

Public Financing for Social Innovation (June 2026)



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Case Study

Portugal



Portugal Social Innovation

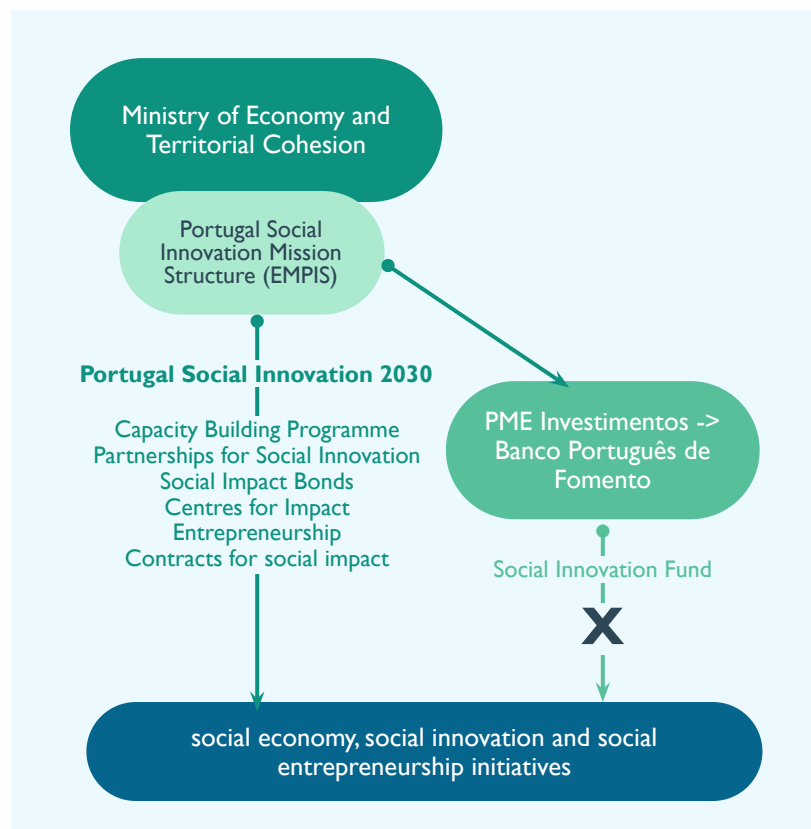
Policy rationale

Portugal was the first EU member state to dedicate ESF funds specifically to social innovation financing instruments, starting from 2014, and the Portugal Social Innovation (PSI) initiative is one of Europe's most architecturally complete social innovation funding frameworks. Launched as part of the Portugal 2020 Framework, it exemplifies how long-term policy commitments can build sustainable social innovation ecosystems over time.

As an early pioneer of social impact bonds in Europe, PSI helped launch and scale a social investment market, positioning Portugal as a European benchmark. As a result, the Portuguese social economy has grown steadily over the last decades. Academic studies note that employment and added value in the social economy has expanded at annual rates of roughly 18–25% since the 2000s. In 2020, Portugal counted about 73,851 social economy entities, including associations, cooperatives, foundations, faith-based charities, and mutual societies.

Overview

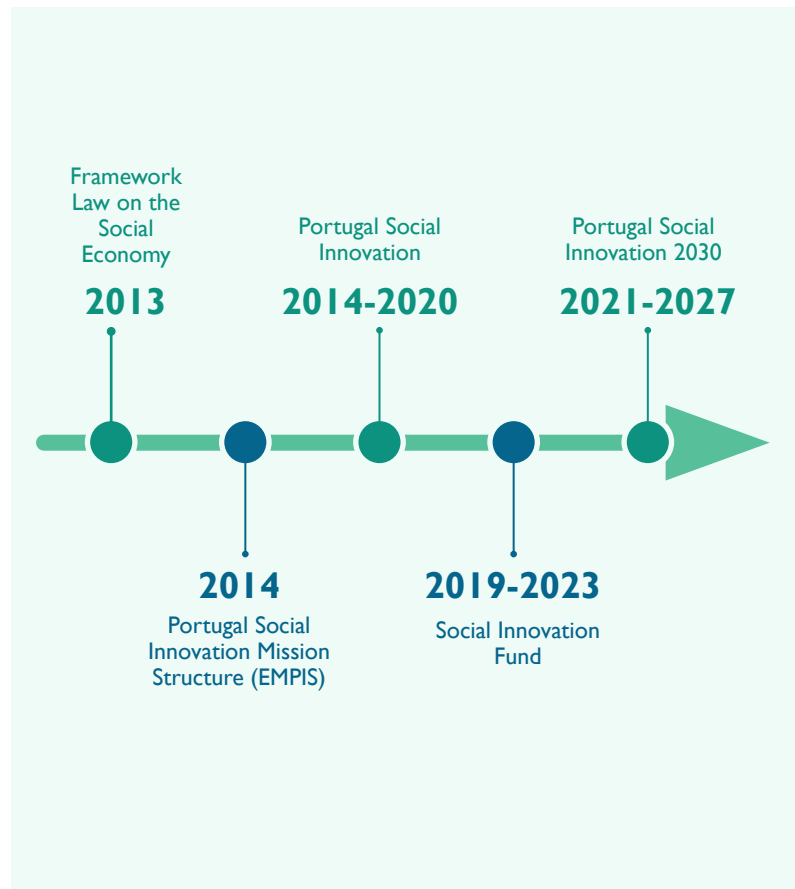
The Framework Law on the Social Economy (Law 30/2013) explicitly defined the social economy as a sector of the economy and listed the legal entities that belong to it. Portugal Social Innovation (PSI) enabled the allocation of ESIF-ESF funds specifically to test new social investment instruments, for the first time in Europe. It promotes social innovation and entrepreneurship by supporting projects addressing social challenges through novel products, services, or methodologies. PSI supports social innovation and social entrepreneurship initiatives developed by social economy entities and beyond (including, for instance, start-ups and universities).



Timeline

In 2014, PSI was officially established by Council of Ministers Resolution 73.A/2014, in response to social challenges linked to post-2008 austerity. By the same resolution, the Portugal Social Innovation Mission Structure (EMPIS) was established to manage its implementation. PSI effectively started funding operations in 2017, pioneering social impact bonds (SIBs) and partnerships for impact, reaching 698 projects by 2020.

In the 2021-2027 programming cycle, PSI was rebranded as Portugal Social Innovation 2030 (PSI 2030) with ongoing ESIF support from the European Structural and Investment Funds. PSI 2030 places more emphasis on results-based funding, public-private collaboration, and scaling proven models, rather than only launching pilots. It explicitly targets priority policy areas such as social protection, employment, health, justice, and education, making the initiative less a niche social investment experiment and more a mainstream tool for public service innovation.



The Portuguese social innovation ecosystem has continued to institutionalise. Initially, the Social Innovation Fund was managed by PME Investimentos, a state-owned financial institution. In 2020, Portugal's three main public development finance entities were consolidated into a single national promotional bank, Banco Português de Fomento, which took over SIF management until 2023.

Financial tools

Under PSI 2030, five financing instruments support social innovation at different stages:



- Capacity Building Programme:** This is the entry-level instrument, designed for early-stage organisations. It supports the development of organisational and management skills of teams working in social sector organisations that are involved in implementing social innovation and social entrepreneurship initiatives. Grants up to EUR 50,000 are allocated to fund an 18-month capacity building programme, which must begin with an assessment of training needs carried out by an independent entity.

- **Partnerships for Social Innovation:** (known as Partnerships for Impact under the previous programming cycle): This instrument targets projects moving from concept to proof of concept or early scaling. It provides grant support of at least EUR 50,000 to finance projects during the first three years, matching 80% PSI funding to 20% from social investors. It promotes venture philanthropy in Portugal through this match-funding system, deliberately bringing private philanthropic and corporate capital into co-financing arrangements alongside public ESF money.
- **Social Impact Bonds (SIBs):** This is the most innovative and complex instrument. SIBs link public funding to measurable results, with outcomes-based contracts spanning priority public policy areas such as social protection, employment, health, justice, and education. From 2018 onwards, Portugal introduced a fiscal incentive and tax relief for investment in Social Impact Bonds, recognised in the corporate income tax code. Portugal Social Innovation has approved 22 Social Impact Bonds with an overall investment of around EUR 12 million, placing Portugal as the EU member state with the most SIBs and the fourth highest volume of investment globally.
- **Contracts for Social Impact:** Similar to SIBs, this finances projects where public authorities pay only when predefined measurable social outcomes are delivered. Grant financing to beneficiary organisations is based on public expenditure savings indicators resulting from positive impact on people experiencing vulnerability. The project must be framed within a public expenditure reference framework listed on the OneValue Platform.
- The main innovation introduced under Portugal 2030 is the **Centres for Impact Entrepreneurship** instrument. It is a direct response to a recognised gap from the 2014–2020 period: PSI lacked a dedicated instrument to systematically invest in the infrastructure (incubators, accelerators) needed to sustain the pipeline beyond EU funding cycles. Approved projects, selected through regional calls for applications, are co-financed by European Union funds (80%) and social investors (20%). These investors can be public or private entities, independent from the organisation being financed.

PSI launched the **Social Innovation Fund (SIF)** in 2014, as the most commercially oriented instrument, designed for organisations at the consolidation or expansion stage. With an allocation of EUR 55 million, the SIF operated as a hybrid fund with both debt and equity components. It provided wholesale guarantees to credit institutions, enabling them to lend to social economy entities at below the market conditions. Retail equity investments were made alongside private investors (venture capitalists, business angels, and others) in SMEs that were implementing social innovation projects. Co-investment under SIF Equity could be made with a minimum operating capital of EUR 25,000 and a maximum of EUR 2.5 million per beneficiary. Private investors were granted a call option during the first six years of investment with returns ranging from 3% to 5%. SIF was not renewed under PSI 2030 and stopped financing new operations after 2023.

Lessons Learned

Data from 2014-2020 shows that Partnerships for Impact were leading in terms of uptake (with 458 operations approved and EUR 71 million spent), followed by SIBs (22 operations, EUR 12 million) and thirdly, the capacity building programme (201 operations, EUR 7.4 million).

The independent evaluation of the 2014–2020 period noted that the SIF took longer than anticipated to launch, which disrupted programme flow, and that administrative challenges and complex eligibility requirements made participation difficult for many organisations. The Social Innovation Fund (with its debt and equity sub-windows) was not carried forward into the 2030 cycle in its original form, reflecting both the limited uptake of its equity component and a broader simplification of the instrument architecture.

KEY FIGURES	
<p>PSI 2014–2020: 698 projects approved, 481 entrepreneurial entities supported, 848 social investors mobilised (incl. 509 companies, 24 foundations, and 166 municipalities).</p>	<p>PSI 2030 data as of March 2026: 494 projects approved, supported by 877 social investors, with a total financing of EUR 116 million (of which EUR 91 million were from Portugal 2030 and EUR 25 million from social investors).</p>
<p>SIF Equity: 17 investees, €20 million invested (2021-23)</p>	

Several reasons contributed to the discontinuation of SIF in 2023:

- The launch was quite complex because the investment instrument differed compared to ESF rules, diverging from simple grants. While PSI started operation in 2016, the two SIF windows only became operational in 2019, for the guarantee stream, and 2021 for the equity stream.
- The institutional merger process slowed down implementation. In the new, larger national promotional bank, SME investment had less importance in the overall portfolio. Hence, SIF lost its momentum.
- The limited uptake of the guarantees instrument was also due to timing: in the middle of the COVID pandemic, the government was already providing loans to social organisations at below market rates. The second-tier credit offered under SIF was less attractive than the COVID emergency measures.
- When the European Regulation transitioned from one budget cycle to the next, financial instruments like SIF were no longer eligible under ESF.

Pitfalls to avoid	Success factors
<ul style="list-style-type: none"> • Debt and equity investment require financial engineering skills and enabling regulation • Institutional mergers can jeopardise implementation if commitment and competencies are not clearly transmitted from one entity to the next 	<ul style="list-style-type: none"> • Long-term policy commitment, enshrined in multiannual strategies, can help withstand times of crisis and regulatory changes across budget cycles • One central government structure dedicated to social innovation allows greater visibility, coordination and engagement for ecosystem development

Sources:

Interview with Filipe Almeida, Chair of the Portugal Social Innovation 2030 Task Force

[Portugal Social Innovation | European Social Fund Plus](#)

[Social Innovation Fund - Funds Under Management - Institutional - Banco Português de Fomento](#)