SOCIAL ENTERPRISES ACCESS TO FINANCE

An exploration into the constraints around social businesses access to finance in Portugal

ANNEXES

13TH JULY 2017

Quaternaire Portugal

LABORATÓRIO DE INVESTIMENTO SOCIAL

Annex 1. Agreeing on concepts and definitions: social enterprises

Figure 1- Diagram-summary scope of social enterprises analyzed in this report

Nomenclature in this report	Social Enterprises : Entities whose (1) goods and services are targeted to vulnerable segments of the population and/or (2) integrate vulnerable people in their value chain. The activity of social enterprises is based on the creation of a measurable impact.		
Development phase	Large organizations	Small and medium organizations	Startups
Legal structure	Social Economy Organizations , Lei de Bases da Economia Social (NGO, non-profit association, cooperatives and mutuality).	Private Entities (commercial company and company limited by shares)	
Intervention approach	Focus on the creation of a measurable impact: Social Initiatives	Focus on creating impact and generating revenue: Social Entrepreneurship Initiatives	

Annex 2 The issue: social mission-based organisations constraints in accessing finance

Portuguese society, presently, faces several challenges: in 2017, 47.8%[1] of Portuguese people is in poverty risk before social transfers. Other challenges, although operating in the present, will be worse in the future: youth unemployment rate is 27.9%[2], obviously generating medium and long term consequences; in 2015, the number of people aged than more 65 old per 100 young people with less 15 years old is 143.9[3], tending to increase towards 284,4[4] in 2050.

Although it is common to consider Social Economy as a global answer to social problems in Portugal, QP and LIS assume that the great part of those interventions is carried out by 5.000 social economy organizations being Social Solidarity Private Institutions (IPSS in Portuguese). The IPSS status allows that those institutions are covered by Co-Operation Agreements, through which they deliver services financed by the State and tackling the most vulnerable groups of Portuguese society. The total amount of funds involved in these Co-Operation Agreements is approximately 1.4 billion of euros[5].There is an estimation that in average 40% of IPSS's revenues come from these Co-operation Agreements with Social Security Institute[6].

Notwithstanding the significant transfers from the State, not ignoring that a great part corresponds to services delivered to the State, the great majority of these institutions is undercapitalized. Data from the "Conta Satélite da Economia Social" indicates that, in 2010, non profit Associations had a net need of financing estimated in 768 million of euros. The last information available in Conta Satélite 2013, although not allowing a detailed and segmented estimation of financing deficit, point out to a global deficit of 412 million of euros in social economy as a whole[7]. Despite being not fully comparable, these numbers show clearly that social economy organizations have constraints in accessing capital. They also demonstrate the need to mobilize other capital sources for the social sector: banking institutions and other traditional investors (*business angels*, venture capital, among others), revealing the still incipient state of art of social economy in Portugal, although showing an increasing relevance in Portuguese economy and society.

So, there is a market failure concerning the Social Economy Organizations (SEO) financing. On one hand, SEO cannot depend exclusively on public financing. On the other hand, banking institutions don't offer products in line with the SEO's market segment. The consequence of this market failure is a vicious circle: SEO don't succeed in overcoming the constraints in accessing financing adapted to the activity, objectives and conditions faced by the social economy and banking institutions don't find a critical market dimension to segment the universe of SEO and design products adapted to that typology of clients.

To better understand the market failure and the vicious circle generated by it, we should have in mind public policies available and the type of link existing between the State and the SEO. Beyond the already mentioned contracting modalities between the State and the SEO, we must take into account other financial flows as for

[1] Eurostat, PORDATA (2017), Poverty risk rate before and after soaicl transfers (indicator) (Accessed on 03 April 2017)
[2] OECD (2017), Youth unemployment rate (indicator). doi: 10.1787/c3634df7-en (Accessed on 03 April 2017)
[3] Eurostat, PORDATA (2017), Youth dependency índex (indicator). (Accessed on 03 April 2017)
[4] FFMS (2012), Projections 2030 and the Futur. Available in https://www.ffms.pt/publicacoes/detalhe/1586/projeccoes-2030
[5] Social Security Budget (2017), available in https://www.oe2017.gov.pt/wp-content/uploads/2016/10/20161017-mtsss-oe.pdf
[6] John Hopkins Centre for Civil Society Studies (2012), Portugal's Nonprofit Sector in Comparative Context
7 Conta Satélite da Economia Social (2016). Lisbon: National Statistics Institute

example non reimbursable subventions, namely involving the Structural Funds. It is known today that non reimbursable subventions don't succeed in stimulating SEO to search for other funding modalities and achieve efficiency gains. So, it is necessary that public policies clarify and stabilize the role of SEO in consolidating Social State in Portugal, orienting financing towards results. Meanwhile, it is relevant to stress that aming SEO ther is now an increasing receptiveness towards the perception of these problems (see the annex that summarizes the discussion held with a panel of SEO, hosted by Santa Casa da Misericórdia do Porto).

Considering the vulnerability of social mission-based organizations and the consumption of public resources within the State Budget, social entrepreneurship (social startup's) arises as a movement searching for innovative and efficient answers to not yet tackled social problems, better combining available resources, and taking into account that traditional interventions are not generating the expected results. The social entrepreneurship approach admits that a social impact can be achieved simultaneously with the generation of revenues and the implementation of a sustained business model at medium and long term.

The great majority of social entrepreneurship initiatives have arisen within already established SEO, producing several internal and external challenges, including management needs and legal ambiguity, aggravating the already mentioned constraints in accessing finance. In order to mitigate these questions, recent trends point out to that innovative initiatives are established as "social enterprises". However, social innovation cannot be limited to new entrepreneurs. It should be transversal to social economy as a whole, fostering the established institutions to achieve better combinations of resources, which is crucial to access banking financing. The issue of "innovation-efficiency gains" will be crucial to SEO in the near future.

Annex 3 Methodology: an approach based on the specificities of social enterprises' business model

The conclusions of this study are based on the following vast set of information sources:

(i) direct interactions with Portugal's Social Innovation Mission Structure (EMPIS) *[qualitative]*
(ii) twelve interviews with representatives of social enterprises *[qualitative]*
(iii) six interviews with representatives of the main Portuguese banks *[qualitative]*
(iv) discussion panel with social initiatives *[qualitative]*
(v) discussion panel with social entrepreneurship initiatives *[qualitative]*
(vi) discussion panel with social investors *[qualitative]*
(vii) online survey to social enterprises *[quantitative]*
(viii) online survey to the main Portuguese banks *[quantitative]*

All of these information sources qualitative and quantitative (see detail information in **Annexes 4, 5 and 6**) were crossed with an international *benchmark* (see detail information in **Annex 8**) and with the mapping of several initiatives of the EIB Group in the social innovation and entrepreneurship field (see detail information in **Annex 7**). According to an evidence-based analysis, the conclusions have been interpreted through the lens of the previous experience of QP and LIS in working with social enterprises[8] and investors in Portugal and internationally.

The most important variable influencing the access to capital by social enterprises is their business model. Depending on the way produced goods and services are monetized, the access to capital happens in a quick or slow way, at a low or high cost (depending on the involved risk), the capital type is defined (donations, debt and investment) and are stablished return objective's (associated to a certain risk and impact).

In general, the business model is viable when revenues are higher than costs involved in the delivery of services. Looking deeper, even though social enterprises have no specificity regarding their cost structure, there are some particularities concerning the revenue generation model.

Figure 2 - ***The main elements of a social enterprise business model***

The revenue generation model refers essentially to the way a social enterprise is paid for the services that produces. For this reason, the most important is to identify the final payer. In Social Economy sector, most of times, the user of services is not the payer.

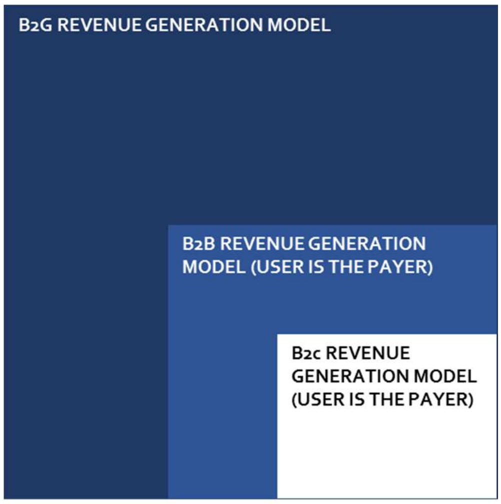
[8] Please note that the variable "business model" as a main factor influencing the access to finance is not exclusive of social enterprises and it is also relevant in other ventures.

Given the importance of the revenue-generating model for social enterprises, QP and LIS have segmented three models:

- **B2G, Business to Government.** In this model the user is not the payer - the entity sells goods or services to the State. QP and LIS assume that in this model are included all the Co-operation Agreements with the Portuguese State and IPSS (Private Social Solidarity Institutions). For instance, the user of domiciliary support contributes with a small part of these service cost, however, the major payer is not the user but the Portuguese State through the Co-operation Agreement.
- **B2B, Business to Business.** In these models, the users are most of the times the payers. However, there may be situations where users are not the payers. In the B2B model, a social enterprise can provide services to a company and be directly payed by those services. An example is Cerjardins that provides gardening services to companies carried out by people with mental disabilities. In other cases, in the B2B model, the social enterprise can be financed by a company (thought donations in the scope of corporate social responsibility) to work with a several group of beneficiaries. In this situation, the final users are not the payers (not ceasing to be a B2B model). An example are the projects supported by the Pact Fund of Deloitte, in which Delloitte's supports financially several social initiatives to work with young people in social exclusion situations.
- **B2C, Business to Consumer.** In this model user always pays for the service. Social enterprises trade goods and services to final consumers and are payed for these transations. An example is SPEAK, project that involves the social inclusion of migrants and refugees through the exchange of languages and cultures. SPEAK offers 18-hour courses for the low cost of 25 EUR, which are paid directly by participants.

  According to this models, QP and LIS assume that the vast majority of social enterprises work under B2G, followed by B2B models, that is, they are financed by third parties to carry out projects to the final beneficiaries. The smallest segment of the sector will be composed of social enterprise whose model of revenue generation is based on the assumption that users are the payers (B2B and B2C). Thus, the large majority of social enterprises has a revenue-generating model which the user does not the payer. The same organization may have several projects and each project may have its own revenue-generating model (B2G, B2B and B2C). However, this does not change the distribution of the following illustration.

Figure 3 – Illustrative distribution of revenue-generating models in Portuguese social enterprises



This figure is illustrative. The size of segments does not reflect quantitative values.

A robust business model (revenues exceed costs) requires efficiency in articulating several dimensions: organizational model, management model and legal status. The organizational model refers to the way entities are organized in terms of responsibility, accountability and decision-making process. The management model consists in the implementation and execution of the defined strategy and is intrinsically linked to the competences of management teams and technical teams. The legal status is social enterprises legal figure (Social Economy Organizations and commercial companies)

The work research has concluded that the main constraints faced by social enterprises in accessing capital reflect exactly these dimensions: organizational model, management model and legal status.

Annex 4 Interviews with social mission-based organizations

A4.1. Introduction

12 social economy organizations (SEO) have been interviewed in Lisbon and North Regions.

The aim of these semi-structured interviews was to explore the experience, perspectives and convictions of SEO representatives concerning financing. Through these interviews is has been possible to understand in depth and in detail some of the demand perspectives, that it was not possible to achieve through other survey modalities. The consortium QP-LIS considers that this methodological step has been particularly relevant taking into account that the available knowledge about obstacles in accessing finance by the SEO is not vastly represented in available references.

These interviews have been done before the online survey, informing and enriching the structure and contents of that survey.

Codification	Reference on table	Organization's name	Description
Lisbon Metropolitan Area			
Enterprise 1	Organization 5	Academia de Código	Social Entrepreneurship Company
Foundation 1	Organization 4	Fundação O Século	Foundation with IPSS status
Association 1	Organization 3	Movimento em Defesa da Vida	Association with IPSS status
Association 2	Organization 2	TESE associação para o desenvolvimento	ONG Association
Association 3	Organization 1	IES Social Business School	Association
Porto Metropolitan Area			
Misericórdia 1	Organization 10	Santa Casa da Misericórdia de Arcos de Valdevez	Misericórdia with IPSS status
Misericórdia 2	Organization 11	Santa Casa da Misericórdia de Boticas	Misericórdia with IPSS status
Misericórdia 3	Organization 12	Santa Casa da Misericórdia do Porto	Misericórdia with IPSS status
Association 4	Organization 8	CASL – Casa de Acolhimento Sol Nascente	Association with IPSS status
Association 5	Organization 9	União Desportiva e Social de Roriz	Association with IPSS status
Cooperative 1	Organization 6	CAID - Cooperativa de Apoio à Integração do Deficiência	Cooperative
Cooperative 2	Organization 7	Cooperativa do Povo Portuense	Cooperative

Misericórdia is a Charity organization.

A4.2. Analysis of the interviews and main learning lessons

A4.2.1. Historical record in accessing reimbursable financing

The great part of the SEO report having already accessed reimbursable financing.

Reimbursable financing modality that is more common: credit

The majority of the interviewed SEO had some contact with a credit instrument. However, only one of the 12 SEO reported other reimbursable financing modality beyond credit. This institution is the only enterprise in the group mobilized a social impact asset and it is now negotiating the access to equity capital. It reported having accessed two times to credit, one through a traditional banking institutions, another one through a *crowdfunding* platform called *Raize*. *Raize* is a loan platform in which private people lend directly to Portuguese enterprises, becoming an alternative source of financing for enterprises and of investment for individuals.

In North Region three institutions declared having never accessed to reimbursable financing.

Credit modality that is more generalized: Escrow Accounts

Two of the SEO (both associations) reported only one experience in accessing credit. Both have declared that personal guarantees have not been asked and that the process was fast. Escrow accounts have been associated to specific projects. One of the SEO reported that this option penalizes the treasure management in small organizations leading several projects at the same time.

At least three other SEO declared having accessed the same credit mechanism.

Main motive to access financing: Cash-flow needs

The majority of the SEO interviewed, including the only enterprise represented in the group, reported cash flow needs as the main reason to access financing. According the interview records, thiose needs seem to be specifically associated to contracts with local and central administration and with projects assumed with supranational institutions as it is the case of the European Commission. The cash flow needs are generated by the project payment cycles, payment delays and by the evidence that these contracts don't authorize the payment of organization overheads.

When asked about the alternative of accessing credit for investment and innovation reasons, the majority of the SEO declared that they prefer to invest their own savings.

The social enterprise interviewed describes its policy of working with one month or less of cash-flow reserves as being intentional. The choice between to invest versus having higher cash-flow reserves is a proxy of a propension to assume risks, probably reflected in a more significant use of external financing.

A4.2.2. Obstacles to accessing reimbursable financing

Along the interviews, the SEO have identified a set of facts that they perceive as obstacles to access reimbursable external financing. The answers reflect the perspetives of the SEO interviewed and not necessarily the the total univesr of SEO in Portugal.

Those obstacles may be divided in two categories: internal obstacles and external obstacles.

Internal obstacles

Internal obstacles are those associated to the characteristics and functioning model of the SEO themselves.

Human Capital and Organizational Development

Some of the interviewed SEO recognize that they present a lack of skills in their management bodies. One possible reason for that is the non-executive status of management bodies. Associated to the low financial literacy of the staff, the non-executive status for the management bodies may generate an aversion to access credit.

Another fact that has been reported is the lack of knowledge in accountable matters. One of the interviews, underlined several discrepancies in calculating the Added Value Tax aming SEO. Additionally, it has been reported that the balance sheet often show anomalies in registering non financial transactions and intangible assets, contributing for the underevaluation of the SEO.

Finally, in some interviews, it has been clear that the knowledge existing in the SEO about banking products and funding mechanisms available is rare and there are communication difficulties with banks using technically appropriated language.

Accountability and transparency

The interviews mentioned the generalized lack of transparency within SEO, within themselves and with external stakeholders. The share of management good practices is in general terms very low and the internal control and accountability practices are often absent in SEO.

Legal constraints

One of the reasons explaining the obstacles to access credit and other modalities of reimbursable financing are legal constraints. The main factors mentioned were issues associated to property and levels of responsibility of mangament bodies (the question of personal guarantees of non-professional members of managemet bodies).

Conservadorism

Some of the SEO representatives recognized the prevalence of conservadorism attitudes in SEO management bodies concerning the access to credit, the internal organization and the business model.

Scale

One of the representatives interviewed mentioned that there are SEO in excess, penalizing the link between the increase of the network and its qualification. This high number of SEO delivering services generates low scale economies in social economy activities in Portugal.

Business Model

Several interviewed SEO leading B to G business models mentioned that they operate through contacts with the State and intervention projects publicly subsidized. As they generate a low level of own receipts they consider that it is not appropriated to acess credit or other reimbursable financing modalities. The exception comes from punctual cash-flow needs generally managed by escrow accounts. Several organizations consider themselves as being risk-averse.

External obstacles

In this case, the reasons are associated to institutions that there are external to the social economy.

Obstacles created by banks

Guarantees

The great part of the interviewed SEO point out the need of offering guarantees to the banking sector as the main constarint in accessing credit. The experience of these institutions suggest that as far as the escrow accounts the guarantees are not so demanding, not requiring personal guarantees. However, regarding traditional loans, the existing modalities of guarantees are generally an obstacle that SEO cannot generally overcome. Some SEO with strong physical capital assets in ther balance sheets (as it is the case of some Misericórdias and Foundations) usually use these assets as a guarantee. The same is impossible regarding poorer SEO in terms of tangible assets or facing difficulties in mobilizing them as guarantees. Some of the interviewed SEO have reported some exemples of credit not accessed due to the guarantees prerequisites. The two associates that founded the social enterprise interviewed endorsed personally the credit as the only way to access it.

Cost and non-appropriate risk assessment

Some interviewed SEO think that the risk assessment of SEO operations made by banks is not appropriated. These SEO think that banks don't make any distinction between SEO and other enterprises. Both are assessed using the same criteria. Consequently, the ability and the probability of SEO pay their debts is underestimated. The efect is to require very strict guarantees and a high cost of financing.

Lack of banking literacy about SEO work and finance themselves

Several SEO mention that banks don't understand well the characteristics and specific needs of SEO. One particular bank, Montepio, as being an institution more receptive to understand the singularities of SEO.

As far as the escrow accounts are concerned, some of the interviewed SEO report that they are more flexible.

Non-compliance of financial products

In part as a consequence of the obstacles previously identified, some SEO consider that financial products available in the market are not in line with real SEO needs. According to these opinions, different SEO risk types should have different product types, which is not the case.

The bank perception is biased

Some SEO consider that bank are reluctant in investing in social sector. The bank reluctancy is not biased by a percetion of concrete characteristics of the sector. It is also biased by prejudice. Banks and other institutions have preconceptions about how SEO use funds. There is a generalized view that the management and allocation of funds is not appropriated.

Bureaucracy

Some SEO consider that processing a credit demanding is very bureaucratic and that delays in analysing these demands are usually very high.

Obstacles determined by central, local and supranational administration

Lack of funding to finance the costs of organization and for experiments

There is, according the SEO interviewed, a strong reluctancy of finance institutions to fund SEO overheads (global structure). Financing is usually limited to activities implemented and services delivered and there is a prejudice concerning the payment of functioning general expenditures and investments in human ressources. This is a serious bottleneck to finance management and also of the medium and long term sustainability for SEO.

The external influence in SEO is excessive

The influence of political parties in SEO is seen as excessive by some SEO. The same is metioned regarding the influence of Social Security Institute. The risk is to penalize the management capacity and quality, compromising the access to finance.

No result-based approach

Contracts with central and local administration are not usually based in results. This is a constraint to generate a higher intensity of social entrepreneurship activities.

Other obstacles

Other obstacles mentioned in the interviews were the inexistence of alternative financial instruments for organization working in the market, as for exemple equity and quasi-equity modalities. Another reference has been the generalized lack of finacing institutions working with social impact measurement and the incipient of academy in producing knowledge for the social sector. Finally, some SEO mentioned the lack of law and accounting support concerning their main activities and access to credit.

A4.2.3. Recommendations

Several SEO interviewed contributed with specific recommendations that would facilitate, direct or indirectly, the access to credit. Those recommedations are generalist and they don't focus any institution in particular.

Development of new products

According several SEO, factoring would be a valuable instrument to subsidies and other credit mechanisms associated to the invoicing cycle of projects. It would be a good instrument to tackle urgent cash-flow needs, prefering to receive less for a given contract in order to improve liquidity at short-term.

They also proposed the creation of a fund aggregating the assets of social organizations in order to reinvest in social sector.

In one of the interviews, the creation of a Cooperative Bank has been considered as an opportunity to solve the lack of understanding of banks concerning SEO.

It has been also proposed the creation within banks themselves and in line with their corporative social responsibility of a system delivering financial guarantees for social entrepreneurship projects in areas in which banks could be interested.

Some SEO representatives mentioned the need to develop management systems for SEO. The use of management control models generated for traditional commerce is not adequate.

Dissemination/fostering activities

Some SEO representatives considered that it would be relevant to disseminate a model in which associations hold enterprises, result-based payment models and quasi-equity models in which funding institutions are a mix of phylantropy, risk takers and banks assuming less risk.

Financial management of SEO should be demystified, with a strong focus in the investment in their organizational structures and higher transparency among all the actors in the system, publishing reports and accounts.

Finally, some SEO representatives considered that it would be relevant to increase the receptiveness of firms to social investment.

Legal changes

Some SEO representatives called for a radical simplification of closure process of SEO, contributing for the increase of the average quality of SEO management.

It was also proposed the creation of a "Social Law", in line with Public and Commercial Law in order to fill the legal void actually existing in social economy, which generated a lot of challenges to their management.

Redirecting investment

Some of the SEO representatives called for higher investment in SEO organizational and accounting structures. In this last case, general and specialized accounting guidelines would be interesting solutions.

Others

Finally, some SEO representatives called for the publication by the banks of segmented information about credits to SEO. According to this proposal, the segmentation would increase the knowledge about SEO risk profiles, consequently with the advantage of adjusting interest rates and guarantees practiced by the banks.

A4.3. Summarizing the interviews

	Organization 1	Organization 2
Juridic Structure	**Association**	**Association. ONG**
Representative status	**President of the Board of Directors**	**President of the Board ofn Directors** **Project Manager**
Date	**5 th January 2017**	**5 th January 2017**
1. Historic experience in accessing credit or other modalities of external financing	**Credit (Several)** • Several times regarding short-term credit (cash-flow needs less than 25.000 EUR). • Recently, a medium term credit to consoldate the balance sheet and increase investment capacity Three different banks. Demand credit process were generally fast (about a week) and intermediate consultancy has been used.	**Credit: Escrow account** • Only one time in 14 years (Montepio) • Factoring has been tried. CGD rejected the demand. Some characteristics of the escrow account: • Bank only demands a small rate if the account will not be used; • For each specific project the organization has an account; • When deposits are made in these accounts, the transfers of the amount in debt is automatically processed to Montepio; • The agreement is annually renewed; • Guaranteses: a bookkeeping has been made without personal guarantees. The account processing has been fast with no intermediation consultancy
2. Motives to access credit.	Mainly cash-flow needs. Punctually for investment. Normally investment is financed by own savings.	**Cash-flow needs**
3. Main obstacles in accessing credit.	**Guarentees** High interest rates (sometimes7-8%)	**Guarantees**
4. Main obstacles determined by who finances	• Sometimes need of personal guarantees; •Financial products not in line with SEO needs, • Specific SEO needs not understood by the banks; • Several risk types should conduce to different products which is not the case; • Banks are reluctant in investing in SEO • SEO operating in a market-based way don't have appropriate financial instruments in the market; •Lack of financing for experiments; • Banks are not transparent.	• Lack of knowledge of the banks regarding the way SEO work and finance theirn activities • Elebility criteria are sometimes inappropriate for SEO • There is a biased perception about SEO use funds. It is difficult to finance overheads and investment in human resources. • Rules are not the same for big and small SEO. Big ones access more easily to credit and have a less binding financial management: for example are not forced to have accounts for each project.

5. Main obstacles determined by SEO internal factors	• Diificulties associated to several legal status of SEO; • Management bodies of SEO are often non-executive and have risk-aversion to access credit; • Lack of knowledge accounting is generalized in social sector. Example: discrepancies in calculating the Added Value Tax or assets kinds included in balance sheets. Good practices are not shared between organizations. These failures tend to penalize all risk assessments and the SEO performance. • **Low financial literacy of the SEO management bodies** • Lack of information and knowledge about bank products; • **Lack of transparency** within organizations.	• Social sector don't domionate the appropriate language to negotiate with banks.
6. Assessment of the comprehension that banks have about SEO financial needs.	The NOVO Banco is open to SEO, but its products are not adapted; Montepio understands the SEO needs and adapts its products, taking into account the SEO legal constraints. Montepio is focused on trust of management bodies rather than on guarantees.	There is **lack of literacy of banks** how SEO work.
7. In case of the access to credit and other financing modalities being incipient, what are the main reasons for that?		**Why they didn't accessed to credit?** **Business Model** The SEO has a mixed model 1. Intervention projects subsidized by State 2. Delivery of services to State and private sector (social consultancy) The SEO considers that it is not good to transform the access to credit into a regular practice, taking into account the revenue generation model and because accessing credit and having it is not confortable for the organization. New projects have been implementing mobilizing savings and with the help of partners. They are not receptive to external financing to investment in new business areas (only as a last resort) **Reasons for having accessed credit in 2015** Contracts involving delivery of services, in part compensated by the increasing number of projects, generated cash-flows difficulties. The typical payment cycles of projects financied by public entities (national or European) and the reluctancy of these entities to pay for overheads are the main difficulties.
8. Recommendations	• *Factoring* for public and supranational organizations subventions; • Associations should be owners of firms; • Investment in organizational structures should be increased; • Quasi equity alternatives should be increased, combining phylantropy goals (who assume more risk) and banks (reducing their risks); • Accounting structures of SEO should be enhanced investing in their qualification (general and specialized *guidelines*). • Closure process of SEO should be simplified; • Creation of a fund aggregating the assets for reinvestment withion the sector; • Increase of transparency levels among all system actors, through the publication of reports and accounts;	• *Factoring* or other credit mechanisms in line with the projects invoice cycles; • Elimination of myths about the way SEO allocate funds and promote investment in enhancing organizational structures; • Increase the receptiveness of firms to social investment; • Develop specific management models for SEO;
9. Social Entrepreneurship	ND	ND
10. Another remarks	• Trust on SEO management bodies should be a criteria to allocate credit • General problems: more financing for projects and less for organizations; • The number of SEO in Portugal is excessive	• The organization never used *crowdfunding*;

	Organization 3	Organization 4
Juridic structure	**Association. IPSS**	**Foundation. IPSS**
Representative status	**Technical manager** **Project Manager**	**Senior Advisor**
Date and Local	**12 January 2017**	**12 January 2017**
1. Historic experience in accessing credit or other modalities of external financing	**Credit: Escrow account** • Only one experience in 2013 (Montepio). Some elements about the account: • Duration: 18 months • It is associated to specific accounts and it is automatically debited when those accounts are credited • No personal guarantees. • Fast process (1 or 2 weeks)	**Several Credits** • Several credits, mainly through escrow accounts (BCP), using physical assets as a guarantee and guarantees assumed by a partner; • The Foundation has records of rejected credits due to lack of guarantees. It is now looking for equity capital to finance a social entrepreurshiop project .
2. Motives to access credit.	**Cash-flow needs** (The decision to access to finance emerged from cash flow needs while the organization expected a high amount from European Union)	**Cash-flow needs**
3. Main obstacles in accessing credit.	**No obstacles** Interest rate, delays, guarantees, etc of the escrow account were considered appropriate No demand of external financing and other financing modalities .	**Guarantees** Interst rate is appropriate and the negotiation of reiumbursemnet periods has been easy
4. Main obstacles determined by who finances	None	• The comprehension of SEO working models is biased. • SEO are assessed through criteria not in line with their characteristics
5. Main obstacles determined by SEO internal factors)	None	None
6. Assessment of the comprehension that banks have about SEO financial needs.	The SEO considers that Montepio understands the working model of social organizations and that escrow accounts are appropriate.	ND
7. In case of the access to credit and other financing modalities being incipient, what are the main reasons for that?	**Why access to credit is not more frequent?** **Business Model** Contracts with Social Security Institute are the main element of the Business model. Own receipts are incipiente. Delivery of services is the main source of revenues. Extrenal financing will be not needed in this context. Cash-flow needs are punctually a reason for accessing credit. The management is highly conservative concerning risk. The closure of the escrow account has been considered as a good decision.	ND
8. Recommendations	None	It would be important to build a Social Law.
9. Social Entrepreneurship		The Foundation has several business activities in which it incorporates at least 90% of equity. These activities generate revenues reinvested in the IPSS: Wash services, Restaurants, Tourism, Insure mediation

10. Another remarks	ND	ND

	Organization 5	Organization 6	Organization 7
Juridic structure	**Enterprise**	**Cooperative**	**Cooperative**
Representative status	**Co-Founder CEO**	**President of the Board of Directors**	**President of the Board of Directors Treasurer**
Data	**13 January 2017**	**ND**	**ND**
1. Historic experience in accessing credit or other modalities of external financing	**Several credits** • **Credit Line (Novo Banco)** €100.000 (cash flow management) 70% guaranteed by a Mutual Guarantee Society 30% guaranteed by foundors (peronal guarantees) Grace Period: 18 months Maturity: 5 years and quarterly payments Interest rate 4% Slow and bureaucratic process (5 or 6 months) • **Crowd funding Loans "Raize"** €25.000 (cash-flow management) 100% guaranteed by foundors (personal guarantee). Maturity 18 months Interest rate 9,5% Very efficient process (one day) ***Equity***: • In negotiation with a Social Investment Fund; **Other ones:** • **Social Impact Bonds** It was the first Social Impact Bond in Portugal (between January 2015 and June 2016	**No example of accessing reimbursable financing**	**No example of accessing reimbursable financing**
2. Motives to access credit.	**Cash-flow needs** (due to sazonality of the business)	ND	ND
3. Main obstacles in accessing credit.	**Guarantees** **Bureaucratic dimension of the process**	ND	ND
4. Main obstacles determined by who finances	• Lack of social impact funds • Social Impact projects are not segmented by banks.	ND	Lack of specific products to social sector Lack of knowledge about SEO; Delays in processing demands; Risk assessment biased.
5. Main obstacles determined by SEO internal factors)	ND	ND	Lack of skills in human resources endowment;
6. Assessment of the comprehension that banks have about SEO financial needs.	The SEO considers that Novo Banco has understood the project and that the long term relationship between the bank and the SEO facilitated the contract	ND	Banks don't understand social sector (specific needs, accounting processes and physical assets measurement)
7. In case of the access to credit and other financing	ND	No need	ND

	Organization 5	Organization 6	Organization 7
Juridic structure	**Enterprise**	**Cooperative**	**Cooperative**
Representative status	**Co-Founder CEO**	**President of the Board of Directors**	**President of the Board of Directors Treasurer**
Data	**13 January 2017**	**ND**	**ND**
modalities being incipient, what are the main reasons for that?			
8. Recommendations	• *Factoring* • The Banks Social Corporative Responsibility should be used to create funds for guarantees addressed to social entrepreneurship projects in areas interesting them..	ND	A Cooperative Bank should be created.
9. Social Entrepreneurship	The mobilization of a Social Impact Bond should be seen as social entrepreneurship initiative, innovating in education.	ND	The institutions hosts an informal incubator of new institutions and a cowork space. It also supports technically job creation projects, involving associations, cooperatives and firms.
10. Other remarks	Cash-flow reserves are calculated for a month. Investment is more importante than having cash reserves. The credit line is better than a potential escrow account. Credit is more appropriate for cash-flow needs. Social Investment Funds are more appropriate to finance growth.	ND	Portugal 2020 rules are not adjusted to Portuguese reality Juridical and accounting technical support to SEO is not appropriate, due to lack of knowledge aboutv the social sector.

	Organization 8	Organization 9	Organization 10	Organization 11	Organization 12
Juridica Structure	**Association, IPSS**	**Association, IPSS**	**Misericórdia, IPSS**	**Misericórdia, IPSS**	**Misericórdia, IPSS**
Representative Status	**President of the Board of Directors**	**President of the Board of Directors**	**Provedor**	**Provedor**	**Provedor**
Date	**ND**	**ND**	**ND**	**ND**	**ND**
1. Historic experience in accessing credit or other modalities of external financing	**No experience of accessing credit** They are considering the possibility of demanding credit if a tender for a non reimbursable financing is not approved	ND	**Several credits** Real guarantees were always needed concerning investment projects No inteermediation consultancy	**Several credits** Personal guarantees for a credit line targeted at cash-flow needs generated by EU projects payment cycles	ND
2. Motives to access credit.	ND	ND	ND	**Cash-flow needs** Others	ND
3. Main obstacles in accessing credit.	ND	ND	No constraints.	**Guarantees** **High interest rates**	ND
4. Main obstacles determined by who finances	ND	ND	ND	Financing institutions don't know SEO specificities.	Contracts with Social Security should be results-based. Public support don't stumulate enough results-based approaches.
5. Main obstacles determined by SEO internal factors)	ND	ND	The network of SEO requires qualification (which is different that augmenting it)	ND	Lack of management capacity, internal control and accountability of SEO; Excessive links with political parties.
6. Assessment of the comprehension that banks have about SEO financial needs.	Banks don't segment SEO from other organizations	ND	Banks are not interested in knowing in-depth tee SEO projects; they are exclusively focused on the ability to generate resources.	The understanding that banks have about SEO activities is in average limited.	Banks see SEO as traditional firms. They don't understand the singularities of the sector.
7. In case of the access to credit and other financing modalities being incipient, what are the main reasons for that?	No credit needs Management has a high risk-aversion to credit	ND		ND	ND
8. Recommendations	. ND	ND		ND	Insurance instruments covering the delivery of social services in the future
9. Social Entrepreneurship	ND	ND		The SEO considers that is leading social entrepreneurship projects	ND
10. Other remarks	Strong financial dependence on contracts and protocols with Social Security	ND	Strong financial dependence on contracts and protocols with Social Security	Strong financial dependence on protocols with the Institute of Emplyment and Training	Universities just begun to study social sector Social Security should regulate rather than manage the sector

					State doesn't know the capacity installed in the territory concerning the SEO.

A4.4. Summary-table of the identified barriers by organization

Entity	Access to credit?	Motives	Obstacles														
			Human Capital and Organizational Development	Accountabilityb and Transparency	Legal constraintsts	Conservadorism	Scale economies	Business Model	Guarantees	Cost and risk assessment	Banking illetarcy	Products not adequated	Biased understanding	Bureaucracy	Lack of funding to overheads	Excessive external influence in SEO	No result-based approach
Organization 1	Yes	Cash Flow	Yes	Yes	Yes	-	Yes	-	Yes	Yes	Yes	Yes	-	-	Yes	-	-
Organization 2	Yes	Cash Flow	Yes	-	-	Yes	-	Yes	Yes	-	Yes	-	Yes	-	-	-	-
Organization 3	Yes	Cash Flow	-	-	-	Yes	-	Yes	-	-	-	-	-	-	-	-	-
Organization 4	Yes	Cash Flow	-	-	Yes	-	-	-	Yes	-	-	-	Yes	-	-	-	-
Organization 5	Yes	Cash Flow	-	-	-	-	-	-	Yes	-	-	Yes	-	Yes	-	-	Yes
Organization 6	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Organization 7	No	-	Yes	-	-	-	-	-	-	Yes	Yes	Yes	-	Yes	-	-	-
Organization 8	No	-	-	-	-	Yes	-	Yes	-	-	Yes	-	-	-	-	-	-
Organization 9	ND	ND	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Organization10	Yes	ND	Yes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Organization11	Yes	Cash flow	-	-	-	-	Yes	-	-	-	-	-	-	-	-	Yes	-
Organization12	Yes	ND	Yes	Yes	-	-	Yes	-	-	-	Yes	-	-	-	-	Yes	Sim

Annex 5 Online survey to social enterprises: Answers analysis

A5.1 Introduction

In this study context was released an online survey to social enterprises. The purpose of this survey was to have a more global perspective of social enterprises, its characteristics and barriers that they have in the access to financing. The survey model allowed reaching a large number of social enterprises on a scale that would not have been possible through interviews. Were submitted 40 complete surveys.

The survey was designed based on closed answers to allow a more systematic analysis with potential statistical representativeness. It was designed in digital mode and launched to an extensive database of Social Economy Organizations thought a share link by newsletter, Facebook and direct emails. The disclosure was made by QP, LIS and other partner organizations.

It's important to note that the sample size of responses is relative modest considering the total number of social enterprises in Portugal. Additionally, the way the survey was released may have given rise to various types of bias as a disproportionate representation of some geographical areas. Finally, as usually happens in this kind of surveys, que survey reflect the point of view of the people who filled them out, who may have a more or less skewed view of reality. So, the answers may not necessary reflect the national situation of social enterprises and should be read with caution.

A5.2 Online Survey Structure

The survey contents was informed by the exploratory interviews and validated by the EIB Institute. It is divided in the following structure:

SURVEY STRUCTURE	
General Descriptive Component	**Financial Descriptive Component**
1. Entity identification	11. Annual revenues
2. Entity status	12. Monthly cash volume for operations
3. IPSS status	13. Type of financial resources that finance the organization activity
4. Entity Creation Year	14. Barriers to the organization sustainability
5. Number of employees	15. Time dedicated to fundraising
6. Number of volunteers	16. Level of significance of credit use
7. Operating Region	
8. Main activity areas	
9. Beneficiaries age range	
10. Initiative presentation summary	
Bifurcated Component between entities with significant experience in credit use and others	
WITH EXPERIENCE in reimbursable financing	**WITHOUT EXPERIENCE in reimbursable financing**
17. Type of needs that lead to use credit	21. Factors explaining non-recourse to credit
18. Financing aspects that can be considered as constraints and their characteristics	22. Constraints that, if exceeded, would allow a more intense demand for funding from the entity
19. Perception of understanding of banks relative to: organization financial needs, business model, organization revenue generation, organizational governance model.	
20. Resource (or not) to intermediation consultancy in credit access	
Social Entrepreneurship Component and Likert Scales	
23. If the organization has developed social entrepreneurship projects within its structure	
24. If the organization knows entities and initiatives that provide financial instruments to social economy entities and considers them adequate to their needs	
25. Likert scales. Level of agreement with expressions: "Generate more revenues than costs, creating profit with our activity, it is wrong for having a social mission "I think receiving investment from a fund or small group of investors would be good for our organization" "I think social enterprises should be managed like private sector organizations, as long as this does not interfere with their social mission"	

A5.3 Answers analysis and main learning

General Descriptive Component

From the 40 organizations that submitted the survey, 80% were associations for altruistic purposes and 70% had IPSS status, reflecting an over representation of IPSS in the national panorama.

From the organizations considered in the sample 18% had no employees. Only 15% had no volunteers, 40% had between 1 and 5 volunteers. This results indicates some dependence of the social sector in volunteer work.

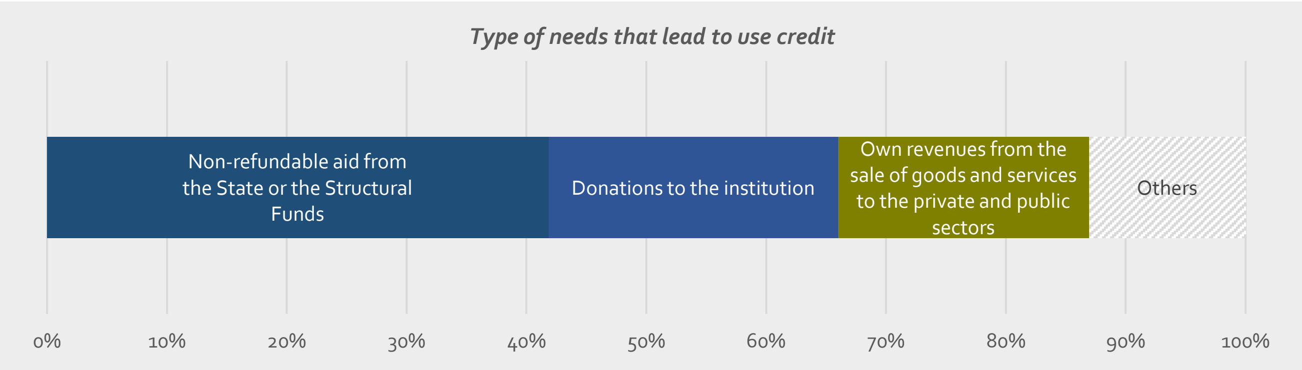
The sample was very diversify in terms of organizations activity fields and age group of the beneficiaries. There was an over representation of organizations operating in the Porto region.

Financial Descriptive Component

From the organizations that answered the survey, 13% reported having annual revenues between €0 and €5000 and 18% reported operating with one or less months of cashflow. To these organizations, unexpected or delays in payments can represent serious liquidity problems.

In a typical year, in average, the most significative kind of resources to financing the surveyed organizations were non-refundable aid from the State or the Structural Funds, followed by donations to the institution (see Graphic 1)

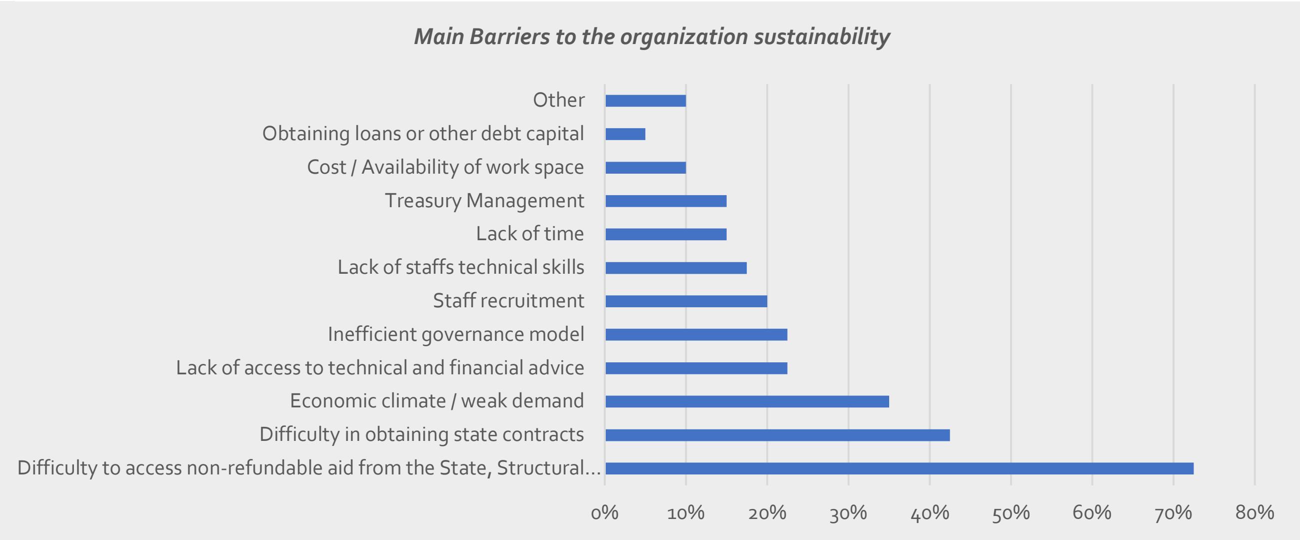
Graphic 1



The main barriers to organizations sustainability mentioned by the social enterprises were: **"Difficulty to access non-refundable aid from the State, Structural Funds or other organizations", "Difficulty in obtaining state contracts" and "Economic climate / weak demand"**, identified by 73%, 43% and 35% of the respondents, respectively. These results support the theory that the Portuguese social enterprises are extremely dependent from the State. (see Graphic 2)

It is also relevant to point that about 16% of the surveyed organizations reported spending more than 50% of their time in fundraising.

Graphic 2

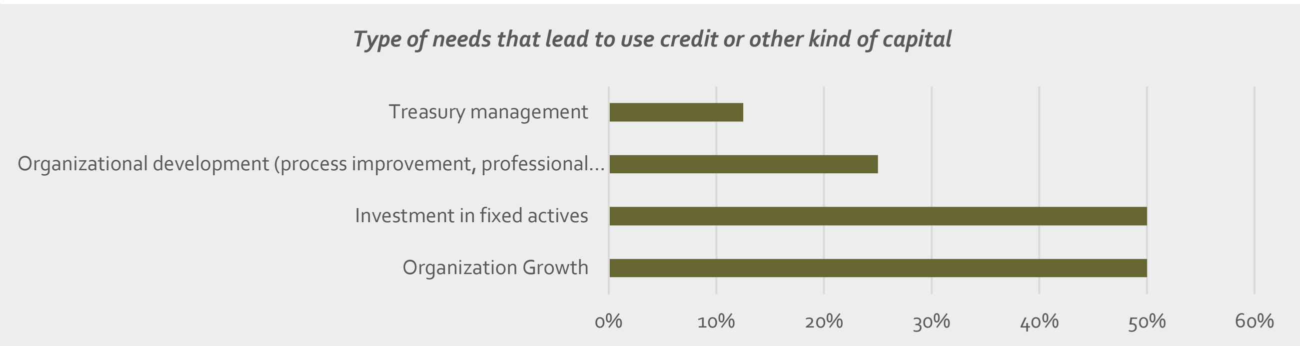


80% of organizations reported that they did not resort to reimbursable financing significantly.

Component only to organizations with significant experience in reimbursable financing

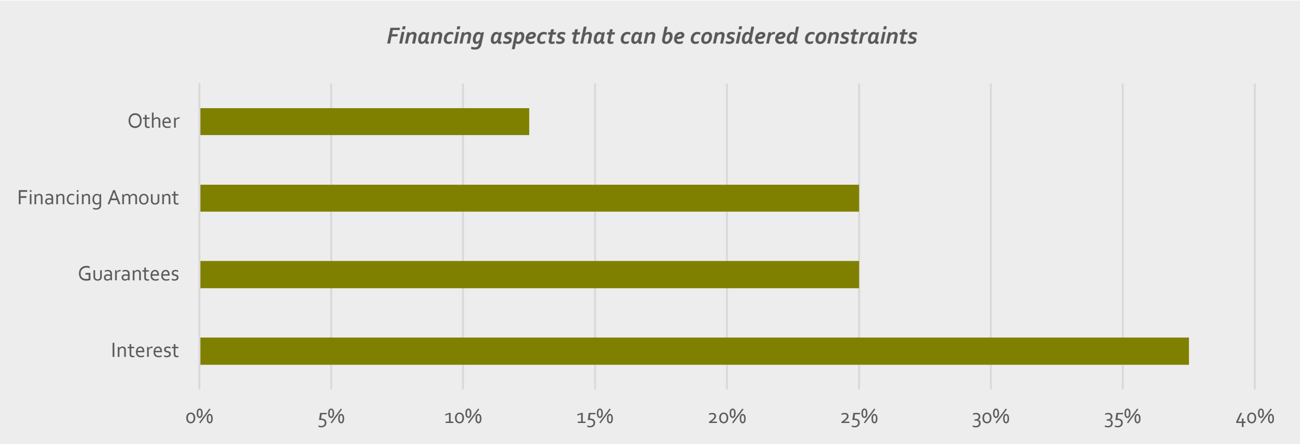
The main needs which have led organizations to use reimbursable finacing were **"Organization Growth"** and **"Investment in fixed actives"**. Only 25% of the entities reported having resorted to reimbursable finacing for organizational development. There was also a percentage of 13% of organizations that reported the use of financing to meet cash flow needs.

Graphic 3



In the financing aspects that can be considered constraints, the most mentioned was the interest rate, indicated by 38% of the entities. Guarantees and the financing amount were mentioned by 25% of the organizations.

Graphic 4

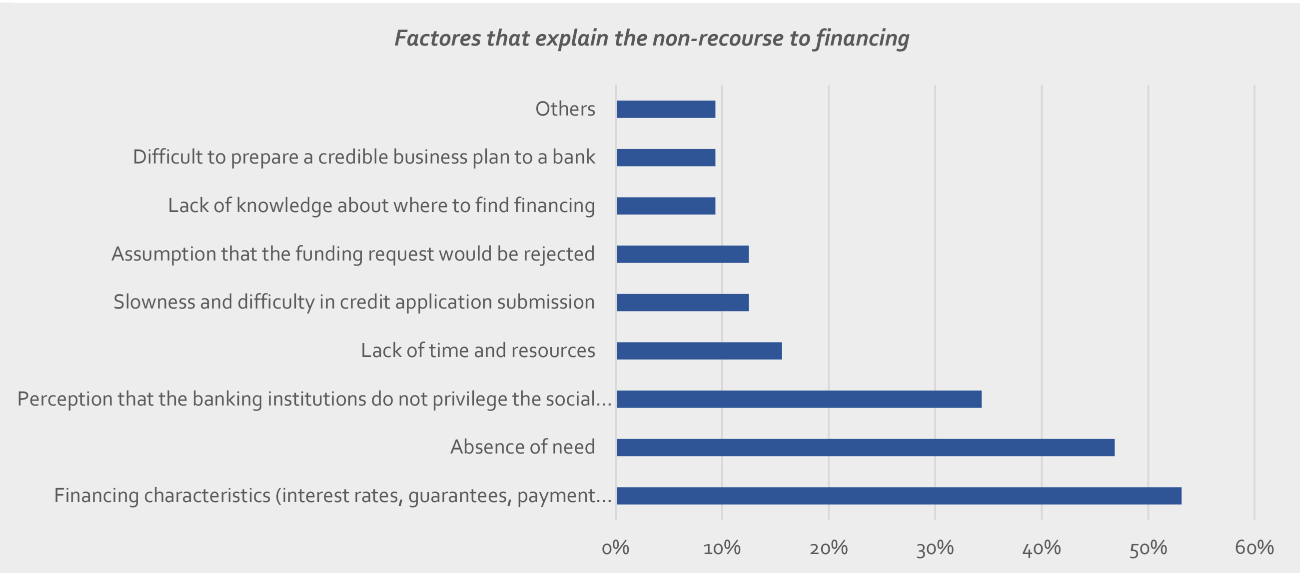


On average, organizations were quite neutral in their evalution of the bankers 'understanding of their organizations' "financing needs" and "business model and revenue generation". Only 25% of the organizations positively considered bankers' understanding of their "financing needs", "business model and revenue generation" and "governance model".

Component only to organizations with NO significant experience in reimbursable financing

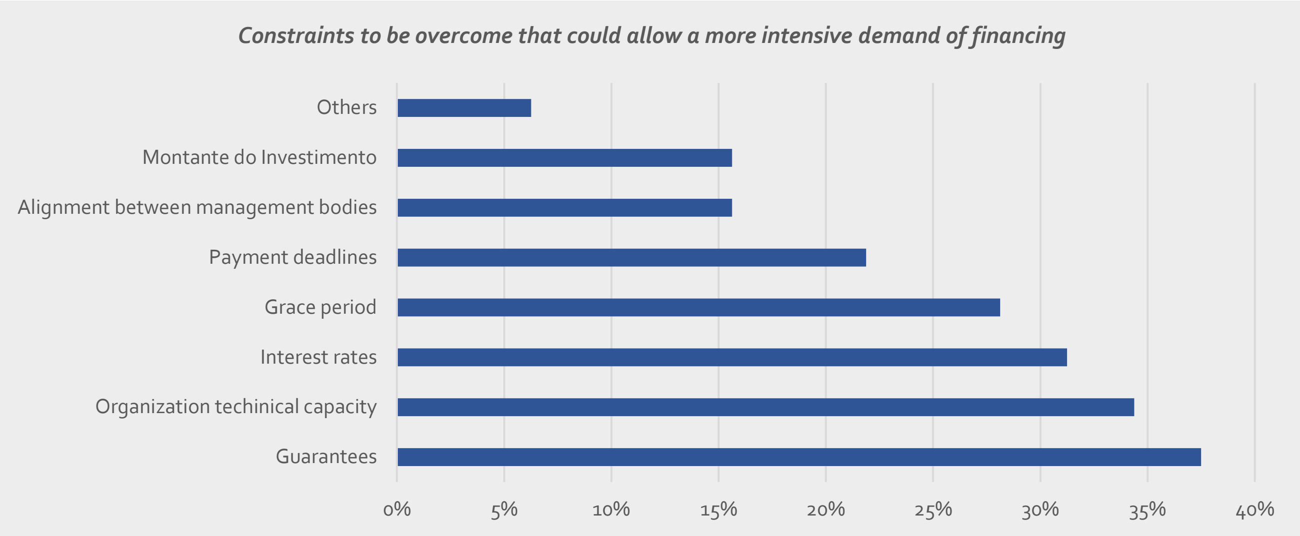
For the non-recourse to financing, more than 50% of the entities pointed out as a reason the characteristics of the same (interest rate, guarantees, payment deadlines, etc.). The third most pointed factor, following the absence of need, was the "perception that the banking institutions do not privilege the social enterprises"

Graphic 5



In the constraints to be overcome that could allow a more intensive demand of financing stand out: guarantees, organizations technical capacity and interest rate, by that order.

Graphic 6



The diference between answers given from entities with significant experience in reimbursable financing and those who have not, indicates several fundamental differences between the two groups, including different challenges in access to finance.

It's interesting to note that while in entities with significant experience in reimbursable financing, the interest seems to be the most constraining feature of financing, in organizations that have no significantly experience, guarantees are perceived as the greatest constraint. These data suggest a difference between these two groups of organizations regarding to their ability to provide guarantees to the funder. This possibility is in line with the hypothesis advanced in this report that one of the main factors preventing social enterprises from accessing credit are the guarantees.

Finally, it is interesting to note that are the organizations themselves that identify the lack of technical capacity within them as a determining constraint in financing access.

Social Entrepreneurship Component

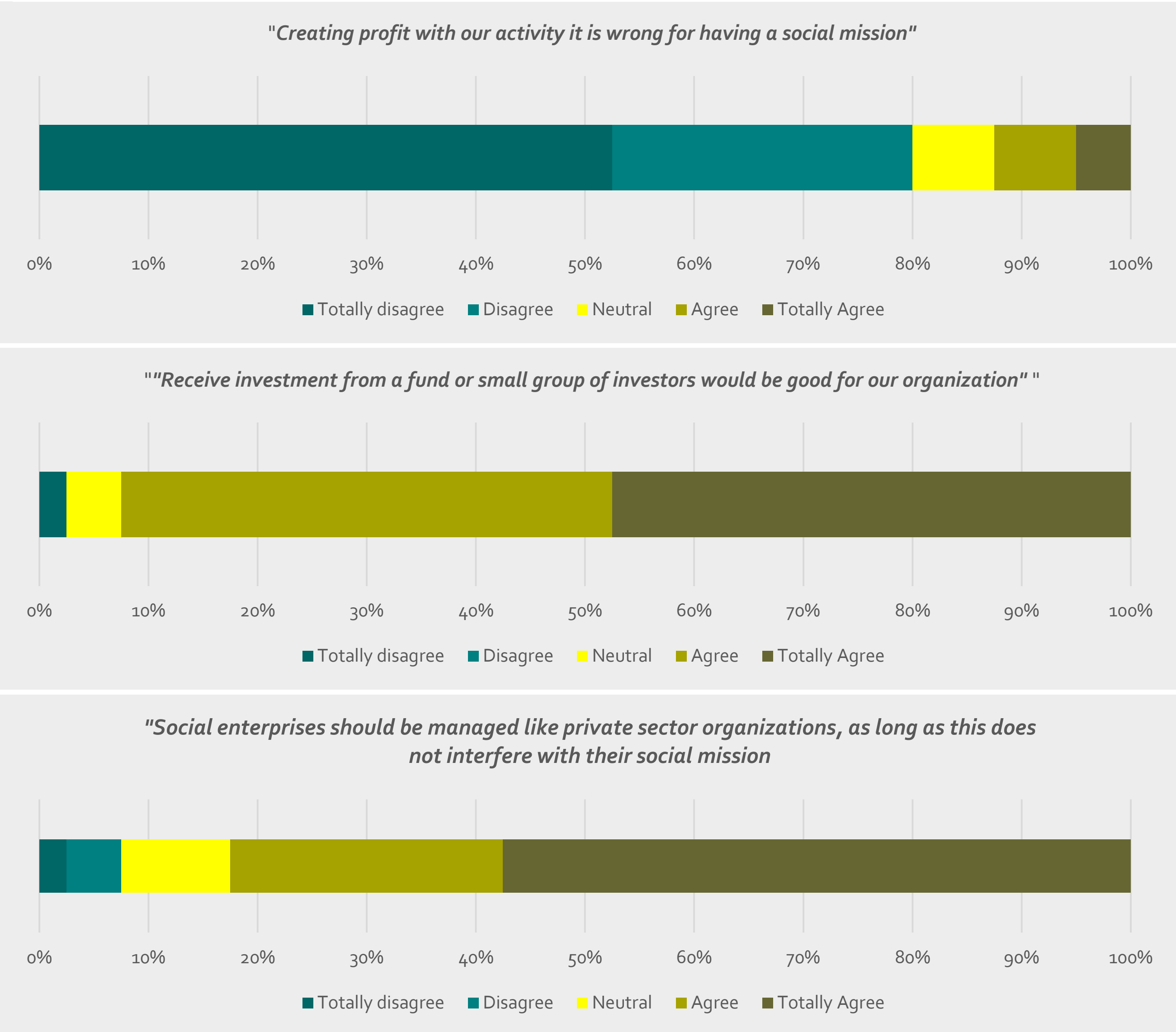
About 50% of the 40 organizations that responded to the survey consider developing social entrepreneurship projects within its structure. This proportion probably is higher than would be observable in the entire population of social enterprises.

About 60% of the sample reported not knowing entities and initiatives that offer financial instruments to social enterprises. This value suggests that there may be a lack of communication by the financiers and intermediaries in this sector.

From organizations that reported knowing entities and initiatives that offer financial instruments to social enterprises, 65% do not consider that these financial instruments available are adequate.

At the end of the survey were used three Likert scales to evaluate the level of agreement with three expressions. The objective of these last questions was to listen the social enterprises position regarding some questions of context and perception.

Graphics 7, 8 e 9



Although 80% of the organizations disagree, it is observed that 13% of the organizations agree or totally agree with the idea that "Creating profit with our activity it is wrong for having a social mission".

Most organizations surveyed believe that receiving investment from a Fund or Small Group of Investors would be good for their organization and they agree with the idea that social enterprises should be managed like private sector organizations, as long as this does not interfere with the their social mission.

QP and LIS consider that these results reflect a recent change, however marginal, attitude in the social sector for ideas such as profit, investment and professional management.

It is important to note the potential of over representation of social entrepreneurship initiatives in the sample that may be skewing these results.

Annex 6. Discussion panels

A6.1. Introduction

Throughout the research work there were three discussion panels that gathered social enterprises, social startups and social investors. In comparison with one to one interviews, discussion panels add value because they allow for a confrontation and interaction among people in from the same stakeholder segment.

It is important to enhance that the conclusions drawn from the discussion panels present a general view from the participants and not necessarily the individual standpoint of each participant neither the position of the team at QP and LIS.

A6.2. Discussion panel with social enterprises

Date: Oporto, March 7th 2017

Location: Santa Casa da Misericórdia do Porto

Length: Approximately 2,5 hours

Participants:

Entity	Name
As an individual	Dr. Agostinho Branquinho
As an individual	Dr. José Albino Silva Peneda
As an individual	Dr. Manuel Pizarro
Cáritas	Professor Eugénio da Fonseca
CASES	Dr. Manuel Maia
CNIS	Dra. Palmira Macedo
Cooperativa do Povo Portuense	Dr. Paulo Teixeira
Misericórdia do Marco	Professora Doutora Amélia Tavares
Santa Casa da Misericórdia do Porto	Dr. António Tavares
Rede Europeia contra a Pobreza	Padre Jardim
União das Cooperativas do Norte de Portugal	Dr. Fernando Martinho
União das Mutualidades	ND
Quaternaire Portugal	António Manuel Figueiredo
Quaternaire Portugal	Xavier Cortez

MAIN LEARNINGS

This discussion panel took place for more than two hours and it was structured around two main sections: a first one, focused on the obstacles and barriers identified by social enterprises when accessing finance; a second one around the necessary public policy actions that would improve the access to finance by social enterprises.

About the existing obstacles:

Capacity building of funders and characteristics of funding.

Although some nuances were identified among participants, there was a common consensus around the obstacles that social enterprises face when accessing funding from banks:

- Lack of understanding and trust of financial institutions about the specific circumstances of social enterprises in what concerns to their mission, operational model and revenue model;

- The requested guarantees and collateral are unberable, due to the lack of trust above mentioned, because they often entail personal guarantees by the management team;
- Low maturity of available funding instruments with few long-term maturity instruments existent in the market (e.g. 11 to 15 years);
- Challenges concerning the organizational structure of financial institutions that don't see social enterprises as a specific and separate customer segment;
- Even though Montepio has an orientation towards social enterprises, the majority of banks still don't treat it as a customer segment;
- Market gap in funding social enteprises reflects an overall market failure in providing long-term funding to the Portuguese economy, something that the fund of funds (IFD) aimed at mitigating but did not succeed;
- Overall, the Portuguese financial sector lacks information about social enterprises and the third sector in general.

Capacity-building of social enterprises

- Organizational delays within social enterprises bring several working capital constraints;
- Some participants have focused on internal areas of improvement as the reason to explain the obstacles in accessing funding (including the lack of a cooperative bank, the low investment readiness of social enteprrises and difficulty in attracting talent).

Public sector funding

- There is a need to clarify the nature of financial flows between the State and social enterprises: these are contracts and not non-reimburable subventions; there is a dire need for funding capital and operational expenditure which can not be met through the contracts with the State to provide social services;
- An improvement is needed in better understanding the social sector as an activity that should generate a surplus and that plays an intermediary role between the State and the most vulnerable segments of our society; social enterprises are tackling such large issues that they need additional financial and non-financial resources in order to address these problems efficiently;
- A thorough review of the contracts between the State and social enterprises should be undertaken in order to define better contracting methods, outcomes and incentives.

Other topics

- There is a project around ethical banking in Portugal that was presented as a way of bringing together the banking sector and the general population;
- Participants have highlighted the lack of financial sustainability among most of social enterprises due to the fact that these organisations work with the most complex cases of our society which absorb most of existing resources;
- The experience of Social Invest has been cited as something that did not have a lot of demand in the northern region of Portugal, even though the take up has been better elsewhere in the country.

Potential public policy actions and the role that they play

Among the different participants, there was a general consensus that the social sector in Portugal is in a maturity stage that needs significant review in terms of the public policies that create a framework for their actions.

The creation of a strong and resilient entity that specialises in funding the social sector is well adjusted to the role that the EIB usually plays in member-states. As a result, the EIB plays an important part in intermediating the public policy embedded in "Portugal Inovação Social"and the social sector.

In terms of cooperatives, there are positive signs that a strong network of national and international players can converge in collaborating towards an effective solution that is based upon experiences from countries like Spain and Italy.

More importantly, there is a need to overcome the fact that the banking sector does not see social enterprises as a specific segment. This could be resolved by a specific entity exclusively dedicated to fund social enterprises. The current model of incentives existing in banks is creating a divide between theses financial institutions and social enterprises.

Finally, there are public policy actions that can be adopted in order to strengthen the levels of operational, impact and investment readiness of social enterprises. Funding innovation also means funding improvements in management and efficiency that in turn will result in stronger impact.

A6.3. Discussion panel with social startups

Date: Lisbon, February 20th 2017, 11:30 – 13:30

Location: Fundação Calouste Gulbenkian. Av. de Berna 45 A, 1067-001 Lisboa

Participants:

Entity	Name
Aid Hound (I AM)	Pedro Pimentel
ColorAdd	Luís Amado
E-Solidar	Marco Barbosa
Impact Hub Lisbon	Filipe Portela
Mundo a Sorrir	Miguel Pavão
OIKOS	João José
SPEAK	Mariana Brilhante
LIS	António Miguel
Grupo BEI	Kim Kreilgaard

MAIN CONCLUSIONS

Legal limitations

– The existing legal framework of social enterprises is not adapted to the current needs of these organisations.
– Given the prevalence of social enteprrises with market-based solutions and hybrid business models, it will be difficult to avoid hybrid legal structures too.
– The lack of definition and consensus around social businesses create challenges for the creation of an adequate legal form. Several funding instruments, such as equity, are not possible to implement in social enterprises due to their current legal form. Potential solution: create a form of private social enterprise which allows for donations and equity investment will help mitigate this obstacle.
– Differences in legal forms across countries are hindering the ability to attract foreign social investment.

Capacity-building of social enterprises

– Social enterprises are more used to deal with grants than with repayable forms of finance.
– Social enterprises need smart money which is rare in Portugal.
– It is important to educate and build capacity within social entepises in order to improve their accountability and reporting.
– Social investors will need to be available to invest in overheads and human development.
– The process of raising social investment is time consuming and difficult for social enterprises. There is a need for intermediaries that support this process.

Challenges in impact measurement

- Social entrepreneurs have the mandate to explain and monetise their impact. Several participants have shared that they do not measure their impact.
- Impact metrics usually adopted by investors are considerably different from the ones adopted by entrepreneurs.
- Impact measurement is costly, onerous in terms of time and demands specific skills.
- It is hard to measure impact when the business models do not represent direct work with beneficiaries.

Capacity-building of investors

- Social investors have unrealistic expectations that social startups already have steady income streams and do not take on more risk than traditional investors.
- Investors are reluctant mostly because of a lack of track record. Pioneers are needed.
- Social investors are using the exact same metrics and venture investors when appraising projects.
- There is a high reluctance in funding overheads.
- Portuguese corporations don't have a culture of social responsibility.
- Lack of segmentation. Within companies and banks it is not clear which organisational department deal with social enterprises.

Size of investment

- International investors are reluctant in investing in the Portuguese market because their average ticket size is much larger than what social enterprises in Portugal can accommodate.

Access to debt and guarantees

- Access to debt is too much linked to working capital. The request for personal guarantees by the management team is common and therefore a major obstacle.
- The governance structure of social enterprises is a barrier in accessing debt because most of the management team is non-executive and often non-paid.
- There is a dire need for a guarantee scheme. There are more incentives and subsidies to credit in the commercial sector than in the social sector.
- Debt is not necessarily adequate for social startups because they don't have constant revenue streams. Potential solution: factoring products to allow for liquidity; guarantee scheme by the public sector allowing better access to debt.

Mindset challenges

- There is still a heavy culture shock between the tech and commercial entrepreneurship and the social entrepreneurship.
- Investors and investees speak different languages.
- Social startups feel that it is hard to find and engage with social investors.
- Culturally, in Portugal, financial return alongside impact is still a tabu. Paying for overheas and highly professionalized structures is seen as something unnecessary.

– Raising social investment in Portugal is made more difficult because charitable donations are its biggest competitor.

Contracts with the public sector

– Public sector commissioners don't have experience in contemporary contract models such as outcome-based commissioning.
– There are challenges in finding the balance between impact and financial return.
– There is a commong clash of expectations around the exit strategy for social investments.
– It is difficult to do enterprise valuation of social startups.

Public sector funding

– The way Portugal Inovação Social is designed is too disruptive.
– State funding in its current form is jeopardizing the revenue model of social enterprises.
– It is fundamental to introduce outcome-based commissioning in public contracts.

Cost of monitoring and manage performance of social enterprises

– Performance management and monitoring entails disproportionate time.
– Potential solution: Match funding for enterprises funded through crowdfunding in which equity crowdfunding works as validation.

Other topics

– The VAT scheme is better for private companies than for social enterprises.
– Social enterprises can be a constraint for social startups that need a spin-off in order to grow.

A6.4. Discussion panel with social investors

Date: Lisboa, March 6th 2017, 11:30 – 13:30

Location: Fundação Calouste Gulbenkian. Av. de Berna 45 A, 1067-001 Lisboa

Participants:

Entity	Name
Busy Angels	Francisco Ferreira Pinto
Red Angels	Rui Falcão
Fundação Calouste Gulbenkian	Luís Jerónimo
Associação Nacional de Direito ao Crédito	Francisca Cordovil
PME Investimentos	Sónia Timóteo
	Paula Ferreira
	André Nobre
Grupo BEI	Kim Kreilgaard
Laboratório de Investimento Social	António Miguel
Quaternaire Portugal	Josué Caldeira

MAIN CONCLUSIONS

Legal constraints

- There is no clarity around the concept of social business, its legal form and the kind of funding that is adequate.
- Social enterprises with no private legal form cannot issue shares and therefore cannot access equity investment. As a result, there is no shared risk between investors and social enterprises. Potential solution: adoption of quasi equity instruments such as revenue participation agreements.
- The creation of a hybrid legal structure that accommodates both social enterprises and private enterprises is crucial to reduce some of the obstacles faced by social enterprises. Countries like Italy provide an excellent blueprint for this.

Capacity-building of social enterprises

- Capacity-building of social enterprises towards investment readiness should be a top priority.
- Human capital development is also very important.
- It is fundamental to decentralize responsibilities.

Challenges in impact measurement and reporting

- Get priorities straight: first, collect data; only then impact can be measured.
- Data collection needs to be useful and not a burden for social enterprises.
- Costs of reporting are too high and usually what investors request is not necessarily relevant for social enterprises. In addition, each investor has their own way of asking for reports.
- Social enterprises need to be more transparent with their accounts.

Capacity-building of investors

- Social investment implies more criteria than traditional investors. Therefore, investors ought to have a toolkit that allows them to make decisions.
- It is important that definitions and concepts are clearly adopted by everyone. Each participant in the discussion panel had his/her own view.
- It is crucial to clarify the outcomes of any social investment deal.
- Investors need to learn from success stories and stories that did not go so well.
- Patient investment is much needed as well as smart money.
- Currently there is a reluctance in funding overheads, creating dysfunctional social enterprises.
- Social investors are adopting very strict and rigid metrics when evaluation social enterprises.

Need to segment investors

- Sustainability alone is not enough for most investors. It is important to split them according to the impact spectrum.
- Participants in the panel (investors) show no interest in mixing vc deals with social investment deals.

Size of market and investment

- Portugal's dimension is a challenge.
- Ticket sizes also do not reflect the needs of the market.
- Scaling social innovation is difficult due to a focus in services (vs goods) and the expectations of social enterprises. It is extremely rare to see a merger and acquisition between social enterprises. Potential solution: think of investment on a regional basis.

Mindset and culture

- In Portugal, failure is given a lot of importance rather than being celebrated.
- Social sector has a bad reputation when it comes to managing funds.

Public sector funding

- Public sector has a key role. Public investment initiatives are important to catalyse the sector and mobilise private capital.
- It is important to avoid some kind of canibalisation between the EIB and Portugal Inovação Social. The EIB can cooperate with Portugal Inovação Social e PME Investimentos in order to complement their actions. Participants in the panel did not know much about EIB instruments for social investment.

Financial instruments

- Different social enterprises need different financial instruments.
- The development stages of social enterprises also influence the type of funding that should be adopted.
- Public financial instruments and EU rules need to be better adapted to the reality on the ground.

Access to debt and guarantees

- A guarantee scheme created by the government is fundamental.

Other topics

- Though not all participants agreed, there is a common idea around the lack of investible pipeline.
- Social investment is growing in Portugal and should learn with the example of the tech entrepreneurship ecosystem in Portugal.
- Banks still see this area as social responsibility and that needs to change.

Appendix 7 Estrutura de Missão Portugal Inovação Social (EMPIS) and the EIB Grup

A7.1 Estrutura de Missão Portugal Inovação Social (EMPIS)

Estrutura de Missão Portugal Inovação Social (EMPIS) was created by the Portuguese Government in 2015. It was born to catalyse improvements in social enterprises' access to finance. It is a public entity that reports directly to the Presidency of the Council of Ministers. EMPIS has mobilized 150 million euros in European structural funds to invest and promote the social investment market.

To address the different needs of social enterprises, and keeping in mind the need to align demand and supply of capital, EMPIS will disburse these funds through four programs that will run between 2016 and 2020:

CAPACITY BUILDING FOR SOCIAL INVESTMENT. This program allows social enterprises to access support from specialist providers in areas such as financial management, business modelling, impact measurement, leadership and governance. The goal is to make social enterprises investment ready and able to create social impact.

Available funds: approximately 15 million euros
Expected launch date: September 2016
Actual launch date: March 2017
Maximum ticket per social enterprise: €50.000

PARTNERSHIPS FOR IMPACT. This program was created to support initiatives that want implement a 1-to-3-year development plan to reach a bigger scale and higher impact. It aims to promote venture philanthropy through a grant-based-match-funding system.

Available funds: approximately 15 million euros
Expected launch date: June 2016
Actual launch date: July 2016
Maximum ticket per social enterprise: Undefined

The minimum ticket EMPIS will invest is €50.000, which can represent up to 70% of the financing needs of the project, the remaining financing will be provided by venture philanthropy.

SOCIAL IMPACT BONDS. In social impact bonds, a contract is celebrated between social investors, public sector entities (in this case EMPIS) and a social enterprise (or several), to reach specific social outcomes. If the results are reached, EMPIS reimburses the social investors for their initial investment. If the agreed upon social outcomes are not reached, the social investors assume all the risk of losing their investment. This instrument promotes an outcomes-based focus among public entities.

Available funds: approximately 15 million euros
Expected launch date: June 2016
Actual launch date: August 2016
Maximum ticket per social enterprise: between €350.000 and €1 million

SOCIAL INNOVATION FUND. This wholesale fund will co-invest in Portuguese social enterprises and social-investment products with a demonstrated potential to generate social and financial returns. It will co-invest in transactions led by qualified investing entities which give credit and/or quasi equity for the consolidation or expansion of social enterprises.

Available funds: aproximately 100 million euros
Expected launch date: Beguinning of 2017
Approach: Fund of funds

It is essential to follow the development of EMPIS' four operational programs throughout the next few years and evaluate how and to what extent they are fulfilling the needs of the market. Any new initiative to vitalize the social economy ecosystem in Portugal and mitigate constraints in accessing capital should take this structure into account.

A7.2. European Investment Bank Group

Brief analysis of the EIB Group's instruments for social innovation, entrepreneurship and microcredit:

Name of the Instrument	Type of financing	Description	Needs it wants to address	Development stage of the initiatives	Current portfolio/ Comment on the use of the instruments
Social Impact Accelerator (SIA)	Equity	SIA operates as a fund of funds managed by the European Investment Fund. SIA invests in social investment funds which, in turn, have European social enterprises as their strategic target. In the context of SIA, social enterprises are small and medium companies (SMEs) which reach social impact through their business model. They should address social problems with entrepreneurial solutions that are scalable and have a measurable impact.	SIA addresses the growing need for equity financing to support social enterprises. It follows the European Union's and EIB Group's general strategy of establishing a sustainable financing market for social enterprises in Europe.	Start-up stage; Growth stage; Development stage (low risk)	So far, SIA has invested in 9 Social Investment Funds, **none of them in Portugal**. BonVenture III; Bridges Social Impact Bond Fund; Citizen Capital II; Impact Partenaires III; Impact Ventures UK; Oltre II; Phitrust Partenaires Europe; Social Venture Fund II; Social Impact Ventures NL Fund I Investment to date: €95M Total investment capacity: €243M
EaSI **Guarantee**	Debt	EaSI Guarantee is managed by the European Investment Fund and grants guarantees and counter-guarantees partially covering credit portfolio risk in the microcredit and social entrepreneurship segments. The EIF provides these guarantees through selected EaSI financial intermediaries. This instrument has two strands: • **Microfinance** Microcredit portfolios sized up to €25,000 for micro-loans and micro-entrepreneurs. • **Social Entrepreneurship** Debt portfolios sized up to €500,000 for loans to social entrepreneurship initiatives whose annual turnover does not exceed 30 million euros.	The goal of this instrument is to improve the access to financing for vulnerable groups that want to launch their own micro-company and for social enterprises in start-up and development stages. Thanks to this risk-sharing mechanism between financial intermediaries (banks) and the European Commission, EaSI allows intermediaries to extend their services to social enterprises and micro-entrepreneurs who find it difficult to get finance through the conventional credit market.	Start-up stage; Growth stage; Development stage (low risk)	**In Portugal, there is only one** financial EaSI intermediary: Banco Comercial Português S.A (Millennium BCP). However, this intermediary only operates in the microfinance arm with an allocation of €1.543.050 to cover a portfolio of around 900 micro-loans. Total investment capacity: €96 million for intermediaries

Name of the Instrument	Type of financing	Description	Needs it wants to address	Development stage of the initiatives	Current portfolio/ Comment on the use of the instruments
EFSI Equity Instruments **(Social impact window)**	Equity	**3 Strands:** **Funds connected to Incubators/Accelerators:** This program supports investment readiness of social enterprises at the initial development stage (pre-commercial) which need small investment tickets. The Social Investment Fund invests with/in intermediaries that, in turn, work with social enterprises. The EIF acts as a co-investor, together with institutional and private investors. It invests a minimum of 7.5% and a maximum of 50% of total investment. In this strand, the EIF will invest up to €50 million. **Bussiness Angels:** This is a pan-European co-investment instrument that supports social enterprises in their initial development stages. The EIF invests with/in Business Angel funds that, in turn, invest in social enterprises. The EIF acts as a co-investor with Business Angels and Business Angel Funds. It invests a minimum of 7.5% and a maximum of 50% of total investment. In this strand, the EIF will invest up to €50 million. **Payment by results investment schemes:** This mechanism supports the development of a social impact market in Europe and the expansion of social servisse provision. It supports payment by results schemes targeting social organizations at large. The EIF co-invests with private investors, institutional investors, and Payment by Results Managers. The EIF invests a minimum of 7.5% and a maximum of 50% of total investment. In this strand, the EIF will invest up to €50 million.	The goal of these co-investment instruments is to overcome the current gap in financing in the European Union, mobilizing private capital towards strategic objectives. This is a pilot of innovative equity instruments that will hopefully ensure the right combination of products for social enterprises, with a great focus on the financial needs of initiatives that are going through their early development stages.	Pre-seed stage; Seed Stage; Start-up stage (high risk) Seed Stage; Start-up stage (medium risk) Start-up stage; Growth stage (low risk)	This instrument was launched very recently. This instrument was launched very recently. This instrument was launched very recently.

A7.3. Constraints versus initiatives

In this section, we try to match all the instruments and initiatives listed above and the constraints in accessing finance (raised by the entities interviewed) they try to mitigate.

Key:

EMPIS: CBSI – EMPIS' Capacity Building for Social Investment programme;

EMPIS: PI – EMPIS' Partnerships for Impact programme;

EMPIS: SIB – EMPIS' Social Impact Bonds programme;

EMPIS: SIF – EMPIS' Social Innovation Fund programme;

SIA – EIF's Social Impact Accelerator;

EaSI Guarantee – EaSI programme guarantee intrument, managed by the EIF;

EFSI Accelerators – EFSI equity instrument linked to incubators and acclelerators, managed by the EIF;

EFSI Business Angels – EFSI equity instrument linked to Business Angels and Business Angel Funds, managed by the EIF;

EFSI PbR – EFSI equity instrument linked to Payment by Results Schemes, managed by the EIF.

Constraints in the access to finance	Initiative which might mitigate the contraint
Internal	
Human Capital and Organizational Development	EMPIS:CBSI; EMPIS:PI
Accountability and Transparency	*Has not been identified*
Legal Constraints	*Has not been identified*
Conservativism	*Has not been identified*
Scale	EMPIS:PI; EMPIS:SIF; SIA*; EFSI:Accelerators; EFSI:Business Angels
Business Model	EMPIS:CBSI
External	
Raised by the banking sector	
Guarantees	EaSI guarantee*
Inadequate cost and risk evaluation	EaSI guarantee*
Illiteracy in the banking sector regarding social enterprises and the social economy.	EaSI (Capacity Building Investments Window)*
Inadequate financial products	*Has not been identified*

Prejudice	*Has not been identified*
Bureaucracy levels	*Has not been identified*
Raised by local and national government and supranational organizations	
Lack of overhead and structural financing for social enterprises	EMPIS:CBSI; EMPIS:PI; SIA*; EFSI:Accelerator; EFSI:Business Angels
Lack of financing for experimentation	EMPIS:SIB; EFSI:PbR
Excessive political influence in the management of social organizations	*Has not been identified*
Excessive influence form the Social Security Institute in the management of social organizations.	*Has not been identified*
Scarce use of a Payment by Results logic	EMPIS:SIB; EFSI:PbR
Other	
Lack of alternatives to credit financing	EMPIS:SIB; EMPIS:SIF; SIA*; EFSI:Accelerator; EFSI:Business Angels; EFSI: PbR
Lack of impact investors	EMPIS: SIB; EFSI: PbR
Lack of legal and accounting support	*Has not been identified*
Lack of academic work about the social sector	*Has not been identified*

It is important to point out that both EMPIS' initiatives and EFSI's instruments have been launched very recently. Therefore, it is too soon to assess whether they are adequately addressing the constraints they want to mitigate.

*It is also relevant to mention that SIA has yet to invest in a social investment fund in Portugal. Finally, as far as this team could tell, the EaSI guarantee instrument's presence in Portugal is limited to a single intermediary which uses it uniquely in its microfinance strand and not in the social entrepreneurship one. This means that, while these two instruments have a lot of potential, they are yet to contribute towards eliminating the constraints around social enterprises' access to capital in Portugal and their inclusion in the table above is based on its potential future activity.

Appendix 8 Benchmark – United Kingdom

A8.1 Introduction

The United Kingdom has one of the most developed social investment markets in the world. This market, because of its maturity, offers a wider range of financing opportunities with characteristics aligned to the specific needs of the social sector. However, constraints around the access to finance are still reported by social organizations. We looked at work on these constraints to assess whether there is some parallelism with the Portuguese case.

The main sources of information used were:

- Report: State of Social Enterprise Survey 2015, Social Enterprise UK, 2015;
- Report: Financing social ventures and the demand for social investment, Fergus Lyon e Rob Baldock, 2014.

A8.2 "State of Social Enterprise Survey 2015" – Social Enterprise UK, 2015

This report presents the results of the State of Social Enterprise Survey 2015 (SSES2015), a survey conducted to social enterprises in the UK. The conclusions of the report result from 1159 telephone and online interviews to senior figures in social enterprises (SEs).

According to this report, accessing finance remains a key constraint for social enterprises of various sizes. According to SSES2015, 44% of SEs had sought finance in the last 12 months, more than twice the respective proportion for "traditional" small and medium enterprises (SMEs). Furthermore, 39% of SEs considered the lack of financing a threat to their sustainability, for SMEs this view is only shared by 5% of organizations.

SEs report that they are constantly looking for simpler financing opportunities with smaller tickets and no guarantees. The average financing size sought by SEs was £60,000, a number below the minimum threshold of many investors and social funds in the UK,

According to the information collected during our interviews, these SEs have some things in common with the ones in Portugal when it comes to choosing the most relevant barriers around accessing finance. However, unlike what happened with British SEs, Portuguese organizations did not focus as much on ticket size.

The constraints around accessing finance reported by SEs in SSES2015 focus mainly on navigability, accessibility and trust, and not so much on the cost of capital and legal barriers. According to the information collected in this study, the Portuguese SEs share British SE's focus on most dimensions but the legal structure of social organizations appears to be a more relevant constraint in Portugal.

The SSES2015 report also reveals that the number of social start-ups, optimism level about accessing finance, human resource growth and investment readiness vary considerably from region to region.

A8.3 "Financing Social Ventures and the Demand for Social Investment" - Fergus Lyon and Rob Baldock, 2014

In this paper, the authors study and compare the use of repayable finance coming from specialized social investors and conventional sources such as banks.

The paper defends that 15% of SEs seek credit finance, with most resorting to commercial banks for those loans. Only one in five SEs that sought credit did so through social investors.

According to the authors, most SEs in the UK with few tangible assets were still able to access financing. Almost 60% of SEs that asked commercial banks for credit, had their request granted without having to provide real guarantees. In this regard, the Portuguese reality appears to be quite different, as guarantees are, according to the interviews, discussion panels, and questionnaires, a key barrier in accessing credit.

Finally, the authors suggest that 3.5% of SEs, and 24% of SEs that sought repayable finance, have failed. The authors studied the link between financing requests denied and the guarantees, and found no significant difference between number of requests denied with and without guarantees.

Appendix 9 Questionnaire to banking institutions

A9.1 Introduction

In the context of this study, an online questionnaire was sent to banking institutions. The goal of this questionnaire was to systematically collect information on the following dimensions:

- Internal organization regarding whether there is a dedicated team for the social economy client segment;
- Specialized offer for social enterprises (if any), receptiveness and main constraints;
- Strategy for the social enterprise client segment (if any), and future steps;
- Mobilization, knowledge and evaluation of EIB Group's products and services;
- Default rates and credit requests denied of SEs, when compared to "traditional" SMEs

The online questionnaire was designed with a mix of closed questions, which allow for an easier data analysis, and open questions, which provide unstandardized complementary information.

The questionnaire was sent to eighteen contact points in seven banking institutions on January 20th, 2017. These institutions were picked out because they appeared to have some products directed at social enterprises. Because the response rate was low, two follow-up contacts were established on the 6th and 16th of February. The questionnaire was closed on March 1st.

In total, seven answers coming from six different banking institutions were submitted. This represents a response rate of approximately 39%. Because the response rate was so low, all the information presented ahead must be interpreted accordingly.

A9.2 Questionnaire structure

I. **Identification**
   a. Name of banking institution
   b. Name of respondent
   c. Name of department/team the respondent works in

II. **Information regarding social economy client segment**
   a. Does the banking institution has services/units specifically dedicated to social organizations?
   b. Describe such service/unit, indicating, if possible, the number of human resourses it involves.
   c. What are the main products and services that the banking institution offers social organizations (supply)?
   d. Which finantial products are most sought-after by social organizations (demand)?
   e. From the total business volume that the bank has with social organizations, which percentage corresponds to each of the following types of organizations:
      i. Cooperatives
      ii. Mutualities
      iii. Misercórdias
      iv. Associations
      v. Foundations
      vi. Social Companies
      vii. New social entrepreneurs
   f. On a scale from 1 to 10, where 1 is the lowest and 10 is the highest, how would you classify the demand and receptiveness of social organizations regarding your offer of these financial services/products?
   g. Which constraints would you think justify any lack of receptiveness?
   h. In the products and services that the bank has available for social organizations, is a system of mutual guarantee used?
   i. On a scale from 1 to 10, where 1 is "very inadequate" and 10 is "very adequate", how would you classify the adequacy of backing loans to social organizations with a mutual guarantee system?
   j. Would you consider that social organizations are a target for the bank and warrant a dedicated strategy?
   k. Is there a plan to focus further in social organizations as a client segment?
   l. If yes, in which time horizont?
      i. Short-term
      ii. Medium-term
      iii. Long-term

III. **Mobilization, knowledge and evaluation of EIB Group's products and services**
   a. Does the banking institution know and mobilize EIB Group's products and services for social organizations?
      i. Yes, frequently.
      ii. Yes, occasionally.
      iii. No.
   b. Do you consider that the information available about EIB's credit lines is adequate?

c. Which channels do you use to advertise and share information regarding EIB credit lines?
d. Rate, on a scale from 1 to 10, where 1 is "none" and 10 is "very high", your institution's knowledge of the EIF's microfinance and social entrepreneurship products (under EaSI).
e. Rate, on a scale from 1 to 10, where 1 is "none" and 10 is "very high", the likelihood of mobilizing these intruments in the future.
f. How would you evaluate these products and services?
    i. Key positive aspects.
    ii. Key negative aspects.
g. Do you consider EIB's "side-letter" wide enough to cover the needs of social organizations?
h. How could the "side-letter" be improved?
i. Assuming that this does not constitute privileged information, what is the average:
    i. Rate of credit requests made by social organizations rejected (in the last 3 years).
    ii. Default rate for credit given to social organizations (in the last 3 years).
j. Would you consider that the adequacy of the criteria used in the decision of giving (or not) credit to social organizations, depends on the size of the ticket asked for (small versus large tickets)?
k. Please refer the two main reasons your institution rejects credit requests presented by social organizations.

IV. Final Questions

a. If possible, refer one social organization that uses/used your financial services or products adequadely and would be an interesting interviewee in the context of this study.
b. About the market size:
    i. Please provide an estimate of the exposure of the bank to the social economy.
    ii. Please provide an estimate for the potential portfolio size of social organizations in the next 3 to 5 years.

A9.3 Answer analysis and main learnings

Internal organization regarding whether there is a dedicated team for the social economy client segment

From the six entities that replied to the questionnaire, half has a dedicated team/unit for the social economy client segment. For one of the entities inquired, this specialization consists of the existence of a microcredit department that *advises, finances and promotes people who cannot access traditional credit (students, unemployed people, micro companies, retirees, immigrants, and domestic workers) that fulfil two basic criteria: having a viable business idea and an entrepreneurial spirit. There are seven employees allocated to this department.*

Specialized offer for social enterprises (if any), receptiveness and main constraints

Three of the entities that replied to the questionnaire mentioned that they make no distinction between products and services offered to the social economy and those offered to other client segments.

Caixa Económica Montepio Geral, because of its close link to the social economy, is the one entity that has some offer specifically tailored to the social organizations.

Banking Institution	Supply of products and services for social organizations	Characteristics of the demand for products and services (by social organizations)
CCCAM	Movable and immovable leasing and State-sponsored credit lines.	Project financing and cash needs
CGD	Undifferentiated global offer to collective entities (Deposits, credit, leasing, cards, service payments, home banking).	Deposits and credit.
BPI	Undifferentiated universal banking services.	Shot, medium and long-term credit. Transaction services.
Caixa Económica Montepio Geral	Exclusive products: *Solução Montepio Setor Social*, a cash-management solution for social economy organizations; other cash management solutions; long-term deposits (for surplus' management); *Montepio Voluntariado* insurance; Crédit *Card +Vida*; Leasing Auto for the social sector; Credit line for I.T. solutions; Credit line *Social Investe*.	Exclusive products: *Solução Montepio Setor Social*, a cash-management solution for social economy organizations; other cash management solutions; long-term deposits (for surplus management); *Montepio Voluntariado* insurance; Crédit *Card +Vida*; Leasing Auto for the social sector; Credit line for I.T. solutions.
NOVO BANCO	There is no specific offer for social organizations. Their needs are assessed by commercial managers on a case-basis.	Financing solutions for investment in movables and immovables; solutions for cash surpluses.

Banking Institution	Supply of products and services for social organizations	Characteristics of the demand for products and services (by social organizations)
Millennium bcp	The supply to social organizations is aligned with the products and services supplied to companies. More specific to the social economy they have: *Linhas de apoio Social Investe* and *Linha de Apoio ao Empreendedorismo* (both backed by public entities) which have private social enterprises as beneficiaries in a social support logic.	

The banking institutions inquired did not always share information regarding the average business volume that each specific type of social organization (from the legal form point of view) represents for them. Those who did provide information with this level of detail point out that the number of clients with each legal form varies widely, some being very rare, making it hard to reach a reliable and representative average business volume. However, all the respondents seem to have identified the Misericórdias as the most representative clients from the social economy when it comes to business volume.

As for the openess from social organizations towards products and financial services, que banking institutions find that receptiveness is high, with classifications ranging from moderate to very good. Only one of the banks inquired offers products that resort to a system of mutual guarantee. No clear tendency could be drawn from the evaluation of the adequacy of loans with mutual guarantee for social organizatons.

Strategy for the social enterprise client segment (if any), and future plans;

Around half of the banking institutions inquired treat social organizations as a target group that warrants a dedicated strategy. From the institutions that do not have a dedicated strategy for social economy organizations, most consider developing such strategy in the medium term.

Mobilization, knowledge and evaluation of EIB Group's products and services;

Only one of the banking institutions inquired reported it does not mobilize EIB Group's services and products, targeting social organizations, this institution is focused on credit lines for SMEs and Midcaps. The remaining five banks report having experience mobilizing such intruments. Four have done so sporadically, whereas one of them reports doing it frequently.

Regarding the adequacy of the information around EIB's lines, it is hard to draw conclusions as the feedback was extremely heterogenenous. Half of the respondents consider the information adequate, while the other half does not.

The channels used by the banking institutions to advertisse EIB's credit lines range from: website, newsletter, and press to training the comercial teams.

The banking institutions inquired report different knowledge levels of the EIF microfinance and social entrepreneurship products. Two of the banks consider having a very high understanding of these products, one reports moderate knowledge, and three report a low level of understanding of such products (this last group includes the bank which does not offer any of the EIB Group's solutions for social organizations). Regarding the perceived likelihood of mobilizing these financial instruments in the future, one of the entities report a high propensity, four report a moderate propensity, and one reports a low propensity to do so.

When questioned about the strengths and weaknesses of EIB Group's products and services, the banking institutions reported the following strengths: i) incentives to development; ii) liquidity; iii) EaSI guarantee instrument allows the bank to reach entrepreneurs that they wouldn't otherwise reach. The main weaknesses identified were i) limited risk sharing and ii) implementation deadlines.

Three of the respondents consider that EIB's "side-letter" is wide enough to cover the needs of social organizations, two consider that it does not have enough reach, while one did not provide an answer to this question.

Default rates and credit requests denied of SEs, when compared to "traditional" SMEs

The response rate to questions related to credit requests denied and default rates was very low. We hypothesize that this happened because this information is of a more sensitive nature. Therefore, the information collected on these dymensions should not be extrapolated to the national case or used to establish comparisons between social organizations and traditional SMEs.

Regarding the percentage of credit requests denied in the last three years, the answers to the questionnaire point to rates between 5% and 10% of total requests. For the same period, the default rate of social organizations was reported to be between 2% and 2.5%.

The banking institutions identified the following main reasons for denying credit requests made by social organizations: (i) project viability, (ii) quality/competencies of the management team, (iii) motivation behind credit request, (iv) inability to provide real guarantees, (v) excessively long maturity of the projects, (vi) absence of a business plan associated to the project, (vii) history of bad experiences.

Lastly, only two institutions responded to questions regarding their exposure to social organization which limits any relevant conclusions. One of the two respondents report willingness to increase this exposure in the next 3 to 5 years, whereas the other prefers to maintain its current exposure level.