business that is being done. The interpretation that I make is that we still need to move in that direction. The SIB comes to tell investors to bet on the Social Economy because it can generate financial returns and, in a way, it invites Social Economy organizations to view the projects from a business perspective. This could be an incentive

not only for investors, but also for implementing entities because they also have to spend resources and could thus have another form of return.

9. Considering the experience with the SAPIE project, how open is Educoach to invest in new SIB soon?

Right now, with the same investment value as the SAPIE project, it is difficult, since it was a project that involved a very large investment considering Educoach's reality. However, we are open to new investments. There is another advantage, which is that we can report the internal costs associated with the investment process and be reimbursed for it. For example, we affected 2 people in the management of the investment process and were reimbursed for the cost of these human resources. In other words, all expense items are not only allocated to the implementing entity since the investor also reports some costs. Who makes the application is the main investor - in this case us. The implementing entity proposes the project to the investor and the investor also presents its costs and, subsequently, the application is submitted.

Interview with Rui Miguel Santos, Head of Responsible Banking of Santander Portugal - Principal investor in the SPOT project

1. How does Santander develop its activity to support Social Innovation?

We have a responsible banking model to support the community. We work with green financing, corporate culture, entrepreneurship, financial education, community support, among others. In terms of community support, we follow a main metric which is the number of people impacted. We have our own methodology, which is audited, and which follows a series of procedures. We have several areas of activity: education, social welfare, health, the elderly, economic needs, among others. We receive the projects, we see if they fit our philosophy, we see what budget we have, we learn about the project and we decide whether to advance or not, using our project evaluation model.

2. Did Santander invest in any other SIB besides the SPOT project?

We participated in another one, with a university that was not accepted. It was a project from the University of Minho.

3. How was Santander made known the SPOT project?

The SPOT project won the university volunteer award. This award is a responsibility of partnerships with universities and not in my area, which is responsible banking. From the victory in the contest there was mentoring, and it came to our attention. There was also a

connection with Junior Achievement, joining two partners. It involved many volunteers, some of them bank administrators, and it worked very well.

4. Did Santander get its investment fully refunded?

There has been no return yet. In the case of Santander what is intended is not the question of the return itself, but that this money can be used in the continuity of the project. In our cost model, this is something that is not even very manageable, that is, accounting enters reimbursement, but does not enter into the budget of the Responsible Banking area. The idea is that the reimbursement allows a new investment in the project.

5. What were the characteristics of the project that captivated Santander's interest in wanting to get involved in it as an investor?

The fact that we work with Education, which is an area that we like to support, the fact that it is outside Lisbon, that is, it is a project that supports communities most in need. The project's mission was something that made us want to support the project, as well as getting to know the people who are involved with the project's implementation and believing in their work. We support the replication of the project - which had already taken place in Lisbon, but not in the form of SIB - in Évora.

6. What are Santander's main motivations for investing in the project?

It is not a question of return on investment, nor a tax issue, because it is not something that will have an impact in this area of the bank. It has implications for the bank's Net Profit, but not in my particular area in terms of budget. The motivation was to try this instrument and support a project that makes sense. Our support model works on the basis of donations and, therefore, this type of project even gives the possibility of reimbursement which allows us to even reallocate this reimbursement again in the project.

7. Do you consider that the tax benefit in IRC, made available to entities that invest in SIB, was a strong incentive to attract Santander's investment?

I believe that for some companies this is an incentive. However, in the case of banking, there is a different accounting model. In our case, one of the ratios that is used is cost-to-income and that ratio is banking product, it is not the last line in which taxes enter. The cost value is the value that affects that ratio. For our area, the tax benefit is not a fundamental point.

8. What do you think would be the impact of the possibility of positive rates of return for investors if the initiatives are successful?

With this possibility, and not from a Santander bank perspective, but more personally, we would have many more investors. Investors would look at projects to assess their potential for return. We would have many more companies to invest.

With negative or zero interest rates on deposits, with the Exchange at a bad time, this could be an investment model for many companies and could even open up to some individuals. There would be business angels participating and many more people looking at SIBs as a profitable model.

9. Considering the experience with the SPOT project, how open is Santander to invest in new SIB soon?

The opening is total. For us, this model allows us to reinvest in the same project in case of success, something that a donation does not allow. We are fully available to apply instead of donations to SIBs. Our model of supporting the community is to donate donations, even now with the pandemic we donate donations to organizations that are giving meals. We usually work on a non-refundable basis, but SIBs allow us to reallocate funds, so we prefer SIBs.

Annex 1 – Portuguese SIBs detailed description

Name of the project	Junior Code Academy	Bootcamp Academia do Código	Projeto Família	Faz-te Forward	Programa Integrado de Promoção de Literacia	Aprender e Ensinar Matemática com a Khan Academy	SPOT	SAPIE	Cuidar de Quem Cuida	Breaking Bars Farm
Social issue	School failure	Youth unemployment	Children at risk of institutionalization	Youth unemployment	School failure	School failure	School failure	School failure	Overburden of informal caregivers	Valorization of prisoners
Intervention model	Test the impact of teaching computer to primary school children to improve cognitive skills and school performance	14-week intensive course in programming for unemployed young adults	Intensive support for families for 6 weeks, followed by 12 months of continued support	10-month mentoring, coaching and employability development program	Family literacy and reading promotion program for families with children of pre-school age and in the 1st cycle of basic education	Promotion of the use of digital educational resources on the Khan Academy platform	Training program based on a game, which involves School Accountability activities, Portuguese and Mathematics Recovery, Individualized Motivational Mentoring and Parental Monitoring	Use of an educational tool to predict early school leaving, which issues alerts to the “first sign” of risk in indicators of school failure	Articulated support intervention at the level of informal caregivers of people with dementia	Promotion of the social and work integration of individuals deprived of their liberty, through an integrated training program and subsequent monitoring
Indicator and goal	Improvement in performance against the comparison group: 9% or more	Entry into the labor market (50% target)	Avoided institutionalization (target 50%)	Entering the labor market (target of 40%) and maintaining employment for 6 months (20%)	30% increase in literacy skills	Improvement of school results in 9% of students	5% improvement in the average rating of students in national exams compared to a control group	Reduction of school retention for students involved (2% in the first year; 3% in the second year)	5% improvement in the global quality of life score of informal caregivers	Life project defined and integration into the labour market for 30% of the final recipients
Investment	120,000€	723,500€	468,457€	387,848€	270,400€	528,069€	50,000€	552,416€	239,660€	104.859,37€
Number of recipients	65 students aged 8 to 9	198 young people	216 children	150 young people	444 students	4 400 students	60 students	112 300 stuents	240 informal caregivers	
Implementing entities	Municipality of Lisbon, Laboratorio de Investimento Social	Code for All, MAZE	Movimento de Defesa da Vida, MAZE	TESE, MAZE	APEI, MAZE	Educom	ONGD Epic Student	Associação Tempos Brilhantes (ATB)	CASTIIS, MAZE	Associação SAPANA
Investors	Fundação Calouste Gulbenkian (FCG)	ASSOP, FCG	FCG, Montepio Geral	FCG, Deloitte, Barclays	Fundação Aga Khan Portugal	Fundação Portugal Telecom	Deloitte, Banco Santander Totta	Fundação Portugal Telecom, Educoach	FCG, José de Mello Saúde	Apps4mobility International

