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Impact Investing in Portugal -

The role of startups in the ecosystem

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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 Figure 1: (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 Figure 1, 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 (Figure 2).

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) (Figure 3). 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, which hinders both the setting of relevant quantitative impact performance targets and the

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

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 Figure 5. 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 Figure 6.

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

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

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).

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 Figure 4. 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 Startups in the Portuguese Impact Ecosystem

Startups are among the most important players in the ecosystem, bringing innovative business models that create solutions to numerous challenges, especially in the case of impact startups. They often act as the primary drivers of impact within the ecosystem, while the other four types of players are more focused on funding and support rather than generating impact directly (Gianoncelli and Boiardi 2018).

An impact startup is distinguished by having, from its inception, an innovative business model aimed at creating a positive social or environmental impact, while also generating financial returns (O'Donohoe et al. 2010). To be considered an impact startup, the business must address at least one of the UN's SDGs (Web Summit n.d.). The fact that it operates as a hybrid business model often involves greater risk, as it is a less explored and covered area. However, if successful, the total value created is considerably higher, as in addition to financial returns, there is a substantial impact on future generations, resulting in positive and lasting transformation for both society and the environment (FasterCapital 2024b).

3.1 Research Questions

Given its importance, this part of the study will focus on investigating these types of startups, which are key players in the ecosystem. We aim to answer these research questions:

RQ1 - What are the predominant strategies employed by impact startups to effectively integrate their social or environmental missions into their business models, and how do these strategies balance financial sustainability with impact?

RQ2 - How do impact startups measure their impact, and what are the challenges associated with these measurement practices?

RQ3 - What are the key funding strategies utilized by impact startups, and how do they navigate the challenges of securing investments that align with their missions?

3.2 Investigation Procedures

As described in our methodology, we carried out semi-structured interviews with influential figures within the ecosystem to gather necessary insights. We engaged with eight diverse startups across different sectors: ACTIF, ColorADD, Knokcare, 42 Portugal, Go Parity, Diverge Sneakers, Code for All, and Ubbu. Notably, since Ubbu is a spin-off from Code for All and shares the same founder, a single interview covered both entities.

Addressing ethical considerations, we will maintain confidentiality regarding the information collected from these startups, referring to them anonymously as S1, S2, S3, S4, S5, S6, S7 and S8, not in the order initially mentioned.

Even though ColorADD and 42 Portugal do not fit the exact definition of an impact startup, they are included under the same anonymized terms due to their significant contribution to the impact ecosystem. ColorADD, despite no longer being a startup, was included because it was in the past and had relevant connections with other players in the ecosystem. 42 Portugal, although not pursuing financial returns, was included due to its disruptive model for creating impact and its association with a renowned international player in this ecosystem.

3.3 Findings

3.3.1 Impact Strategies

Our interviews revealed that 87.5% of the startups (7 out of 8) use the same impact strategy. This impact strategy is the Lock Step model, a business approach where social impact is intrinsically integrated into the organization's core business model. This ensures that as the

company scales, its financial returns and social impact grow in parallel, or the social impact may even exceed the rate of financial growth (Gianoncelli and Boiardi 2018, 47).

All participants reported impact benefits from expanding their business reach and acquiring new clients or entering new regions. S6 emphasized that "the larger the company, the greater the impact generated" and S8 noted, "more users, more impact."

S4 is a perfect example of this phenomenon. Their product's impact is positively correlated with its visibility so, as the company expands to other cities and countries, typically through large firms (their customers), their impact grows exponentially. S4 said "The customer is a supplier, they provide our product to the consumers", by integrating it in their own offerings, which inherently expands the impact.

The only startup that did not use the lock step model as their main strategy to create impact was aligned with the Empowerment Theory. The foundation of Empowerment Theory is the idea that social impact can be achieved by equipping individuals or groups, especially those at risk, with the information, autonomy, and resources they need to create positive changes in their lives (Zimmerman et al. 1992). Empowerment initiatives support the development of self-worth, confidence, and autonomy through diverse programs led by impact organizations (Perkins and Zimmerman 1995). These programs are grounded in a collaborative process that fosters mutual respect and trust among all parties involved (Perkins and Zimmerman 1995). For such initiatives to be effective, organizations must have adequate resources and specialized skills to guide and sustain them (Perkins and Zimmerman 1995).

S3 adopts an impact strategy aligned with Empowerment Theory, extending beyond its core business of selling sustainably produced products. The startup has established a capacitation program that "targets youth at risk of social exclusion and poverty." Through this initiative, participants "undergo 40 hours of training across various disciplines, culminating in the creation

of their own product." They become the face of the product launch, sharing their personal story with a global audience. Participants also receive a percentage of the sales, providing them with a source of income and a platform to express their identity. This program falls within the fields of community development and social services, fostering self-esteem, as there is "a sense of pride" when these young individuals see their creations reach markets worldwide.

3.3.2 Dual Analysis of Financial and Social Impact

In parallel, we aimed to understand how each company positions itself with respect to social or environmental impact and financial return. During our interviews, participants were asked to rate the trade-off between social impact and financial return on a scale from 0 to 10, with 0 indicating a sole focus on impact and 10 signifying a primary emphasis on financial returns. Most startups surveyed rated this balance as equally important, with S8, S4, S2, S5, and S6 each scoring a 5, indicating a perfect balance between generating impact and ensuring financial stability.

Each startup explained its approach in simple terms. S8 said, "One does not negate the other", indicating that it's possible to achieve both goals. S4 commented, "It is possible to make money and do good", showing they believe that it is possible to have profit while generating an impact and S6 added, "These dimensions are inseparable, if we were to fail financially, we couldn't continue our mission to create impact", this highlights the essential role of financial stability in sustaining their mission.

However, there were notable exceptions that highlighted different approaches. S7 rated their focus purely on impact, scoring a 0, indicating no concern for financial returns, a typical approach given their mission, which does not prioritize financial gains. Similarly, S1 rated their focus at 1, although this startup also uses the Lock Step model, it was "specifically designed to

create impact from the beginning" with a targeted goal. As a result, they often rejected other strategies that, while still impactful, did not align with the way they wanted to achieve impact.

3.3.3 Impact Measurement

In this section, we analyze how selected startups address the complexities of impact measurement in impact investing. Our primary objectives are to explore the importance each startup places on impact measurement, examine the methods they use, and identify key challenges they face in the process.

3.3.3.1 Importance of Impact Measurement

Firstly, it's evident that impact measurement is highly prioritized among these startups. On average, the startups rated their importance at 9.5 out of 10, with six of the eight startups assigning it the maximum score of 10. The lowest rating given was 8, underscoring the significance of impact measurement for these entities.

This emphasis is driven by dual motivations: internal improvement and transparency in external reporting. Internally, impact measurement enables startups to assess their performance by benchmarking, identifying successes and areas for improvement. Externally, it allows them to showcase their results transparently, which not only justifies investments and demonstrates their commitment to genuine impact, but also strengthens their branding. Additionally, by highlighting their impact, startups can attract more investors and clients who are increasingly interested in this cause.

S7 exemplifies this approach by measuring its impact and comparing it to similar firms worldwide, allowing them to see if they align with global standards while "always considering cultural differences." Any major difference in outcomes from comparable organizations necessitates an internal investigation to discover whether the discrepancies are due to cultural variables or performance variations. Additionally, S7 also provides an impact report with the

help of external entities, transparently showcasing their achievements to demonstrate their supporting companies that the contributions are being used effectively and that the program is having success.

S3 similarly emphasizes the importance of impact measurement, explaining that without it, they wouldn't realize whether they are on track or how they could improve, comparing their performance against previously set goals. As the founder put it, "It's fundamental to understand if we're achieving the intended results" and "How can I ensure we're improving if I don't measure?"

These examples demonstrate two key approaches to internal improvement: comparing outcomes against established goals and benchmarking against similar companies.

3.3.3.2 Methods of Impact Measurement

Regarding impact measurement methods, each startup employed a tailored approach based on its unique business model, sector, and mission. Our interviews revealed that startups vary in the complexity and depth of their measurement methods, often combining both quantitative and qualitative metrics to capture their impact.

Starting with more direct measurement approaches, this happens when the impact metric and the business metric are the same, as these components are intrinsically tied. Startups such as S5 and S6 fall into this category, as they measure outcomes that align directly with their primary services, capturing immediate and objective impact metrics.

In the case of S6, the increase in customers using its app-based service "directly reduces unnecessary hospital visits" generating a clear social impact. This is particularly relevant in a context like Portugal, where the national health service faces capacity constraints.

Another approach combines both objective and subjective impact measurement methods, incorporating direct, quantifiable indicators alongside longer-term, qualitative assessments. Startups like S3, S4, S7, and S8 adopt this dual strategy to capture a more comprehensive picture of their impact.

S3 measures its impact using a framework based on the Theory of Change, allowing for assessments on both the quantitative side (more objective) and the qualitative side (more subjective).

On the quantitative side, there are two key components: firstly, the products are sustainably produced, so each sale represents an environmentally responsible purchasing choice; secondly, when these products are created by individuals from the training groups, S3 provides them with a share of the profits. This enables S3 to observe the tangible financial benefits and empowerment resulting from their participation.

The qualitative component includes structured questionnaires assessing "self-efficacy, social engagement, perceived employability, and self-esteem", capturing the program's influence on participants' skills and social inclusion. As they explain, "we provide one questionnaire on the first day of the program, one at the end, and one after six months… and all are identical", enabling comparison of results over time. For self-esteem measurement, S3 is working on integrating "scientifically validated psychological indicators established in the scientific community" to gain deeper insight into their impact on psychological well-being.

S8 is another example of a dual approach to impact measurement. For the objective component, they track the number of institutions and individuals using their solution, directly linking impact to business metrics. On the subjective side, they are developing cognitive tests to measure the actual impact on the social group they serve, allowing for a more comprehensive understanding of their influence on cognitive well-being.

It is important to note that out of the eight startups, three relied on external entities to conduct impact studies for them. This approach not only assisted the startups but also validated their impact, demonstrating transparency and reliability.

3.3.3.3 Challenges of Impact Measurement

Given the diversity in approaches, impact measurement presents varying challenges. On average, the startups rated this difficulty at 5.5 out of 10. This average is the result of a wide range of values, within these cases, two extremes stand out, especially when considering their measurement strategy: S6 reported a difficulty level of 1, indicating low complexity, while S2 rated it at 9, reflecting a high level of challenge.

As previously mentioned, S6's impact measurement strategy relies heavily on direct data that is clearly linked to its core business. This makes measurement easier, as it does not depend on external individuals or on results that may only manifest years later. It is entirely objective and solely dependent on the company's own operations.

Conversely, S2 presents a different challenge. Its impact is highly subjective and only becomes visible over the long term, which makes measuring it significantly more complex. Their initial attempt at impact measurement was unsuccessful, as the team noted, "it is really hard to measure the impact." Despite this, they are actively collaborating with institutions such as the University of Aveiro, NOVA University, and organizations like Maze, which conducts impact studies on their behalf. However, a formalized impact measurement system has yet to be implemented.

Of the remaining six startups, three reported that one of their main challenges is the need to track impact over time to determine whether it has actually been achieved. This process is significantly more costly and complex, as it requires long-term engagement with participants and substantial resources, an obstacle for startups that typically operate with small teams.

An example of this challenge is seen in startups measuring psychological impact. S8 describes it as “the clinical impact that is most difficult to measure, analyzing patients and tracking their progress”, while S3 notes that “information isn’t readily available, it’s challenging to understand the type of impact on people’s lives and how to request it, especially regarding psychological aspects.”

Another challenge is that impact measurement sometimes relies on third parties. In the case of S4, measuring impact is particularly difficult because it depends on whether the partners who provide the solution to their beneficiaries share relevant data. As they explain, “the biggest difficulty is finding the time to convince partners to share data, as not everyone is equally willing to share information.”

3.3.3.4 An example of Success

S1 stands as a prime example of successful impact measurement. From the outset, S1 implemented a robust impact measurement framework, supported by a department with a dedicated impact manager, something none of the other startups had. Their framework is grounded in the international IRIS+ system and aligned with the SDGs. Additionally, the startup’s B Corp certification further reinforces its commitment to measurable social and environmental impact.

Their measurement approach primarily focuses on quantitative metrics, such as “job creation, individuals impacted, clean energy generated, CO_2 emissions avoided, and protected land and oceans.” However, their 2024 Impact Report also includes qualitative insights like case studies and stakeholder feedback, adding context and depth to the data. While quantitative metrics are central, these qualitative aspects provide a fuller picture of S1’s contributions to social and environmental impact.

In terms of difficulty, this entity rated impact measurement at 3 out of 10. While challenging, they noted that the process was manageable because, as our interviewee explained, “this impact department was created from the ground up, and impact measurement was established over time.” Additionally, S1 seeks validation from external partners to ensure the reliability of their measurement.

One of the startup’s standout features is its commitment to transparency: at any given moment, investors can access real-time data on the specific impact their contributions have made. These efforts culminated in S1 being recognized as the Most Impactful Startup of 2024 in Portugal.

3.3.4 Funding Strategies

In general, it is challenging for any startup to survive, with a failure rate of 90% (Startup Genome 2019). This challenge is even greater for impact startups, as they face the added complexity of focusing on both financial returns and social or environmental impact (Founders Network n.d.). For these reasons, it is crucial for impact startups to collaborate with external entities, both to attract funding and to receive non-financial support.

From our interviews, it became clear that traditional VC funding can be particularly challenging for impact startups. Due to their close engagement with their beneficiaries, these startups often struggle to scale at the rapid pace that traditional VCs expect. As a result, this kind of VC funding may not always be the best fit, given that these investors are primarily focused on quick returns.

One of the founders we interviewed, who leads two startups, noted that traditional VCs were not suitable for their businesses because “they were looking for something more digital and scalable, while we were running physical spaces for our classes.” Similarly, S4 chose to reject VC funding at a certain point, as the timing was not right. As the founder mentioned, “perhaps

S4 would have died there" if they had tried to scale as quickly as the investors could have demanded.

By avoiding early traditional VC investments, impact startups retain greater control over their business direction, which is crucial to maintaining their impact mission and ensuring that it is not compromised by the demands of these VCs. As the founder of S2 explained, "Not having investors right at the beginning allowed us to change our mind more easily."

Given these challenges, impact startups often turn to alternative sources of funding, such as impact-focused VCs, foundations, public funds, crowdfunding platforms, and funding from incubators or acceleration programs.

Foundations tend to establish deeper, long-term relationships with impact startups, often going beyond mere financial support. They are typically more involved in strategic decisions and can provide essential connections to larger networks. This close involvement helps startups align their social missions with sustainable growth.

Fundação Ageas exemplifies this relationship. As a major backer of S8, they not only provided funding but also participated in board meetings, offering strategic guidance that helped shape the company's direction. Additionally, they opened doors to projects like the collaboration with Medis, expanding possible commercial connections.

Debt crowdlending offers impact startups an opportunity to retain control while accessing capital. Investors in these platforms are typically more mission-aligned and less focused on immediate returns. However, achieving success in this approach requires strong community engagement and a high level of transparency to build trust and retain support (Dinh, Isaak, and Yahyaoui 2024).

Both S5 and S2 successfully conducted crowdlending rounds through platforms like Raize and GoParity, enabling them to secure funding without diluting ownership. This approach also

allowed them to engage directly with a community of supporters aligned with their mission. Given the importance of transparency, GoParity provides investors with real-time insights into the impact their contributions have made, fostering trust. Over the past four trimesters, GoParity has raised €12 million, with €5,3 million financing 44 Portuguese projects (ECO 2024).

Public funds play a vital role as market enablers in the realm of impact investing by supporting early-stage startups that may struggle to attract private investors due to the higher perceived risk. They provide essential capital to help these startups gain traction and scale, thereby enhancing their credibility for future private investment (FasterCapital 2024c).

From our interviews, we observed that S3 was able to expand its social program to the north of Portugal through the "Partnerships for Impact" initiative by Portugal Inovação Social. Similarly, the Fundo de Inovação Social (FIS) was instrumental for both S8 and S4, as it provided not just funding but also facilitated partnerships with private investors by co-investing.

Startups can also receive small amounts of funding through accelerator programs offered by incubators, which help them initiate their projects. However, although not so common, some incubators go beyond this approach by implementing structured investment policies. This combination of financial and non-financial support is crucial for startups to cover initial expenses, validate their ideas, and scale their impact.

S8 leveraged multiple acceleration programs not only to secure initial funding and access valuable testbeds, but also to "connect with potential clients." For instance, their involvement with Casa do Impacto and Vodafone PowerLab opened doors to potential clients and strategic collaborations while being able to trial their solutions.

Additionally, S1 benefited from Casa do Impacto's funding policy, which unlocks investments based on impact objectives rather than purely financial metrics. This approach aligns with S1's mission-driven focus, allowing them to grow while prioritizing their social impact goals.

Impact Venture Capital is essential for supporting impact startups that aim to scale while remaining committed to their mission. Unlike traditional VCs, impact VCs focus on generating both financial returns and positive social or environmental impact (FasterCapital n.d.). By aligning financial goals with mission-driven outcomes, impact VCs create a supportive environment for startups that face challenges in balancing profitability with impact.

From our interviews, S1 is a prime example of how impact VCs can make a significant difference. At one point, S1 was presented with an opportunity to secure higher returns by adopting a different strategy but rejected it because it wasn't aligned with its impact mission. This adherence to their original impact strategy meant they "received less" money from investors because they "didn't want to change the strategy."

A traditional VC would drive S1 actions through this higher revenue path (more aligned with their hypergrowth focus), however, as S1 said "we are trying to grow gradually, and considering this model, it takes more time and it's harder. Investors don't get this." Maze respected their values and allowed them to stay focused on their impact mission.

From our interviews, it became clear that impact startups rarely rely on a single type of funding. Instead, they consistently combine various funding sources to sustain and scale their operations. This approach allows them to navigate the complexities of growing an impact-driven business while maintaining financial sustainability.

3.3.4.1 An example of success

S2's journey exemplifies how impact startups can strategically leverage multiple funding instruments. They began with support from Fundação Gulbenkian and the municipality of

Lisbon through Social Impact Bonds. This early-stage funding provided the necessary stability for the startup to validate its impact model.

As S2 gained momentum, they turned to two debt crowdlending platforms, Raize and GoParity, to further scale their operations without diluting ownership. This approach allowed them to access capital while engaging directly with a community of socially aligned investors, reinforcing their commitment to transparency and mission-driven growth.

A few years later, once S2 had clearly defined their mission and established a solid track record, they opted for private equity funding, as they found that traditional VCs were not the right fit for their slower, impact-focused growth model.

S2's journey demonstrates that it is not only possible but also strategic for impact startups to combine different types of funding over time. While it is not common, it remains possible to secure traditional investors, depending on the conditions at the time and the startup's ability to align its mission with growth expectations.

3.4 Conclusions

The interviews performed for this study provided crucial insights into the unique role that startups play in Portugal's impact ecosystem. Through open talks with founders and key representatives from a wide spectrum of impact-driven firms, we gained a deeper understanding of their strategies, impact measurement practices, and funding approaches. Along with the knowledge gained from the literature review, the interviews provided practical examples and firsthand viewpoints, allowing us to address the research questions as follows:

RQ1 – Answer: The Lock Step model emerged as the predominant strategy to integrate their social or environmental missions into their business models, as it was utilized by 87.5% of the

startups interviewed. This model is an approach that inherently integrates social impact into the organization's core business model (Gianoncelli and Boiardi 2018, 47).

A key insight from the interviews was the dual emphasis on both impact and financial sustainability. Most founders highlighted that these dimensions are equally crucial. As one founder noted, it's about achieving "100% impact and 100% financial return" simultaneously, demonstrating that the two objectives are not mutually exclusive but rather complementary.

While the Lock Step model proved to be the dominant strategy, there was an exception. S3 adopted the Empowerment Theory approach, which focuses on equipping individuals with the tools and confidence to create change in their lives. This shows that there are other alternatives that can be sustainable even with a less direct link between business performance and impact.

RQ2 – Answer: Similar to other players in the ecosystem, startups lack a universal framework for measuring impact. Instead, they develop tailored approaches that align with their specific missions, sectors, and business models. Notably, 87.5% of startups analyzed are actively measuring their impact, with the remaining one working to establish a formal system in collaboration with a university and an impact VC.

Out of the eight startups, five measure their impact with a mix of qualitative and quantitative metrics, capturing both immediate and long-term outcomes. All of them have developed their own methodologies, but only two firms relied on established frameworks to create it, such as IRIS+ and the Theory of Change. Despite these tailored efforts, significant challenges remain, particularly for startups dealing with long-term or more subjective impacts.

RQ3 – Answer: The analysis of funding sources among the interviewed startups reveals a clear trend: none of them relied on a single source of funding. Instead, they strategically combined multiple sources depending on their current stage of development and specific financing needs.

Most startups did not align with traditional venture capital and private equity due to the pressure for rapid scalability and short-term returns. Instead, they got funding from more patient capital sources like public funds, foundations, impact VCs, debt crowdlending, and incubators. However, it is worth noting that two startups successfully secured private equity funding, demonstrating that while this route is more challenging for impact-focused ventures, it remains a viable option when the time is right.

A significant takeaway is the strong preference among founders to collaborate with investors who share their mission and values, although it is not always possible. This alignment ensures that the startup's impact mission remains intact and is not compromised by financial pressures.

The founder of two startups noted that "A successful relationship with investors is when founders and investors are aligned… providing us with access to capital and expertise that helps leverage our growth." This highlights the importance of partnerships where financial backing is complemented by strategic support.

4. 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.

5. 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[14] to ensure that the intended social impact is achieved. This collaboration between public and private entities highlights the unique dynamics of the

[14] Public-Private Partnerships

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

6. 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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Annex

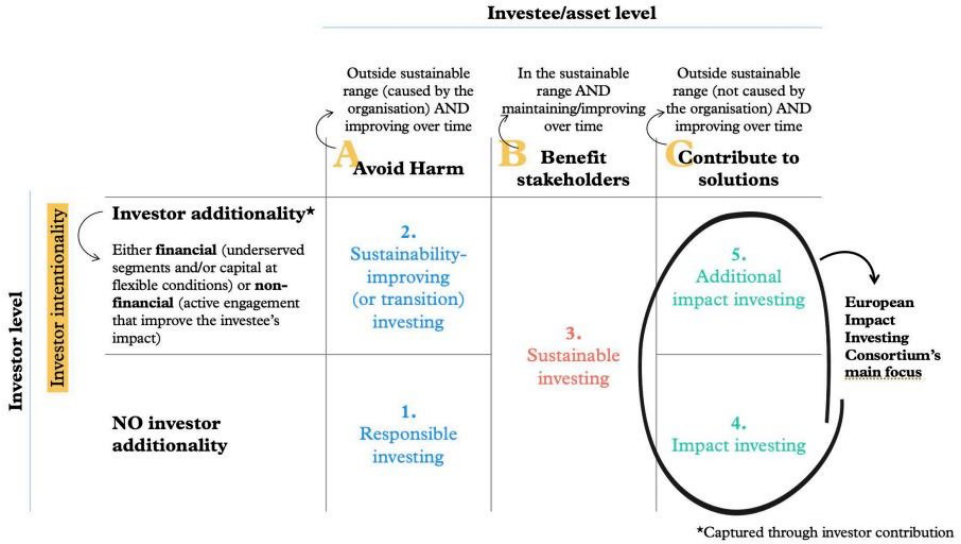


Figure 1 - Investor strategies Map" (Gaggiotti and Gianoncelli 2024)

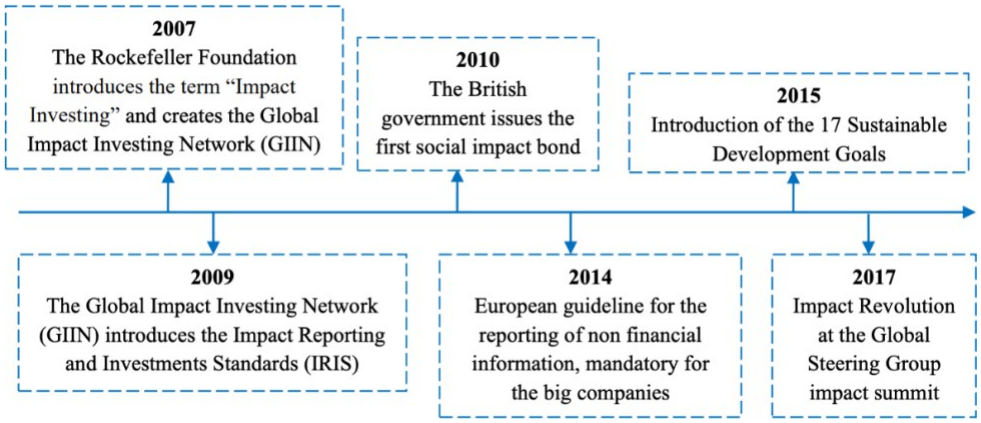
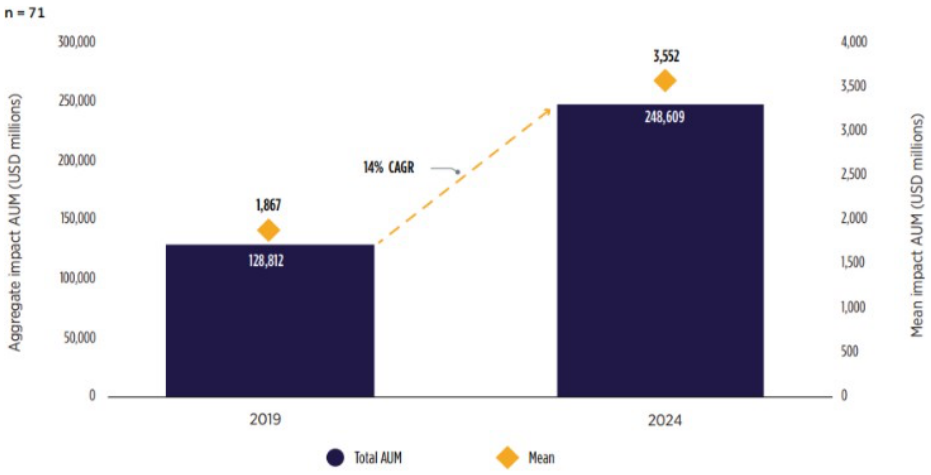


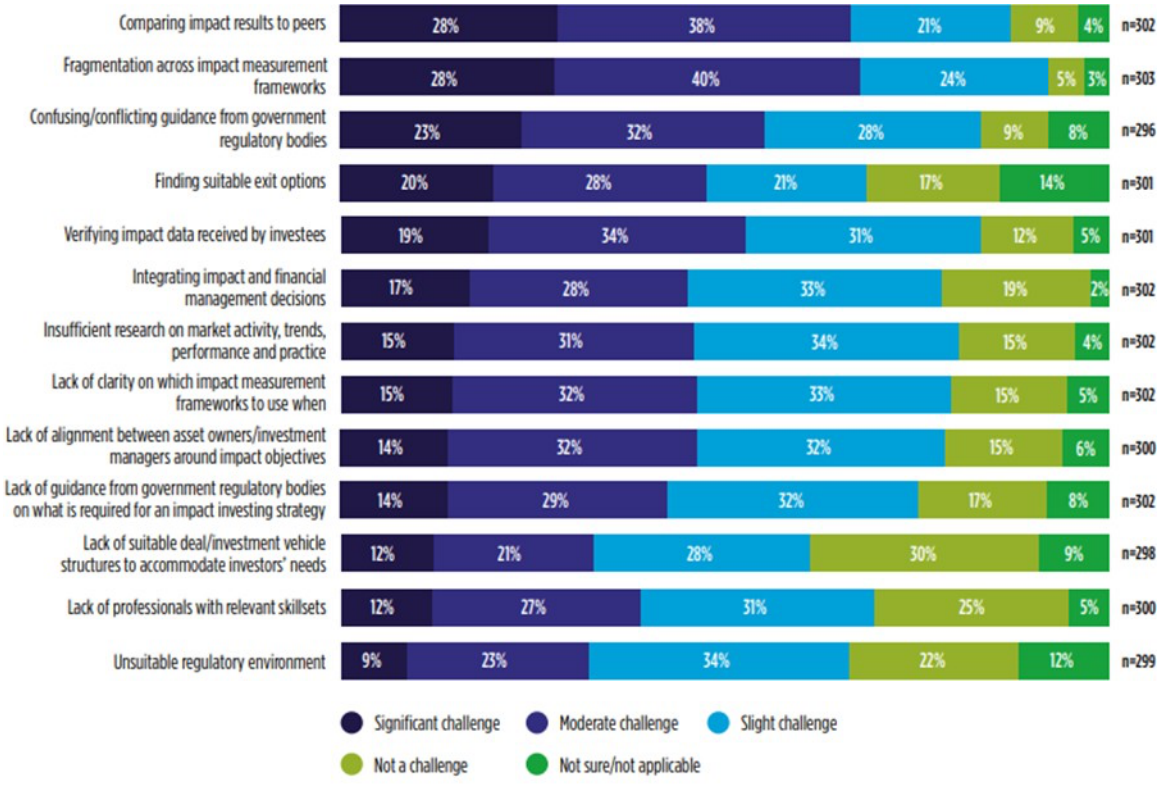
Figure 2 - Impact Investing Timeline (Martino 2018)



Note: This figure represents a subset of 71 respondents from the 2019 and 2024 Impact Investor Surveys. Between 2019 and 2024, impact AUM grew by a CAGR of 14%.

Source: Global Impact Investing Network (GIIN), 2024

Figure 3 - Evolution of Impact AUM (201S - 2024) (Hand, et al. 2024a)



Note: Excludes one organization that did not provide answers to this question.

Figure 4 - Challenges in the II Industry Development (201S - 2024) (Hand, et al. 2024a)

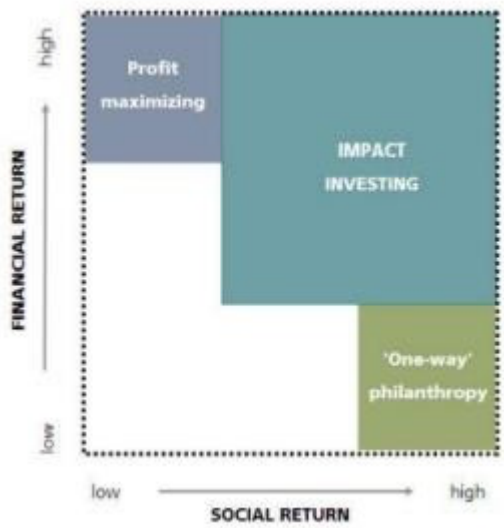


Figure 5 - The Capital Spectrum (UBS 2011b)

Figure 6 - The 17 Sustainable Development Goals (United Nations n.d.)

Table 1 - Startups Entity Overview

Entity name	Category	Description	Interviewee	Interviewee´s role
ACTIF	Startup	Platform for physical and cognitive exercises, registered as a medical device. This platform provides personalized exercise plans that combine physical activity and cognitive stimulation, aimed at improving the quality of life for its users.	Sara Gonçalves	Founder
42 Portugal	Startup	Campus part of a global network of schools, offering a unique and innovative approach to education in technology. Offers a project-based curriculum in computer programming and digital skills where students learn at their own pace. The school is open 24/7 and is completely tuition-free, aiming to make technology education accessible to everyone, regardless of background.	Mafalda Furtado Mendonça	External Relations
Knokcare	Startup	Healthcare technology company that provides an innovative platform facilitating medical consultations via video call. This service allows patients to access healthcare professionals from the comfort of their homes and it is designed to improve accessibility to healthcare services.	José Bastos	Founder
Diverge	Startup	Portuguese startup that operates within the footwear industry with a unique approach to customization and sustainability. The company allows customers to design their own sneakers, offering a platform where each pair can be personalized according to individual taste and style preferences. Also have social impact programs for groups at risk.	João Esteves	Founder
ColorADD	Startup	Created an universal color identification system designed to help colorblind people identify colors. The system uses a set of symbols to represent colors, making it easier for those with color vision deficiencies to recognize and distinguish colors in various contexts	Miguel Neiva	Founder
Go Parity	Startup	Crowdlending platform based in Portugal that facilitates the connection between investors and sustainable projects needing funding. This platform enables individuals and institutional investors to lend money to projects that have a positive environmental and social impact	Sarah Cohen	Marketing and Content Manager
Code for ALL	Startup	Code for All offers an intensive, fully immersive coding boot camp.Code for All offers an intensive, fully immersive coding boot camp. Mission is to bridge the gap between unemployed individuals, including those who have never worked and the growing demand for tech professionals. Also have reskilling programs for people that want a different direction in their life.	João Magalhães	Founder
Ubbu	Startup	Educational platform that focuses on teaching coding and digital literacy to children in primary and secondary schools. The platform aims to make digital education accessible to all students, thereby preparing the next generation for a world increasingly driven by technology	João Magalhães	Founder

Table 2 - Startups Content Analysis

Themes	Sub-themes	Keywords or concepts in common (times mentioned)
1. Startup Overview	Sector of action	Health (2); Education (3); Social Inclusion; Sustainable Finance; Fashion
	SDG	1; 2; 3 (3); 4 (5); 6; 7; 8 (4); 9 (2); 10 (2); 11; 12; 13; 14; 15
2. Impact Strategies	Lockstep model	"Win-Win" (2); "the bigger the company, the bigger the impact"; "growing at the same time"; "diretctly connected"; "+ sales, + impact"
	Empowerment theory	Capacitation Program ; "Each one tells their story"
3. Duality between financial return and impact	Impact driven	"all impact, no financial return"; "receive less investment... to not change the mission"
	Both Impact and Financial returns	"for profit and for impact"; "capacity to do both" ; "same importance" (2) ; "not possible one without the other"; "no return, no impact"; "Inseparable"; "max return, max impact" (2)
4. Impact Measurement Importance	External validation	"prove the value proposition"; "show the company's success"; "report to investors"(4)
	Internal Improvement	"If I don't measure, how can I ensure that we are improving?"; "understand if it is generating results or not"; "Improve their processes" ; "compare to similar companies"
5. Measurement approach	Quantitative methods	Operational indicators (5); Business KPI´s (5); Salaries (2); "Product reach"; "Profits shared";
	Qualitative methods	"Case studies"; "Phsycological indicators"; "before and after program's questionnaires" ; "cognitive studies"
	Established frameworks	Theory of Change (2) ; IRIS+
	External entities	Studies made with the help of Deloitte , BCG, Universities and Maze
6. Challenges in impact measurement	Long-Term and Subjective Impact	Enormous impact in the future (2); long-term results (2); Clinical and Psychological impact" (2)
	Dependency on External Data	"Very large value chain"; "Partners providing the data"; "Privacy of those impacted and the organizations" ; "Patients must accept the study"
	Resource and Operational Constraints	"tracking impact progress over time"(2) ; "requires substancial resources"
7. Sources of funding	Traditional Funding	"Not the right fit"; "don't always understand"; "want hypergrowth"; "different vision of impact"; "but we have to go with what exists"; "PE funding"
	Foundations	"Social Impact Bonds" (2); "Commercial relations"; "Credibility" (2); "Belonged to the board"; "Helps make decisions and provides feedback on those decisions"
	Public Funds	"Partnerships for impact"; "Unlocking financing mechanisms"; "Partnerships with private investors" (2); "Credibility" (2); "Attracting investors"; "Expand through their network "
	Crowdfunding platforms	"Receive funding from the community"; "Transparency regarding the outcomes"; "Collaborative funding (3)"; "broader reach"
	Impact VC´s	"More patient"; "Understand our vision"; "Respect our decisions"; "Thanks to Maze we grew and started having impact"
	Incubators	"Acceleration programs with small funding"; "Investment unlocked by achieving impact objectives"; "Non-financial support" (5); "Crucial in the early stage"
8. Relationship with the investors	Successful relationship	"Alignment of values is fundamental" (2); "Preference for investors who view impact the same way as we do"; "Making decisions together"; "Being consistent and building trust"
	Less successful relationship	"Values are not aligned"; "It's a problem when it's not 100% aligned"; "Doesn't respect our mission"
9. Entity's vision for the future	Challenges	Mindset Barriers (3); "High competition for the funds"; "Very lengthy process"; "Resistance to change"; "Small market in Portugal" (2); Financial sustainability
	Opportunities	"More late-stage funds"; "Regulation is helping"; ESG requirements (3); Portugal is good for launching pilot projects (2); "Increasing number of success stories"

Survey 1 – Startup interview survey

1. **Introduction and Motivation for the Interview**

As final-year master's students in Management and Finance at Nova SBE, we are developing our research, 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. Therefore, we are reaching out to the startups sector to better understand its significance in this field, particularly how it generates societal and environmental change through impact-driven projects. Specifically, we aim to explore how these startups integrate social and environmental missions into their business models, measure and address the challenges of impact assessment, and secure funding that aligns with their mission-driven goals.

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 May you provide a brief description of the startup and its main mission?

3.2 What specific problems does your startup aim to solve?

3.3 How is your startup structured in terms of team and leadership?

3.4 What is the background and experience of the founding team and staff members?

4. **Strategy and Operations**

4.1 Considering that the Sustainable Development Goals (SDGs) are a global reference for promoting more sustainable and inclusive development, does your entity use the SDGs as a framework for establishing its impact objectives?

4.2 What specific strategies do you use to create impact?

4.3 Despite having a social, environmental, or other impact-oriented mission, how does your startup ensure the financial returns necessary for survival and investor satisfaction? How do you balance these dynamics? Have there been any trade-offs between the two that altered the course of the startup?

4.4 On a spectrum where 0 represents maximum social impact and 10 represents maximum financial return, where would you position your startup?

5. Impact measurement and management

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

5.2 How does your startup measure the impact it creates? What metrics or frameworks do you use to assess impact?

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 How do you ensure the reliability and validity of your impact measurement?

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

6. Partnerships and Collaborations

6.1 May you provide examples of partnerships or collaborations that have enhanced your impact?

6.2 How do you select partners or collaborators to work with?

6.3 What criteria do you use when selecting investors to work with?

6.4 Who were your investors? What types of funding have you secured so far?

6.5 What support or benefits do you receive from your investors?

6.6 On a spectrum where 0 represents the network and connections provided by a VC (in terms of impact and general startup support) and 10 represents funding, where would you position your startup?

6.7 What would be a successful relationship with an investor?

6.8 What criteria do you use when selecting incubators to work with?

6.9 What support or benefits do you receive from your incubators?

6.10 What would be a successful relationship with an incubator?

7. **Success stories and Challenges**

7.1 May you share a success story where your startup significantly achieved its impact objectives?

7.2 Has there been a situation where your impact objectives were not achieved? What lessons were learned from these experiences?

8. **Entity's Vision for the Future**

8.1 How do you think the impact ecosystem in Portugal has evolved?

8.2 What emerging trends do you see in impact investing globally and in Portugal?

9. **Conclusion**

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

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

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