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Impact Investing in Portugal -

The Role of Public Funds in the ecosystem

Tomás Ramalho - 58734

Work project carried out under the supervision of:

Marco Fernandes

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Abstract

This research delves into the emerging landscape of Impact Investing in Portugal, using a combination of literature review and expert interviews. It addresses the challenges of defining and measuring impact while mapping the Portuguese ecosystem, where a variety of players contribute uniquely to its composition. For instance, impact startups ensure alignment between their financial and social objectives by the usage of the Lock Step model and by securing patient capital through a mix of funding sources. In parallel, impact incubators focus exclusively on supporting impact projects, leveraging specialized expertise, workshops, and networks within the impact ecosystem to provide distinctive support. Impact VCs exclusively invest in Lock Step models and incorporate impact-linked remuneration mechanisms. Foundations, as financially dependent entities, explore venture philanthropy to address budget constraints and enhance their impact, bringing a better reputation for their parent companies. Furthermore, public funds, relying on governmental resources, play a crucial role in fostering the impact investment landscape by bridging the gap left by private investors, who are often dissuaded by the unique risk-return profiles of these projects.

Keywords: Impact Investing, Portugal, Social Impact, Startups, Venture Capital, Incubators, Foundations, Public Funds, Impact Measurement, Funding, Non-Financial Support, Lock Step models.

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1. Introduction

1.1 Relevance of the Work Project

Nowadays, social and environmental problems are more relevant than ever, and this seems to be the case for the foreseeable future. Not only are these problems becoming more and more important, the ways to fight and mitigate them are also becoming more relevant and developed with the passing of the years. As proof, these have become one of the biggest worldwide priorities as we can see by the United Nations Agenda 2030 and the implementation of the SDGs (United Nations 2015).

Society as a whole, and investors more specifically, want to actively engage in addressing these challenges; and with this will, a new way of investing has emerged: one that pairs social impact with financial returns, it is called Impact Investing (II).

As Portugal belongs to the United Nations and follows their priorities, it would be expected to see patterns of growth in Impact Investing over the past few years. If we take a look at the number of relevant players in the Portuguese II ecosystem and their respective founding date, we can see how it has gradually increased, in spite of starting a little later than its peer countries: Maze (2013), Portugal Inovação Social (2014), IRIS (2017), Casa do Impacto (2018), Fundo de Inovação Social (2019), 3XP (2019) and its Impact Innovation Fund (2021), RIIS "Network of Social Innovation Incubators" (2020), Rede de Capital Social (2024), among others. Despite the growth in relevant players in the ecosystem, Portugal only accounted for 0,3% of the impact investors in the GIIN insights report of 2023 (Hand, Sunderji, and Pardo 2023).

Despite the number of impact investors being relatively low, Portugal is dedicated to push this market forward and a proof of that is the "Agenda para o Impacto 2030[1]" and the fact that it

[1] A document that reflects on the national strategy towards social innovation and impact investing until 2030

was the first country in the EU to mobilize European Structural funds for the creation of an entity dedicated to impact investing, called Portugal Inovação Social. Furthermore, Portugal is already a reference when it comes to the use of Social Impact Bonds (Miguel and Nunes 2022).

In the "Agenda para o Impacto 2030", it is written that "the vision for Portugal is to turn our country into an international reference and an European level platform for social innovation", and it is along these lines that we decided to create this Work Project (WP) as a way of supporting this vision (Miguel and Nunes 2022, 8).

To achieve this position, it is a priority to overcome its ecosystem's main challenges: the lack of adequate financial instruments to accommodate for the different risk strategies and the lack of information regarding this type of investment (Miguel and Nunes 2022). This WP seeks to tackle the latter by providing an in-depth analysis of the Portuguese social innovation and Impact Investing ecosystem. While most existing studies focus on the broader European landscape or offer more general overviews, this research will delve into the specificities of the Portuguese market by highlighting the action of the most relevant players and identifying its unique patterns and differences. By bridging these knowledge gaps, this work aims to contribute with valuable insights to both academia and practitioners, fostering a clearer understanding of the current landscape and future opportunities for II in Portugal.

1.2 Research Goals

The primary aim of this research is to gain a comprehensive understanding of how the Portuguese impact investment ecosystem has evolved over the years, its current state, and its projected trajectory for the future. The central research question guiding this study is: *How do the different players involved in the impact ecosystem act and interact to drive the necessary and desired impact?*

This study seeks to deepen the understanding of impact investing, particularly in the Portuguese context. It explores how the impact investing landscape in Portugal has developed, identifies the key players shaping this ecosystem, and examines the dynamics of their interactions and collaborations to drive meaningful societal change. By addressing these aspects, this research aims to shed light on the mechanisms and relationships that foster impact, ultimately contributing to a more effective and cohesive impact ecosystem in Portugal.

1.3 Structure and Methodology

1.3.1 Structure

This research aims at providing valuable insights into the II ecosystem in Portugal. For that, it begins with a strong literature review, including the definition of Impact Investing, recent data on the theme, exposure of similar (or related) concepts and comparison between investment types, financial and measurement tools, as well as the main challenges of the ecosystem.

After that, research goes deeper into the main players involved with II in Portugal, in separate chapters, namely startups, incubators, venture capitals, foundations, and public funds. In these chapters, it is described the way these players act and their role in the II scenario, offering unique insights and driving conclusions to the research questions.

Lastly, the limitations of the research are exposed, as well as the conclusions to the main research question, leading to recommendations for future research on the topic.

1.3.2 Methodology

1.3.2.1 Literature Review

Our analysis began with a literature review which, given the scarcity of specific references on the II sector in Portugal, focused on a conceptual and methodological review based on international sources and relevant scientific documents. Research was conducted using internationally recognized academic databases, allowing for the identification of global trends and methodologies applicable to the Portuguese context. Additionally, websites of recognized organizations were consulted, providing practical insights and enriching the understanding of the topic. This integrated approach aimed to address the lack of specific data within the national context, establishing a solid and comprehensive framework to support the discussions and conclusions of this study.

1.3.2.2 Qualitative Analysis

A qualitative research methodology is adopted in this study to explore the intricacies of Portugal's II ecosystem. Given the nuanced and context-specific nature of II and a lack of available literature on the topic, a qualitative framework is particularly well-suited to capture the diverse perspectives of various stakeholders. As highlighted by Bryman (2012), qualitative methods provide a deeper understanding and interpretation of complex realities, where insights are best derived from rich, descriptive data rather than numerical analysis.

II involves a multitude of actors, each with unique approaches and experiences (Gianoncelli and Boiardi 2018). This qualitative approach aligns with the study's objective of uncovering the intricate dynamics within the ecosystem, as it is particularly effective in capturing subjective experiences and insights that cannot be easily quantified (Hammarberg, Kirkman, and de Lacey 2016).

For this purpose, we conducted 24 semi-structured interviews with key stakeholders representing our identified types of players, including public funds, startups, VCs, foundations, and incubators.

All interviews were conducted in Portuguese, as both the entities and individuals interviewed were Portuguese, and we, the researchers of this study, are also native Portuguese speakers. Thus, the quotes included in this study were freely translated into English by the researchers.

This approach of free translation was adopted to ensure that the content and tone of the original responses were preserved, allowing for a more accurate interpretation of the participants' ideas, even if it required slight adjustments in phrasing to suit English (Temple and Young 2004).

To ensure the rigor of this qualitative study, we adhered to principles of *credibility, transferability, dependability,* and *confirmability* across all stages of the research. These principles guided the design, data collection, and analysis phases, ensuring that our findings accurately reflect the perspectives of stakeholders in the impact investing ecosystem (Guba and Lincoln 1989).

1.3.2.2.1 Data Collection

To collect qualitative data for this study, semi-structured interviews were employed as the main method, focusing on gathering insights from key stakeholders in the II ecosystem. These interviews are preferred for their flexibility, which allows for in-depth investigation of themes while allowing the interviewer to ask follow-up questions when necessary (Bryman 2012).

II is a particularly complex sector because it varies greatly from player to player, making it subjective and with few clear answers. There are various interpretations and opinions in this topic (Gianoncelli and Boiardi 2018). This is why this method is especially useful for investigating such themes as it provides structure to the discussion while yet allowing participants to freely voice their opinions (Creswell 2013). Using more rigid, straightforward questions would limit the richness of the insights collected, therefore this flexible method is best suited to capturing the intricacies of the area.

Most interviews were performed online, via videocall, to meet regional limitations and provide participants with convenience, an approach backed by the growing demand for adaptability in qualitative research (Creswell 2013). According to research, when conducted appropriately, online interviews can produce data as rich as in-person discussions (Adams 2015; Creswell

2013). Each interview will include two researchers: one to facilitate the conversation and the other to document significant points and transcribe responses, guaranteeing a thorough and reliable data collection process (Adams 2015; Creswell 2013). Involving two team members during interviews minimized bias and enhanced *credibility* through cross-validation (Guba and Lincoln 1989). By using a standardized interview guide and maintaining the records, we ensured *dependability,* allowing for consistency in data collection and enabling future researchers to replicate the study (Guba and Lincoln 1989).

1.3.2.2.2 Participant Selection

Interviewees were selected using a purposive sampling strategy, which is commonly employed in qualitative research to ensure that the selected cases are directly relevant to the study's objectives and aligned with its scope (Bryman 2012). This strategy targeted individuals with direct experience in II operations in Portugal, with a particular emphasis on decision-makers, founders, and senior management who are actively involved in their businesses' II initiatives. This method is particularly suitable for studies on underexplored topics, enabling us to investigate them further. By selecting participants with the most relevant experiences, even with a limited number of interviewees, we are able to obtain valuable insights and fully leverage each participant's contribution (Palinkas et al. 2015).

To capture diverse perspectives different segments of the II ecosystem, we interviewed eight startups, four public funds, four incubators, four foundations, and four VCs, providing context for each in the annexes. This diversity increases the *transferability* of our findings to other regions with similar impact investing ecosystems (Guba and Lincoln 1989).

1.3.2.2.3 Data Analysis

In order to analyze the data collected from the semi-structured interviews, we employed a content analysis method. This methodology is widely recognized in qualitative research for its ability to identify patterns within textual data and support the organized interpretation of large volumes of information (Hsieh and Shannon 2005). The choice of this approach was driven by its capacity to provide a structured and transparent framework for organizing qualitative data, enabling consistent and reliable conclusions, particularly given the substantial amount of data gathered from the interviews (Bryman 2012).

In this study, we adapted the concept of axial coding as described by Corbin and Strauss (1990) to better fit the goals of inductive content analysis (Elo and Kyngäs 2008). While axial coding is traditionally integrated with the categorization process in grounded theory, we treated these as distinct phases to improve clarity and structure.

Open coding of the interviews was the initial stage. This phase focused on identifying recurring words, concepts, and expressions within the recordings, allowing us to capture the diversity of opinions shared by the interviewees. The objective was to ensure that all relevant ideas were documented, while also counting the frequency of them (Saldaña 2013).

Following the open coding, we proceeded with axial coding, where the initial codes were grouped into sub-themes. This step was essential for organizing the data coherently, identifying relationships between concepts, and creating groupings that more accurately reflected the perspectives of the participants. Axial coding allowed us to understand how different topics were interrelated, helping to consolidate the information gathered (Corbin and Strauss 1990).

Both phases were iterative, with multiple reviews to guarantee consistency and capture the core ideas effectively (Saldaña 2013).

Finally, we moved to a broader categorization stage, grouping these sub-themes into main themes. This final step focused on synthesizing the data into a harmonized structure, enabling us to identify the central topics that emerged from the interviews (Elo and Kyngäs 2008; Cavanagh 1997). Differentiating between sub-themes, identified before through axial coding, and general themes was essential for guaranteeing that the conclusions were firmly grounded in the data, providing a clear and structured view of the challenges and strategies identified within the impact investing ecosystem (Hsieh and Shannon 2005).

Throughout the analysis process, we maintained *confirmability* by documenting coding decisions, ensuring that findings were derived from participants' responses rather than researcher biases (Guba and Lincoln 1989).

2. Characterization and Definition of Impact Investing

2.1 Definitions of Impact Investing

One of the most common critics of Impact Investing is the lack of concise, clear and precise definitions of the term. Some of the most precise and aligned definitions are the following: II is defined by the Global Impact Investing Network (GIIN) as "investments made with the intention to generate positive, measurable, social and/or environmental impact alongside a financial return" (GIIN 2023, 3). The American bank J.P. Morgan defines it as 'investments which create positive impact beyond financial return. As such, they require management of social and environmental performance in addition to financial risk and return (O'Donohoe et al. 2010, 5) and The Rockefeller Foundation, which coined the term in 2007, defines it as "capital that is placed outside of public equities markets and generates social and environment value in addition to financial return" (UBS AG 2011b, 1), which all align closely, highlighting the dual objective of social impact and financial return.

2.2 Definition and Description of Social Impact

A lot of confusion emerges on the right way to define social impact (Martino 2018) and this is confirmed by some of the most relevant authors of the matter like Rawhouser, Cummings and Newbert (2019), as they all agree on a lack of precise definitions. Very often social impact is represented by subjective metrics, confirming the lack of a common language around the concept and as stated by Barman (2007), Lyon and Sepulveda (2009) and Hall (2012), "there is no clear definition of what is meant by 'social' and consequently there is discretion involved when social impact is assessed" (cited in Arvidson and Lyon 2014, 873).

Santos (2012) argues that most definitions consider social impact as a positive societal change, others describe it as a reduction of negative effects (Bartling and Yao 2015; Rawhouser et al. 2019) and some consider that "social impacts include all social and cultural consequences (…) that alter the ways in which people live, work, play, relate to one another, organize to meet their needs, and generally cope as members of society" (Burdge and Vanclay 1996, 59).

The moment of social impact management divides authors in two classes: those who consider social impact as an *ex-ante* element to be integrated in the planning phases of the decision-making process and those who consider it as an *ex-post* effect of an intervention. For instance, Schinckus (2017) describes social impact as a planned goal to be effectively measured and achieved in order to generate economic return for the investors, which happens only in case of success. Considering the contrary point of view, where social impact is mainly assessed *ex-post*, Wichmann (2017) explores the social impacts of sport events, collecting feedback from participants, with interviews, questionnaires and ethnographic research being the most used methods to evaluate social impact after the implementation of the program.

There are 3 common characteristics of social impact definitions across most authors: intentionality, measurability and additionality. Quoting Martino (2018, 37), "*Intentionality* is referred to the explicit willingness to generate social or environmental impact through a program, when it is not only a side effect. *Measurability* is present every time it is specified the need to find better methodologies for impact measurement or there are attempts, through frameworks and indicators, to evaluate impacts of a specific intervention." *Additionality* emerges when we find initiatives aimed at solving a social issue, meeting a social need or, in general, improving the "situation in contexts where actual systems do not work or have failed", and refers to the effect of a certain interventions that would not occur without it (Martino 2018).

Social impact is clearly distinct to the economic one, as the latter is much easier to define and measure. It usually occurs in a shorter (or closer) period of time, and shown with economic indicators such as revenues, number of items sold, job creation, and others, while social impact assesses improvements in quality of life, social inclusion, and long-term societal benefits that tend to not have a clear metric associated to it, making it harder to measure. An example of this difference is the shift from traditional to impact investing, where investors are aware of the long-term dimension of social impact and the risk of failing, as Impact Investing brings higher uncertainty and potentially lower financial returns.

When it comes to defining II according to social impact, our view is that it must be an investment that can be measured, intentionally aiming to generate a financial return as well as positive social or environmental changes. This means that we prefer the *ex-ante* approach as it is the definition more in line with the intentionality trait of social impact.

2.3 Key Characteristics of Impact Investing

Impact investing is characterized by distinctive features that set it apart from traditional investing and philanthropic donations and government aid, as stated by the Global Impact Investment Network (GIIN 2023). There are three criteria that need to be in place to make sure II can be applied (Gerritsen 2016):

- Intentionality: Impact investors deliberately seek to generate a social or environmental impact. This is not an incidental outcome but a core objective of the investment.
- Financial Return Expectations: Impact investments are expected to yield a financial return, differentiating them from purely philanthropic efforts. The expected return may

be at or below market rates, depending on the nature of the investment, but at least the return of capital must be expected to achieve.

- Impact Measurement: Social or environmental impact must be measurable, ensuring that the intended outcomes can be tracked and reported, using tools such as the Impact Reporting and Investment Standards (IRIS+) and frameworks like the Global Impact Investing Ratings System (GIIRS) to assess and report on the impact generated by these investments (O'Donohoe et al. 2010).

The key characteristics of II are its intentionality and measurability, as reinforced by the European Impact Investing Consortium[2]: *intentionality* is an *ex-ante* characteristic, as it is a condition that must be present before any investment of a certain fund and throughout all its phases and *measurability*, as it allows to address whether that investment is generating any positive social or environmental change.

In summary, according to the GIIN definition, II are investments made into companies or projects that intentionally look to generate a measurable social or environmental impact, alongside a financial return (GIIN 2023).

2.3.1 The Different Parties in an Investment

In an investment, there are two parties involved: an investor, the one who finances it and decides how the investment is made; and the investee, the one who receives the financing and decides where those funds are going to be allocated.

Regarding the investors, they decide how those funds are going to be directed to the project according to their intentionality and additionality (Gaggiotti and Gianoncelli 2024):

[2] in the paper "The 5 Ws of Impact Investing", written by Gaggiotti, and Gianoncelli (2024)

1. Financial Additionality: the investor can benefit the project by accepting lower returns, a higher risk/return ratio, a more patient capital or more flexible financial ratios, which enable the project to survive, something that may not occur otherwise.
2. Non-Financial Additionality: when the investor actively engages in the project, providing know-how, mentoring, networking and others, boosting the investee's performance beyond what would have happened in the absence of this engagement.
3. No Additionality: the investor simply provides capital, not actively engaging or improving conditions for the project.

At the investee level (or asset level), we should consider the most adopted framework by impact investors: the ABC of Impact, developed by the Impact Management Project (2019). The A, B and C letters refer to the way organizations act (Impact Frontiers 2023a):

A - act to avoid harm: organizations that identify where they (or their asset) are causing harm to people and the planet and focus on improving those outcomes to get nearer the sustainable range established by social and environmental thresholds.[3]

B - benefit stakeholders: on top of acting to avoid harm for all stakeholders (A), these organizations also generate an improved well-being for one or more groups of people and/or the condition of the natural environment, so that it is within the sustainable range established by social and environmental thresholds and are keen on sustaining or improving this level.

C - contribute to solutions: organizations that actively contribute to addressing social and/or environmental challenges (that are not due to their behavior) with specific and relevant solutions, so that the outcome is improving towards the sustainable range.

[3] These thresholds are always changing and evolving year after year, so the consensus on them might be difficult to achieve (Source: Impact Frontiers, 2023a)

The C category is the only organizational category in which companies actively pursue a change in the social or environmental domains, by effectively targeting the problem and changing it with their own solution implementations. Regardless, companies classified as A or B, can also drive positive impact, or reduce and avoid negative outcomes.

2.3.2 The different types of Investments

Combining the investor and investee levels, it is possible to define 5 types of investments, according to Gaggiotti and Gianoncelli (2024) and shown in **Error! Reference source not found.**(Socially) Responsible Investing: invests in A-companies, providing capital, but not actively engaging to avoid harm (no additionality); Transition (or Sustainability Improving) Investing: investments made in A-rated companies but with the goal of bringing additionality, whether financial or not; Sustainable Investing: an investment approach that aims at maintaining or improving current levels and continue to benefit stakeholders; Impact Investing: investments in companies that develop or provide solutions to world problems (C-companies), and that actively pursue a positive social or environmental change, without investing significant non-financial resources or improved financial terms; Additional Impact Investing: it is II but with the additionality trait; therefore, it adds better financial terms (lower rates, higher flexibility, others.) or a more active non-financial approach to help drive the desired impact.

For the study of II and according to the European Impact Investing Consortium, the two latter definitions should be considered, because despite additionality not being mandatory for an investment to be considered an II, as shown in the **Error! Reference source not found.**, it should also be accounted when investigating the concept (Gaggiotti and Gianoncelli 2024).

2.4 Evolution and Growth of Impact Investing

The concept of Impact Investing gained prominence following the financial crisis of 2007-08, driven by increasing awareness of social and environmental issues and a desire to find investment strategies that could address these challenges. The Rockefeller Foundation's role in defining II (first coined in 2007) and promoting it was pivotal, and since then, the sector has evolved and seen significant growth (**Error! Reference source not found.**).

2.4.1 Recent Data on Impact Investments

In 2020, the GIIN (2020a) had estimated the global market size at US$715bn, underscoring the potential of further growth in global II, as a consequence of the pandemic (GIIN 2020b).

The most recently available survey about II published by GIIN[4] shows that the "the size of the impact investing market is $1.571 trillion USD" across 3.907 organizations worldwide and that the total impact AUM across the repeated interviewees (from 2019) has grown at a CAGR of 21% over the last 5 year (Hand, et al. 2024b, 3) (**Error! Reference source not found.**). Simultaneously, the average deal size increased by a CAGR of 7% and the number of transactions decreased at a CAGR of 1%, which points out to investors making fewer but bigger deals in the 2019 to 2024 period.

On the impact expectations, the proportion of outperforming investments has also increased, by 3 pp, but here the situation is trickier because the proportion of investors saying they are "not sure" of the generated impact (versus expected) has increased 3 pp, which shows the remaining challenge of impact measurement, that if not done correctly, does not allow a proper conclusion on the success and achievement of the goals of the investment (Hand, et al. 2024a).

Ninety percent (90%) of investors indicated that their impact returns either met or exceeded expectations, and 86% reported the same for their financial returns. According to the 2023 GIIN annual insight report[5], 18% of investors indicated that they do not set quantitative targets for impact performance. Investors are also often reluctant to share their impact performance data,

[4] "State of the Market Report 2024"
[5] "2023 GIINSight: Impact Measurement & Management Practice"

which hinders both the setting of relevant quantitative impact performance targets and the tracking of actual performance. The lack of verified and audited performance data is a significant infrastructure gap in the II ecosystem (Hand, Sunderji, and Pardo 2023).

2.4.2 Comparative Analysis of Impact Investing and Similar Investment Types

Considering a spectrum where on one side there is the maximum financial return and in the opposite side there is the maximum impact, we can position the different types of investments accordingly (Trelstad 2016b), as shown in **Error! Reference source not found.**. On the financial return side, there are Profit-Maximizing Investments (the regular fiduciary investment), which focuses solely on financial returns, ignoring social or environmental outcomes and on the opposite side, there is Philanthropy, which aims purely at achieving social or environmental good without accomplishing financial returns, addressing societal issues through donations or grants (Brest and Harvey 2008). It is important to not conflict the traditional Philanthropy concept with the more recent terms of Venture Philanthropy that incorporate more than just donations or grants (John 2006) and bet on active and long-term engagement with the supported entity, a more tailored financing, operating capacity building, non-financial support, and performance measurement (European Venture Philanthropy Association (EVPA) 2006). For the purpose of this discussion, the comparison is based on traditional Philanthropy, which stays at the end of the mentioned spectrum, with a more passive approach.

According to IBM (n.d.), in the late 1960s and early 1970s, the middle of the spectrum started to gain traction, with the emergence of the concept of Socially Responsible Investing (SRI). The goals of the Socially Responsible Investment community in the 1980s "were generally those of caretaker, protecting human and natural resources from harm and avoiding exploitation for profit" (Bavaria 2007, cited by Trelstad (2016b, 6)). This position allows investors to stand out and raise public awareness and consciousness, and potentially improve industry practices over time, in the cases of unethical behaviors (Knoll 2002).

At the same time (in the late 1960s), the Ford Foundation created a program, that got known as "social investing" or "program-related investments (PRIs)", which belonged towards the philanthropic end of the spectrum and consisted in financing projects at low rates, with the dual purpose of: 1) reusing this capital for additional impactful projects in the case of success or 2) raise potential investors to join the investment processes by proving that these impactful projects are not only for philanthropic motivations (Trelstad 2016b).

In the late 1990s and early 2000s, the concept of Sustainable Investing (SI) emerged. The growth of SI gave rise to the belief that investing was not just about doing less harm through one's investments, but that one might be able to allocate capital to create more social or environmental benefits (Trelstad 2016b). In between "Social Investing" and "Sustainable Investing", the concept of Impact Investing emerged in the 2000's.

Impact Investing is a unique investment approach that sits at the intersection of seeking financial returns and social/environmental impact, so in the middle of the spectrum. In terms of its primary objectives, Impact Investing seeks to achieve both measurable social and environmental impact as well as financial returns. This dual objective is what primarily sets it apart from other forms of investment.

Regarding intentionality, Impact Investing is deliberate in achieving both financial returns and positive social or environmental outcomes. Responsible Investing also involves intentional decision-making, but its focus is on avoiding harm rather than generating positive impact. Fiduciary investing lacks any intention towards social or environmental good, while philanthropy is fully focused on creating positive outcomes without aiming at financial returns (O'Donohoe, et al. 2010).

In terms of impact measurement, Impact Investing should rigorously track social and environmental outcomes (World Economic Forum 2013) using frameworks like IRIS+. SRI has limited measurement, focusing on compliance with ethical standards rather than quantifying outcomes. Regular investing does not include impact measurement, and philanthropy may have some form of measurement but is less structured, focusing on broad social change, rather than specific metrics or outcomes (Brest and Harvey 2008).

Regarding financial returns, Impact Investing can offer below-market to market-rate returns depending on the investment, while SRI aims for market-rate returns with ethical considerations, like ESG criteria (Gerritsen 2016; Höchstädter and Scheck 2015). Regular investing seeks maximum financial returns with little regard for social impact, and philanthropy does not aim at financial returns, prioritizing social and environmental good.

In summary, when comparing II with SRI, regular investing, and philanthropy, it becomes clear that II uniquely integrates the pursuit of financial returns with intentional social and environmental impact. While SRI shares some ethical considerations, it lacks the proactive approach of generating positive outcomes. Citing Gerritsen (2016, para. 1), "impact investing can be seen as an improvement over socially responsible investing. It's not about creating an investment portfolio with the objective to minimize negative side effects, but to actually create positive impact" Understanding these distinctions clarifies the unique value proposition of II within the broader investment landscape.

2.4.3 The Confusion between ESG and Impact Investing

Coined in 2004, ESG emerged as a joint effort by the United Nations, the International Finance Corporation (IFC) and the Swiss Government to support the financial industry's consideration of ESG issues in mainstream investment decision-making (Foroughi 2022, para. 2). These are Environmental issues (greenhouse gas (GHG) emissions, biodiversity loss, pollution and contamination, carbon regulation exposure, renewable energy), Social issues (Labor practices, community displacement, human rights, health and safety, financial inclusion) and Governance ones (Corruption and bribery, fraud, reputation, management effectiveness), as described by the World Wildlife Fund (2014).

As ESG measures rely on publicly reported data, ESG-focused investments tend to exist within the public markets. Any company can receive an ESG rating, even a negative one, as long as data is available to examine the company. On the other hand, Impact investments have historically taken place in private markets, as the ideas that emerge to solve these complex problems require more time and a tailored financing and support to enable these projects to eventually become solutions (Foroughi 2022).

As a result, ESG attempts to serve as a guideline for public understanding of environmental, social, and governance factors, while the intent to achieve a financial return on impact investments is an incentive to channel capital towards these interests. Generally, this translates to an alignment with one or more of the UN Sustainable Development Goals (SDGs) as a cornerstone of the impact investment strategy. The results are targeted performance metrics that are measured against stated objectives, which ultimately hold investors accountable", citing Foroughi (2022, para. 8).

ESG can be used to mitigate risk by helping investors and financial institutions exclude or screen investments in companies that are controversial due to their negative social or environmental impact (UBS 2011a). On the other hand, II takes all three financial, social, and environmental benefits into consideration, and may even prioritize social and environmental benefits in the early stage of investments, as long as financial returns are positive. Due to the ex-post nature of ESG measures, the primary source of value for ESG-focused investors is financial return, as the possible benefits are only evaluated after the investment is made, although they can be used to inform and influence future investments (Mortazavi 2023).

With ESG-focused companies prioritizing transparency and proper governance, they invest in ESG to drive purpose, build reliance and create long-term stakeholder value. Like all investments, investing in ESG sets the foundation for driving impact long term and creating resilient outcomes, which the collective set of stakeholders can benefit from. In other terms, investing in ESG and impact is about investing in a good business with an eye on the future and commitment to create value for the next generations (Mortazavi 2023).

2.4.4 The UN Sustainable Development Goals (SDGs)

With environmental and social aspects now being a prominent topic in financial markets, a clear shift towards considering actual impact is observable. The United Nations (UN) have developed an Agenda for 2030, aiming to create a more peaceful and prosper world, for people and for the planet, that involves the action of all countries (developed and developing) to act against the main problems of the world. Presented and adopted in 2015, in the New York Summit, the UN created 17 goals to be achieved, as shown in **Error! Reference source not found.**.

As this is a very ambitious project, it requires staying well on track. For that reason, the UN launches an annual report, collaborating with national statistic centres of all involved countries to check the progress of the agenda. According to the 2024 SDG Report, with just six years remaining, current progress falls far short of what is required to meet the SDGs as “only 17% of the SDGs are on track, nearly half are showing minimal or moderate progress, and progress on over one third has stalled or even regressed” (United Nations 2024, 2). This can be justified mainly due to the Covid-19 pandemic, recurring geopolitical tension, conflicts and climate threats worldwide. Without massive investment and scaled up action, the achievement of the

SDGs will remain elusive. In the case of Portugal, it is currently ranked at the 16th position[6], compared to the remaining 167 countries that address the SDGs, with its highest scoring SDG being the number 1 ("No Poverty"), which highlights the good performance of the country in considering and applying the UN's SDGs and shows that Portugal is one of the most sustainable countries in the world.

2.5 Financial Tools Used in Impact Investing

2.5.1 Financial Tools

In the realm of impact investing, various financial tools are deployed to align funding with social outcomes while ensuring financial sustainability. From grants to hybrid instruments like convertible notes and outcome-based financing mechanisms, these tools enable impact ventures to access capital tailored to their specific needs. The following section explores how these diverse instruments, ranging from non-repayable grants to flexible debt structures and equity arrangements, contribute to driving social impact while fostering long-term resilience and sustainability.

Grants - A grant is a form of financial support characterized by its non-repayable nature. As a result, grants are frequently associated with foundations and government programs, which aim to support initiatives that may otherwise struggle to secure traditional financing. This has a downside, because of the absence of repayment obligations, grants inherently offer limited incentives for maximizing the efficiency of fund utilization, unlike financial tools tied to performance metrics or returns on investment. The lack of external pressure to generate financial returns may, in some cases, reduce the drive for optimizing the use of resources (Gianoncelli and Boiardi 2017a).

[6] According to the Sustainable Development Solutions Network rankings for 2024

Grants are particularly beneficial in the early stages of a project, providing seed funding to help launch ventures that could face significant barriers to receiving market-based investments. One of the main advantages of grant funding is the freedom it gives to resource allocation, allowing them to prioritize critical areas without the constraints typical of more commercially driven financial tools. However, this flexibility comes with risks. Without adequate non-financial support, such as mentorship, strategic advice, or capacity-building initiatives, organizations can become overly dependent on grants for their survival. This dependence can create sustainability challenges, especially if continuous grant funding is not guaranteed (Gianoncelli and Boiardi 2017a).

With these factors in mind, grants should ideally be directed toward fewer organizations but with deeper, more comprehensive support to create meaningful impact and reduce the reliance on continued external financial aid (Gianoncelli and Boiardi 2017a).

Debt Instruments - Debt instruments are loans with an interest rate that reflects the risk profile of the investee (Gianoncelli and Picón Martínez 2020).

Debt is generally favorable when the investor is seeking a fixed return over a specific period. Because of this it is most appropriate for investees with stable and predictable cash flows, reducing the risk for the investor and providing a clear exit strategy, making it generally safer than an equity investment. However, this reduced risk doesn't come without a cost for the investor as the loan doesn't give any ownership regarding the management of the investee. This could be especially valuable in early-stage investments as these tend to not have a collateral to offer in return (Gianoncelli and Boiardi 2017a).

The lack of ownership can be viewed as a positive for the investee, especially when it comes to profit-sharing rights however the fixed repayment structure and the lack of flexibility might not align with the cash flow needs of a company in its early stages (Gianoncelli and Boiardi 2017a).

Equity Instruments - Equity instruments are contracts where the investor receives ownerships rights of the investee business in exchange for funding. These ownership rights bring financial gains for the investor in the form of dividend payments or in the event of an exit, where the ownership is transferred to others (Gianoncelli and Picón Martínez 2020).

Equity instruments tend to be appropriate when the prospect of a loan repayment is low and there's a big market available with substantial growth so that the potential exit becomes more expectable and desirable (Gianoncelli and Picón Martínez 2020).

This financial gain in the case of a successful exit typically comes after a long time period and may require additional capital to achieve it. Not only that but taking part of the potential upside of the business involves also taking part in its risks and liabilities. The investor's payoff is directly linked with the company's performance and in the case of bankruptcy the equity providers are the last ones to be repaid (Gianoncelli and Boiardi 2017a).

For the investee, equity instruments come with some positives to balance the loss in ownership rights such as the added flexibility and involvement from the investor, a lot of the times bringing valuable know-how and networks.

Hybrid Financial Instruments – Hybrid instruments blend features of the previously mentioned financial tools to better align with the risk and impact/return ratio of the investee (Varga and Hayday 2019).

This possibility of tailored finance comes with the drawback of it being more complex, risking taking more time to deploy and misunderstanding the terms.

Hybrid instruments can be of various types, such as: recoverable grants, convertible notes, SAFE, outcome-based commissioning, and income share agreements.

Recoverable Grants are grants that can be returned to the donor under certain conditions agreed in advance. This may involve the return of all, or part of the grant (Varga and Hayday 2019).

Convertible notes are a type of loan that gives the investors the right to convert their debt into equity at a predetermined event, for example a priced financing round or a liquidation event. The price of this conversion will be determined by the valuation cap and/or the discount rate. For the investor, a convertible note combines the safety of a loan and its limited exposure with the possibility to participate in the investee's upside after conversion. For early-stage companies, this tends to be attractive given the faster and simpler negotiations (fewer terms to negotiate compared to an equity round) which gives quicker access to financing, something that can be key in some business growth phases, at a lower cost (KPMG Fakhro 2023, 5). Traditionally, convertible notes have been one of the most popular instruments for early-stage investors, though that is changing with the rise in popularity of the SAFE agreements.

SAFE - SAFE stands for "Simple Agreement for Future Equity" and is a form of convertible financing. However, they are different from convertible notes in the way that they are not a debt instrument and because of that they don't have a maturity date nor interest rates.

A SAFE gives the investor the right to convert their SAFE amount into equity at the company's next financing round. The conversion will depend on the valuation cap and/or discount rate, just like the convertible notes (Carta 2024).

SAFEs are known for its simplicity and quickness, which combined with the potential favorable equity terms for investors and the added flexibility for founders have turned it into an increasingly popular instrument (AngelList n.d.).

Outcomes Based Commissioning - "OBC is a contractual mechanism that ties service provider payments to achieving specific social and environmental outcomes, shifting the focus from activities to results." (MAZE n.d.).

With this shift in focus, directing it to achieving the results, instead of completing activities, greater efficiency can be achieved, a lot of times in an innovative way (World Bank 2020)

One good example of an outcome-based commissioning contract is the Social Impact Bonds.

Social Impact Bond - A Social Impact Bond (SIB) is an innovative financial tool where private investors supply initial capital to fund social programs, effectively shifting the implementation risk from the public sector to private entities (fi-compass 2018). The government repays to investors, typically with a return, if predefined social outcomes are achieved. This outcome-based model ensures efficiency, as payments are tied to measurable success, and encourages innovative solutions. SIBs bring together public, private, and social sectors to tackle complex societal issues in a cost-effective and outcome-oriented manner. They can be seen as securitizing 'public opportunity costs,' as governments repay investors using funds saved from addressing issues proactively rather than dealing with the higher costs of inaction (Palego et al. 2019).

Income Sharing Agreement - An Income Share Agreement (ISA) is a financial arrangement where a company provides upfront funding to a client or business in exchange for a percentage of their future revenue or income. This agreement is particularly useful for startups or ventures looking to scale, as it offers flexibility by linking repayment to the success of the funded project. The repayment amount varies with the revenue generated: if the client’s earnings increase, so does the repayment. ISAs typically have a capped term and a maximum repayment limit, ensuring that the financial commitment remains manageable. Additionally, repayment only kicks in once the client’s revenue surpasses a predetermined threshold, aligning the interests of both the funder and the recipient towards growth and success (Jakimowicz et al. 2017).

Co-investment - Co-investment, common in impact investing, involves multiple investors pooling resources to fund a single initiative. This approach shares risks, amplifies financial and social impact, and enables support for larger or riskier projects. It also fosters collaboration among diverse stakeholders, strengthening the impact ecosystem and promoting sustainable outcomes (FasterCapital 2024a).

2.5.2 Usage of Financial Instruments in Portugal

Portugal Inovação Social (PIS) is a great example of the co-investment practice as their impact is heavily connected with co-investing, present in all 4 of their financial instruments, each adapted to different stages of social innovation: “Capacity Building for Social Invest”, that funds the development of management skills to enable social sector organizations to effectively implement social innovation projects; “Partnerships for Impact”, a grant-based match fund that co-finances 70% of the financial necessities with a non-recoverable grant; Social Impact Bonds; and the Social Innovation Fund (SIF), the first public financial instrument designed to stimulate the social impact market by enabling credit institutions and equity investors, such as venture capitalists, to directly engage in social innovation and entrepreneurship projects (Portugal Inovação Social, n.d.).

Similarly to how PIS employs financial tools previously mentioned, other players in the industry adopt comparable strategies. For instance, Maze utilizes SAFE agreements in its Maze X program, while foundations engage in initiatives like "Partnerships for Impact." These practices will be explored further in the player analysis sections of this WP.

2.6 Impact Measurement

In recent times, there has been an increase in impact measurement, driven by the growth of the impact investment ecosystem, the rise of sustainability regulations, and the need for investors to assess not only the financial performance, but also the social outcomes of their investments (Arena et al. 2016).

Resources and monitoring are intrinsically linked when it comes to social impact and must therefore be addressed in constant relation to one another. It is essential that social or environmental impact projects can demonstrate the impact they achieve in order to establish credibility and attract investment from both public and private entities, distinguishing them within the market (Mota et al. 2022).

By credibly demonstrating both financial and social returns, investors can gain a competitive edge over traditional investors by attracting capital that seeks dual outcomes, and over direct competitors by substantiating the impact achieved. Additionally, a clear understanding of the impact generated enables more informed and strategic decision-making, allowing investments to be better optimized and aligned with the investor's mission. The availability of concrete data on the success or current state of investments further enhances accountability and commitment, as it fosters greater efforts to meet proposed goals, knowing that outcomes will be rigorously monitored (Jain 2021).

However, skepticism on this topic remains significant, as many view it as a subjective matter, doubting the possibility of measuring social or environmental impact or comparing it across projects within the same field (Kirppu 2019).

Moreover, there is another explanation for why impact measurement remains relatively limited within the ecosystem, despite its clear importance. This process is often costly for investors and still undervalued when compared to the associated expenses. Its subjective and unpredictable nature creates a need for standardized systems, which have yet to be widely adopted by all investors. Furthermore, the impact of a project may only become evident several years after the investment, at a point where investors may no longer be involved. In some cases, the intervention is preventative in nature, further complicating the measurement of the outcomes achieved (O'Flynn & Barnett, 2017).

2.6.1 Outputs vs Outcomes

Apart from the problems related to the lack of measurement, there are also significant issues in identifying and focusing on the most relevant aspects to measure. A persistent issue within the impact investment ecosystem is the ongoing challenge of distinguishing between outputs and outcomes. Outputs refer to the tangible results directly produced by an organization's activities, like services delivered, products made, or the number of people reached. They don’t fully capture the effectiveness of an initiative, as they focus on "what was done" rather than the actual change achieved. Outcomes, on the other hand, assess the direct impact these outputs have on the target population or environment, revealing if the actions taken truly made a difference (Hehenberger, Harling, and Scholten 2013).

This differentiation is important because relying solely on outputs may mislead stakeholders by suggesting success even if the intended change isn’t achieved (Jones 2014). Measuring outcomes, rather than solely focusing on outputs, is crucial for truly assessing an organization's impact (Ebrahim and Rangan 2014).

2.6.2 Impact Measurement Tools

The absence of standardized frameworks and reporting systems for impact measurement, similar to those that exist for financial reporting, makes it extremely challenging to assess the impact generated by a particular investment. This also hinders the ability to compare results with similar investments, making it more difficult to credibly demonstrate the achieved impact and to effectively highlight the positive outcomes to external stakeholders (Bridges IMPACT+ and AVCA 2014).

Despite the lack of a globally accepted framework or method for impact measurement and the varying perspectives on this issue, some consensus does exist (Reisman and Olazabal 2016).

IRIS & IRIS+ - The IRIS+ Core Metrics system was established to bring consistency to impact measurement for impact investors, akin to how standardized accounting principles structure financial reporting. Built upon the IRIS Catalog of Metrics, a curated set of standardized metrics, the IRIS+ system offers a comprehensive foundation for assessing impact. Since its inception in 2008, the IRIS Catalog has served as a key resource for investors, but feedback highlighted the need for a more advanced and user-friendly system with clear guidance for practical application. In response, the IRIS+ Core Metrics system was launched in 2019, introducing features such as benchmarkable data, alignment with other frameworks like the Impact Management Project (IMP), a central set of core metrics, and enhanced support for tracking and comparing impact results (GIIN n.d.a). According to their website, IRIS+ is “a set of tools and guidance that translates impact intentions into measurable results” (GIIN n.d.b).

According to GIIN (2020), 38% of impact investors use the IRIS+ Core Metrics system and 48% use the IRIS Catalog of Metrics. This trend is based on a survey of 273 organizations, which included fund managers, foundations, and development finance institutions (Bass et al. 2020).

Theory of Change - The Theory of Change is one of the most used frameworks among impact investors (Hand et al. 2024a). It is a representation of how initial inputs and activities lead to outputs and to short and long-term outcomes (Jacobs 2018). It is a framework designed for the planning, monitoring, and evaluation of interventions, public policies, and programs. It provides a detailed understanding of how an action will generate impact by defining the objectives and processes that will lead to the intended outcome. The Theory of Change initially seeks to explain the goal of an intervention and how it will be achieved, creating metrics that can be managed and monitored throughout the process. It identifies the mechanisms that explain how and why each activity will lead to its expected result. Through both internal and external assumptions, it specifies the necessary conditions for this to happen, such as economic or social factors. Quantifiable objectives are established, making it easier to track progress and outcomes over time (UTA – PlanAPP 2023).

SROI - The Social Return on Investment (SROI) framework was developed to measure and evaluate the social and environmental value generated by impact investments, enabling the quantification of non-economic dimensions while capturing the broader societal and environmental benefits of projects. This framework incorporates financial values, defined by program beneficiaries, to represent outcomes, allowing for a cost-benefit analysis that provides investors with insights into the social value achieved for every euro invested. For example, a project of a ratio 1:3 indicates that, for each euro invested, you create 3 euros in social value to the direct beneficiaries of the program (UNDP n.d.).

SROI is conducted either retrospectively, using actual outcomes (evaluative SROI), or as a forecast, predicting future social value based on anticipated outcomes. This forecasting helps organizations plan activities for maximum impact, often laying a groundwork for data collection to measure outcomes accurately when projects start (Nicholls et al. 2012).

Additionally, the SROI methodology integrates the Theory of Change to map and track the process, offering a structured approach to understanding how interventions contribute to desired outcomes and long-term impacts (UNDP n.d.).

One Value - In Portugal, the project One Value emerged from a collaborative agreement between the Calouste Gulbenkian Foundation and the Portuguese State. It was developed specifically by MAZE in partnership with the EMPIS (Portuguese Social Impact Investment Taskforce). This project is a publicly accessible platform that consolidates and organizes information on public investment across several priority social sectors in Portugal, including social protection, education, health, employment, and justice. Its primary aim is to provide a centralized and transparent resource that clarifies the allocation of public expenditure in response to some of the nation’s most pressing social challenges (One Value n.d.).

One Value serves as a critical tool for impact measurement by enabling organizations to quantify their contributions to public savings when addressing social issues in these sectors. This transparency not only assists organizations in demonstrating their value but also supports the State in making informed funding decisions (One Value n.d.).

Impact Management Project (IMP) - Since 2016, due to its practitioner community of over 2000 organizations, the IMP has built a consensus, also known as norms, that helps investors and organizations measure the impact they are aiming to create (Impact Frontiers n.d.). The IMP provides resources, best-practice materials, and adaptable frameworks, that do not pretend to determine concretely how investors and organizations should measure their impact, but rather help them align their objectives with the outcomes they want to achieve (Roemer 2022).

One of the main tools provided by the Impact Management Project (IMP) and widely used by impact organizations is the Five Dimensions of Impact (Impact Frontiers n.d.).

The 5 Dimensions of Impact

This framework consists of a set of questions divided into five categories: What, Who, How Much, Contribution, and Risk The IMP introduced this framework to enable each investor to utilize their own platform for data measurement and management, allowing them to track pertinent information within each dimension (Impact Frontiers n.d.).

What - The "What" dimension focuses on understanding how investors and organizations contribute to solving social or environmental problems and the specific outcomes they aim to achieve, whether positive or negative. It assesses the extent to which these outcomes are meaningful and important to the stakeholders involved, and how they relate to the SDGs (Impact Frontiers 2023).

Who - The “Who” dimension serves to identify who experiences the effect and how underserved they are in relation to the outcome. It is based on four categories: “stakeholder” the type of stakeholders experiencing the outcome; "Geographical boundary" specifying where they are experiencing it; "Outcome level at baseline" capturing stakeholders' conditions before an initiative begins; "Stakeholder characteristics" socio-demographic or behavioral indicators to segment stakeholders and create solutions that fit their needs (Impact Frontiers 2023).

How Much - The "How much" dimension covers how significant are the outcomes delivered across three categories: scale, depth, and duration. "Scale" defines the number of people experiencing the outcome; "Depth" calculates the change in outcome over time, comparing their situation after the intervention and the baseline; "Duration" measures the time period for which the stakeholder experiences the outcome (Impact Frontiers 2023).

Contribution - The "Contribution" dimension pretends to compare the outcome to what would have happened anyway. It aims to understand how much the enterprise contributed to the social or environmental outcome achieved, focusing only on the added value provided, by reducing the outcome that would have happened without its intervention (Impact Frontiers 2023).

Risk - The "risk" dimension assesses the likelihood of the impact expected not being achieved. It helps enterprises understand what kind of impact risks they are facing in seeking to create impact and how they can mitigate them (Impact Frontiers n.d.).

2.7 Challenges of Impact Investing

2.7.1 Challenges with the Impact Investing Definition

Despite the growing popularity and clearer definitions of impact investing, several challenges remain. The lack of a universally accepted definition often leads to confusion between impact investing and related concepts such as SRI, ESG, Venture or Traditional Philanthropy and Corporate Social Responsibility (CSR).

The intentionality behind impact investing, while a key characteristic, is not always clearly delineated in the literature, leading to varying interpretations of what qualifies as an impact investment. As it is a subjective term and hard to be measured, so some argue that saying an investment was impact-oriented is merely “speculative” (Busch, et. al 2021). The intention behind the investment raises a discussion topic: what if a company that wants to build an infrastructure, product or service ends up driving substantial impact in a different direction than their goal was? Does it not constitute an impact investment because it has no intention of doing it? There is a clear distinction between intended and incidental impact and the case mentioned is classified as the latter. But what could be more important? The intention or the outcome?

Moreover, the potential for "impact washing," poses a significant challenge. The term refers to the dilution of impact investing, using “impact” as a marketing tool to attract capital or boost reputations, without actually focusing on material solutions to environmental and societal challenges (Busch, et al 2021). This issue underscores the need for rigorous impact measurement and reporting standards to maintain the integrity and credibility of II.

2.7.2 Challenges with the Concept of Measurability

Despite the steady growth we have seen of Impact investments around the world, with substantial growth in AUM and volume of transactions, in several countries, measuring their impact still remains a serious challenge (Rosario 2022). This challenge is bigger in the social domain as there is insufficient data in the emerging markets, lack of uniform and comparable metrics and the qualitative nature of certain Sustainable Development Goals certainly do not help in the impact evaluation process (Rosario 2022).

Despite the increasing awareness for the theme and the creation of impact measurement tools, which help at creating a benchmark for comparison by using standardized accounting practices, which are open to independent verification, the problem of measurement still exists if this is not used across the whole industry. Impact needs to be measured so that investors can make comparisons that drive investment decisions (Gilbert 2017). There is the need for an alignment between the different parties in the investment decision making process, a shared language and set of reporting tools that can help clarify impact preferences and incentives. As said by Trelstad (2016a, 11), “the inability of these investors to articulate specifically what kind of impact they want to achieve, combined with lack of consistency in how funds measure and report impact, has created a marketplace where there is currently little accountability for the impact in II.”

Hand, et al. (2024a) mentions that across the interviewees of the mentioned survey[7], the majority agreed on the fragmentation across impact measurement frameworks (92%), the difficulty of comparing the impact results against peers (87%) and confusing or conflicting guidance from government regulatory bodies (83%), as shown in **Error! Reference source not found.**. However, the public-sector focused investors claim that there has been an evolution in this regard and that there is more transparency in these public companies and clearer guidance from government regulations. On the other hand, the private-market focused investors do not see that change, stating that over the last 5 years it has worsened, which can be due to the increasing amount of legislation that makes it more confusing.

2.7.3 Challenges with Expectations and Alignment of Interests

In the mentioned spectrum, which separates impact and financial return, each end offers clearly distinct concepts. At the philanthropic level (impact side), it is clear that foundations and organizations are focused on driving impact. On the opposite side, asset managers want their financial returns to be above market rates. However, as Impact Investing is an interception of both, requiring these financial returns and a superior social or environmental impact, it is not that clear how things should work.

[7] State of the Market Report 2024 (Hand, et.al 2024a), mentioned in chapter 2.4.1

Usually, communication is much clearer on the asset manager's side because it is easier to measure whether a certain investment achieved the required or objective financial return. On the philanthropic side, things are a bit trickier, as “bad reporting” is quite common and not achieving the impact desired has little (or no) consequences compared to not achieving the desired financial returns, as impact is much more subjective, harder to define and measure and idiosyncratic (Brest and Harvey 2008). However, the main problem identified is the relationship between risk-return expectations alongside impact expectations, as highlighted by Trelstad (2016a), with the challenge being much greater for the emerging-market focused investors. This can be due to expecting to generate substantial impact but not being able to support lower financial returns; or maybe in the emerging markets, inherent risk is higher, but the financial return does not compensate for it.

3. The Role of Public Funds in the Portuguese Impact Ecosystem

This chapter focuses on describing the way public funds operate, get funded, guided and highlighting their connection with companies, more specifically with impact-focused companies, as well as their involvement with these ventures.

Public funds are financial resources that are sourced from government revenues and allocated by public entities to serve public interests, often aimed at economic development, social welfare, and public services. “Public entities include (…) financial institutions, (…) and any other institution whose primary purpose is to benefit or promote a specific national interest, regardless of ownership” (World Bank 2018, 3). In the context of II, public funds are used to create a robust environment and stimulate investments in projects that generate social, environmental, or economic benefits, which might not otherwise attract sufficient private capital (World Economic Forum 2024), as they would not be profitable or require substantial investment, without the matching levels of risk-return.

7.1 Portuguese Growth Trajectory and Public Spending

Portugal has shown a significant delay compared to most advanced countries in the OECD and has had several ups and downs in the past years, having periods of strong convergence and others of slow convergence or even divergence (OECD 2023), as shown in **Error! Reference source not found.**. In 2021, Portugal’s GDP per capita was around 75% of the OECD average, which is a similar level to the early 2000s and has been caught or surpassed by countries that were far from their levels decades ago. Despite its significant potential for economic catch-up, productivity growth has been slow and declining for the past 25 years (OECD 2023, 12), however it is expected to start showing signs of recovery from now on (Banco de Portugal 2024, 13).

Until the 1990s, Portugal's expenditures as a percentage of its GDP were clearly below the OECD average, leading to a lot of inefficiencies and imbalances in the public sector. After joining the OECD, in 1986, Portugal has been receiving support to be able to converge to the affiliated countries' averages, however that has not been an easy task. This support has represented around 3% of the GDP and has been increasing public investment significantly. However, it does not matter if the amount has increased, if it is not driving any change or being well employed (Ederveen et al. 2003). The latter problem happens when policymakers end up financing projects that are not economically viable for political motives, as the funds come from the EU, not from the country's own funds (Mohl & Hagen 2010).

Despite the increase in public spending, Portugal's trajectory to meet these average[8] has not been as good as it should, as productivity levels have shown themselves to be very low. Portugal's low productivity is certainly affecting their convergence goals (**Error! Reference source not found.**) and that is mainly due to weak investment and limited management skills (OECD 2023, 11), something particularly significant in micro and small firms, which are clearly less productive than larger ones. This is concerning as those concentrate most of the employees, as micro firms[9] account for 40% of total employment and small firms[10] account for 60% of the employee force (OECD 2019, 92). Besides low productivity, there are multiple social areas where Portugal faces strong challenges such as ageing, mental health, poor access to healthcare, education, and others, but at least there are signs of strong investment in those, as social expenditures have grown steadily from 18.6% of GDP in 2000 to 24.6% of GDP in 2022 (OECD 2023, 50) and are expected to increase further due to population ageing (OECD 2021, 52).

[8] OECD average
[9] firms with up to 9 employees
[10] all firms with up to 50 employees

7.2 The Importance of EU Funds

Most European countries were very affected by the Covid-19 pandemic and Portugal was no exception. In 2020, the European Commission developed an initiative called Recovery and Resilience Mechanism (RRM), which aims at helping countries recover from the mentioned event and transform the European economy. In Portugal, that program is called Recovery and Resilience Plan (RRP). Initially valued at €16.6 billion, the plan has been modified to €22.2 billion in 2023 and aims at boosting Portugal's green and digital transitions, with a significant portion focused on energy efficiency, public infrastructure, and digital modernization.

Portugal's Recovery and Resilience Plan is intended to foster a stronger post-COVID recovery, while making the economy more sustainable, resilient and prepared for the green and digital transitions (Recuperar Portugal n.d.). Currently, Portugal has only received 38% of the committed amount by the European Union, which is close to €8.5 billion. Of the total committed amount (the €22.2 billion), €20.2 billion have been approved but only €6.005 billion have been already paid (Recuperar Portugal n.d.). Despite the delay, it is safe to say that the RRP is one of the biggest (if not, the biggest) impact initiatives ever done in Portugal and the European Commission estimates that it could lift GDP by 1.5% to 2.4% by 2026, create 50.000 jobs and that the spill overs from the RRP's of other countries are expected to boost Portugal's GDP by a further 0.5% by 2026 (European Commission 2021, 6).

Every application that integrates the Agenda and, therefore, celebrates the Acceptance Agreement, receives a 23% upfront payment and usually should ask for the upcoming payments two times a year. These, however, are dependent on the proven execution of the targeted investments. If they do not meet the targeted metrics, they can see their source of funding get cut or even disappear (Recuperar Portugal n.d.).

The Cohesion Policy of the EU as we know came into existence in 1988 shortly after the enlargement of the EC[11] to Spain, Portugal and Greece (Marzinotto 2012). The European Union drives a percentage of their budget to build the European Structural and Investment Funds (ESIF), which are just as transfers from the EU to their Member States (MS), according to the cohesion and development goals. Portugal and Greece, which are part of the older group of MS, have benefited immensely with this aid, as they are beneficiary countries, receiving more than they pay (Nogueira 2019); the last program in place was Portugal2020 and currently there is Portugal2030 (PT2030), which will be applicable between 2021 and 2027. That program is called a Partnership Agreement (PA) because it is an agreement between the European Commission and a Member State; its goal is to clearly define where those funds are going to be allocated in Portugal, which can be in multiple domains and areas, such as company development, education, infrastructure, R&D and much more. Money used in these PA's comes from the European funds (ESIF), which together contribute to almost €23 billion, across several funds, where the most relevant ones are the European Regional Development Fund (ERDF), Cohesion Fund (CF) and the European Social Fund+ (ESF+), as they represent most of the budget of the EU allocated to ESIF (P. Nogueira 2019; European Commission 1998).

Regarding PT2030, it is divided into smaller programs, depending on the region of intervention or the sector in need. When it comes to the regional division, there are multiple programs that act to solve problems such as: blue economy, sustainability, energy transition, inclusion, urban mobility and development, and others; they are available for the different regions of the country and target different themes such as competitivity, sustainability, people and the sea (Portugal2030 n.d.). It is important to mention that PT2020 was a key agenda for the development of the Portuguese II scene, as it culminated in the creation of the Portuguese Social Innovation Fund (SIF), under the management of EMPIS. This was the first public financial

[11] European Comission

instrument focused on investing in social innovation, with 85% of the verbs coming from the ESIF. It created the needed awareness for the theme of Impact Investing in Portugal, as it combined the dual goal of social impact and financial sustainability, with only 15% of the funds coming from the Portuguese Government (Decree-Law No. 28/2018, May 3rd).

7.2.1 The Operation Under EU Funds

Just like the RRP, PT2030 operates in a similar process: the calls. Periodically, there are calls made by this program and companies apply for it in order to receive funding. There are a group of intermediary institutions (IAPMEI, AICEP, Portugal Tourism, ...) that evaluate these applications and select those that will receive the support, according to the pre-requisites of that call. Each application will receive a grade based on the accordance with the pre-requisites, innovation, financial sustainability, and other criteria (Recuperar Portugal 2021). The approval for the funding depends on the competitivity of that call because the funds are limited. Even if a company gets a good grade in the evaluation process, it might not get funded if, in that specific call, there are stronger candidates. In case the application is approved, then the Term of Agreement is celebrated. The ability to get funded depends on the competition that companies face and the amount of money available to sponsor these initiatives, in each call.

All support is made with upfront payment (up to 10% of the agreed value), subsequent tranches and final payment. Usually, projects last around two years and there is place for two tranches every year. However, these payments are dependent on the achievement of certain agreed metrics. Companies must elaborate, in their initial application, Realization and Result Indicators to be achieved, and those get placed in the Term of Agreement (Recuperar Portugal 2021). Falling short of the targeted indicators has consequences, namely at the level of the support received; depending on the distance between the achieved and targeted indicators, funding might even terminate.

Summing up, even if a certain application is approved, its funding is reliant on the successful execution of the projects and, therefore, might lead to partial reimbursement by the beneficiary, in case things don't go as planned.

7.3 Research Questions

The goal of the research about Impact Investing in Portugal is common across all areas mentioned in this WP. Public Funds are part of the impact ecosystem and play an important role in it. We aim to know more about them, how they operate and how they help driving impact, if that is the case. After the research and further investigation, we aim to answer the following questions about public funds' intervention in Portugal:

RQ1 – How are public funds supporting the Impact ecosystem?

RQ2 – What is the importance of the "impact" component on their investment decision-making?

RQ3 – What is the importance of external funds, such as EU ones, on their operations?

RQ4 – Are these investments generating any impact? Is this Impact being measured?

7.4 Investigation Procedures

As mentioned before, an investigation was developed based on a qualitative approach. With interviews to the main public funds and entities in Portugal, important questions were asked (survey 5) to access what is being done to achieve impact and drive a societal change. For this interview process, we identified 4 key players (table 5): Banco Português de Fomento (BPF), IAPMEI, Portugal Inovação Social (PIS) and Portugal Ventures (PV).

These entities were chosen because the four together greatly represent the Portuguese Impact Public players. They all show a strong focus on innovation, and social and environmental awareness, even though that emphasis varies from one entity to the other. Some stand out in this field, by including social innovation as a core criterion in their investment process, considering UN’s Sustainable Development Goals (SDGs) when evaluating companies and their solutions, and prioritizing impact in their portfolios, while others prioritize financial returns, leaving social and environmental impact as secondary goals.

In the next chapters, common traits and differences will be mentioned across a vast array of topics, without the identification of either in the findings and citations, to protect the entities. From the next chapter onwards, these will be mentioned as PF1, PF2, PF3 and PF4, but not in the corresponding order that was mentioned in the table, so they can’t be identified.

7.5 Findings

7.5.1 The Support Mechanisms of These Entities

After interviewing all entities, it is safe to conclude that these entities’ main support mechanism is providing capital to enterprises (funding). All of them contribute to increasing the monetary capability of the companies, what varies is the way they do it.

All entities act as financial partners, but some are more supportive in other forms: PF1 is strictly monetary, as they “never actively participate in companies’ day-to-day activities nor have any member of the entity present in a company’s board or internal meetings, even though they have that possibility”; PF2 has several programs that help companies such as annual awards, vouchers, competitions, the regular calls, and also provides a strong network of enterprises from over 40 countries; PF3 is a financial partner with a vast array of financing instruments, which don’t require reimbursement (and used to have a financial instrument), besides other lines for innovative solutions or entrepreneurial and impact centres; lastly, PF4 temporarily participates in the equity of the companies, providing know-how and support to their development. Summing up, all these players provide financial support to companies, through a common method (the calls), but some are more present in the impact ecosystem, acting closer to the enterprises with other methods.

7.5.2 Fund Allocation and Co-Investment

Despite being public entities and receiving most of their funds from the public sector, one common trend of these is co-investing with private entities in what is called a public-private partnership (PPP), but they also co-invest with other public entities. PPP's can be very important in delivering a social good and improving efficiency, by increasing competition in the market and allowing the implementation of projects that might not be attractive for the privates (Bronchi 2003). Two of the four interviewees highlighted the importance of co-investing, as it "allows to increase the amount of funding, and therefore, the capacity to help certain projects, but also, risk sharing", says PF4.

Across all entities, it is highlighted a lack of "impact-driven financing." Besides PF3's financial instrument, there are no other funds that are solely focused on social or environmental impact. "The amount of money that is channeled to impact is very slim and limited", says PF1, "being only a small percentage of the total funds' budget."

7.5.3 Evaluation Criteria and Selection Process

During the mentioned calls, there are several pre-requisites that limit the companies that can apply for funding, such as size of the company, stage (pre-seed, seed, late stage, other phases), location, and others. When it comes to the process, it is similar across all entities. There is a public tender process (call), where companies can apply. Then, the institutions must internally evaluate whether these companies "deserve" the funding, considering several criteria, that vary depending on the specificness of the call. It is clear that the process is much more reliant on the companies' active pursuit of funding rather than the institutions' search for investment opportunities. The evaluation criteria varies across organizations, but it is possible to find some common metrics, such as: innovation, potential impact, dimension of the target audience and financial viability. Some institutions, like PF2 and PF4, which are more focused on the financial component of their investments, argue that scalability and financial sustainability are as (or more) important than impact. On the other hand, PF3 acts in a way where it prioritizes impact, so that is also present in their evaluation criteria, defending that "by paying too much attention to financial returns, we are generating way less impact and solving only a smaller fraction of all existing problems in society."

7.5.4 Impact Measurement and its Challenges

Impact measurement is a recent theme and it has presented serious challenges for every player interviewed, with all of them highlighting it as a concern, but arguing that it was not present when they were created, so it is not "in the roots of their action." Whilst possible solutions to environmental problems might be easier to evaluate and track their effect, societal problems' own nature do not help to monitor them. When it comes to the latter, some common problems were identified, such as its subjectivity, the time it takes to see a societal change, lack of common indicators, and others mentioned in previous chapters. For that reason, PF3 and PF1 do not measure impact directly, but they delegate it to external consultants or even to their co-investors. On the other hand, PF2 and PF4 show the ambition to start the measurement process, even though they recognize its challenges and point out that it is very important to do it to keep track of their investments, not only in financial terms but also considering its true impact.

7.5.5 Key Investment Areas

The United Nations aims at targeting and reducing social and environmental problems and has developed, over the past years, guidelines for their members to adopt. For the 2030 Agenda, they have set 17 Sustainable Development Goals (SDGs), where each Member State has to drive their politics according to their specific needs and issues, but at the same time has to be aligned with the UN's targets in addressing these SDGs. In the case of Portugal, the Government finds that there are some concerning issues in the country and so the priority areas of focus are the SDGs 4, 5, 9, 10, 13 and 14 (Público 2024, para. 5) (**Error! Reference source not found.**).

These are the SDGs that PF3 and PF1 consider in their evaluation process, when reviewing applications. Companies applying to their calls must align with at least one priority SDG or two non-priority SDGs to be considered in the process; otherwise, the application is immediately rejected. Besides those, PF1 is keen on promoting health and well-being (SDG3) and quality education (SDG4). PF2 also incorporates these in their selection process, mentioning that companies need to target at least one SDG and highlighting that their investments have been targeting mainly SDGs 7, 8, 12 and 13 (**Error! Reference source not found.**).

PF4, on the other hand, is only starting to incorporate SDGs as a criterion in the selection process of their investments, highlighting that "due to the increasing number of SMEs in Portugal, there has to be certain differentiation between them."

Overall, the effort of considering SDGs in their activity is being made, but the way they consider it highlights that it is much more important for the companies to target them, rather than for the investors. The responsibility is more towards the companies' side, that can use these SDGs as a marketing tool to show that they are creating impact, and that way increase the chances of getting supported by these major funds and initiatives.

7.5.6 Trade-off Between Impact and Financial Return

Generating impact is something all companies strive for, but when it comes to social and environmental impact, rather than economic impact, the funnel gets tighter. Most funds look for their financial return alongside economic impact when making certain investments, but there is a clear example that focuses mainly on social and environmental impact: PF3's financial instrument, which led to a total of around 10 million euros invested in impact.

The amount that is directly linked to impact investments is hard to measure, mainly because this concept is fairly new and there are no impact-focused funds or initiatives in action. Besides the PF3 case, where we gathered that only around 10% of the funds' investments were considered impact investments (totaling around 10 million euros), the remaining entities could not provide a precise number. These entities aim at a large pool of Portuguese enterprises, not specifically focusing on social or environmental-driven initiatives; however, they still have an important role in the development of this market, as they end up financing them if they fit their application process. Regarding the trade-off between the amount of the investment and the number of companies supported, the views are very aligned. All interviewees act in the same manner, by supporting more companies with smaller tickets, rather than less companies, with a bigger ticket, arguing that due to the dimension of Portuguese companies, which are mostly SME[12], their needs are also "smaller" and this way public entities can reach more projects and potentially generate more impact. Although they act that way, they still acknowledge the fact that by supporting more companies there is a small dispersion and they might lose track of their investments; however, as these are central entities, which dispose of several local partners across the country, like incubators, accelerators, universities, and regional centres, they can still manage well this situation and act closely to the investees.

7.5.7 Common Traits of Impact Investment Failures

With such a track record of investments, it was important to understand what the common traits of the failures of these investments were, and surprisingly or not, the answer had common answers across all organizations. All entities mention that the success of any project (not

[12] Small and Medium Enterprises (SMEs)

necessarily an impact-focused one) depends on the team behind it, the solution provided and the market need, at the operational (or internal) level, but it is also dependent on the funding, partnerships and timing, at the external level.

At the operational level, entities highlight that the project must be innovative, answer to a specific market need, have a well identified target audience and an appropriate marketing and market entry strategy. Regarding the team, they all point out that it is extremely important to have a solid team that has expertise over the product or solution they are providing, knows the market needs and how to address those and, lastly but equally as important, needs to be consistent, resilient and act uniformly. Some cases were mentioned during the interviews where the failure of the projects was due to the misalignment of the management team or lack of consistency or belief, rather than the quality of the project itself.

Externally, there are also factors that might affect the project outcomes but that are not intrinsic to it, such as the partnerships, funding and timings. These entities say that projects should not be very reliant on external partners as those can fail at any time. As an example, they mentioned payment delays or partnerships abandonment that, if very dependent on, might end their trajectory. There was another mentioned factor, that is the timing of entrance on the market or simply the economic cycle, which are not on the company's hand, but due to the lack of robustness of its business model, small margin for error or an external event that causes investors to "close their pockets", might also lead to an ending of these projects.

7.5.8 Next Steps on the Portuguese Impact Ecosystem

Across all entities, it is perceived a significant growth of the Portuguese Impact Ecosystem in several dimensions. Whether by the increase in the investors' interest in social and environmental themes or by the increase in the supply of products and services that drive this change, projects of this nature have been on the rise and are expected to continue so.

As mentioned before, public policies can have a substantial impact on the completeness of these projects, and an example of that is the change from PT2020 to PT2030, which eliminated the only real financial instrument solely focused on social innovation. "Currently, there are no specific Portuguese funds that only invest in social or environmental initiatives, which might be a problem", according to PF1. The continuous availability of capital is a necessary condition to finance this kind of projects and the "ending of PT2020 and, more specifically of the socially focused financial instruments, constitutes an enormous step-back."

Besides this, it is mentioned that people's mindset needs to change, and that it is not only at the investor level but also at the entrepreneur level. There is a need to make them believe that these types of projects can be profitable and, by doing so, attract more people into the market: either entrepreneurs who innovate and create new projects or simply additional financial support from investors, believing that, by solving or targeting that problem, are driving impact and getting a positive return on their investment. "There is the need to show that Impact Investing is not to lose money", says PF4, highlighting the common view that these types of projects are philanthropic, do not generate good returns and serve as charity mechanisms, which is not true. The problem is that to show that this is not true, it requires more than the regular investments do (regular financial metrics like IRR, NPV,...); it requires continuous and rigorous monitoring of the impact generated, which is a big challenge for companies and it is still beginning to be implemented in most of the entities we mentioned, not having any result to point out as an example of success.

As PF3 is still managing the funds from PT2020 that were invested and will likely be exiting in the next years, it is expected that their financial instrument can be a good example. "The goal is that PF3's financial instrument could provide a good example, but there is uncertainty when it comes to the results. It can be an eye opener if it goes well, but it can also show the fragility of these initiatives in case it does not, says PF1."

7.6 Conclusions

These interviews were extremely important for a better understanding of the Portuguese Impact Ecosystem at the Public Funds level in several dimensions, such as its challenges, support and financing mechanisms, investment procedures and others. Besides the literature review that gave context and preparation for the interviews, fundamental insights were given by the interviewees, that allow for the following conclusions about the theme:

RQ1 – Answer: Most interviewed entities base their support on the funding component, mainly through public calls, that provide the capital companies need to scale, grow and continue their path. Even though the level of support varies across entities, with some acting as silent partners and others as more active ones, most of them stated that cooperation between the public and private sector is crucial for the success of II, mentioning several cases of co-investments with private companies or funds. Whether by the advantage of risk sharing or by the ability to raise a larger amount of capital, these partnerships leverage its success and are needed to support more projects and generate the desired impact, as concluded by Bronchi (2003).

RQ2 – Answer: When it comes to the selection process of the investments, there are several common traits of selected companies, with innovation and financial sustainability being the most important ones. The entities defend that innovation is a “must-have” factor as it is what differentiates the offering and drives the potential success of that project, separating them from competition, to become valued, needed and to have a strong competitive advantage. On the financial side, the ability to be financially sustainable is also extremely important, because being dependent on the financing or not being able to bring a financial return will limit the probability of success. In the first case, as it was mentioned before, if financial dependence is too high, projects might fail due to payment delay or certain external events; in the second case, as many funding processes are made in tranches, which are usually tied to the proven results, if those results don't appear in a timely manner, the next round of funding might not even be paid out, which will hurt the continuity of the project. (The potential) Impact is an important metric that public entities look for in impact initiatives, with most of these entities considering SDGs in the investment decision-making, but they defend that it is insufficient; the characteristics described previously are the main drivers for these projects to stay on track and effectively deliver their desired impact.

RQ3 – Answer: During the interview process, it was very clear that these entities find that the public policy framework has enormous impact on the ecosystem, as it defines the areas of acting and the amount of capital available for II, determining these funds' ability to drive impact. Specifically in the Portuguese case, where the dependence on EU funding is tremendous, representing 10,4% of 2019's GDP (Banco de Portugal 2024, 51), the connection between Portugal and the EU is crucial for the continuous development, growth, and sustainability of ventures, as it represents most of the amount channeled to II. As an example, we have described initiatives and programs that only existed mainly because of this EU directives and support, namely the RRP and PT2030 programs and the creation of the Portuguese SIF. The continuity of this relationship between the EU and Portugal is vital and entities are aware that if these funding channel gets cut, the II ecosystem will be hurt.

RQ4 – Answer: There is the rising need for impact measurement in an efficient way and based on common metrics, to make comparisons of investments against benchmarks much easier. This is an area where there is a lot of room for improvement as most public entities do not measure the impact of their investments, either delegating external entities to do it or simply trusting ventures' own measurement (which can be extremely biased). However, it was shown during the interview process that these public entities are starting to realize the importance of keeping track of their investments, reason why some are initiating to do so. As a result, it is expected a big change when it comes to impact measurement in Portugal, in the next years.

8. Research Limitations

This research encountered several challenges, both in the literature review and in the direct investigation through expert interviews. One of the most evident problems encountered was the lack of quantitative data, as the topic is inherently subjective due to the nature of social issues. Moreover, impact measurement is not universally implemented across organizations, and when it is conducted, it often relies on varying frameworks.

In the literature review, one of the main challenges was understanding the precise concept of impact investing, given the multitude of existing definitions and often conflicting perspectives among scholars. This issue was also evident during the expert interviews, as the interviewees sometimes held differing definitions of impact. As a result, comparing the information gathered in the interviews became more challenging.

Additionally, given the focus on the Portuguese context, there is a noticeable scarcity of published academic papers and articles addressing the impact investment ecosystem in Portugal or related concepts. This limited availability of resources made it challenging to establish a robust theoretical foundation.

In terms of the expert interviews, Portugal's relatively small market size and limited impact investment landscape posed further constraints. The niche nature of the topic, combined with the concentration of a few key players, restricted the number of potential interviewees. On the investor side, particularly among public funds and venture capital firms, the number of dedicated impact investors is quite limited. Those who do exist are responsible for a significant share of activity in this field, leading to a highly concentrated and poorly diversified market. This concentration not only limited the scope of our interviews but also highlighted the challenge of generalizing findings within such a narrow market.

9. Conclusions

This research set out to explore how various stakeholders within the Portuguese impact investment ecosystem interact and collaborate to drive social and environmental change. The findings reveal that, while Portugal's impact ecosystem is still in a growth phase, significant progress has been made, with clear alignment among key players in fostering positive societal outcomes. The current landscape demonstrates a strong commitment to collaboration, where each diverse stakeholder complements one another to deliver the desired impact.

From the information gathered, we got a deep understanding of how each key player acts. An added insight from this work project was understanding how these players work together and how this shapes the entire Portuguese impact ecosystem.

The process typically begins with the identification of a social problem, sparking entrepreneurial solutions that eventually turn into impact-driven startups. These startups are supported by incubators and accelerators. The scalability of these ventures and the development of sustainable business models are heavily reliant on access to capital from the investment community. This funding landscape is a mix of public funds and private investors, that include venture capital firms, some incubators, crowdfunding platforms, and foundations.

Partnerships with both incubators and impact VCs play a vital role for Portuguese foundations, providing strategic guidance that supports the scaling of their social impact and the achievement of more sustainable outcomes.

Additionally, public investors play a critical role by addressing funding gaps left by the private sector and regularly engaging in PPPs[13] to ensure that the intended social impact is achieved. This collaboration between public and private entities highlights the unique dynamics of the

[13] Public-Private Partnerships

Portuguese impact ecosystem, where diverse stakeholders align their objectives to drive meaningful change.

10. Future Research

As an emerging sector, the availability of comprehensive and detailed data regarding the impact ecosystem remains limited. As the ecosystem evolves and new information becomes accessible, future research will have the opportunity to explore areas that were previously underdeveloped or inaccessible, building on the foundations laid in this study.

One promising avenue for further study lies in the long-term assessment of impact investments. Research could track how social and environmental initiatives develop over time, providing insights into the sustainability of their outcomes and the long-term value they create.

As the ecosystem matures, comparative studies with other regions, both within Europe and globally, could identify Portugal's unique strengths and areas for improvement. Such studies would contextualize Portugal's position within the broader impact investing landscape and provide opportunities for cross-regional learning and the adaptation of best practices.

Finally, as public policy and regulatory frameworks continue to shape the growth of impact investing, future studies could evaluate the effectiveness of governmental initiatives and European Union directives in fostering a more robust impact investment environment.

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Group Part

Appendix

Table 1 - Public Entities Overview

Entity Name	Category	Description	Interviewee´s role
Banco Português de Fomento (BPF)	Public Funds	It is a Portuguese financial institution (not a commercial bank), that is regulated and with similar obligation as banks, even though they are not allowed to receive deposits from customers. Its goal is to develop and dynamize the Portuguese economy, providing capital to Portuguese enterprises, focusing their efforts on the companies' growth, development, and stability.	Head of Equity
IAPMEI	Public Funds	This is a Public Portuguese institution, that was founded in 1975, with the goal of supporting SMEs and foster the entrepreneurial ecosystem, with the focus on innovation, entrepreneurship, and enterprise investment. It manages public funds, either from the Portuguese government or from the European programs, like PT2030 or RRP.	Head of Innovation and Entrepreneurship
Estrutura de Missão Portugal Inovação Social (EMPIS)	Public Funds	It is a public initiative created by the Portuguese government to mobilize public investments under the PT2020 program, driven by the goal to promote and finance social innovation, but also attract private or other public entities to co-invest in these projects. PIS is under the control of a structure called EMPIS2030, which is responsible for the management of the European verbs that are under the PT2030 agreement, that account for 101 million euros, to be used until 2029.	President
Portugal Ventures (PV)	Public Funds	It is a public society that focuses on risky capital funds management and aims at developing innovative and competitive projects. This is a public society, as 80% of the funds under management are public, with the remainder being from private investors or enterprises, with their priority being profitability.	Executive Vice-President

Figure 1 - The 17 UN Sustainable Development Goals (Source: UN)

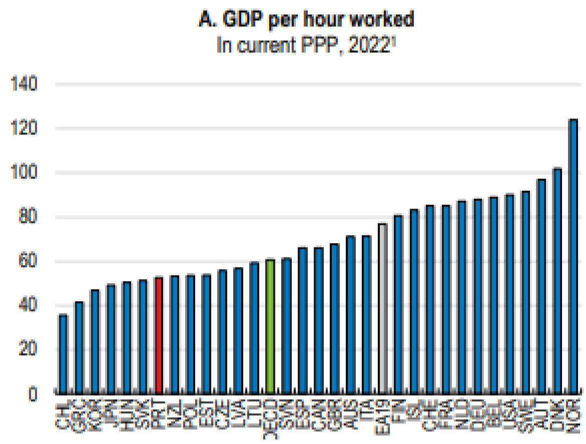
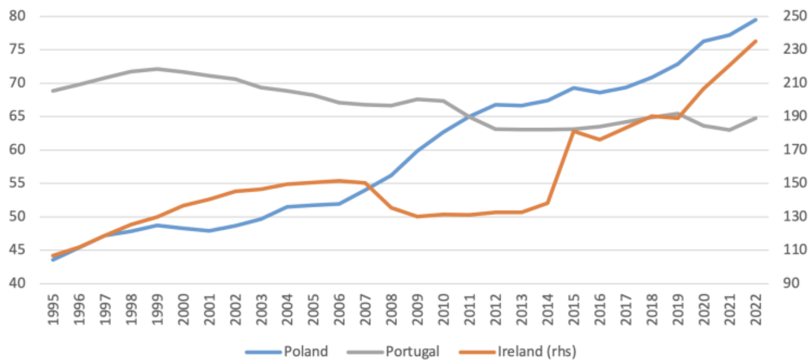


Figure 2 - Portugal´s low productivity compared to OECD countries (Source: OECD)



Source: EUROSTAT

Figure 3 - Portugal´s GDP per capita compared with Poland and Ireland

Survey – Public Funds

1. Introduction and Motivation for the Interview

As final-year master's students in Management and Finance at Nova SBE, we are developing our thesis, which focuses on investigating and analyzing the impact investment landscape in Portugal, including the main players and their approaches. We aim to assess the distinct roles of all entities involved in this type of investment, the methods they use to identify potential investments, monitor their impact, and the type of support they provide to these projects. Therefore, we are reaching out to the public funds sector to better understand its significance in this field, particularly how it generates societal and environmental change through impact-driven projects.

2. Confidentiality Guarantee and Rights

By participating in this interview, the entity agrees to the use of the information provided for academic research purposes, which will not be disclosed to other entities. All information will be kept confidential.

3. Presentation of the Entity and General Information

3.1 What is the name of the Fund?

3.2 When was the Fund established?

3.3 What is the main objective of the Fund?

3.4 How has the Fund's motivation evolved since its inception?

3.5 What is the organizational structure of the Fund? Who are the key members and their roles?

3.6 What amount is allocated to impact projects? How has this evolved over time?

3.7 How are current public policies and possible changes to it affecting the amount of Money channeled to impact investments?

3.8 Which types of entities do you collaborate with, and why?

4. Evaluation and Selection of Investments

4.1 What are the main evaluation and eligibility criteria for this types of projects?

4.2 How is the process since the funding seeking by start-ups to the investment?

4.3 How do projects arise? Is there an active search by the fund, or is the funding requested by external entities?

4.4 Is co-investment with private entities common in such projects? If so, what its main advantages and in which situations does it happen?

4.5 Are there focus areas for impact investments? If so, which ones?

4.6 Considering the Sustainable Development Goals (SDGs) as a global benchmark for promoting more sustainable and inclusive development, does the fund support start-ups or projects that use the SDGs to establish their impact goals. If so, how does the fund help these define and implement their impact strategies?

4.7 Do you feel there is a trade-off between the number of projects supported by the fund and the level of engagement with each project? If so, what is your position? Do you support fewer projects with greater involvement or the opposite? Why?

4.8 Does the entity prefer to select a smaller number of high-impact projects or cover more projects with smaller individual impacts, but a substantial aggregate impact?

5. Performance and Impact Assessment

5.1 Does the fund measure impact? On a scale of 0 to 10, how important is impact measurement?

5.2 What metrics are used to measure the impact of these investments?

5.3 Is the impact generated compared to any benchmark or pre-established goals?

5.4 What are the main challenges faced in measuring impact? On a scale of 0 to 10, how challenging is impact measurement?

5.5 Have the investments made by the fund been generating impact? What about achieving financial returns?

5.6 On a scale of 0 to 10, rate the importance of financial return in impact investments.

5.7 On a spectrum where 0 is maximum social impact and 10 is maximum financial return, where would you position this fund?

5.8 What would you consider a common characteristic of failures in impact investments?

5.9 Could you provide an example of a success/failure you are aware of? What contributed to its outcome?

6. Entity's Vision for the Future

6.1 How do you see the impact landscape evolving in the upcoming years? What are the main opportunities and challenges?

6.2 What steps should be taken to generate more impact?

6.3 How do you see the portuguese landscape compared to Europe? And compared to the rest of the world?

6.4 Considering what was discussed and the II scene, what are the entity's future plans?

7. Conclusion

7.1 Would you like to add any comments or points that were not covered?

7.2 Considering the theme of our thesis and the types of questions asked, which entities would you recommend we contact to enrich our research?

7.3 May we stay in contact for possible follow-ups or additional questions?

Table 2 - Public Funds Content Analysis

Themes	Sub - Themes	Keywords or Concepts in commun (times mentioned)
1. Entity Overview and General Information	Fund´s motivation	Dynamize the portuguese economy and the entrepreneurship ecosystem by financing innovative projects (4); innovation (4), growth (4), entrepreneurship(4); funding(4)
	Amount of II	Unkown (2); 10 million euros (2); hard to measure (4)
	Importance of Public Policies	very important in defining the amount channeled to II (4); change from PT2020 to PT2030 (2); EU funding (4); ESG; SIF (2); PT2020 (3)
	Support Mechanism	Funding/Financing (4) ; monitoring (2), access to incubation (2)
	Collaboration with other entities	Private companies and foundations (4) , incubators and accelerators (3), universities (4), local ministeries (4), business angels (3)
2. Evaluation and Selection of Investments	Evaluation and Eligibility criteria	dependent on the call (4); innovation(4), financial viability (4)
	Investment Process	calls (4), co-investors find the project , active pursue of startups/companies (4)
	Co-investment and PPP´s	Usually co-invest with private companies or funds (4); risk-sharing (4); raising more capital (4)
	The importance of SDGs	Sets the focus of the calls, priority SDGs (2); evaluation criteria (4)
	Key areas of focus	pre-seed or early-stage companies; SGD 4(2),5(2),7,8 , 9(2), 10(2), 11, 12, 13(3), 14 (2)
	Loss in engagement with increasing number of investments	Medium, it exists but the fund has a national network that can be closer to companies (4)
	Preference on the ticket size	small size to help more companies/projects (4)
3. Performance and Impact Assessment	Fund´s measurement of impact	Don't measure impact (3) ; delegates to external entities or investees (3) ; starting to measure (2)
	Impact measurement tools	unsure/unknown (4)
	Challenges in the measurement process	subjectivity of social problems (4) , changes take time (2) and can´t be evaluated in isolation (2); hard to measure (4)
	Current impact of the funds´investments	unknown (4)
	Importance of financial return (0 - 10 scale)	3 , 10 (2), 5
	The fund´s position (o - social impact; 10 - financial return)	9, 7, 2
	Common traits of failure in II	Team (4); lack of consistency and resilience (4); lack of knowledge of the product/market (3); reliance on third parties (2); bad timing (2)
4. Entity's Vision for the Future	Challenges and Opportunities for II	Several funds available through the EU
	The Portugal case	Less money focused on social innovation/Ending of the SIF (4)
	How to drive more impact?	Convince that II is not to lose money, to attract more capital (4)