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SOCIAL ENTREPRENEURS' VIEWS ON TRADITIONAL AND IMPACT INVESTORS IN BRAZIL

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Thesis presented to Escola de Administração de Empresas de São Paulo of Fundação Getulio Vargas, as a requirement to obtain the title of Master in International Management (MPGI).

Knowledge Field: International Economics and Finance; Social Finance; Impact Investing

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ABSTRACT

From the viewpoint of social entrepreneurs in Brazil who may resort to various sources of financing in the process of establishing and expanding their businesses while generating social and/or environmental impact, this study aims to identify and evaluate significant differences concerning their interactions with traditional and impact investors.

To understand under what conditions these interactions occur, we have resorted to conceptual discussions, through secondary sources, about what configures social entrepreneurship, impact investing, and the landscape of capital available to early and growth-stage businesses with a clear social impact purpose.

In addition, we developed a qualitative questionnaire and interviewed six for-profit social entrepreneurs in Brazil. The topics discussed centered around the sources and volume received in the fundraising process, the influence of both types of funds on decisions and the business model, and the range of social impact evaluation mechanisms available.

The interviews reveal discrepancies in the approaches and in the influence these funds have on the investees' business. We conclude that while the impact investing field is evolving, there are some points from the demand perspective that must be addressed so impact investing can reach its full potential.

Keywords: Impacting Investing; Social Entrepreneurship; Traditional Funds; Investment Sources

RESUMO

Da perspectiva dos empreendedores sociais no Brasil que podem recorrer a diferentes fontes de investimento no processo de estabelecer e expandir seus negócios, este estudo tem como objetivo identificar e avaliar diferenças significativas relativas às suas interações com investidores tradicionais e de impacto.

Para entender sob quais condições essas interações ocorrem, recorremos a discussões conceituais, através de fontes secundárias, sobre o que se configura como empreendedorismo social, investimento de impacto e o panorama de fontes de capitais disponível para empresas em fase inicial e de crescimento com um claro propósito de impacto social.

Além disso, desenvolvemos um questionário qualitativo e entrevistamos seis empreendedores sociais no Brasil. Os tópicos discutidos centraram-se em torno das fontes e volume recebidos no processo de captação de investimentos, a influência de ambos os tipos de fundos nas decisões e nos modelos de negócios das investidas, e na gama de mecanismos de avaliação de impacto disponíveis.

As entrevistas revelam discrepâncias nas abordagens e influência que estes fundos têm sobre os negócios das suas investidas. Concluímos que, embora o campo de investimento de impacto esteja evoluindo, há ainda alguns pontos da perspectiva da demanda que devem ser abordados para que os investimentos de impacto possam atingir seu pleno potencial.

Palavras-chave: Investimentos de Impacto; Empreendedorismo Social; Fundos Tradicionais; Fontes de Investimento

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS & TERMS

ANDE	Aspen Network of Development Entrepreneurs
AUM	Assets Under Management
BoP	Base of the Pyramid
CEO	Chief Executive Officer
CFO	Chief Financial Officer
EVPA	European Venture Philanthropy Association
G8	Group of Eight: Canada, France, Germany, Italy, Japan, Russia, UK, and USA.
GIIN	Global Impact Investing Network
GP	General Partner
ICE	Instituto de Cidadania Empresarial
IDB	Inter-American Development Bank
IFC	International Finance Corporation
LP	Limited Partners
NGO	Non-Governmental Organizations
NPO	Non-Profit Organizations
PE	Private Equity
SDG	Sustainable Development Goals, by: United Nations
SE	Social entrepreneurship/ Social Entrepreneur
SEBRAE	Serviço Brasileiro de Apoio às Micro e Pequenas Empresas
SII	Social Impact Investment
SRI	Socially Responsible Investments
UN	United Nations
VC	Venture Capital

1. Introduction

The Social Enterprise Alliance (2021) defines social enterprises as “organizations that address a basic unmet need or solve a social or environmental problem through a market-driven approach. It has an environmental or social mission as a core business, and unlike a charity, it also seeks to generate profits. Like any other enterprise, a social enterprise also needs financing to grow and scale. Presenting themselves as a more financially sustainable business than NGOs, a social enterprise gets to attract capital in a much easier way than non-profit enterprises and from a wider range of sources. The sources available include traditional investors that strive to maximize returns and philanthropists and impact investors, that may have closer mission alignment (Spiess-Knafl and Achleitner, 2012).

The principle behind impact investing is to allocate capital considering social or environmental impact with the potential financial return. The impact investing field is quite recent, having the term being coined in 2007. Its beginning coincides with the subprime financial crisis of 2008 and the great recession that followed, which called into question the logic that making profits for its own sake was not harmful to society (Freireich and Fulton, 2009). The effects of the crisis brought awareness that global social issues, such as inequality and climate change, should be better addressed once they pose significant financial risks (Patton, 2015). In this way, impact investing came “disrupting a world organized around the competing beliefs that for-profit investments should only produce financial returns, while people who care about social problems should donate money in an attempt to solve these problems or wait for government to step in” (Bugg-Levine and Emerson, 2011, p. 10).

Despite its recent beginning short, different studies show a vast potential market. The Global Impact Investing Network (GIIN) estimates the worldwide impact investing market in 2020 at US$ 715 billion of assets under management (AUM) and classifies it in its growing steadily phase. In Brazil, the perspectives are the same, impact investing is growing notably over the years. In 2016 the field gained more traction, when the “Rede Temática de Negócios de Impacto” (Thematic Network of Impact Business) was created, led by Instituto Sabin, Grupo Boticário Foundation and the “Instituto de Cidadania Empresarial” (ICE), with the goal of promoting dialogues and exchanges between stakeholders in the topic. Another relevant initiative by this time was the establishment of the “Foundations and Impact Institutes” (FIIMP), led by Aliança pelo Impacto, Sitawi and Aoka Lab (Impact Investment institutions), and after its success the launch of FIIMP2, in 2019, involving another group of 20 actors. The FIIMPs were unique laboratories of innovation, in which it was possible to generate different experiments with impact financial instruments (Cruz; Quitério and Scretas, 2019). Currently, on the supply side, there are 34 impact investors in Brazil, 23 of which are based in the country. 28 investors reported a volume of US$785 million invested in the territory (ANDE, 2020). As for the demand side, according to PIPE (2021), 44% of social enterprises had access to donations and investments, of which 69% were supported through grants or non-refundable resources.

Therefore, seeking to understand whether impact funds are indeed a different (with different values) investment source – compared to traditional funds – for attending to the interests of social entrepreneurs, and if so, whether this applies in the Brazilian scenario, this thesis aims to investigate the perceptions from the investees' point of view, addressing the following question: What are the differences perceived by social entrepreneurs regarding their interaction in the fundraising process with impact and traditional investors?

Based on six qualitative interviews with social entrepreneurs in Brazil, who in their process of fundraising to structure and expand their businesses have relied on both impact and traditional investors, the study aims to contribute with an assessment of the barriers that might drawback the evolution of impact investing field.

The thesis is structured in five chapters. After the introduction, there is a chapter on the literature review covering the main studies on social entrepreneurship, impact investing and traditional sources of investments. The third chapter discusses the methodology used to collect inputs and analyze the data. The results are presented next, in Chapter 4, which contains the findings from the qualitative interviews. The final remarks and conclusion summarize the key findings and presents a discussion of the likely implications, limitations, and potential avenues for future research.

2. Literature Review

2.1. Social entrepreneurship and social enterprises

“The social entrepreneurial ecosystem reduces a structural disequilibrium, creates value, solves a social problem, assumes risks, deals with asymmetric information, allocates resources, creates new jobs and generates tax revenues” (Volkmann et al., 2012, p. 6). The challenging social problems that need to be tackled worldwide can be summarized by the UN's seventeen Sustainable Development Goals (SDGs). The addressed causes vary from ending poverty, access to clean water and sanitation, reducing inequalities to fostering a responsible consumption and production. Difficult to be delivered just by the Governments; Non-governmental organizations (NGOs) and Non-profit Organizations (NPOs) act to fill this gap. However, according to Dees (1996), traditional NPOs struggle to meet the expectations, and therefore, new long-term, scalable solutions are required to effectively fulfill existing institutional voids. In this way, the social entrepreneurship, leaded by social entrepreneurs, emerges as a potential alternative to tackle those issues.

Based on Volkmann et al. (2012), social entrepreneurship (SE) can be considered an entrepreneurial activity beneficial to society as a whole, targeting social needs unmet by government or business. It is the “process by which individuals, start-ups and entrepreneurs develop and fund solutions that directly address social issues” (U.S Chamber of Commerce, 2020).

A social entrepreneur is, then, someone who looks for business opportunities that will benefit their community, society, or the world. (U.S Chamber of Commerce, 2020). Social entrepreneurs combine innovation, resourcefulness, knowledge, and envision opportunities to target and develop a practical solution to complex social problems. Committed to create social value, finance is a means to an end for them and not the end itself (Dees, 1998). For that, they can tackle both public and/or private sector functions. So, on one side, they can work with communities that “governments have been unable to reach effectively with basic public goods and services”, and on the other, they can “address market failures by providing access to private goods and services to markets where business does not operate because the risks are too great and the financial rewards too few” (Hartigan and Billimoria, 2005, p. 19).

The process of identification of opportunities, employing innovation and risks to address social problems (social entrepreneurship) can also produce a "tangible outcome" that is the social enterprises (Petrella and Richez-Battesti, 2014). A social enterprise is a commercial business-related activity (Luke and Chu, 2013) that is financially sustainable and intentionally produces a social impact, having in its business model a higher purpose (Young, 2007). Social enterprises attempt to address unmet social needs through market-based approaches to provide long-term solutions and add social value (Volkmann et al., 2012). Dees, Emerson and Economy (2001) indicate that social enterprises can range between two extremes, from purely philanthropic (NPOs) to purely commercial (for-profit enterprises), being also able to take the form of a hybrid model (see Figure 1).

Figure 1 - The Social Enterprise Spectrum

	Purely Philanthropic	Hybrids	Purely Commercial
General Motives, Methods, and Goals	Appeal to goodwill	Mixed motives	Appeal to self-interest
	Mission-driven	Balance of mission and market	Market-driven
	Social value creation	Social and economic value	Economic value creation
Key Stakeholders			
Beneficiaries	Pay nothing	Subsidized rates and/ or mix of full payers and those who pay nothing	Pay full market rates
Capital	Donations and grants	Below-market capital and/or mix of full payers and those who pay nothing	Market rate capital
Workforce	Volunteers	Below-market wages and/or mix of volunteers and fully paid staff	Market rate compensation
Suppliers	Make in-kind donations	Special discounts and/or mix of in-kind and full price	Charge market prices

Source: Dees, Emerson, and Economy (2001).

In this sense, social enterprises can include both non-profit and for-profit ventures. It seeks returns that combine financial revenues and social or environmental benefits and can be established in different areas, such as: environmental protection, healthcare, education and reintegration of the long-term unemployed, which allows to address the UN SDGs (Hartigan and Billimoria, 2005).

However, they face a bottom-line issue: to generate enough revenue and attract investors to cover their costs and that will allow their business to grow and strive (Bugg-Levine, Kogut and Kulatilaka, 2012). Most social enterprises cannot finance themselves entirely and to consolidate they need external funding. The usual ways of raising capital would be through angel investors, crowdfunding, mainstream financial institutions, investment funds or venture capital (Hoekstra, Veld and Midgley, 2014). Kickul and Lyons (2015) argue that traditional forms of social entrepreneurship financing, such as through financial institutions or crowdfunding, are not the most appropriate for financing social enterprises, and are often categorical, short-term, and transactional in nature (Wei-Skillern et al. 2007), especially when social entrepreneurs need financial resources that allow them to "focus on mission achievement - not fundraising - at a scale that yields transformation" (Kickul and Lyons, 2015, pp. 83-85).

Impact investing would then, come in as an extra and more suitable financing alternative, particularly when we address hybrids and for-profit social enterprises, which is the focus of this study, since both the for-profit social enterprise and the impact investor envisage achieving social impact along with financial returns. In fact, with the rising of investors with this mindset to "do good", some argues that "Social enterprises potentially have a larger universe of investors than conventional firms do", once they can approach both traditional investors and the ones with a social side (Bugg-Levine, Kogut and Kulatilaka, 2012).

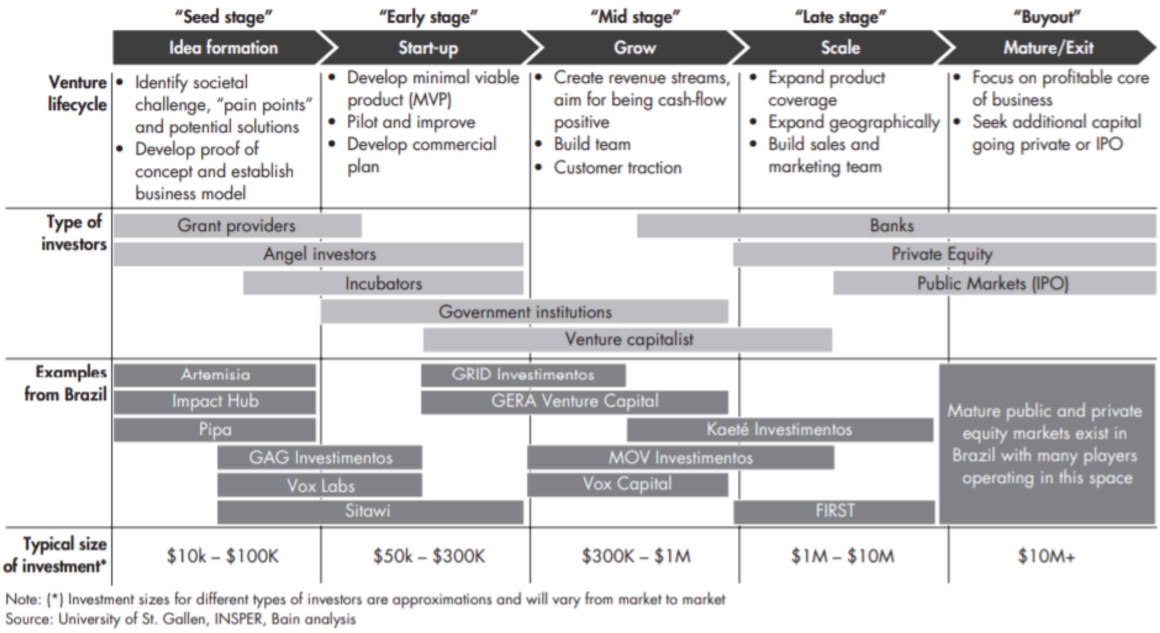
2.2. Investment Landscape

According to Kickul and Lyons (2012), access to capital is well recognized as a critical factor in the successful launch and expansion of commercial ventures. It enables the venture to develop and grow, allowing commercial and social enterprises to establish themselves in the market and expand their operations, which is not an easy task. In fact, according to Hisrich and Ramadani (2017), obtaining the necessary resources at the required time is one of the most challenging aspects of starting and growing a new venture. Thus, in addition to managing the supply, operational and human resources, the social entrepreneur needs to raise capital resources – quite difficult to obtain at the beginning.

Multiple factors must be considered when seeking investors. The stage of development of the company and the amount and type of capital needed can be an initial guide to narrowing down the number of available and appropriate choices (Clarkin, 2014). Figure 2 shows the main sources of capital used according to the enterprise business cycle.

For Achleitner et al. (2011b), entrepreneurs should consider first the whole financing process to decide which type and source of investment is the most appropriate. The process usually includes the following phases: (1) Finding the appropriate financing instrument – size and type of capital; (2) Finding and approaching the right social investor – source of investment and match with the investor (considering the geography and sectoral fit); (3) Going through the investor selection and due diligence process; (3) Negotiating the financing terms sheets (4) Working with the investor and reporting performance measurement; and (5) Exiting the investment.

Figure 2 - Venture Lifecycle and Specialized Financial Players in each stage, with examples from Brazil



Source: Leme, Martins and Hornberger. Bain & Company, Inc (2014).

Types of capital

Two main types of capital are better known in the market: debt and equity. Debt financing can take many forms, for instance, it can be secured or unsecured, convertible into equity or not, or have warrants. Basically, it occurs when the "capital is received in exchange for regular payments of interest and reduction in the amount of capital borrowed" (Hisrich and Ramadani, 2017, p.117). As a flexible form of capital in this sense, entrepreneurs must consider whether interest rates are competitive and whether other convertibility costs and/or collateral are advantageous. The most frequently used source is banks (Hisrich and Ramadani, 2017). Generally, debt is faster and cheaper to obtain than equity. However, it is provided on a temporary basis and requires stable and predictable cash flows, usually with a repayment within five to seven years, which can be really difficult for newly structured firms to prove and get the investment. (Achleitner et al., 2011a).

On the other hand, equity capital is when investors receive a share of the future profits of the company in exchange for an infusion of capital. Moreover, usually because it is a riskier type of capital, investors have certain control and voting rights that depend on the agreement reached (Achleitner et al., 2011b). In addition, it may involve certain support from the investor beyond the capital itself, such as external advice, mentoring, marketing assistance, and networking (Hisrich and Ramadani, 2017).

Additionally, other major financial instruments used for impact investing is the Quasi-Equity, Guarantees and Donations/Grants. In terms of ownership and claim to assets in the event of default, a Quasi-Equity investment combines both debt and equity attributes, with some types being able to be transformed from debt to equity and vice versa. (Venugopal and Srivastava, 2012). A Guarantee, on the other hand, is a product that protect the investors in case a borrower's (investee) fails to repay as a result of pre-specified events. It can be a minimum guarantee that "protects a portion of the investment or a back-end guarantee that covers the entire investment after a pre-specified timeframe". (Venugopal and Srivastava, 2012, p.5).

Nevertheless, there is another type of capital widely used by social enterprises which is the "free capital" in the form of Grants, Donations and Awards. However, relying on this form of capital is a risky strategy, as it is limited and unreliable in the long term (Achleitner et al., 2011a; Carpenter and Lauritzen, 2016).

Research conducted by the ANDE (Davidson, A. et al., 2018) in 2016-1017 in Brazil reported that 70% of investors active used debt and/or equity, followed by 39% which used quasi-equity, 25% used donations/grants, and 18% guarantees. Regarding the types of equity, 100% used traditional equity, 14% redeemable equity, and 5% mandatory dividends. Finally, when choosing debt as an investment, 83% reported using convertible debt, 52% traditional loan, 13% revenue-based loans, and 13% asset-based loans.

Given that the different instruments of capital have their pros and cons and companies go through different stages in their life circle, Hisrich and Ramadani (2017, p.117) argue that an "effective entrepreneurial management requires keeping a balance between debt and equity financing".

Sources of capital

The types of capital discussed above can come from different sources. This section delineates the main potential sources of financing available to social entrepreneurs in their start-up phase. Theis social bias will be deeper addressed later when we discuss impact investing. Figure 3 provides an overview of traditional institutions and their counterpart in the social capital market. Furthermore, it is important to note that social enterprises can also rely on traditional sources of investment and are not limited by the social capital market.

Figure 3 - Traditional and Social Capital Markets

Traditional Capital Markets		**Social Capital Markets**
Commercial banks	→	Value banks
Stock exchange	→	Social stock exchange
Investment funds	→	Social investment funds
Venture Capital funds	→	Venture Philanthropy Funds

Source: Author's illustration adapted from Spiess-Knafl and Achleitner (2012)

According to Spiess-Knafl and Achleitner (2012), Value Banks have the same role as commercial banks as both accept deposits from savers and offer loans. The difference is that value banks focus on the social sector. For that, they must have a better understating of the business and its requirements. Also, value banks need to minimize their risk of default, focusing on social enterprises with a predictable and stable cash flow. A social impact bond, in its turn, is “a mechanism in which the public sector commits to pay a sum dependent upon the outcome of the social measures. This mechanism shifts the social risk of a lower-than-expected outcome to the social investors who receive a financial return to compensate for this risk. The financial return depends upon the savings for the public sector” (Spiess-Knafl and Achleitner, 2012, p. 167).

Although there is no social stock exchange fully functioning, several initiatives exist to establish it. The main restraining is the “valuation of the social enterprise, the protection of the social mission and the social reporting” (Spiess-Knafl and Achleitner, 2012, p. 168). The set up of a social stock exchange could represent, for the authors, an alternative exit option for social equity capital investors.

Venture Philanthropy funds, as the venture capital (VC) funds in the traditional capital markets (described in p. 20), support the investee in their daily business through access to their networks or management consulting. They tend to support the social enterprise for a longer period, between 3 to 7 years, and to monitor closely the performance of the investees. Beyond using debt and equity instruments, they also provide donations and are highly engaged to assist the organization in building its governance structure (Achleitner, Heister and Spiess-Knafl, 2010; Spiess-Knafl and Achleitner, 2012).

Finally, "Social Investment Funds bundle capital from various investors and invest those funds in certain asset classes. Attractive investment segments are microfinance institutions or enterprises with a sustainable and income-generating business model" (Spiess-Knafl and Achleitner, 2012, p. 169). They need also to consider both social and financial returns requirements.

According to Hisrich and Ramadani (2017, p.118), for effective management, each resource should be evaluated based on the: "the length of time of the capital; the cost of the capital; and any control aspects of the capital in terms of ownership or covenants such as financial ratios that need to be kept or membership in the Board of Advisors/Directors". Therefore, different sources of capital can and are used by entrepreneurs according to their timing and their demand for capital. Other sources of capital are described below in their traditional form.

Founder, friends, and family

Before raising formal capital, many entrepreneurs start the business using their own personal resources (Bootstrapping), or resources that come from friends and family. (Hisrich and Ramadani, 2017).

Typical investments in this Pre-seed phase range from US$10.000 to US$150.000, and are aimed at getting the company started and supporting it during the first few months. It can take three different forms: as a grant, when no return is necessary, as loan, needing a repayment, or as equity, in which the investors become a business partner. (Founder Institute, 2019)

Considered a popular and practical way to kick-start a business because of its favourable terms and flexible repayment schedules, there are some caveats to its use. Many warn about the possibility of emotional involvement, voting rights problems (when it comes to equity), interference in decision making, and lastly, about the possibility of business failure and the consequences this can have on the relationship with those who have invested. (Workspace UK, 2021)

Grant Programs and Awards

A grant is a form of capital that has no return expectation. It can be either general grants – “available for use however the company sees fit” – or restricted – “that must be utilized for a specific purpose”. Also, it might require reporting of its use to the grantor. Grant programs come from a variety of sources ranging from the government to private companies. (Allman and Nogales, 2015).

Furthermore, there are numerous award and grant programs on the market that recognize and reward outstanding start-ups, which may or may not have a specific category. Start-ups must apply, present and pitch their ideas to potential investors. These programs are intended to support, usually early-stage companies with a certain compliance criterion, that have a high potential to make great commercial progress. For example, there is the KPMG’s “Global Tech Innovator” program which focuses on promising global tech innovators, and the Start-up Awards, organized by Brazilian Start-ups Association (Abstartups) that has different categories, such as the most promising start-up with social impact (KPMG, 2021).

Accelerators Program

Usually, accelerators “help ventures define and build their initial products, identify promising customer segments, and secure resources, including capital and employees” (Cohen, 2013, p.19). Considering that they aim to help nascent ventures during the formation stage, accelerators resemble Angel investors and Incubators. However, unlike them, accelerator programs are limited in duration, lasting about three months, and provide a small amount of capital along with other non-financial attributes such as workspace and mentorship (Cohen, 2013).

In addition, accelerators typically offer ample networking opportunities. Most programs at the end have a big event, the “demo day”, when the ventures have the opportunity to pitch to a large audience of qualified investors (Cohen, 2013). They can have a specific target, as social impact, or not. One of the programs that are in Brazil and focus on social impact is the “Programa de Incubação e Aceleração de Impacto” or “Incubation and Impact Acceleration Program”[1] offered by ICE in partnership with Anprotec and SEBRAE, with the objective to expand the number of qualified and scalable impact businesses. Companies participating in this program undergo six months of training and individualized guidance to develop an action plan

[1] ICE (2021a)

considering social impact in their strategy, receiving capital investment and networking assistance.

Private Investors and Angels

Angels are generally well-educated, and many have started their own companies or are executives. Thus, along with their investment, they can bring valuable business experience and knowledge about the market (Taulli, 2012). Comprised of wealthy individuals or groups, they invest their own money in the early growth stage of the company, providing a significant amount of capital, but not as substantial as Venture Capitals (VCs). (Hisrich and Ramadani, 2017). They can invest in traditional ventures, target a specific market or adopt a social criteria to invest.

For Silby and Nicholas (2015), the interest in impact investing is growing across generations of high-net worth families, who are more inclined to invest family wealth in a more meaningful and innovative way. Moreover, the authors state that there is a range of perspectives in angel impact investing. Some of them favouring high financial returns still and others being more flexible, prone to accept low returns in exchange for higher social impact (e.g., Philanthropic wealth individuals or foundations) (Silby and Nicholas, 2015).

Venture Capital and Private Equity Investment Funds

Venture Capital (VC) funds consist of a pooled investment fund that manages and invests on behalf of its investors, known as limited partners (LP), including institutions: endowment funds, insurance companies, pension funds, and wealthy individual investors (Taulli, 2012). A general partner (GP) manages the VC in exchange for a percentage of the gain realized on the investment and a fee (Hisrich and Ramadani, 2017). Its counterparty in the social form are the Venture Philanthropy funds and the Social Investments funds described above.

The investments are traditionally reserved for large investments in established firms with fast growth potential that need large capital injections to scale up their business (Clarkin, 2014). Following the risk/return logic, more return is expected from early-stage financing than from acquisitions or leveraged buyouts (later development stages). It usually comprehends a five-to-seven-year period, characterized as a long-term investment. For each investment, the VC takes an "equity participation through stock, warrants, and/or convertible securities and has an active involvement in the monitoring of each portfolio company, bringing investment, financing planning, and business skills to the firm". Generally, it requires at least one seat on the advisory board (Hisrich and Ramadani, 2017, p.124).

Private Equity Funds, as Venture Capitals funds, are consisted of pools of capital to be invested directly in companies that have potential of return. It doesn't seek investment from public or retail investors, their capital is composed by private wealth investors. In this sense, venture capital can be considered a form of Private Equity. However, unlike Venture Capital, Venture Capital targets more mature companies that generally do not face much uncertainty in the market like young companies (Canderle, 2020).

Investments Funds – Venture Capital, Private Equity, Venture Philanthropy and Social Investment

As reported above, the funds have a large available pool of capital to be invested directly in enterprises that have potential of return. To select their investees, it needs to have a match between the company and the fund, the amount available and requested, the cycle of the company and the company's performance are critical factors to close the deal. Below there are the main attributes for the investment to occur.

Rounds

The early-stage company usually goes through different rounds of investments to consolidate themselves. After having angels' investors and going through the seed stage, the start-up will need even more capital to get new consumers and grow. The first round with larger injections of venture capital is referred to as Series A round. In this phase, the total amount of financing can range from US$1 million to US$25 million, with the typical amount being around US$5 million to US$10 million (Taulli, 2012). In Brazil, the usual value offered ranges from R$2 million to R$20 million. (Liga Insights, 2021). This round typically lasts about a year. At the end of this funding round, if the company has successfully expanded and appears to achieve long-term profitability, it will open for the Series B round and so on.

Process

To obtain this riskier capital from VCS, companies go through a whole process where they need to prove their value to potential investors. For Hisrich and Ramadani (2017) this process has four primary stages: preliminary screening, agreement on principal terms, due diligence, and final approval.

Preliminary screening begins with a review of a promising business plan. The VC will determine whether the proposal fits its portfolio and policies. Also, at this stage, the VC will investigate the industries and evaluate the credentials and ability of the management team to carry out the submitted plan. Then, the entrepreneurs and the venture capitalist need to agree on the general terms of the deal before making major commitments and proceeding to a formal due diligence process that requires more effort and time.

The third stage, due diligence, lasts between one and three months. It requires a detailed review of the company's history, business plan, target market, and the entrepreneurs behind the company. As for the final approval, a legal document is prepared comprising all the details of the investment terms and conditions, and both the VC and the entrepreneur sign to close the deal.

Screening and Due Diligence criteria

According to Heister (2010), there are different criteria that (social impact) investors use to screen and select their investees, which can be grouped into five main categories: concept, market, finance, entrepreneur, and social impact - the last one used specific by social VCs.

The concept is related to the investee’s business plan. Investors want to understand the segment, if the product or service presents an innovative solution, a specific (social) target, and has scalability. The market, in turn, examines peers, the competition in the industry and potential growth strategies. As for finance, it accounts for the capital required, the holding period, and the potential return on investment.

The evaluation of entrepreneurs is a critical issue, it concerns the professional competencies of the entrepreneur, his attitude, his commitment to the concept, and his development potential. In addition, Silby (2011, p.6) states that is “better to fall in love with the talents of the entrepreneurs and management in making those visions a reality.” Finally, for impact investors, social impact is a highly relevant criterion. It refers to both potential market reach and scalability.

2.3. Impact Investing

Concept

The term impact investing was first coined in 2007 at a meeting with financial, philanthropic and development leaders hosted by the Rockefeller Foundation at the Bellagio Conference Center in Italy. The purpose of this convening was to discuss the need and means of structuring a global industry motivated to make investments that have a beneficial social and environmental impact (Harji and Jackson, 2012). That is, with investors, in a change of mindset, willing to move away from the profit outcome at any cost, towards a much more thoughtful, considered view of the impact that capital could have (GIIN, 2017).

So far, there are still some uncertainties and debates about the definition of what qualifies as impact investing. Some authors prefer to use the term “social impact investment” (Martin, 2013; Glänzel and Scheuerle; 2016, and Chiappini, 2017) or even just the term “social investment” (Government Outcomes Lab, 2021), to emphasize that behind the impact is the real intention to address social and/or environmental causes. However, among these different definitions there are common underlying aspects.

Impact investing is characterized by investments that aim for at least a dual outcome: achieving financial returns alongside social/environmental outcomes (Martin, 2013). Building on these definitions, Harji and Jackson (2012, p. 4) states that, in essence, impact investing is a “way to unlock capital and place it in businesses and projects that generate real social and environmental benefits for the people who need those benefits the most - more and better jobs and income, affordable housing, clean water, greater access to education, and other individual, household and community gains - while also generating a financial return to the investor”. As for the type of investment in social businesses, Bugg-Levine and Emerson (2011, p.13) state that they tend “to focus on private equity and direct lending because of the unmatched power these investments have to generate social impact”. Hence, there are some core elements associated with impact investing that we will carve out below and elaborate on to clearly understand its concept.

First, although many consider impact investing an upcoming asset class (Alijania and Karyotis, 2019; O’Donohoe et al., 2010), for this study we adopt The World Economic Forum view which recognizes it as an investment approach rather than an asset class or a distinct source of investment. Thus, impact investing is a criterion for making investments across asset classes, a lens through which investment decisions are made. (World Economic Forum, 2013b).

Second, unlike mainstream financial investments that tend to focus mainly on financial return, impact investments have the intention to generate a measured social and environmental impact with a financial return and provide impact solutions through different forms of collaboration and institutional frameworks (GIIN, 2021). Therefore, even if an investment creates social/environmental impact, if it was made for the sole purpose of financial return, it cannot be considered as impact investing.

Furthermore, as explored by Bugg-Levine and Emerson (2011), and in line with the definitions established by the World Economic Forum (2013a) and the GIIN (2021), another hallmark of impact investing is the investor's commitment to actively measure and report on the financial, social/environmental performance and progress of the underlying investments. In this context, financial returns correspond to the traditional concept that investors accrue capital gains on their investment, while positive social impact refers to the creation of value for society and human well-being. The approaches to measuring impact can be different and are based on the goals and capabilities of the investor and investee.

In general, components of impact measurement best practices for impact investing include: [1] Establishing and stating social and environmental objectives to relevant stakeholders; [2] Setting performance metrics/targets related to these objectives using standardized metrics wherever possible; [3] Monitoring and managing the performance of investees against these targets; [4] Reporting on social and environmental performance to relevant stakeholders (GIIN, 2021).

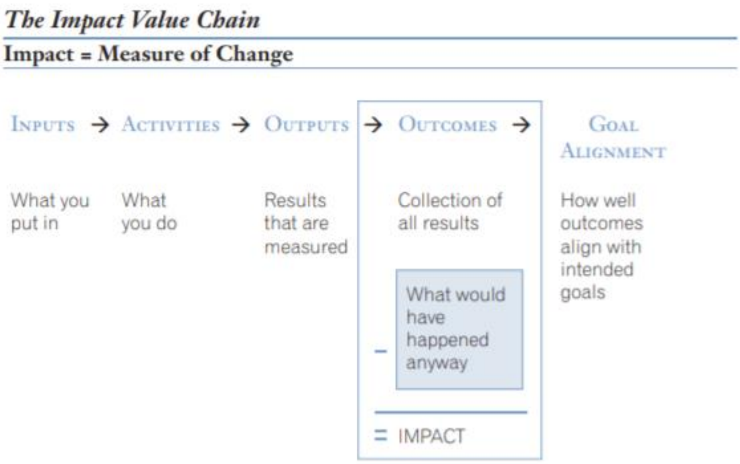
However, there is a lack of a consensus on how to assess the social impact or the success of social innovations (Antadze and Westley, 2012). The scarce studies on metrics for social innovation presents a problem (The Rockefeller Foundation and The Goldman Sachs Foundation, 2003). According to Antadze and Westley (2012), without a clear assessment of such social metrics, investments in social entrepreneurship will be hindered, being one of the barriers to consensus an uncertainty about what really means social innovation (Antadze and Westley, 2012, p.137).

As well in accordance with Antadze and Westley (2012, p.138), "the growth of the social finance market has also increased the demand for consistent measures to account for the intended social impacts of capital allocation. In response to these demands, a number of organizations have developed methodologies for measuring the success and impact of innovation." However, "the process of social innovation does not always result in clearly defined outcomes, predictable goals, and measurable results in predictable time frames." (Antadze and Westley, 2012, p.148). This because tackling social and or environmental issues are complex and highly unpredictable.

The value created by social projects and companies cannot always be easily measured or quantified. The time frame for measuring the output and outcome impact results is longer than usual, which requires prolonged investors' involvement. Figure 4 represents the impact value chain.

Output is what can be more straightforward measured, such as the number of people placed into employment. Outcome state for "specific changes in attitudes, behaviors, knowledge, skills, status, or level of functioning that result from enterprise activities", is more complex to be measured. Finally, Impact is the "difference between the outcome for a sample exposed to an enterprise's activities and the outcome that would have occurred without" the social venture/investment. (The Rockefeller Foundation and The Goldman Sachs Foundation, 2003, p.18)

Figure 4 - The impact value chain



Source: The Rockefeller Foundation and The Goldman Sachs Foundation (2003)

Still, impact investing expects and requires a financial return, or at minimum a return of the capital invested, making those investments more than just a kind of philanthropy (GIIN, 2021) (Weber, 2016). The degree of financial return may range widely from recovery of principal to above-market rates of return, but some financial return is certainly expected. There is no agreement on whether the financial or the non-financial return should be weighted higher. That is why inside the scope of impact investing two main strategies stand out: the so-called financial-first investors and impact-first investors. Bellow we can see from the GIIN angle, the return expectations through some different asset classes.

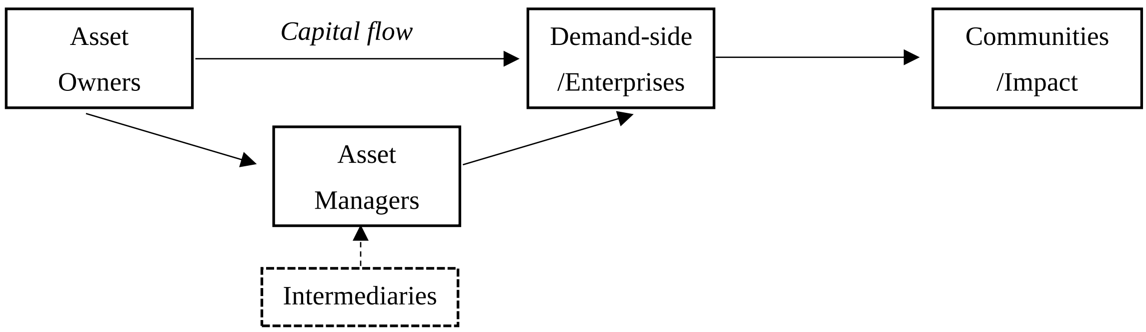
Figure 5 - Impact Investing asset class/return rate spectrum

Source: GIIN (2021).

Market Actors and Instrumentals

Contemplating this market there are several stakeholders engaged, those are exemplified in the Figure 6.

Figure 6 - Stakeholder types involved in impact investing



Source: Author's elaboration based on The Bridgespan Group (2018)

Henceforth, actors in the impact investing industry can be divided into four broad categories: asset owners who own the capital; asset managers who deploy the capital; demand-side actors who receive and employ the capital; and service providers who help make this market work. Asset owners include foundations, high net worth individuals, pension funds, development finance institutions, large financial institutions, and commercial banks. They can make their investments alone or hire asset managers to invest on their behalf. Asset managers, also known as fund managers, include private market funds, public market funds, debt lenders, fund of funds, and banks. These organizations often invest on behalf of the asset owners. Banks can be both owners and managers and may decide to invest their money in impact investments (O'Donohoe et al., 2010; The Bridgespan Group, 2018).

Impact investors, like traditional investors, differ in terms of their motives, assets, risk and return expectations, and, in addition, social impact objectives. Table 1 provides a summary overview of the main players in the impact investing industry. It distinguishes between the actors who own the assets and those who manage those assets (asset owners and asset managers). While the lines between these two types of actors occasionally blur, this table depicts a comprehensive list of large and small organizations making impact investments (Harji and Jackson, 2012).

Table 1 - Actors in the Impact Investing Industry

ASSET OWNERS	ASSET MANAGERS	DEMAND-SIDE ACTORS	SERVICE PROVIDERS
• High net worth individuals/ families • Corporations • Governments • Employees • Retail investors • Foundations	• Fund / Wealth managers • Family offices • Foundations • Banks • Corporations • **Venture funds** • **Impact investment funds/intermediaries** • Pension funds • Development finance institutions • Government investment programs	• Corporations • Small and growing businesses • **Social enterprises** • Cooperatives • Microfinance institutions • Community development finance institutions	• Networks • Standards-setting bodies • Consulting firms • NGOs • Universities • Capacity development providers • Government programs

Source: Author's elaboration based on Harji and Jackson (2012)

Foremost, impact investing is not limited to a specific legal structure. It can be made in both non-profit and for-profit organizations (Spiess-Knafl and Scheck, 2017), a variety of options existing on the demand side as well. However, as already mentioned, the social impact cannot be an incidental side-effect. Firms that receive impact financing must, then, make a direct and measured contribution towards a positive social or environmental impact. Specific examples of impact might include the provision of affordable and accessible basic services in housing, healthcare, and education (Camilleri, 2017).

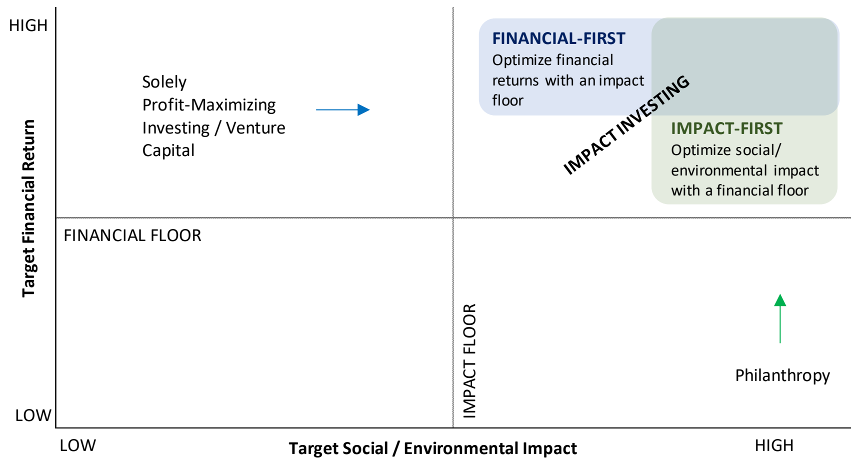
The way these investments are made for the demand side can be as straightforward as investing money for shares of equity or much more complicated, such as using a convertible debt structure. The only unifying notion is that an investor is committing capital to a commercial enterprise, which will aim to repay the investor for their investment (Allman and Nogales, 2015). To exemplify, among the various ways of fundraising from private debt and equity investments, there are cash and cash alternatives, bank debt, private debt, senior and mezzanine debt; hybrid equity; public equity; private equity and venture capital, green bonds, real estate, and other real estate assets. Nevertheless, not restricted to one asset class, impact investing can combine diverse sources of capital and various financial instruments, depending on the investor's specific portfolio targets and balancing return expectations, risk appetite and impact goals (Jaquier, 2011).

Within the stated concept of Impact Investing, Freireich and Fulton (2009) distinguish two different styles based on their primary objective: the Impact First and the Finance First Approach. Nevertheless, there is a variety of blended methods, known as Mixed Structures, that exist between these two poles.

Impact Investors employing an Impact First Approach seek to maximize social or environmental impact while maintaining a financial return floor. The primarily goal here is to produce social or environmental good, being frequently willing to sacrifice some financial return if necessary. This strategy emphasizes the investors' goal and motivation to address contemporary social problems, increasing the probability of effectively producing positive social impact. Investors that prioritize social impact must either accept a lower return than the market rate or assume more risks in order to maximize the beneficial impacts of their investment.

The Finance First Approach, on the other hand, attempts to maximize financial returns while establishing a floor for social or environmental impact. The social entrepreneur must meet minimal social impact targets, as the financial rewards must be comparable to more traditional investments. Figure 7 represents in a graph those two strategies.

Figure 7 - Segments of Impact Investors



Source: Author's illustration based on Freireich and Fulton (2009) and Oppenheimer (2014)

In this context, Impact Investing acts as a selective combination of Philanthropy and Venture Capital attributes. In general, it incorporates the social goals of Philanthropy, while the methodologies, methods, and procedures used are derived from the more capitalist view of profit maximization, as Venture Capital (Oppenheimer, 2014).

Impact Assessment

As discussed above, the investment process is guided through a variety of assessments to verify and validate the business. For those adopting the lens of impact investing, it is important to assess the impact that the business generates, throughout the business proposition and the management team.

The PIPE Social 2020 report states that four main indicators are used to assess the impact of a given business. First, there is the relevance of the problem that the entrepreneur intends to tackle. This is how the investor sees the problem addressed as a priority and relevant to the current scenario and in line with their investment thesis. Secondly, there is the entrepreneur’s intentionality towards the issue his impact business seeks to solve and how committed he is to solve the problem. At this stage, the commitment to impact must be transparent in all of the company's strategies, from its public positioning to its growth strategy. Furthermore, there is the theory of change or the impact thesis. Here, potential investees must present a clear definition of the relationship between the intervention they aim to achieve - with their target audience - and the impact they want to achieve. Finally, there is impact measurement, the collection of data and information regarding the impact generated by the venture. Regarding this last point, Jokela and Elo (2014) states that it is a challenging process, as the outcomes can take tangible and intangible shapes. In addition, the report ranks the level of significance of each indicator for the investment to be made. Tied in the first place is the relevance of the problem and the business intentionality. Next is the Theory of Change, followed by impact measurement.

Differentials

From mainstream players

For a thorough understanding of impact investing, it is also important to consider the key aspects that distinguish these investors from other players in the market. At one end of this universe of investors are traditional ones, oriented towards a profit-only mindset, facing the challenge of having to consistently earn superior financial return. With profit as their single bottom-line investment criteria and a focus on financial data, they are more prone to invest in traditional business, since there is a belief that these businesses are more likely to provide the expected profit maximization (Bozesan, 2013).

On the other side, are the philanthropists, focused almost entirely on generating social value and having the pursue of financial return on their investments put aside. They are also called Donors, as they don’t expect or seek any financial gain. Instead of financial returns, philanthropists are mostly concerned with whether their investments will be used to target a social cause and, as a result, mainly concerned about the social return on investment (Roundy et al., 2017).

However, in between those two types of investors, there is a spectrum of others, in which we can find the impact investing. Unlike traditional investors and philanthropists who primarily seek either financial or social returns, impact investors have a different return expectation. They seek both financial and social returns on their investments and aim to achieve these dual returns by investing in organizations that can intentionally produce both financial and social value. In this sense, impact investing primarily provides private capital designed to finance social enterprises[2], which are mainly based on innovative and scalable business models, and which provide products or services that aim to alleviate social issues and improve conditions in the community and/or environment (Oppenheimer, 2014).

As a result, there are several factors that make Impact investors move away from other types of investors. The most important ones are related to the approach, investment holding periods, return expectations, and investment motivation (Allman and Nogales, 2015). First, impact investors are known for having a close, hands-on relationship with their investees, marked by a high-level of support other than the financial. This assistance may vary in form, and may involve the provision of other services, "such as strategic planning, marketing and communications, executive coaching, human resource advice and access to other networks and potential funders" (EVPA, 2010, p. 67). In this sense, it differs from regular philanthropists, once impact investors closely monitor their investees and are ready to provide additional value-added support for the business grow, whereas philanthropist may only come occasionally to assistance, and it is usually a one-time investment.

On the other hand, mainstream investors tend to have more investees on their portfolio – a used commercial approach to diversify risks – while impact investor usually has a small but highly selective portfolio. This allows for a strong value alignment to their restricted investees pool, thus, having more time and personnel to be more engaged with their them.

Moreover, while traditional fund managers aim to move quickly to an exit opportunity, impact investors take a more tolerant approach. This form of investment is also referred to as patient capital. It combines social and financial returns in favor of long-term social impact. Ultimately, this results in greater impact and stronger performance (Freireich and Fulton, 2009). According to Allman and Nogales (2015, p. 114), "traditional early-stage investors seek to exit

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[2] Definition in chapter 2.3

in five to seven years from investment", while impact investments "seem to have longer investment horizons and are closer to at least seven years of holding time".

As for the differences in the return expectation and investment motivation, impact investors are unique once they have a wide range to accommodate their interests and expectation. Although there is a base that they must pursue intentionally: social/environmental impact and financial return, there is no clear delimitation on the emphasis they must put on one or another side. Therefore, it can range from aiming more market returns or to more social returns, depending on their motivations (Roundy et al., 2017).

From ESG Investing

For impact investing, the production of measured positive impact is essential. The goal is to make direct investments that help the social venture (investee) to accomplish and produce social and environmental results. Meanwhile, ESG investing integrates "environmental, social, and governance (ESG) factors alongside financial factors in the investment decision-making process." (MSCI, 2021), not necessarily investing in just social ventures and not made directly to them.

ESG allows for a closer alignment with investors willing to have a positive impact alongside a financial return. It can focus on selecting multiple stocks of companies that intend to have a sustainable and societal impact worldwide, such as natural resource preservation, or identify ESG opportunities to select other investments, but not contribute directly to or measure the impact generated. (Zhou, 2021).

According to the MSCI (2021), ESG is in accelerating growth. The global challenges such as flood risks and climate change, privacy and data security, increased regulatory pressures, and social and demographic shifts represent new or increased risks for investors. The Covid-19 pandemics also posed some threat in some industries and companies and tested their ability to deal with ESG risks.

Along with the new generation of investors, the millennials - who are more interested in pursuing positive impact with their investments - and the development of advanced technology to drive better data collection and insights, makes ESG investing a growing large industry. ESG "pushes companies to be more conscious of their environmental impact" (Giles, 2020). A similar approach to impact investing, as both have concerns about social issues and aim to generate profits, raises the question of whether ESG investing will not overlap or merge with impact investing.

From Socially Responsible Investments (SRI)

It also seems to have an uncertainty on how proximate Impact Investing from SRI is. The literature opinion ranges drastically, having in on side Eurosif (2010) and Hebb (2013) stating that impact investing is a sub-set of a wider category: responsible investing; being SRI a "generic term covering any type of investment process that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues" (Eurosif, 2010, p. 8). At the same time, there is a large group of academics who describes SRI as a concept that is similar in nature – both having mission-driven approaches to generate positive outcomes – but that is still not congruent with impact investing (Oppenheimer, 2014; Höchstädter and Scheck, 2014; Martin, 2020).

In spite of this non agreement between the relationship of the terms, this study agrees with Bugg-Levine and Goldstein (2009, p. 32) concept. They state that "the seeds for impact investing were sown in the last quarter of the twentieth century with the socially responsible investment and corporate responsibility movements". That is, impact investing and SRI share common goals, and the roots of impact investing relies on SRI, but they are not directly connected to each other.

Presenting some points that should be considered to distinguish the two terms, we have, firstly, that, SRI is primarily associated with negative screening (Renneboog et al., 2008; Sandberg et al., 2009; Palandjian et al., 2010). SRI strategy screens out investments moving from social, environmental, or governance (ESG) factors – for instance, excluding in their selection specific harmful segments such as tobacco (Das and Uma Rao, 2013). Hence, while SRI are often designed to minimize negative impact, impact investments usually is designed with the intent to create proactively positive social or environmental impact (O'Donohoe et al., 2010).

Another significant distinction, according to Roundy et al. (2017), is related to the structure of the investments. Most SRI funds do not seek to take substantial equity shares in any single company, but rather aim to invest in a diverse stocks portfolio of companies that are engaged in positive business practices, such as environmental protection. Impact investing, on the other hand, includes equity investment in early-stage companies that directly produce social impact. Furthermore, SRI tends to focus on publicly listed equity investments, whereas impact investing is typically done in private markets, with an emphasis on private equity and debt (Conway et al., 2012). Therefore, taking these differences into consideration, this paper classifies SRI and Impact Investing as different investment approaches. Figure 8 summarizes the main differences between the various types of investors.

Figure 8 - Investor's differentials

Approach	Traditional Investments	Social - Responsible investiments (SRI)		Impact Investing		Philanthropy
				Impact Driven		
	Financial Only	Negative Screening	ESG Integration	Financial-first	Impact-first	Impact Only
Focus	Limited or no focus on social factors of underlying investments	Focus on risks ranging from a wide consideration of social factors to negative screening of harmful products	Focus on ESG opportunities, through investment selection, portfolio management and shareholder advocacy	Focus on one or a cluster of issue areas where social or environmental need creates a commercial growth opportunity for market-rate or market-beating returns	Focus on one or a cluster of issue areas where social or environmental need requires some financial trade-off	Focus on one or a cluster of issue areas where social or environmental need requires 100% financial trade-off
Financial Goals	Target competitive risk-adjusted financial returns				Accept low risk-adjusted returns	Accept partial/full capital loss
Impact Intentions	None	Act to avoid harm				
			Benefit all stakeholders			
				Contribute to solutions		

Source: Authors illustration based on Nicklin, S. (2012) and Phenix Capital (2019)

2.4. Impact Investing Market Evolution and Potential

While Impact Investing may be considered a new terminology, the concept of using investments to yield social outcomes is not at all new (O'Donohoe et al. 2010). The practice of investing in business that can provide innovative solutions to social and environmental challenges has been around for some time. In 1948, The Commonwealth Development Corporation (UK) was already investing in a commercially sustainable business in developing countries.

Recent to the inception of the term impact investing, in 2010 JPMorgan and the Rockefeller Foundation, along with the GIIN, published a report (O'Donohoe et al., 2010) stating that Impact investments was still emerging, estimating that it could reach US$400 billion to approximately US$1 trillion of assets under management (AUM) in the next decade. At that time, the prediction seemed bold and ambitious, but it proved to be accurate.

In 2020, according to the GIIN, the impact investing global market reached nearly US$715 billion AUM. The increase of almost 43% compared to the values published one year before (US$502 billion in 2019) reflects both an increase in the number of impact investors and the capital invested. The International Finance Corporation (IFC) estimates even higher numbers. For them, the market size for total assets of potential private impact investors is slightly above US$2 trillion (as for 2019), however, with only US$505 billion identified as having impact measurement (IFC, 2020). Although it is impressive the growth rate of impact investing, the amounts correspond to less than one percent of the total US$103 trillion global

AUM, having impact investing still a lot of space to expand (Heredia et al., 2021). In this sense, to help catalyze the development of the social impact investment market in a global level, that could also address the UN SDGs, the G8 launched the Social Impact Investment (SII) taskforce in 2013 (GOV.UK, 2021).

In Brazil, impact investing has also been gaining notoriety over time. In practice, the field of impact investing began to be developed in 2003, when Oikocredit International, a microcredit fund based in the Netherlands, became the first impact fund manager to enter the Brazilian market. In 2005, the International Finance Corporation (IFC) began investing in social businesses through its Inclusive Business Models Group. Then, in 2007, came the Inter-American Development Bank (IDB) with the "Opportunities for the Majority" initiative, focusing on businesses that address the Base of the Pyramid (BoP). Other national players such as SITAWI and MOV Investments began exploring impact investment opportunities in the country in 2008. Starting in 2009, the first closed-end impact investment funds, Vox Capital and LGT Venture Philanthropy, were created in the country (The ImPact, 2017).

The impact investing market in Brazil seems to be growing at a healthy pace. Reports from the Aspen Network of Development Entrepreneurs (ANDE) show that between 2012 and 2013, the number of impact investors almost tripled. Furthermore, the two latest reports regarding the last biennials (2016-2017 and 2018-2019) reveal that AUM in the Brazilian impact investing market has seen a significant increase from $343 million (2017) to $785 million by the end of 2019. Deals have also seen an expansion, from 69 (2017) deals to 107 in 2019. Half of these investments went to early-stage companies, 37% were directed to expansion/growth-stage companies, and only 11% of deals toward seed/incubator stage companies (Hume et al. 2020/ANDE). Nevertheless, the report also points out that most impact investors seek market returns similar to those of traditional investors.

With a rising urban middle class, a growth of conscious consumers, the millennial generation[3], a wide range of hard-to-solve social and environmental challenges, and a robust financial market, Brazil presents great opportunities for the advancement of impact investing field (The ImPact, 2017). In this sense, the market potential is enormous and offers room for innovative new ways to effectively allocate public and private capital to address social and economic challenges.

[3] See page 31

3. Methodology

The nature of this study is exploratory research aimed at understanding the perspectives and experiences of social entrepreneurs in receiving funds from impact and traditional investors. To this end, we made use of secondary sources and qualitative interviews which, according to Bryman (2001), seeks to find the perceptions and opinions of the interviewees, having a strong interest in the interviewee's point of view, relying on subjective interpretations with the intention of understanding behaviour from individual experiences.

Secondary sources, explored in the literature review, helped us define social entrepreneurship and impact investing, identify the need for external financing sources and investigate the most used capital classes. In addition, it allowed us to analyse complex subjects as the different ways to measure impact and the difficulties regarding it. Moreover, through the secondary sources, we could access the potential market and the progress of the impact investing field. The key secondary sources used are presented in Table 2.

Table 2 - Key Secondary Sources

Author	**Title**
The Rockefeller Foundation and The Goldman Sachs Foundation (2003)	Social impact assessment: a discussion among Grantmakers.
Freireich and Fulton (2009)	Investing for social & environmental impact: A design for Catalyzing an emerging industry.
Bugg-Levine and Emerson (2011)	Impact Investing: Transforming How We Make Money while Making a Difference, Innovations: Technology, Governance, Globalization
Volkmann et al. (2012)	Background, Characteristics and Context of Social Entrepreneurship. In Social Entrepreneurship and Social Business
Venugopal and Srivastava (2012)	Glossary of Financing Instruments in: Moving the Fulcrum - A Primer on Public Climate Financing Instruments Used to Leverage Private Capital.
Spiess-Knafl and Achleitner (2012)	Financing of Social Entrepreneurship
Harji and Jackson (2012)	Accelerating impact: Achievements, challenges and what's next in building the impact investing industry
Bugg-Levine, Kogut, and Kulatilaka (2012).	A New Approach to Funding Social Enterprises.
Jokela and Elo (2014)	Creating Value with Social Entrepreneurship
GIIN (2018)	Roadmap for the Future of Impact Investing: Reshaping Financial Markets.
GIIN (2021)	What do you need to know about impact investing.
ANDE reports (2018; 2020)	The Impact Investing Landscape in Brazil; Impact Investing in Latin America.

Source: Author's elaboration

As for the qualitative interview, Bryman (2001) states that there are two main types, the unstructured interview and the semi-structured interview. The former, which was used in this study, is when the researcher has a list of open-ended questions or topics to cover, but the interviewee has leeway in how to respond.

Thus, to capture the impressions of social entrepreneurs in Brazil, a qualitative semi-structured interview questionnaire (Appendix 1) was designed considering the process and stages to receive an investment and the differences that may exist in the interactions and (pre) duo-diligence process of traditional and impact investors, captured in the literature review.

3.1. Participants and setting

The selection of the social entrepreneurs to be interviewed was made in partnership with the Brazilian Institute for Entrepreneurial Citizenship (ICE). This is an organization with a clear goal: to bring together entrepreneurs and investors around social innovations that can leverage their personal and philanthropic investments (foundations and corporate investments) to promote social inclusion and reduce social poverty in any country. Founded in 1999, it works to improve and strengthen the ecosystem of impact investments and businesses (ICE, 2021b).

Thus, in order to interview entrepreneurs who have gone through a screening, due-diligence process of both impact and traditional funds - to capture their impressions and be able to make a fair comparison - ICE provided a great and valuable assistance with its network. Furthermore, it is important to state that this partnership came about when ICE was developing a paper that also made use of these interviews conducted by us. Consequently, the responses from the interviews were shared on this subject. However, for our purpose, we could focus on the questions that made the most sense for the advancement of this study.

After contacting potential participants via email, we were able to get six of the eleven CEOs contacted to participate in the study. Given the pandemic, geographic location and short time entrepreneurs who are structuring their companies have, the interviews took place on the online Zoom platform. Interviews were scheduled for an hour duration, some of them requiring a little more time in order to capture all the insights. This occurred during late June and early July 2021.

3.2. Interview

The qualitative semi-structured interview aimed to collect social entrepreneurs' impressions of the aspects that impact investors differentiate from the traditional ones.

For this purpose, the questionnaire was divided into three main sections. The first part included questions that allowed us to learn more about the social entrepreneur's business. It related to how the social entrepreneurs started and developed their businesses, what kind of funding they have resorted to, and how they approached both types of investors and were able to connect with them. With this, we sought to learn more about their backgrounds and gather their first impressions when confronted with the evaluation process of impact and traditional investors.

The second section concerned the formalization of the investment, the definition and monitoring of impact and operational indicators, and exit strategies used. Explored in the literature review, there are some differences when comparing the indicators requested by impact investors and mainstream investors, and the time horizon in which they invest their capital. In this sense, we intend to verify and explore their perceptions in this regard.

Finally, the third part involved dimensions of operational management after the investments have been formalized. In this section we investigated the participation of both types of investors in the decision making and potential issues related to the operations management of the business.

3.3. Data Collection

The main sources of information are the qualitative interviews with social entrepreneurs, which followed a semi-structured process. This method allowed for a focus on the core themes and questions that answered the research question, but also presented some flexibility to interview according to the entrepreneurs' responses (Minichiello et al., 1995, p. 65). This was intended to make room to explore the research topic further as the conversation evolved.

The interviews were conducted in Portuguese through the Zoom video communication platform and recorded with the interviewees' permission. Later, to facilitate analysis, they were transcribed and, in a second step, manually translated into English. The questions posed can be found in Appendix 1. In order to build a safe space and have an unbiased point of view, both parties agreed that the names of the entrepreneurs, their companies, and the investors would not be disclosed. This proved to be efficient, as we were able to capture more of their essence and their genuine opinion and beliefs about the different investors.

To summarize, more detailed information about each of the six interviews can be found in Table 2. The interviews explored a large universe of financial organizations. It relied on investments received from funds, accelerators, angels, among other actors, further explored in section 4.2.

Table 3 - Interviewees' Summary

# Social Entrepreneur	Position	Date (Duration)	Sector of Operation	Last Deal	Founded
SE 1	CEO	27/06/21 (62 min)	Education/AI	Series A	2015
SE 2	CEO	01/07/21 (90 min)	Govtech/ healthtech	Series A	2014
SE 3	CEO	01/07/21 (62 min)	Recycling	Series A	2016
SE 4	CEO	03/07/21 (50 min)	Sustainability/ IoT	Seed	2014
SE 5	CEO	04/07/21 (61 min)	GovTech	Seed	2016
SE 6	CFO	10/07/21 (46 min)	Healthtech/ Govtech	Seed	2017

3.4. Data Analysis Criteria

To have a thorough review and evaluation of the interviews, they were first transcribed and translated into English. Then, according to the sections of the interviews and the questions asked, the answers were grouped to understand possible differences and commonalities. Furthermore, to capture the full context and background of the social entrepreneur and his or her company, interviews were also analysed separately. This analysis and comparison allowed for a complete and in-depth understanding of the challenges they each faced, according to their sectors and their business cycle.

4. Results

The results will be presented grouped by the main findings, following the order of the questionnaire. As mentioned, there will be no disclosure about the investors and entrepreneurs (firm's) names, sensitive data, including financed volumes, and anything that may lead to their identification. Transcriptions of part of the interviews were included, translated from Portuguese, which may involve variation due to the translation of expressions.

4.1. The Entrepreneurs

The six entrepreneurs interviewed have a similar background. All of them started their careers in the traditional market and, willing to change and make a positive impact on the world, started their companies with this purpose. However, the reasons that made them shift and start their businesses with social/environmental goals vary. For some, it was a combination of seeing a market opportunity and their desire to do good that made them start their business. For others, it was a dissatisfaction of the traditional market and the lack of a larger social purpose that led them to seek opportunities to develop their social enterprises and make, then, a positive impact. To structure their enterprises from the very beginning, most relied on the help of colleagues, friends, or partners with the same goal in mind.

Their companies also share the same concept of structure. They are all for-profit companies, meaning they want to build sustainable, strong companies with the potential to reach more people and have a greater financial return. To achieve this, they have developed scalable businesses, some of them needing to reinvent themselves in the middle of the process. Quoted by two of them, they "want to grow and become the next unicorn".

Moreover, examining their business, we can say that together, they tackle nine of the seventeen UN SDGs, being them: 3-Good Health and Well-being, 4-Quality Education, 6-Clean Water and Sanitation, 8- Decent Work and Economic Growth, 9-Industry, Innovation and Infrastructure, 11-Sustainable Cities and Communities, 12-Responsible Consumption and Production, 14-Life bellow Water and, 15-Life on Land.

4.2. Investment's demand and supply

For many entrepreneurs, to get the idea off the paper and start structuring and running their business, it was essential to count on external investments. However, the type of capital obtained may directly impact the direction of the business, especially when we talk about social enterprises. To explore this, we addressed in the survey questions such as from whom they received investments, whether they were impact funds or not, the order in which the investments came, whether the social entrepreneurs had or have any preferences regarding the types of investors, and how they approached their potential investors. The results are presented in the following sections below.

Table 3 summarizes the different types and sources that each social entrepreneur received along with their existence. However, it is necessary to state that while some investors may coincide among social entrepreneurs, it is not possible to determine a specific set of investors. The universe of investors explored counted over fifteen different funds, almost half of them being impact funds. Moreover, no impact fund approach (finance first or socially first) could be specified.

Table 4 - Investment`s Summary

# Social Entrepreneur	Source of Investment	Type of Investment
SE 1	• Grant • 2 Seed Rounds: Impact and traditional fund • Series A: Impact and Traditional fund	• Grant • Equity
SE 2	• Angel, Family and Friends • Pre-seed: Traditional fund • Seed: Traditional VC and Family Office • Series A: Family Office and Impact Fund	• Grant • Equity
SE 3	• Grant and Awards • Angel • Acelerador • 2 Seed Rounds: Impact fund, traditional fund, and family Office • Series A: Traditional VC	• Grant, Awards • Equity
SE 4	• Impact Fund and Financing • Seed: Fund	• Debt • Equity
SE 5	• Bootstrapping and Grants • Pre-seed: Impact Fund and family Office • Seed: Traditional VC	• Grants • Debt • Equity
SE 6	• Bootstrapping • Awards • Accelerators • Impact fund	• Accelerators • Grants • Debt • Equity

Source: Author's elaboration

Approaching potential investors

According to the entrepreneurs, to develop a prototype and launch the business, half of them relied first on their own or family financial resources. In addition, four of the respondents, including two who also made use of family sources of capital, also received Pre-seed, small yet significant at the moment, investments from foundations, angels, wealthy investors, including grants, and prizes - which had no equity or debt counterpart. So, the vast majority (5 of 6), before going after major investments and funds, tried to structure themselves first, validate their idea, and build a clear business plan. The other company managed to get only with its structured business plan direct investment from impact funds, in the form of debt.

Attracting investors was a challenge. According to the interviewees, it was after participating in accelerator programs, receiving awards, or being contemplated in public edicts, that they managed to become more recognized in the market and attract more investors and funds. These events represented "seals" in the words of one of the interviewees since they opened doors for more investors to get to know and approach them. In addition, one of the interviewees reported that most of the investments came from people or funds with whom they had a closer personal relationship.

Regarding the stage they are at now, all entrepreneurs have already relied on angel and seed investments in the early stages of the business and have just received or are already considering structuring a Series A investment round, known to be a larger capital investment. As for how they got to know new potential investors, four respondents mentioned that it was through their current investors at the time. The importance of the network was extremely important. All of the respondents agreed that having already received investment and their pre-existing connection with funds helped them be "put on display" for other funds to get to know them.

Preferences and Challenges

The vast majority, four of the six entrepreneurs, reported that they objectively had no preference to receive investments from impact or traditional funds. Only two of them had such a clear preference and sought only impact funds as investors, much to do with an alignment of values. The presented point was that it was already hard to raise any investment, from any source. Moreover, to make a real social impact, the social enterprises needed to structure themselves sustainably first. That was emphasized especially by start-ups that have the public sector as their primary source of revenue. Hence, to continue to expand and build their social firms and with it make a social impact, the most important thing was first to be able to attract external capital in any way. And, as reported, they were not in a comfortable position to choose or care whether the fund was traditional or for impact.

In addition, in common sense, the candidates related that until 2016/2017 it was hard to hear about impact investing funds. According to one of them it "changed from water to wine, from the end of 2016 to 2021. [We used to] knock on the [investor's] doors and they called us hippies. Now there is a multinational fund coming after us saying how visionary we are to create this positive market […] which is also good, because capital lift changes, so if it is going to a positive business, I`m happy because it can lead to a lot of transformation" and "funds that you wouldn't think it was ESG [are approaching us], when five years ago they didn't even want to talk to us."

Another said they were positively surprised to receive investment from a traditional fund. In the words of the entrepreneur, who founded his social enterprise in 2016, and received a major injection of capital in 2020: "Two, three years ago, I would say that we would never have raised capital from a traditional fund, which was not envisioning impact the way we did. [...] Things happened, for me, even in a more difficult way, which is: a traditional fund investing in a company with such a strong social impact purpose and that works with the government sector."

Therefore, at the time of the first investments - the companies were founded between 2014 and 2017 - the entrepreneurs interviewed did not have a clear idea of what impact funds were and their differences from traditional funds. Recently, impact funds have become more widely known and social businesses more attractive in the eyes of all investors. In addition, it was natural that entrepreneurs did not have much choice in choosing their investors. and that their first source of capital was from traditional sources.

Also concerning their preferences among the different investors, we asked whether there was a bias towards a particular type of fund when it comes to the lead investor in the round, who usually has a seat on the advisory board, participates in decisions more actively, and owns an equity stake. In this case, four of the six respondents stated that they did indeed prefer investors who had their purposes aligned with their company's social principles and values. Therefore, it being important for them to be impact funds. In addition, one out of three respondents reported that after having an impact fund as their main investor, they were more willing and comfortable to accept the participation of traditional investors in their equity.

Such preference comes from a desire for investors who have a better understanding of the challenges that social enterprise faces and that overcoming them may take longer than usual. In this sense, patient capital from impact funds is highly desirable, as it allows more flexibility and room to pursue their social purpose. As reported, social entrepreneurs would like investors to assist in the realization of social impact by not pushing too hard for financial gain right from the start and respecting their business decisions. That, particularly when choices lead to a path where there is more social than financial gain. In addition, the subsidized rates of debt investments provided by impact investment funds were mentioned as a factor in their preference for this source of capital.

More than just capital, most respondents stressed the importance of bringing in the so-called Smart Money. Which is the money along with all the expertise, knowledge, assistance, network, and experience that the investor may have. In their words, at a certain point, money is just a “commodity”. Furthermore, five of them reported that having distinct types of funds was valuable as it brought different perspectives and points of view.

The importance and desire to have traditional investors as well was mentioned. According to one of the interviewees, “it is hard to see impact funds that have created unicorns”, and with the goal of the company also being to grow, it is important to have an investor that has more experience and is more geared towards that. In his words, who have a “more aggressive skill set”.

4.3. Screening and due-diligence process

The due-diligence process conducted by funds to investigate, understand and recognize the value of the investee's business model did not differ much in terms of evaluating the business model and the management team. When it comes to traditional funds, efforts are not focused on proving any measure of social impact, as it does not directly affect the investment decision. And while there is an increased risk of mission drift and transaction costs in raising this type of capital, entrepreneurs do not recognize these efforts as undue or excessive compared to those required of impact funds.

Impact funds, on the other hand, do require information about the mission and social/environmental purpose of the investee, its impact thesis, and the theory of change. However, there is no standardized process for impact evaluation. Traditional funds tend to ask more questions about the business model, diving deeper into its business particularities, KPIs, and metrics, which is perceived as a more professional attitude.

Requested information’s

For most social entrepreneurs, the information requested at this assessment stage did not differentiate much between impact and traditional investors. As expected, impact funds added, and reinforced issues related to the impact that the business should generate. But concerning the operational particularities of the business and the management team, no major distinction was detected in the pre-evaluation process. As reported by the interviewees, “all [potential investors] questioned the business model and the revenue stream, but when it comes to the impact fund, 15% of the time is devoted to issues related to the social impact generated”.

Traditional funds, as one would assume, treated the impact proposition as non-priority. They considered it as a positive externality, but with no real weight in the decision-making for the investment to occur. As stated by two of the entrepreneurs, the social purpose was something that for traditional funds could have its value as a marketing strategy.

Highlighted by a third entrepreneur: “For the traditional fund this [social impact] was not an issue to be discussed, they think it is cool, and if it helps in the evolution of the business, it is really good [...] Impact funds look at this as if it is the endpoint, generating impact is the goal; [whereas] for the traditional fund this is much more the means.” A fourth further drew a comparison between the different funds, stating that for traditional investors impact is considered as non-essential, “the icing on the cake,” and “not part of the ingredients,” while for impact funds social impact is “part of the ingredients of the cake”.

Interviewees also reported the perception that traditional funds have started recently directing part of their efforts towards social businesses due to pressure from Limited Partner (LPs). That, because LPs are committed to social causes or because they treat this issue as a differentiator in the market and as part of their investment strategy.

Moreover, while there is this divergence between what funds rate as primary or not in their evaluation, getting to know the management team properly is of high relevance for both type of funds. All interviewees reported that impact and traditional funds have dedicated significant time getting to know the leadership team. As expressed by the interviewees, impact funds see the team and the impact potential tied in the first position of importance and the business model as the next ahead priority. Meanwhile, traditional funds consider the business model and the management team side by side in the first place and impact at a level far behind these two, not directly interfering in their decision to invest or not.

Addressing this conduct of traditional funds and also to become more competitive in the market, it was reported that instead of looking at and comparing themselves with other social enterprises, the interviewees prefer to compare themselves with their competitors and peers in the global market. As stated by one of them as the reason they were able to raise capital from a traditional fund, “is [due to] a dynamic that I think is super important which is: we consider ourselves a social company, but we also orient ourselves and look for indicators, governance practices and [even] to function as a technology company like any other in the market. This is because when we compare ourselves only to social enterprises, we stand out very positively. However, considering the big picture [and the other non-social companies] we lag behind."

Negotiations

The formats and atmosphere of the pre-investment conversations diverged from impact and traditional investors. Four out of six entrepreneurs reported that discussions with impact funds had a lighter, calmer, more relaxed dynamic. One even said that "there was a greater match with them" because of the purpose and value alignment.

However, while the questions asked by the different investors did not diverge much, with impact funds adding questions related to the impact of the business, "upping the ante", two of the social entrepreneurs interviewed reported that they saw a big difference in, what one of them called, the "professionalism" of the funds. They informed that the process is slower and not as in-depth when it comes to impact funds, compared to the traditional funds they talked to. The interpretation regarding the "lack of professionalism" of impact investment funds is that, for the entrepreneurs, the traditional funds showed more expertise, a critical view, and were more embedded in the tech start-up universe, asking more sensitive questions about the metrics, governance, and goals to validate the business proposal. They showed to know the start-up business better, while impact funds were more on the surface of the questions, being much more challenging for these companies to prove interesting for traditional funds than for impact funds.

Impact assessment

Although impact funds had a clear concern to prove and measure the potential social impact that could be generated by their investees, no common structured process, framework, or specific tool for impact evaluation was reported.

This lack of standardization in social/environmental impact evaluation, and the lack of benchmarks in the industry, make room for the coexistence of different sources of impact measurement. It also makes it more difficult to evaluate the impact and legitimize the impact investing industry.

One of the interviewees mentioned that they relied on B Corporations Certification[4] to prove that they had a positive social impact, however it was very much of their choice to go

[4] B Corp Certification is the only certification that measures a company's entire social and environmental performance. The B Impact Assessment evaluates how your company's operations and business model impact your workers, community, environment, and customers - https://bcorporation.net/certification.

after a certification. As reported by the same interviewee, since different impact assessment frameworks often produce very different results, it is difficult to choose a specific one. Still, it leads to subjectivity due to the lack of common sense and definition of a single framework, even by impact funds.

Another entrepreneur added that while there was this clear concern to prove impact creation, he or she felt that in pre-investment conversations, the decision to invest is made mostly by the feeling about the business, the integration with the entrepreneurial team, and less by the existence of a defined impact evaluation framework.

Furthermore, regarding the impact funds' concern with impact evaluation, it was reported that these funds usually had a person in charge of evaluating and validating the theory of change. All the interviewees said that they had to talk and discuss their impact goals. Also, in case they needed to evolve further on this subject, they could attend various mentorships that helped them build their theory of change. However, the funds neither imposed nor tried to interfere to change the developed impact thesis. All mentorships were seen as positive for entrepreneurs who did not have a well-defined thesis.

4.4. Exit strategies

Four respondents reported a perception that impact funds are more patient and take a long-term view, “they want to support the company to make an impact and stay long enough to support it.” Still, one stated that they are not very aggressive with multiple returns like traditional investors. On the other hand, another respondent reported that he does not see differences in the exit strategy adopted due to whether the fund is traditional or impact. For him, the exit strategies can vary a lot from the cycle of the fund and the company, and the market, not being linked to the type of fund.

In addition, two entrepreneurs mentioned that traditional funds try to have a more well-defined exit strategy, varying the permanence for 4 to 10 years. However, the bargaining power of entrepreneurs with traditional funds is greater when there is a closer relationship between them, or when the business model has already proven itself. In these cases, even dealing with more capitalistic funds, they have managed to make exit agreements that please both parties and with a longer-term, as an exception.

4.5. Follow-up Indicators and Reports

Regarding the measurement of impact and the definition of its indicators, there was a common sense of how challenging it is to define them, even more so when the business grows. No specific set of impact indicators requested from either traditional or impact funds were identified. The indicators and management reports sent for follow-up differed according to what the business had already developed. Moreover, the establishment of impact indicators was considered a more proactive move by entrepreneurs, often only validated by the funds.

Impact Indicators

As all companies were born as social businesses, many were already wondering what the monitored outcome indicators would be. Also, the indicators would serve as a demonstration of the evolution of the business/product itself. For the vast majority (five out of six), the definition of impact indicators was a proactive initiative of the entrepreneurs, started and developed in parallel with the project structuring. Although the impact funds required the impact to be measurable, this was something anticipated and developed before they had contact with the funds. With the definition of impact indicators, the entrepreneurs were also able to track their progress with a certain frequency and even report the impact created to their team as a motivating factor. Moreover, only one of the interviewees had the support and assistance of the impact fund to structure the impact performance indicators, also required by the fund to be presented in the periodic reports.

One of the interviewees also said they had to answer several questions regarding the assumptions used to build the indicators already monitored by them. But the same entrepreneur still believes that the philosophy of these funds is to add the business in their portfolio (invest), to only, then, to help structure it. Yet, another social entrepreneur says that the impact fund has requested an annual external impact audit.

The majority, four of the six entrepreneurs, reported that it was really difficult to define what their social impact meant. For all interviewees, there was a maturity in defining their social impact indicators. It was not necessarily a direct result of better data usage and collection, although this occurred in most cases. Rather, the maturity occurred in the sense that they discovered that their social impact could have a much broader spectrum, not so simple to detect and measure.

As the social companies are still in the phase of structuring themselves, all of them reported that although it is part of their desire to better develop their social impact indicators, they are not yet able to devote much time to this aspect. They do not see it as strategic evolve in this matter for the moment they are in.

Reports

Entrepreneurs reported few differences regarding the reports sent to traditional funds versus for impact funds. For half of the entrepreneurs interviewed, the reports covered several indicators, both operational and impact, and were sent equally to the different types of investors. Thus, each fund could look more closely at the elements that interest them most and discuss them with their investees.

For the other half, the reports vary according to the fund. However, such a strategy comes more from traditional funds demanding the tracking of specific KPIs. Among them, most entrepreneurs still intend or are already working to provide a single report that covers all relevant indicators for all funds, whether impact or traditional ones.

4.6. Operations support

All mentioned that their investors, impact or not, added a lot to the development of the business with different expertise, networks, and instruments. Most respondents consider it positive to diversify their investors, i.e., they think it has value to have impact funds and traditional funds at the same time. Beyond the financial contribution of investors, entrepreneurs sought more than just the monetary dimension, they sought funds that could contribute positively to the management of their business. As reported earlier, they were after so-called Smart Money (Section 4.2).

In the view of entrepreneurs, impact and traditional funds aggregate in different aspects, not directly due to their positioning, but because of their structure, the network of contacts, and expertise. Traditional funds tend to have more investors, diversify their portfolio, and generally bet and contribute more to companies they think can become potential unicorns. Therefore, these funds have less time for companies that do not yet have as many growths' prospects. In this case, impact funds or funds with more staff capacity can contribute and be much more present. In general, assistance from both funds came in many forms: networking, training, mentoring, conversations, and providing managerial and operational tools.

In addition, social entrepreneurs recognized the impact funds for supporting them to maintain their social mission. "[They have helped] not to let go of the social purpose of the company". Often taking a position contrary to traditional funds, impact funds argued against proposals that favored financial returns over social ones. They contributed reinforcing the reasons for the company to pursue social impact and not decide on a path that would have null or less impact, even when the financial gain could be greater by taking the other way. As mentioned in the interviews, “If we were invested purely by traditional funds, we might be pressured or have a bias towards less impact than we would like to have”.

Moreover, investments from both funds also provided some relief for the entrepreneurs to pursue their social objectives. As stated by one of them, “Even though it was not a large amount [...] it was a significant value which provided financial relief in important decisions. It helped kill one of the products that did not cause social impact but represented an important source of revenue. It brought more focus on the core [social] product, even though it didn't bring in the revenue needed [to keep the company going].”

On the other hand, although it seems sort of contradictory, the entrepreneurs were aware that sometimes, for their business to expand and grow, it was necessary to deviate a bit, “but without losing focus” on social impact. In this case, they see positively having traditional funds as investors with a more capitalistic vision. These traditional funds stood out for having deeper business know-how in some sectors and a more strategic vision.

Moreover, the entry of investors at a stage when the business is still developing, trying to survive, even considering impact investors, did not directly contribute to more hours being devoted to creating or measuring impact. However, those who had support to focus on impact, from impact funds, experienced less pressure to generate larger financial returns right from the start. This also allowed them to focus on developing products that did not yet generate financial returns but had the potential to create a greater positive impact.

5. Conclusion and discussion

Impact investing is a promising alternative for bridging the gap between the capital demanded to solve critical social and environmental challenges and the scarce resources available from government and philanthropy. Globally, the number of impact investors or the total volume of capital is increasing every year. In Brazil, it is no different, from 2017 to 2019 the AUM directed to the impact investing market had a significant increase from $343 million to $785 million.

However, despite this huge potential impact investing presents and its growth prospects, research shows the amount of the impact investing market is quite minimal when compared to total AUM. It accounts for less than one percent of the global market size. In Brazil, respondents reported that they began to hear and recognize impact funds better after 2016.

This thesis investigated the Brazilian social entrepreneur's perceptions about impact investors in contrast to traditional investors approaches. It explored their interactions with the different types of investors and their impressions on the funds' performance and assistance provided. The social entrepreneurs indicate conflicts between their demands and what is offered by impact funds and traditional funds. They perceive differences in access to resources, fundraising efforts, the timing of investments, impact evaluation, and support and influence in the operational management of their businesses. However, in general, they consider positive the presence of both types of investors, indicating that there is, in fact, a synergy between their areas of expertise.

Summarizing the findings, the initial financial resources for most of the social entrepreneurs interviewed did not come from professional funds or investors, but rather from their resources, from family and friends, and through donations. It was after better establishing the businesses that they sought or were approached by traditional or impact funds. They also cite lack of awareness of the existence of impact funds, lack of credentials, and lack of network as the main reasons for not receiving direct investments from impact funds in the beginning. In addition, those who have received the first investments from traditional funds reported that it helped them to establish networks, to attract new investors, and to consolidate their credibility in the market.

Of impact funds, respondents highlight as important and desirable the patient capital, the flexible exit terms, the alignment of mission and purpose, and the ability to often support them with operational matters and advocate for paths that presented greater impact potential, even when financial gains were not so good. However, one point of concern is the alleged lack of preference for impact investors. The main reason given is that to generate impact, the business first needs to survive. As informed, they do not have the advantage of favouring any source of capital, being any of them a viable option. In addition, some interviewees highlighted another point of attention. For them, unlike the impact funds they had contact with, traditional funds seemed to have more knowledge about the investor's business and were desired for their strong capacity, aggressive skill set, and experience to develop a unicorn start-up.

Furthermore, as to what the funds prioritized in their evaluation of their potential investees, it becomes clear that impact funds consider social impact creation and the management team as extremely important and the business model as also critical, but to a second degree. As for traditional funds, the management team and the business model were placed in the top position of importance, while social value creation is only considered a positive externality. On the other hand, social entrepreneurs report that they also evaluate what both types of funds can offer in more than financial terms. They look for the smart money, capital that comes with industry expertise, advice, mentorship, and/or other support needed for the business to grow.

In addition, and line with Jokela and Elo (2014), interviewees reported relevant challenges in developing impact indicators. Most of them had already developed a set of indicators that the funds approved. Yet, new resources, even from impact funds, did not provide them with much more time to be devoted to measuring and creating social impact at this early stage. It was reported as non-strategic at the moment, as the main challenge is, again, to survive.

Therefore, in light of these statements, we conclude that the impact investing field in Brazil has some points of attention that need to be addressed. It is positive that having different types of funds brings synergy to the social business. However, at this early stage of the development and growth of the firms, the fact that the entrepreneurs are inclined towards more financially oriented funds is a concern. While their efforts to stay in the market and remain competitive are considerable, the question is whether their lack of preference for impact funds may affect their social mission and influence in the creation of social impact. This, even more so when traditional funds see social impact creation as a marketing strategy rather than the essence of the business.

Hence, despite the many advantages that impact funds can provide, the absence of preference in their favour reveals that, on some level, impact funds demonstrate a lack of attributes that can be accredited, in the opinion of one interviewee, to “their smaller size, their restricted access to larger resources, or their recent formation”.

5.1. Limitations and future research

Although the study support and reveals real and important concerns related to the advancement of the impact investing funds, the results cannot be generalized. This report counted with only six Brazilian interviewees, located mainly in the southeast region of the country. Moreover, it didn’t focus in any specific business sector, cycles or stage of fund-raising. It represents a photo of the social entrepreneurs’ perceptions in mid-2021. Hence, in order to consolidate the considerations presented before, we recommend that the same study be applied to a larger number of respondents, in Brazil or Worldwide to have a broader perspective.

Furthermore, the difficulty in establishing standardized metrics of impact, raised in the literature review by Antadze and Westley (2012) and The Rockefeller Foundation & The Goldman Sachs Foundation (2003), is also present in this study. It is conceivable that businesses first need to structure themselves to, only then, develop better metrics for monitoring their generated impact and that this should be done following their business's needs. However, it is questionable whether the lack of a stronger follow-up on the generated impact may cause the business to suffer a mission drift. In addition, we question the difficulty of reaching an agreement on impact indicators and putting them into practice in the industry.

Another point of potential concern captured in the interviews is related to the over-direction of efforts and resources to meet the demands of traditional funds. Future research is required to understand whether such fundraising in the early stages of social businesses may jeopardize and influence the social business model.

For future research, we also point to the potential of the ESG field. Funds and investors are taking more steps to incorporate environmental, social, and governance aspects into their investment decisions. Envisioning the potential market and unmet demand for new social businesses, we wonder if in the future ESG funds will converge with impact funds or even start supplying the market in a broader way, overlapping impact investing field.

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Appendix 1 - Interview questions

1st Section: (Pre) Due diligence process

1. How long are you receiving investments? In which stage of fundraising?
a. Entry and exit strategies.
b. From whom have you received investments? Were they impact funds?
c. Do you know if they had “impact” public positioning?
d. Did/Do you have any preference over receiving from an impact fund or a traditional fund?
2. How did each investor find out about your venture?
a. What made the most sense for you to have them as investors?

3. Which type of fund invested in your venture first? Impact or traditional? Was there any influence in this order to accept or refuse any investor proposal?

4. Was the information requested by investors in this initial selection stage different?
a. Has the impact of your business been addressed? In what way?

5. Was there a structured process to assess social impact in the pre-investment stage or not? t
a. If so, what were the tools, framework or methodologies used?

6. Did you perceive any difference on the format, social atmosphere and dynamics of the meetings prior to the investment? In what way?

7. There was a concern in getting to know the management team, the business proposal, and the impact proposal? What would you say was the weight put in each one of them?

8. Was there any support from the fund in building the impact thesis (change of theory)?
a. How did dynamic happen?

2nd Section: Formalizing the support

9. Regarding impact indicators: how was the definition (process) to monitor the impact?
a. Traditional funds had this in agenda?

10. Did the impact measurement mature when the business evolved?
a. In which way?
b. Has any type of tool or methodology been updated to manage and measure impact? Why?

11. How are the (operational and impact) indicators reported for each fund?
a. They are in the same report?
b. Is there any separated block for impact indicators?
c. What are the tools used? Dashboard?

12. Exit strategies have been defined?
a. How were these strategies established and what were the main differences between those of the traditional fund and impact funds?

3rd Section: Operational management

13. In addition to financial resources, did both investors bring knowledge or network that helped you to better structure your business? Can you name examples of these supports? Is there a difference perceived between the types of funds?

14. Among the conversations/decisions you had with investors about your business model (target audience, pricing, segmentation, differentiation, communication) they considered the impact dimension - the positive or negative effect decisions could have on your impact creation?

15. How would you evaluate the investor participation in general and day-to-day decisions in your business? Would you say it brought you more focus on managing the social impact of your business?

16. Would you say that when the investor is more aligned with the business's social impact purpose, the rest flows better? Does it translate into a positive influence on operational and financial results, for example?