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Uncovering barriers and drivers in the development of impact investing: a focus on the Italian market

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Abstract

Impact investments strive to achieve both financial gain and socio-economic value creation. Organizations pursuing impact investing goals achieve these objectives by funding initiatives and businesses that can generate both social and economic benefits equally. Initially, when impact investing began in 2007, it was often considered a philanthropic activity, with investors making only small investments in socially minded organizations or charities. More recently, investors have become increasingly aware of the impact that their investments could create. As a result, the concept of impact investing has gained significant traction in mainstream circles. More and more people understand the dual goals it aims to accomplish, and its feasibility is now widely accepted.

The impact investing market has been on the rise over the past decade, fueled by the growing desire of investors to put their money to good use while earning financial returns simultaneously.

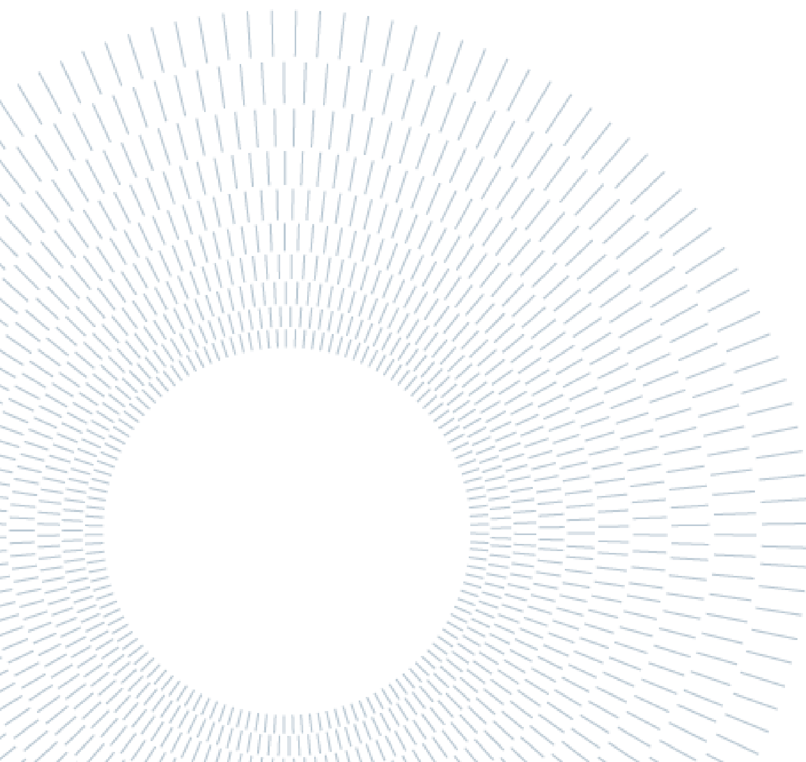
However, despite its potential, the market size remains limited, prompting the need to investigate why investments in impact remain relatively low. This is also the case of the Italian impact investing market, which it is not yet as developed as that of other European countries or the USA.

This thesis work is aimed at investigating the reasons behind the limited growth of the impact investing market. Through a systematic literature review, the characteristics of impact investments have been studied and a lack of deepening on the matter of barriers and how to tackle them has emerged.
A qualitative analysis was performed on the data collected through a Europe-wide survey and through interviews with Italian actors participating in the market. The survey and the interviews allowed to come in contact with professionals who daily operate in the impact investing market, and for this reason they have a clearer idea of what is not working in the market and what could be done to improve it.

The analysis made it possible to discover that many of the challenges reported by the respondents had already been identified in the papers used for the literature review.

However, not much research had been done to propose solutions to the barriers that are hindering the development of the industry. This study intends to uncover these solutions, and its contribution relates to assisting the Italian impact investing market in reaching its full potential by increasing its positive impact while also proving its profitability to those who wish to participate in the change.

Key-words: impact investing, social impact, impact investor, barriers to impact investing.



Abstract in italiano

Gli investimenti ad impatto mirano al raggiungimento sia di un guadagno finanziario sia della creazione di un valore socio-economico. Le organizzazioni che perseguono gli obiettivi dell'impact investing raggiungono questi risultati finanziando iniziative e imprese in grado di generare benefici sociali ed economici in egual misura. Inizialmente, quando l'impact investing è nato nel 2007, veniva spesso considerato un'attività filantropica, in cui gli investitori si limitavano a fare piccoli investimenti in organizzazioni sociali o di beneficenza. Più di recente, gli investitori sono diventati sempre più consapevoli dell'impatto che i loro investimenti possono generare. Di conseguenza, il concetto di impact investing ha acquisito un'importanza significativa nei circoli tradizionali. Sempre più persone comprendono il duplice obiettivo che si prefigge e la sua fattibilità è ormai ampiamente accettata.

Il mercato dell'impact investing è cresciuto nell'ultimo decennio, alimentato dal crescente desiderio degli investitori di utilizzare il proprio denaro per fare del bene, ottenendo al contempo un rendimento finanziario.

Tuttavia, nonostante il suo potenziale, le dimensioni del mercato rimangono limitate, il che rende necessario indagare perché gli investimenti ad impatto rimangono relativamente limitati. Ciò vale anche per il mercato italiano dell'impact investing, che non è ancora sviluppato come quello di altri Paesi europei o degli Stati Uniti.

Questo lavoro di tesi si propone di indagare le ragioni della limitata crescita del mercato dell'impact investing. Attraverso una sistematica revisione della letteratura, sono state studiate le caratteristiche degli investimenti ad impatto ed è emersa una mancanza di approfondimento sul tema delle barriere e su come affrontarle.

Un'analisi qualitativa è stata condotta su dati raccolti attraverso un'indagine a livello europeo e grazie ad interviste ad attori italiani che partecipano al mercato. L'indagine e le interviste hanno permesso di entrare in contatto con i professionisti che operano quotidianamente nel mercato dell'impact investing e che, per questo motivo, hanno un'idea più chiara di cosa non funziona nel settore e di cosa si potrebbe fare per migliorarlo.

L'analisi ha permesso di scoprire che molte delle sfide indicate dagli intervistati erano già state identificate nei documenti utilizzati per la revisione della letteratura.

Tuttavia, non sono state condotte molte ricerche per proporre soluzioni alle barriere che ostacolano lo sviluppo del settore. Il presente studio si propone di individuare tali soluzioni e il suo contributo riguarda la possibilità di aiutare il mercato italiano dell'impact investing a raggiungere il suo pieno potenziale, aumentando il suo impatto positivo e dimostrando al contempo la sua redditività a coloro che desiderano partecipare al cambiamento.

Parole chiave: investimenti ad impatto, impatto sociale, investitore ad impatto, barriere agli investimenti ad impatto.

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List of Abbreviations

AUM	Asset Under Management
BCR	Benefit Cost Ratio
CEE	Central and Eastern Europe
CSR	Corporate Social Responsibility
ERR	Economic Rate of Return
ESG	Environmental, Social, Governance
EU	European Union
EVPA	European Venture Philanthropy Association
FRC	Financial Reporting Council
GRI	Global Reporting Initiative Standards
ID	Identification Code
IMM	Impact Measurement and Management
IMP	Impact Management Project
IRIS	Impact Reporting and Investment Standards
KPI	Key Performance Indicator

NABs	National Advisory Boards
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
PNRR	Piano Nazionale di Ripresa e Resilienza
PRI	Principles for Responsible Investment
RI	Responsible Investment
SDGs	Sustainable Development Goals
SE	Social Enterprise
SFDR	Sustainable Finance Disclosure Regulation
SGR	Società di Gestione del Risparmio
SIBs	Social Impact Bonds
SICAF	Società di Investimento a Capitale Fisso
SII	Social Impact Investing
SME	Small- and Medium-sized Enterprises
SPO	Social Purpose Organization
SRI	Socially Responsible Investing
SROI	Social Return on Investment approach
SVI	Social Value International

UN	United Nations
UNDP	United Nations Development Program
VC	Venture Capital

1 Introduction

"Investing for impact means supporting and co-developing innovative solutions to pressing social issues, taking on risks that no other actor in the market can take – or is willing to take."

Priscilla Boiardi, Alessia Gianoncelli, Steven Serneels (2019)

The world is facing various social and environmental challenges, such as poverty, inequality, climate change, and natural disasters. These challenges require effective and sustainable solutions, which cannot be achieved solely through traditional philanthropy or government aid. Impact investing has emerged as a promising approach to address these challenges by leveraging private capital for social and environmental impact.

Impact investing is a form of investment that aims to generate a positive social or environmental impact in addition to generating a financial return. As the trend of sustainability gains traction amongst businesses and financial institutions, impact investments enable them to improve the social conditions of various groups while keeping their shareholders and stakeholders content.

However, while impact investments seem to be the perfect solution, the size of this market is still limited, prompting the question of why investment in impact remains relatively low. If these investments are so powerful, as they address social problems and create profits at the same time, why does not everyone perform them? It is paramount to find an answer to this question, because only by investigating the reasons can solutions be found to help the market grow and have an even greater impact.

In this context, the goal of this master's thesis is the idea of overcoming the barriers that limit the potential growth of the impact investing market in order to increase the positive impact the sector can have on the world. In particular, the focus of this thesis is on the Italian impact investing market, which has shown great potential, although it is not keeping up with countries that are more experienced in impact investing, such as the United States and the United Kingdom.

Through a comprehensive analysis of 53 papers on impact investments' characteristics and the close interaction with actors directly operating in the market through surveys and interviews, it was possible to comprehend what are the challenges preventing the expansion of the industry while also figuring out possible actions that could help overcome them.

The structure of this thesis is organized as follows: after the review of the literature on impact investing (which starts with its definitions, studies all its characteristics, and concludes by presenting the barriers to its growth), the objectives and the research question will be described. After this, a complete explanation of the methodologies used for the different research activities (literature review, survey, desk research, interviews) will be provided, together with the results that emerged from the data collection. These results will then be discussed in detail to arrive at proposals on how to overcome the barriers that the data revealed. Lastly, a conclusive chapter will provide the limitations of the research and possible future developments.

2 Literature Review

The aim of this literature review is to provide an accurate overview of the characteristics of the impact investing market.

This overview will start by explaining which are the boundaries of the impact investing industry, relying on its definition, and what are differences with similar markets, which might lead to the issue of impact washing. Then a focus on the actors of the market will be developed, also considering the relationship between the parties, as this might affect the development of such investments. As actors choose to operate in the market, screening criteria characterizing their choice are addressed, as well as the way impact is measured, and risk and return are managed. Since it is a widespread phenomenon, a study on its presence in the world needs to be provided.

Lastly, the literature studying the challenges that are limiting the growth of the market is analyzed, in an attempt to understand what the current situation is and how it could be improved.

2.1. Impact investing: origins and definition

In 2007, the Rockefeller Foundation convened a meeting to describe a range of activities that participants perceived as distinctive from established practices of socially responsible and ethical investment; this is where the term impact investing was used formally for the first time (Findlay & Moran, 2019). Even so, this was not the moment impact investing was born: indeed, "the seeds for impact investing were sown in the last quarter of the twentieth century with the socially responsible investment and corporate responsibility movements" (Bugg-Levine & Goldstein, 2009, p.32).

In a world where government resources and charitable donations are insufficient to address the world's social problems, impact investing offers an alternative for channeling large-scale private capital for social benefit. Its emergence is indeed "concurrent with a widening chasm between the demand for funding social initiatives and the ability of governments and traditional philanthropy to fulfill those demands" (Clarkin & Cangioni, 2016, p. 10).
With increasing numbers of investors rejecting the notion that they face a binary choice between investing for maximum risk-adjusted financial returns or donating for social

purposes, the impact investment market is now at a significant turning point as it enters the mainstream (O'Donohoe et al., 2010).

Generally speaking, impact investing refers to "investments made into organizations, funds, and/or projects with the intention of generating positive, measurable social and environmental impact alongside a financial return" (Global Impact Investing Network [GIIN], 2019).

Literature on the subject provides many definitions for impact investing, without settling on a standard and widely accepted one. Out of the most used definitions, (Brest & Born, 2013, p. 2) refer to impact investing practices as "actively placing capital in enterprises that generate social or environmental goods, services, or ancillary benefits".

Part of the reason why impact investing is such an innovative concept is that it defies the traditionally binary nature of capital allocation. By convention, capital is allocated either to investments designed to optimize risk-adjusted financial return (with no deliberate consideration of social outcomes), or to donations designed to achieve social impact (with no expectation of financial return). Recognizing that charitable donations will never reach the scale needed to address the world's problems, and that business principles and practices can unleash creativity and scale in delivering basic services and addressing social and environmental challenges, impact investing introduces a new capital allocation strategy, merging the motivations of traditional investments and donations (O'Donohoe et al., 2010).

Based on the premise that philanthropic and governmental fundings are insufficient to address the increasingly ubiquitous social and environmental concerns, impact investing addresses this gap by engaging multiple sectors to focus on the purpose of generating positive impact and change (*Research Agenda for Social Finance*, 2021). What makes impact investing unique is the claimed paradigm shift away from the belief that financial and social returns should be mutually exclusive (Jones & Embry, 2021).
Until now, indeed, organizations have almost exclusively used financial return as the basic criterion to choose between different types of investments. However, this does not take into account the social perspective, which more and more investors are considering just as relevant as financial returns.

Impact investing combines a *market logic*, which is based on values and goals such as efficiency, profit maximization, competition and value capture, with a *community logic*, which is driven by collaboration, cooperation and value creation (Roundy, 2020). Combining the two logics of action, impact investing is a hybrid type of capital allocation, different both from philanthropy and traditional investing.

Charting the landscape of the impact investment market, investors range from philanthropic foundations to commercial financial institutions to high-net-worth individuals, investing across the capital structure, across regions and business sectors, and with a range of impact objectives (O'Donohoe et al., 2010).

Impact investing is characterized by three main components: intentionality, measurability, and additionality.
Intentionality means considering impact as important as profit in the business plan; in this logic, an investment is explicitly made for the specific purpose of achieving positive benefits for society. Intrinsically, intentionality should be considered when impact investment objectives are being defined (ex-ante). As impact investors intend to achieve social or environmental goals, they are by definition *socially motivated*; on the contrary, traditional investors, indifferent to the social consequences of their investments, are *socially neutral* (Brest & Born, 2013). This intentionality can be demonstrated by impact measures established before and measured during and after the investment.
The social goals should be evaluated (quantitatively and qualitatively) in order to establish the anticipated social impacts ex-ante, and to confirm their effective and efficient realization ex-post (and this relates to measurability).
As far as additionality is concerned, Brest and Born (2013) argue that investment only has an impact if the social outcomes exceed what would have happened otherwise. It means, essentially, being willing to accept disproportionate risk-adjusted returns in exchange for intentionally pursuing social impact. Some investors are in fact inclined to accept a lower financial return when compared to the risk they hold (Viviani & Maurel, 2019). An enterprise can decide to propose specific return-risk profiles for different types of investors (social investors and classical investors can co-invest in these businesses) so that this diversity of investors enables the enterprise to find adequate capital.
In particular, additionality can be broken down into two aspects (So & Staskevicius, 2015):

- *investor-level additionality*, which is the additional impact the investor is creating on the enterprise;

- *enterprise-level additionality*, which is the additional impact that the enterprise has on society.

It is noteworthy to mention that this intentionality, measurement, and broader accountability is derived from the fact that impact investing is rooted in the broader concept of socially responsible investment (SRI), where investors realized they could prevent harmful acts in the social, political, economic and environmental domain by refusing to invest in certain companies and activities (Zolfaghari & Hand, 2021a).

Impact investing was initially proposed as a new asset class (O'Donohoe et al., 2010). However, it is evident that impact investing is not an asset class in and of itself because it lacks consistently unique risk and volatility profiles. Instead, it is an investing strategy that may be used with many asset classes without necessarily affecting long-term financial success (Zolfaghari & Hand, 2021a).

Impact investments come in a variety of shapes, ranging from those that are typical of conventional financial markets (O'Donohoe et al., 2010). Equity and debt (both private and public), guarantees and deposits are all examples of commonly used investment structures. Some more innovative investment structures have also been devised, including bonds that employ equity-like features that allow the investor to benefit from financial profits or even, in the case of the UK's Social Impact Bonds, from successful social impact (O'Donohoe et al., 2010).

The impact investing sector, thanks to growing interest in social issues and increased support from governments, academics, and business leaders, is growing steadily. The Global Impact Investing Network (GIIN) estimates that over 3,349 organizations manage USD 1.164 trillion in assets under management (AUM) as of the end of 2021 (Hand et al., 2022). However, the market is not homogeneous: it has differences in headquarters locations, asset classes, and approaches. Most organizations operating in the sector are based in North America (the United States and Canada) and Europe, and this fact is also reflected in the literature, as most research on impact investing is based in Anglo-Saxon countries. In terms of organization type, asset managers make up 64% of the available database, followed by foundations (21%), and then banks, pension funds, insurance companies, foundations, development finance institutions, and family offices.

Much more capital will need to be made available for impact investing to address the world's needs, but there are compelling reasons to be positive: "impact investing is one of the most potent tools the world has at its disposal to build toward a just, inclusive, and sustainable future" (Hand et al., 2022).
The coming years present a unique opportunity to continue scaling the impact investing industry: "by increasing the amount of capital allocated toward impact solutions, the market can ensure that impact investing fulfills its promise" (GIIN Market Sizing Report, 2022, p.11).

2.2. Terminological distinction

Over the past ten years, impact investment has drawn more and more attention from academics and professionals worldwide (Islam, 2021). However, the lack of a shared

and accepted definition has led to the necessity to distinguish impact investing from other investment strategies sharing similarities and characteristics.

According to Agrawal and Hockerts (2019), the terms microfinance, socially responsible investing, venture philanthropy and social impact bond have significant differences and should not be used as synonyms for impact investing, while the only difference between social finance and impact investing is that the former is predominantly used by the UK and Europe based researchers, while the latter by North American and Asian researchers; for this reason, the two terms can be used interchangeably. Going into more detail, it is important to understand the reasons why the terms introduced above should be differentiated, which can be found in the following considerations based on the literature review of Agrawal and Hockerts (2019) on the topic.

Microfinance, despite being often quoted as a form of impact investing, shows differences in four distinct areas (Agrawal & Hockerts, 2019):

1. the amount of capital invested, which is usually higher for impact investing;
2. the degree of interaction with investees, which is higher for impact investing;
3. the equity-based nature of impact investing;
4. the interest rates, which are higher in the case of microcredit firms.

Studying the works of Agrawal and Hockerts (2019), it can be recognized that *socially responsible investing (SRI)* is an umbrella term that incorporates the interests of different stakeholders and involves investing in activities and organizations which create social and environmental impact. Impact investing, on the other hand, is a more proactive investment in enterprises whose social mission is to create both social and commercial value (Agrawal & Hockerts, 2019). Moreover, engagement levels among SRI investors are lower compared to impact investors. Socially responsible investments are often designed to minimize negative impact, whereas impact investments usually focus on creating positive social or environmental impact (O'Donohoe et al., 2010).

Establishing that the main goal of *venture philanthropy* is maximizing social return on investment and creating accountability among investors, but without emphasizing any return on investment (Agrawal & Hockerts, 2019), the differences with impact investment are clear. However, the two also share a few similarities, such as the active engagement with investees (e.g., in the supply of non-financial services), the maximization of social impact, and the emphasis on accountability, which distances them from charitable initiatives.

Lastly, *social impact bonds (SIBs)*, differently from impact investing, are a multi-stakeholder arrangement between a government, a social enterprise, and an investor facilitated by an intermediary organization (Agrawal & Hockerts, 2019). They also involve a considerably high level of stakeholder engagement and impact measurement (Agrawal & Hockerts, 2019) when compared to impact investing.

In addition, a few more considerations should be done regarding the differences between impact investing and SRI, responsible investment (RI), and corporate social responsibility (CSR) (Höchstädter & Scheck, 2015). Despite sharing the same objectives as SRI, combining environmental, social, and ethical goals in the decision-making process, impact investing places more emphasis on intentionality in measuring the social dimension of the investment (Zolfaghari & Hand, 2021a).

Other investments, instead, are based on the so-called ESG (environmental, social, and governance) criteria, which focus on how these issues affect the performance of the investment or entity rather than on how the investment or entity impacts stakeholders or sustainable development outcomes. ESG-screened and ESG-managed investments in public markets (debt or equity), or even mid-to-late-stage private equity, is a retroactive and retrospective activist investment management strategy, but is often not intended to significantly change the products or services that already-existing businesses offer.
These managed investments are primarily concerned with supply chain management, business function management, and executive management of internal employee governance and management as well as societal, environmental, and internal governance. As a result, no initiatives or efforts are made to bring about more real-world improvements. In contrast, impact-related investments concentrate on (typically) young businesses that are revolutionizing an existing market or industry in the environmental or social sectors, or they concentrate on developing entirely new markets and sectors through the use of cutting-edge technologies. With the latter, impacts can be built into the business model (Busch et al., 2021).

Furthermore, unlike other investment vehicles that mainly invest in publicly listed companies, impact investing primarily invests in impact-driven, unlisted organizations in the form of private equity, debt, and/or guarantees (Brest & Born, 2013).

2.3. Impact washing

Today, the need to preserve the integrity of the impact imperative so as not to lose its true transformative force on society is becoming a crucial issue. Indeed, practices such

as greenwashing or impact washing are spreading as a result of the dilution or complete distortion of the true meaning of impact.
The importance of these concepts is also perceived by impact investors as 66% of respondents to the annual impact investor survey by GIIN (2020) indicated impact washing as the greatest challenge facing the market in the next five years.

Findlay and Moran (2019) report the widely used definition of greenwashing, which is described as misleading consumers about a company's environmental practices or a product/service's environmental benefits, through poor environmental performance and positive communication. Possible implications are negative consumer confidence and a reduction in the market for green products/services. Drivers include external (consumer and investor demand), organizational (incentive structures, ethical climate), and individual (optimistic bias). Recommendations to decrease its occurrence include increasing green performance transparency, increasing knowledge about greenwashing (share incidents, clarify regulatory requirements) and aligning organizational structures, incentives and processes.

Purpose washing instead occurs when investors are misled about a manager's impact intentions (including measurement) or an investment's potential impact. It could have negative effects on investor confidence, with flow-on effects on market integrity. Busch et al. (2021, p. 2) define impact washing as "the dilution of the term impact investing using the term impact as a marketing tool to attract capital or boost reputations without actually focusing on material solutions to environmental and societal challenges".

Due to the vagueness of the term "impact", an investment can effortlessly be considered impactful, allowing market participants to utilize the term for product differentiation and fee generation purposes (Findlay & Moran, 2019; Freireich & Fulton, 2009). The threat of purpose washing reinforces the need for the impact investment definitional discussion to continue and for impact measurement and reporting to be required by investors. By increasing knowledge and transparency, investors and investees can act with greater certainty about what is and is not impact investment. Moreover, it can make it more difficult for organizations to inappropriately claim to be legitimate market participants (Findlay & Moran, 2019).

Moreover, in the Global Impact Investing Network 2018 survey findings (Mudaliar et al., 2018), "industry integrity" was one of the notable topics for impact investors, as 80% of respondents emphasized the need for increased transparency surrounding impact investing methods and results. *Impact integrity* is defined by the United Nations Development Program (UNDP) ("SDG Impact Standards: Glossary," 2021) and summarized by (Azmat et al., (2021)) as "properly integrating robust and consistent impact management into decision-making across strategy, management approach,

transparency and governance practices to manage all material (positive and negative) impacts in direct operations and through supply and value chains – with the intent to increase the positive and significantly reduce (or avoid) the negative impacts". This concern for impact integrity is further amplified in the COVID-19 context, leading investors to worry about sustainability issues, the real impact of their investments and the need for integrity (Azmat et al., 2021).

The same concern for impact integrity and impact washing is detected in the Global Impact Investor survey (Hand et al., 2020) two years later, as impact washing, the inability to demonstrate impact results and the incapacity to compare them with peers are seen as the three challenges most likely to face the market in the future according to the respondents; these are important aspects associated to the need of transparency and legitimacy which are necessary to integrate impact strategy into organizations' decisions.

2.4. Policy and actors

On March 10th, 2021, the EU Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 came into force highlighting how sustainability is becoming a central issue in the financial industry in Europe. The SFDR requires all EU-based financial market participants to disclose ESG risks, with additional requirements for investments or products that make specific ESG or sustainable investment claims.
Bengo and colleagues (2022) highlight how "the regulation identifies various levels of disclosure processes and practices, depending on the extent to which financial products are based on the achievement of sustainability objectives".

Articles 6, 7, 8 and 9 address the following requirements related to product-level disclosure:

- Article 6 requires to "provide in pre-contractual disclosures information on how sustainability risks are integrated into investment decisions and the impacts of sustainability risks on the returns of the financial products";
- Article 7 requires to "provide in pre-contractual disclosures a clear and reasoned explanation of whether and, if so, how a financial product considers principal adverse impacts on sustainability factors";
- Article 8 requires to "provide in pre-contractual disclosures and periodic reports information on how the financial product promotes and respects social

or environmental characteristics and the methodology used for measuring social or environmental characteristics”;

- Article 9 requires to “provide in pre-contractual disclosures and periodic reports information on how the financial product contributes to the achievement of the sustainable objective and how the sustainable goal stands out from a traditional market objective”.

(Bengo et al., 2022; “Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-related Disclosures in the Financial Services Sector,” 2019)

The SFDR emphasizes financial services players' social and environmental compliance disclosure and reporting duties. For example, investment funds and asset managers are now expected to identify their strategic orientation with regard to sustainability (Bengo et al., 2022). This framework states that asset managers are the group of actors who should comply with the new European regulation. Asset managers are professionals in the field of investments who work in certain investment firms. They collect money from asset owners, who are typically foundations, high-net-worth individuals, or pension funds, and invest it in projects or initiatives that meet specified sustainability standards. In light of adopting a strategic approach to risk, return, industry, and the contributions to the sustainability of their investments, asset managers are investors that can take a major role in the financial market. The extent of these players’ commitment to sustainability, in particular, may vary greatly along these levers (Bengo et al., 2022).

Asset managers, however, do not represent the only category of actors in the field of sustainable finance. According to the literature on the topic, there are four basic typologies that may be used to categorize the various stakeholders in the finance business (Bengo et al., 2022):

1. Asset owners, who supply resources and capital (high net worth individuals/families, corporations, governments, banks, retail investors, foundations…);

2. Asset managers who invest the resources and capital provided by asset owners;

3. Demand-side, the recipient of the resources, actors that receive and exploit the capital (companies, small and growing businesses, social enterprises, cooperatives…);

4. Service providers who facilitate in linking previous actors and closing deals, such as consultants, consulting firms, or think tanks.

Just like in a traditional investment, impact investors are a heterogeneous group of investors, in particular depending on the different investment types (Block et al., 2021). When analyzing the diverse forms of capital invested, impact investors can be subclassified as investors who provide equity, debt, and donations (Block et al., 2021). These investor types differ in the level of financial return they expect and the importance they attach to social impact.

Equity investors have a clear financial interest and for this reason primarily invest through impact investment funds that seek market-rate returns and that typically provide portfolio companies with equity and comprise entities such as venture capital or growth equity funds (Block et al., 2021). However, some of these funds which have specialized in impact investing are willing to accept below-market-rate returns. Equity investors are the most popular impact investor type.

Debt investors provide debt to portfolio companies. They are typically social banks that grant this type of impact investment to social enterprises, but other impact investors in this category are foundations and public institutions. Like equity investors, they seek financial returns, but their investments are often characterized by below-market return expectations (Brest & Born, 2013).

The last classification pertains to donors, which provide social enterprises with philanthropic donations or grants and are mainly governments, foundations, or philanthropists and they rather concentrate on social goals rather than financial returns (Block et al., 2021).

An important category of actors that plays a key role in the development of the impact investing market is that of facilitators. Tekula and Andersen (2019, p. 146) define them as "those organizations stimulating the growth of social enterprises and nonprofits and assisting them in attaining scale, such that they are fundable by larger impact investors". They assist organizations in this sector by facilitating the development, enhancement, movement, and launching of assets, and the category includes governments, the private sector, innovative foundations, hubs, and academic institutions.
However, facilitators can play one or more different roles (enabling, improving, moving, and launching) and each role reflects a different level of involvement of the actor and a different stage of the organization's development.

- When facilitators are *enablers*, they work to create optimal infrastructure and increase productivity, which is an aspect that often relates to government and that leads to a focus on government programs supporting impact investing.

- The crucial problem of connecting investors and investees is addressed instead by *improving* facilitators, which essentially fix markets that report an underlying

market rationale around externalities, information imperfection, and entry barriers.

- *Moving* facilitation *moves* markets on their margins. In this instance, the market rationale revolves around positive externalities and a more effective strategy for nonmarket objectives.

- Lastly, *launching* facilitators help the debut of assets onto the market and their development in ways that provide growth.

According to these role definitions by Tekula and Andersen (2019), there is no such thing as infinite risk-bearing in any public-private partnerships, and incentives and performance standards must be laid out in detail along with an exit strategy for the facilitator. Additionally, their research explains that if the facilitation and mediation of impact investments are too weak or too strong, pro forma, or does not advance assets toward market-ready, it runs the danger of causing a loss of social benefit.

2.5. Relationship between asset owners and asset managers

2.5.1. In traditional finance

As previously explained, institutions or individuals that control the underlying assets but delegate to an asset manager the administration and governance of those assets are known as asset owners (Anson, 2012). They can be foundations, endowments, and pension funds, as well as high net-worth and retail investors.

Every asset management arrangement entails a principal (the asset owner) and an agent (the asset manager). Since this is essentially another application of the agency theory[1], agency costs may occur from the interactions in the relationship between asset owner and asset manager (Anson, 2012). These costs in turn provide some intriguing incentives and disincentives that affect asset managers' behavior. A more balanced relationship between asset owners and asset managers may be achieved by being aware of the different agency costs that may occur in the asset owner/asset manager relationship and taking action to control these expenses; additionally, in the alternative

[1] Agency theory (or 'principal–agent theory' or sometimes just 'incentive theory') studies the problems and solutions linked to delegation of tasks from principals to agents in the context of conflicting interests between the parties. (Linder & Foss, 2015)

asset sector, these disparities can be recognized and perhaps minimized, if not eradicated, during the due diligence review stage (Anson, 2012).

As illustrated by scholars of traditional finance, such as Ang (2012), conflicts between principal and agent may be avoided by using the right governance frameworks and contracts. The choice of the benchmark is crucial because improperly conceived benchmarks in situations involving delegated asset management lead agents to operate against what the asset owner desires to accomplish (Ang, 2012).

Wierckx (2021) attempts to align asset owners with asset managers in traditional finance, and he identifies two factors that mainly affect an asset owner's level of risk tolerance. They are presented below.

1. The asset owner's financial status will (partially) determine their capacity for risk. An asset owner who is in a difficult financial condition typically has a lower risk tolerance since they will be less able to absorb investment losses, and vice versa. The ideal investment horizon of the asset owner will typically be positively correlated with the asset owner's financial status.

2. Asset owners frequently have to adhere to rules and laws, which may affect their desire and/or capacity to take risks.

Moreover, the asset owner may fully benefit from the asset manager's competitive advantage if the asset manager's investment horizon is comparable to the asset's optimal evaluation period, which is another factor that makes that asset manager's performance ideal (Wierckx, 2021).

As it is widely agreed that trust is fundamental in all kinds of relationships, it should be considered also in an asset owner-manager one. The asset owner's trust in their asset manager is mostly dependent on the in-depth examination of the asset manager's competitive advantage during the due diligence phase at the beginning of the partnership because the asset owner has little experience with their asset manager in "real life". The asset owner obtains more insightful information about the asset manager's ability to fundamentally create positive alpha over the course of the relationship, which may cause the asset owner's faith in their asset management to shift (Wierckx, 2021).

Ma (2022) underlines the asset owners' role in important issues, explaining that since they typically have a worldwide mandate and a long-term investment horizon, asset owners increasingly base their portfolios on long-term trends rather than on fluctuations in the short-term of the markets. They actively shape global megatrends through their investments rather than merely being passive players who are impacted by them. These asset owners have switched from passively routing their trillions through Wall Street managers to being active, direct investors. Furthermore, he

emphasizes how long-term investors are also developing into important arbiters of ESG and SDG principles as they get actively and profoundly involved in their portfolio enterprises. They have spoken on topics including sustainability, governance, climate change, and other issues as significant equity holders. In doing so, they have come together across countries, giving their trillions a single voice while they communicate with the management of the organizations they interact with.

2.5.2. In alternative finance

The relationship between asset owners and investment managers sets the stage for sustainable value creation throughout the investment chain as it can promote and incentivize the alignment of stewardship and long-term sustainable investment behaviors (Investment Relationships For Sustainable Value Creation: Alignment Between Asset Owners And Investment Managers, 2022). The concept of stewardship is referred to by FRC (Financial Reporting Council), UK Stewardship Code, as the "responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society". The authority that asset owners grant to investment managers to make investments on their behalf should be governed by a shared commitment to effective stewardship, so that investment managers are required to allocate funds and manage their investments in businesses and other assets in a way that is consistent with the long-term goals and investment aims of the end beneficiaries (*Investment Relationships For Sustainable Value Creation: Alignment Between Asset Owners And Investment Managers*, 2022).

Asset owners have investment goals and to reach them they design investment objectives. These investment objectives are achieved through specific investment and stewardship policies.

According to the report Investment Relationships For Sustainable Value Creation: Alignment Between Asset Owners And Investment Managers (2022), asset owners should adhere to the following guidelines for good stewardship:

- Develop investing and stewardship policies to achieve their financial goals.
- Nominate investment managers in accordance with these policies, or as close as practicable. Asset owners should choose investment strategies that will help them achieve their goals *before* selecting an investment manager to make investments on their behalf through mandates or the selection of funds that are in line with these goals. This is the first step in responsible capital allocation.
- Establish stewardship standards for their investment managers or other service providers and work with other asset owners to support these standards.

- Set up the investment relationship with the proper governance and incentives to concentrate on long-term value generation in line with the beneficiaries' investment time horizon.

- Supervise continuously the mandate in relation to their goals, especially through communication and performance evaluation.

- Evaluate the results and efficiency of the stewardship work done on their behalf.

- Advocate for systemic issues with regulators, governments, and standard-setters.

- Collaborate on projects with other asset owners, managers, and stakeholder organizations.

To recap, the figure below provides a summary of the main steps asset owners might follow to execute their stewardship function.

Figure 1: Schematization of the asset owners' steps for stewardship

Stewardship, in the eyes of asset managers, entails actions that involve interacting with investee companies, holding them accountable, and promoting behaviors that support long-term sustainable value. Additionally, it entails recognizing and controlling risks to the long-term value of investments on both a financial and a strategic level.

The report Investment Relationships For Sustainable Value Creation: Alignment Between Asset Owners And Investment Managers (2022) points out some of the stewardship activities that managers may undertake on behalf of their clients relate to:

- Research:
  Investment managers conduct research to determine which businesses and assets will assist them to achieve their clients' investment goals. They carry out this research as part of ongoing and pre-investment due diligence processes to guide their engagement and investment strategies.

- Investment decisions:
  Active managers will buy and hold companies and assets that help them to achieve their client's investment goals and sell those that will not. When all other efforts and involvement have produced no change, exiting (or threatening to resign) a position over stewardship issues might be considered as the last resort. It can also be utilized as a first line of defense by refraining from investing in businesses where ESG standards are a source of worry.

- Monitoring:
  Ongoing assessment of the risks and opportunities is needed to achieve long-term value for invested assets and companies. This also covers the oversight of external managers in fund-of-fund structures.

- Setting expectations:
  Investment managers set out their expectations of companies and communicate these expectations regularly in direct engagement with management and board members.

- Engage:
  To make sure their expectations are being met, investment managers interact with the companies they invest in throughout the investment period. Investment managers discuss issues that they believe present a material risk to the company with company management and board members in order to better understand how those companies are managing and addressing those issues.

- Collaboration and escalation:
  Investment managers may intensify their engagement or voting strategy if they believe that businesses or asset managers are not reacting to their ideas. Escalation may entail formally or informally collaborating with other investors on particular shared concerns.

- Exercising rights and responsibilities:

Voting and other rights are used by investment managers to shape corporate and asset behavior. Depending on the level of security, these rights will change.

2.6. Screening criteria

When choosing their investees, traditional venture capital organizations are motivated by profit expectations. The social and financial performance of invested social enterprises is tightly linked to impact investing's success (Agrawal & Hockerts, 2019). Social sector organizations are a key target market for investee organizations in impact investing. Benefit corporations, charities, not-for-profits, cooperatives, and community interest firms are a few examples of organizations, which are the social sector businesses, whose main goal is to alleviate social and environmental issues (such as youth unemployment and deforestation) (Islam, 2021).

To ensure the long-term success of an investment, the selection process is crucial. The structure of the investment procedure of impact investors is similar to that of traditional venture finance investors (Block et al., 2021). However, the investment criteria of impact investors differ from traditional ones in that not only the financial, but also the social objectives are considered. This dual ambition is reflected in their investment selection criteria.
Moreover, the heterogeneity of investors likely influences the screening process, as different types of investors have distinct return expectations and importance given to social impact, for example.

Block et al. (2021) investigate the investment criteria of impact investors in the early screening phase to better understand what drives different impact investors, to choose one investment over another, considering their hybrid objectives. Their analysis tests several assumptions regarding social impact criteria, founding team criteria, and business criteria.

For what regards social impact criteria, their findings show that impact investors are more likely to select a social enterprise (SE) that:

- addresses a societal problem of high importance rather than an SE that addresses a societal problem of medium or low importance;
- has a high degree of scalability rather than an SE with a medium or low degree of scalability.

The importance of societal problems reflects the goals of impact investors, who can only achieve their own social impact if their investees have a decisive impact.

Their results also show that impact investors tend to evaluate social impact criteria more than business criteria when screening SEs. As also shown in Block and colleagues' (2021) paper (based on Barber et al. (2021) and Chowdhry et al. (2019) research), impact investors have higher stakes in investments with greater levels of social output. Moreover, this also confirms Miller and Wesley's (2010) assumptions, which propose that impact investors start by evaluating social criteria and only when a certain threshold is met, assess other criteria.

Moving on to the founding team criteria, their data support the hypothesis that impact investors are more likely to select an SE which has a highly authentic founding team rather than an SE with a medium or low authentic founding team. However, they did not find support for another criterion related to the founding team as they found that the field of origin of the founding team does not have a significant impact when selecting an impact investor, indicating that impact investors do not favor a social, technical, or economic background. This screening criterion is in contrast to a traditional approach, for which venture capitalists preferably invest in teams that possess a background similar to theirs (Franke et al., 2006). Additionally, this proves that impact investors and traditional venture finance investors regard the founding team differently in the screening process.

The last aspect Block and colleagues (2021) test in their research is that of business criteria. First, they realize that greater financial sustainability increases an SE's chances to receive funding from impact investors. Without financial sustainability, competitive financial returns, which are highly desired by investors, are not achievable. Indeed, impact investors place the highest importance on financial sustainability out of the business criteria considered. Secondly, data show that impact investors see SEs' innovativeness as a relevant condition for achieving financial and social objectives, as SEs with a high degree of innovativeness are more likely to be selected. Finally, an important screening criterion is proof of concept. As a matter of fact, a proof of concept shows that the SE is able to combine the sometimes conflicting social and economic goals to achieve long-term impact.

When considering all these screening criteria, the differences across the various type of investors should be highlighted. Their research shows that donors attach higher importance to the relevance of the societal problem and less importance to the SEs' financial sustainability, whereas they attach more weight to the social impact criteria importance of the societal problem. The scalability of the SE, however, is not perceived as significantly more important by donors than by equity and debt investors. An explanation for this pattern is that donors typically do not seek any kind of financial return. Since the economic component of investment is unimportant, the emphasis switches to social factors. In addition, further differences are found between equity and debt providers: equity investors value more the scalability of an SE and less the social background of the founding team than debt investors do.

2.7. Impact measurement

The growth of impact investing has led to an unprecedented focus on impact measurement, with the aim of understanding both financial and social returns for these investments. Measuring social and environmental impact can help enterprises monitor and improve their performance, enabling them to access capital markets more effectively.
However, the measurement of performance in terms of social impact faces some difficulties when attributing social outcomes to a specific intervention and when it comes to identifying detailed quantitative indicators and tools, also because of the absence of a structured database that social ventures could use to build proxies and forecast social outcomes (Bengo et al., 2021).

Social impact programs operate in complicated social environments where it is challenging to identify causal relationships. As reported by Guter-Sandu (2022), the European Venture Philanthropy Association (EVPA) suggested that an impact assessment should properly keep in mind various factors, including *agency* (is there a specific agent to which the impact can be attributed?), *time* (how does the impact change over time?), *space* (how are other entities outside the scope of the intervention affected by it?), and others. This is a difficult task, and instead of developing into a strict procedure regulated by unambiguous norms, a rule of thumb is frequently an appropriate method for defining what counted in impact assessment. Furthermore, it makes clear that social impact initiatives are extremely unique and individual endeavors that need to be explained by referring to their own, specific contexts rather than broad formulas.

Moreover, impact measurement varies in approach and rigor, with a range of methodologies and practices emerging from different organizations. This poses a risk for the emerging field of impact investing; unless a certain level of rigor in impact measurement is established across the sector, the label 'impact investing' runs the risk of becoming diluted and being used merely as a marketing tool for commercial investors.
In addition to the lack of tools, investors interviewed by Bengo et al. (2021) identified as a crucial problem a weak institutional culture of impact measurement, where impact measurement was still mixed up with social reporting and was not seen as a management and decision-making tool by social ventures.

Many different solutions are being proposed by experts. For example, the findings from Bengo et al. (2021) study indicate that the SII sector needs a governance framework for social impact measurement, whereby organizations that classify

themselves as socially conscious are required to report their results in terms of social outcomes and wherein these results are independently audited by a third party to ensure their accuracy.

While there has been significant progress in the environmental field, the focus on measuring social impact is relatively new and a shared understanding of how to do it is still evolving. It is important to emphasize that environmental impact is generally easier to measure as it is possible to find a unifying principle that allows to collect numbers that can be representative, such as carbon emissions for example. Social processes instead are much more difficult to measure as they are governed by complex causal links and often happen in very long-time horizons. In addition, the social component of impact is more likely to compete with profit goals; this often leads organizations to measure this dimension superficially so as not to incur excessive risk on the financial side.

Impact measurement and management (IMM) is, and has always been, an integral cornerstone of the practice of impact investing. In the report "Navigating impact measurement and management – A mapping of IMM initiatives" (2022) by EVPA the most relevant IMM initiatives were mapped.

These initiatives, listed in alphabetical order, are:

- The GRI Standards (Global Reporting Initiative Standards), which are the most widely used sustainability reporting standards. They help organizations to analyze, disclose and communicate their impact on economic, environmental and social issues. They facilitate comparison between organizations and strive to improve transparency and accountability for companies and investors.

- The Impact Management Project (IMP), a platform for developing worldwide consensus on measuring, assessing, and reporting impacts on people and the natural environment. Between 2016 and 2018, a diverse community of over 2,000 practitioners agreed on the definition of impact as the change in outcome (positive or negative) caused by an organization, directly or indirectly, wholly or partially, intended or unintended, and measured across five dimensions: what, who, how much, contribution, and risk.
  The Impact Management Project's role ended in 2021, giving way to the Impact Management Platform, a digital application designed to help practitioners track their sustainability impacts, including the implications of their investments.

- The Operating Principles for Impact Management, a set of nine principles whose compliance ensures the integration of impact considerations throughout the investment process. They serve as a foundation for the development and implementation of impact management systems. They are growing rapidly as a

standard for impact investors, and they apply to all sorts of capital providers, asset classes, industries, and locations.

- The SDG Impact Standards, which provide instructions on how to incorporate SDG impacts across the investment strategy and the investment process, filling the gap between high-level ideas and practical procedures. They are intended to serve as both a self-evaluation tool and a guide to best practices. The implementation of the indicators can be demonstrated using the SDG Impact Seal and external assurance, respectively.

- The Principles of Social Value, developed by Social Value International (SVI), a set of guidelines that enables organizations to maximize and take responsibility for their impact. The Social Return on Investment approach (SROI), which enables assessing societal results and reflecting them with a monetary value, as well as estimating how much social value has been created compared to the capital deployed, incorporates the 8 Principles of Social Value.
  SROI can be used to gauge the effects of potential investments as well as analyze investments that have already been made.

- The COMPASS methodology, developed by the GIIN, is designed to enable comparability of impact at the investment or fund level. The COMPASS methodology takes into account the context in which investments are made, as well as the role or contribution of the investor. It includes three formulae to measure (i) the effectiveness of investees, (ii) the proportional impact of investments and (iii) the effectiveness of investors.

- IRIS+, a system for impact accounting created by the GIIN that enables investors to gather and manage data for strategic decision-making. This system comprises both evidence-based and stakeholder-tested core sets of measurements as well as the IRIS Catalogue of Metrics, which compiles standard metrics across the SDGs. Investors can compare performance between similar activities by using standard indicators to capture their impact.

Impact measurement serves several different objectives throughout the investment cycle. So & Staskevicius (2015) logically group measurement efforts into four key measurement objectives:

1. Impact estimation, conducting due diligence pre-investment;

2. Impact planning, deriving metrics and data collection methods to monitor impact;

3. Impact monitoring, by measuring and analyzing impact to ensure mission alignment and performance;

4. Impact evaluation, understanding the post-investment social impact of an intervention or investment.

A fifth objective behind impact measurement that cannot go unmentioned is the impact reporting, which uses the measurement activities as a part of the four objectives noted above to communicate impact findings with various audiences; these include beneficiaries, service providers, or funders.

To better understand impact evaluation, Islam (2022) provides a systematic review of the various roles it can assume. Research shows that it often serves mainly as an accountability mechanism. Indeed, according to what Islam (2021) reports, the research conducted by Ebrahim and Rangan (2014) and Bolis and West (2017) establish that impact evaluation is driven primarily by impact investors who hold social organizations accountable for achieving social impact. However, at times, the investors' obsession with accountability can demand onerous impact evaluations and reports from social organizations without giving extra resources, and this leads these organizations to divert valuable resources away from serving beneficiaries (Islam, 2021).

Additionally, research demonstrates that impact evaluation contributes to the legitimacy of impact investing by helping to justify investment choices to stakeholders (Islam, 2021).

Lastly, the precise function of effect evaluation may evolve over time in an impact investor-investee relationship. Impact assessment is primarily regarded as an accountability tool when impact investors and social groups first start working together (Lall, 2019). Impact investors and social organizations, however, take a more collaborative approach to impact evaluation as their relationship develops over time, which results in the use of impact evaluation as an organizational learning tool to better manage their social and business objectives (Islam, 2021; Lall, 2019).

2.8. Two dimensions: risk and return

Investments are traditionally viewed along a spectrum of risk and return, where taking on higher risk usually results in achieving higher returns. Impact investment analysis necessitates knowledge of the specific risks associated with the social entrepreneurship landscape in addition to accounting for the conventional risks of an investment. Impact risk, which can result from difficult-to-access markets, clients with no credit history, and measurement risk are a few examples.

A general finding is that impact investments are frequently viewed as riskier than conventional investments. This opinion is largely based on the fact that the majority of mainstream investors are unfamiliar with impact investing and the background of different investment products within it.

In addition to the risks of traditional investments, O'Donohoe et al. (2010) identified seven further aspects, as reported in Brandstetter and Lehner's (2015) research.

1. The first factor to consider is the *early stage of the market*, as risks might arise from the small size of the market, the little experience of fund managers in the field, the small portfolios, etc.

2. Secondly, because of the market's dependence on infrastructure, e.g. policy support and measurement systems, an *ecosystem risk* should be considered.

3. Thirdly, investees might drift away from the planned mission, leading to the so-called phenomenon of *mission drift*,

4. which is also linked to the fourth factor, *moral hazard*, which increases in the case of not delivering on the impact mission.

5. The fifth aspect is related to the *combination of investment capital*, as impact investments are usually comprised of grants and investment capital.

6. (7.) The last two factors are *legal and reputational risks*, as impact investments must constantly balance the dual imperative of generating positive social impact and profit, which gets increasingly more difficult when trying to scale up, also in terms of regulations, especially in emerging markets.

Along with the previously identified risks, O'Donohoe et al. (2010) take into consideration the social impact risk, which relates to challenges with standardized performance assessment and reporting.

This distinction between various types of risks related to impact investing is just one of the different possible definitions and analysis. Based on the findings of Brandstetter and Lehner (2015) the general perception of practitioners is that impact investments face a multifaceted set of interdependent risks and although the considered risk factors seem diverse, their analysis shows that there are several conceptual overlaps. The importance of risk variables varies significantly based on the target investor and performance expectations, thus decreasing risk is not a one-size-fits-all strategy, but actually needs to be assessed case by case.

In the private sector, investors use expected return parameters to calculate the expected value of their financial investments. Typically, this is calculated as a

weighted average of the probable returns (benefits minus costs) of the assets in the portfolio, weighted by asset class, and reset to present value as needed.

A similar methodology can assess expected returns in a social context. Indeed, expected return - used by lenders and impact investors - measures the expected benefits of an investment relative to its costs, discounted to today's currency value. This expected return metric can take various forms; examples include the Social Return on Investment (SROI), Benefit Cost Ratio (BCR), and Economic Rate of Return (ERR).

The GIIN *2020 Annual Impact Investor Survey* (Hand et al., 2020) reported that respondents identified as the top challenge for impact investing the lack of 'appropriate capital across the risk/return spectrum'. 'Sophistication of impact measurement and management practice' was also the second-greatest remaining challenge. Respondents also noted the third-greatest challenge, 'suitable exit options,' as an area of lower progress (although most respondents nevertheless noted some progress there). In this vein, one respondent emphasized the importance of increasing the sophistication of impact measurement and management (IMM) practice still further, explaining that despite "great progress in the sophistication and standardization of impact measurement," IMM practice remains "insufficient... to measure outcomes".

2.9. Impact investing in the world

Impact investing originated in the United States of America and could only have developed in a certain historical and regulatory environment. Part of this overall evolution is the belief and habit of American foundations to spend their charitable funds profitably on a worldwide scale, particularly with reference to the super-rich.

A growing number of extremely wealthy US philanthropists now believe that impact investing, which involves allocating their endowments for profit-seeking purposes, addresses the growing realization that "existing resources are insufficient to address severe poverty, inequality, environmental destruction and other complex, global issues" (Harji & Jackson, 2012, p. X). This led the Global South to become the major target for impact investors all over the world. These philanthropists are supported in their endeavors to promote good socioeconomic change and development throughout the world by development finance organizations and private equity firms, which in turn draw upon the riches of other extremely wealthy people in Asia, Europe, and Latin America, making impact investing a genuinely international movement (Stolz & Lai, 2020).

The industry expanded in a heterogeneous way across the globe and was mainly driven by a set of market enablers. For example, while the government performs a significant role in fostering the growth and development of the United Kingdom's impact investing industry, in other countries, like Italy, the expansion was mostly due to a combination of various forces by both non-profit and for-profit organizations (Bandini et al., 2022; Islam, 2021).

This different situation is caused by the fact that governments all over the globe are still particularly hesitant to support the expansion of the social impact investing market, despite the fact that it would benefit from a public intervention aimed at lowering the degree of risks as well as provide funding for capacity building; the UK and the USA are the only exceptions, where a number of reforms and laws have been adopted (Calderini et al., 2018).

In other cases, instead, impact investing presents similar issues in different countries. For example, the Tiresia Impact Outlook 2019 – (Il Capitale per l'Impatto Sociale in Italia, (2019) found that the main growth driver according to Italian impact investing organizations is the strengthening of the knowledge of finance for social impact, and this is indeed often seen as one of the main issues limiting the expansion of the market.

Although different nations may have varied levels of market maturity, private finance, and financial markets are crucial for regional economic growth. A relevant backdrop for understanding the possibilities of SII is provided by broader private finance statistics. North America and Europe are home to the majority of the donor nations (OECD, 2019).

Even though impact investment markets are expanding globally, there are still several hurdles. The OECD (2019) research suggested the following findings.

The development of social impact investment markets is influenced by regional and national settings, specifically by the distinctions between developed and developing nations, which are much more pronounced under unstable environments.
In developed economies, there is a growing ecosystem with a variety of intermediaries operating with relatively more advanced social impact investment markets.
In developing nations, the bulk of investors is foreign, with direct foreign investments playing a significant role and with local social impact investment markets frequently being underdeveloped.

For social purpose enterprises, access to financing continues to be the key obstacle, especially because they often require some initial grant funding and/or technical assistance to develop their business model. Across regions, studies indicate that small and medium-sized enterprises (SMEs) and entrepreneurs face a "missing middle" for

those seeking to scale up and expand their operations, as in many cases there is a lack of intermediaries in most countries.

Impact investment is still a young industry in many nations, and business owners and investors know little about it or about how to network in the sector. Data and platforms can play a vital role in that regard by facilitating linkages between investors and investees.

Another conclusion emerges from this analysis, and it regards Sustainable Development Goals. The SDGs are seventeen targets for global development proposed by the United Nations in 2015 and set to be achieved by 2030 and which all member countries have agreed to work towards.

The study by Tewari et al. (2021) tries to create a link between the SDGs and social impact indicators based on visualized outcomes and impact. Since indicators are built on the International Indicator Framework of the SDGs and SDG targets, their inclusion in impact reports shows a connection between impact and the SDGs and reveals how the impact produced by investors and investees is positively related to them. When national data is divided into more manageable parts, baseline data for the area and markets can be produced. But as of now, it is evident that impact investing serves as a means of financing sustainable development.

Moreover, even though OECD's (2019) research shows there is great potential for the private sector and for social impact investment market development to deliver the SDGs, no country is on track toward achieving them. The same conclusion emerges from the GIIN Market Sizing Report (2022) where it is stated that "The 2030 target to achieve the SDGs is rapidly approaching, and capital allocation towards these goals remains woefully insufficient if the world hopes to avert the worst outcomes of climate change and continuing inequity".

Another aspect to consider when analyzing impact investment in the world is the organizations' need to define the geographical scope of their activities. The EVPA report "A Practical Guide to Venture Philanthropy and Social Impact Investment" (Balbo et al., 2018) assesses how most European impact investing organizations operate in their own domestic environment or invest in developing countries, especially because an international focus leads to additional costs (e.g. travel, legal, and taxation advice costs) and management complexities if compared to national investments.

2.10. Impact investment challenges and barriers

In this section, the various challenges that limit the expansion and evolution of the impact investing market will be explored. To achieve this, the primary barriers identified in existing literature will be examined.
It should be noted that each paper may present a different point of view, such as a behavioral perspective on the impact investment concept or a focus on the regulatory issues that arise from this type of investment. Additionally, each study may concentrate on a particular region or country.

Thus, a comprehensive overview of the subject will be provided by analyzing various papers and displaying their results. This approach aims to gain a better understanding of the multifaceted nature of the barriers that impact the growth and development of impact investing.

2.10.1. Behavioral perspective

From a behavioral perspective, the accomplishment of two (or more) goals, which is the premise of impact investing, is not looked upon favorably, as the achievement of one objective could jeopardize the success of the other one. This skepticism towards the dual goal was studied by Caseau and Grolleau (2020), who analyze two mechanisms that explain how adding extra features to a product or service might decrease the perceived quality or instrumentality of each feature.

The first mechanism is the *goal dilution bias*: individuals tend to believe an entity performing a single function is better at it than another entity performing the same function and additional ones. For example, investors might perceive as less effective an organization that promises market-rate returns and a social goal than a company focusing only on market-rate returns.

The second mechanism is the *zero-sum bias*, which is the tendency of individuals, including investors, to judge intuitively that resources invested in one dimension are automatically matched with an equivalent loss of resources for other dimensions, even if the objective situation is not a zero-sum condition (Caseau & Grolleau, 2020). For investors sharing this conviction, financial success is possible only at the expense of other people's failures (Caseau & Grolleau, 2020).

Additionally, Caseau and Grolleau (2020) also consider the *presenter's paradox*, which analyzes the conflict between adapters and agents who believe that presenting additional features will strengthen the likelihood of the agents' success. While impact investing advocates believe that explaining in detail the positive effects on people's lives thanks to investment will convince more to invest, Caseau and Grolleau (2020)

report that recent studies (Weaver et al., 2016) found that attempt to close a deal by adding extra features to an already strong proposal may lead to a reduction in its overall attractiveness.
To sum up, as Caseau and Grolleau (2020, p. 11) claim, “when an impact investing proposer puts everything that might catch an investor’s eye into the financial product, the proposer is inadvertently making the financial product look weaker, not stronger. This effect should not be underestimated”.

This duality of goals challenge relates to mainstream finance investors that may want to move towards impact investing, as well as to philanthropic foundations that might desire to do the same. For the latter category, adopting impact investment may be interpreted as moving away from addressing social issues and the public good. If they embrace impact investing strategies, they run the risk of losing credibility and support from the philanthropic sector as a whole since, with the exception of a few outstanding pioneers, they diverge from the present institutionally recognized norms (Jones & Embry, 2021).
Developing methods that guarantee both endowed money and philanthropic capital to be in line with the foundation's mission are crucial to allow the alignment of the foundation's goals and investments to become achievable (Zolfaghari & Hand, 2021a).

2.10.2. Investing barriers

Various factors can challenge the deployment of impact investing strategies. Zolfaghari and Hand (2021) report that Ormiston and colleagues (2015) identified five factors that can prevent investors from including impact investing in their portfolio, namely:

1. Permissibility under law, which is offset by identifying an investment opportunity whilst remaining cautious about legislative constraints;

2. Inclusion within investment portfolios, which requires investors to apply impact investing strategies across their asset classes;

3. Support infrastructure, which refers to funding intermediaries that facilitate investments, given that traditional support for activities is largely lacking;

4. Suitability of investment opportunities;

5. Expertise in designing, implementing, and managing impact investments.

The authors’ analysis led also to the identification of four main themes to focus on to overcome these barriers:

1. the importance of focusing on financial-first investments (especially for institutional investors);
2. the need for established due diligence practices;
3. the opportunity for portfolio diversification and alignment with mission and values;
4. the value of networks and collaboration.

But these are not the only barriers that the literature on the matter shows. The (OECD, 2019) research on the role of SII in financing sustainable development led to the following findings:

- Problematic business conditions hinder the expansion of the market.

  Foreign ownership restrictions and a lack of exit alternatives for foreign investors are two obstacles to the growth of SII markets.

- Most countries have a deficiency of intermediaries.

  The SII market is undeveloped in many sectors and is focused on a small number of nations and geographical locations, which may not necessarily be where the greatest impact prospects exist.

- Access to financing continues to be the key obstacle for social purpose organizations.

  To establish their business models and be able to eventually attract investor money, many social purpose firms need some early grant financing and/or technical assistance. Yet, studies show that entrepreneurs and small and medium-sized businesses (SMEs) suffer a "missing middle" when trying to scale up and extend their businesses across regions.

- There is a lack of knowledge about SII (both at the policy and practitioner levels).

  This is partially a result of a lack of awareness and informational imbalances. Impact investment is still a nascent industry in many nations, and business owners and investors know little about it or how to network in the sector.

- It is necessary to have a shared understanding of the concept of social impact investing.

Although significant progress has been achieved, driven by the OECD, the Global Steering Group, and other international players, a hurdle to the industry's continuing development is the lack of agreement on the definition and segmentation of the social impact investment market.

- The majority of businesses and investors keep their investment information private.

  Investors and businesses frequently withhold transaction data. Social businesses typically cannot afford to establish an investor relation and/or public relations staff until they are a sizeable organization.

- Throughout all regions, measuring social impact continues to be difficult.

  Businesses and investors already utilize tailored strategies to meet their objectives, but they are neither ideal nor standardized. However, it is still challenging to get comprehensive data on social impact investments.

Moreover, the GIIN researched the role of the government and policies in the development of the impact investing market (Mudaliar et al., 2019).

Respondents to this GIIN study discussed the regulatory or legal obstacles to their work, which are listed in the following table (Table 1).

Regulatory barriers:
▪ regulations on foreign investment and foreign ownership
▪ inconsistent and unpredictable application of policy, particularly pertaining to foreign direct investment and taxes
▪ complex capital controls, such as in India and China
▪ interest rate caps
▪ restrictive application or interpretation of fiduciary duty, or both
▪ non-existent or limited reporting regulations

▪ general political instability and corruption
▪ an absence of regulation for impact investing.

Table 1: Regulatory and legal barriers (GIIN, 2019)

In 2019, TIRESIA asked directly the actors in the Italian impact investing market for their opinion on possible barriers (TIRESIA Impact Outlook 2019: Il Capitale per l'Impatto Sociale in Italia, 2019).

The three main obstacles they identified were the following:

1. Lack of financial culture
2. Lack of attractive investment opportunities
3. Lack of public support

Moreover, another aspect that emerged from the same research is that 42% of those invested believe that the supply of impact capital is unable to meet their expectations. In particular, the main issues noted are the predominance of economic-financial aspects in the evaluation of the investment, consistent with the screening criteria exhibited by operators, the long due diligence times, and the need for a greater valorization of the peculiarities related to the generation of social impact.

Furthermore, as reported previously, the GIIN (2020) annual impact investor survey revealed that 66% of respondents identified impact washing as the most significant challenge confronting the market over the next five years.

According to more specific research on foundations operating in the Italian impact investing market (Borrello et al., 2021), the main barriers identified by interviewees are:

- Lack of coordination and sharing of best practices in the sector, which could be helpful to elicit imitation.
- Lack of foundation-specific expertise, especially with regard to smaller foundations.

- The unpreparedness of demand, mainly in the sense of an organizational and managerial inability to manage the relationship with the investor and to ensure economic sustainability.
- Lack of policy support and coordination, and this is attributed in part to a restricted ability of the sector itself to connect with institutions, to make its voice heard effectively and, consequently, to promote effective interventions that can support the development of the impact investment market.

Even though the lack of public support is reported by many authors, Islam (2021) reports how "the Italian impact investment market is demonstrating considerable progress despite the absence of government-initiated large impact funds and infrastructure and heavy involvement of large foundations. The main driver of the growth of the Italian impact investment market is the high level of collaboration between for-profit and non-profit sectors". This shows why a lot of attention is focused on foundations, when researching the Italian impact investing market.

In an attempt to put together all those barriers hindering the growth of the market, the study by Bengo and colleagues (2021) provides the table below (Table 2), which originated from the study of the existing literature on the matter.

Barriers to SII Development Identified by Scholars
Misalignment between investors' and investees' expectations regarding investment capital-funded growth
Eligibility criteria not in line with organizations' characteristics
Low level of attractiveness of existing social impact organizations
Lack of knowledge about SII and inadequate financial literacy
Poor managerial skills of social ventures
Difficulty in assessing social performance due to scarcity of reliable data
Lack of standards for measuring and reporting social impact

Bias about the actual risk/return profile of SII investments
High level of information asymmetry
Risk of moral hazard by neglecting the economic aspects
Fear of mission drift by neglecting the social mission
Lack of enabling regulatory frameworks
Lack of exchange platforms
Lack of exit strategies

Table 2: Barriers to SII development identified by scholars (from "Preserving the Integrity of Social Impact Investing: Towards a Distinctive Implementation Strategy").

All the barriers that have been explained are summarized in the following table (Table 3), which also includes the scope of the studies reporting each barrier (in particular, whether it regards the Italian market or it is global research).

CATEGORY	BARRIER	LOCATION	SOURCE
Financial Evaluation and Organizational Fit	Restrictions on the application or interpretation of fiduciary duty, or both	General	GIIN (2019)
	Overemphasis on economic-financial aspects in investment evaluation, aligned with operators' screening criteria	Italy	Tiresia (2019)
	Lengthy due diligence processes	Italy	Tiresia (2019)
	Risk of moral hazard by neglecting the economic aspects	General	Bengo et al. (2021)

	Misalignment between investors' and investees' expectations regarding investment capital-funded growth	General	Bengo et al. (2021)
	Eligibility criteria not in line with organizations' characteristics	General	Bengo et al. (2021)
	Fear of mission drift due to neglect of social mission	General	Bengo et al. (2021)
Operational Capacity and Expertise	Unpreparedness of demand (including organizational and managerial inability to manage investor relationships and ensure economic sustainability)	Italy	Borrello et al. (2021)
	Poor managerial skills of social ventures	General	Bengo et al. (2021)
	Lack of foundation-specific expertise, particularly for smaller foundations	Italy	Borrello et al. (2021)
	Lack of expertise in designing, implementing, and managing impact investments	General	Ormiston et al. (2015), Zolfaghari and Hand (2021)
Investment Suitability and Market Conditions	Challenges in including impact investments in investment portfolios	General	Ormiston et al. (2015), Zolfaghari and Hand (2021)
	Suitability of investment opportunities	General	Ormiston et al. (2015), Zolfaghari and Hand (2021), Hand et al. (2020)
	Problematic business conditions	General	OECD (2019)
	Lack of attractive investment opportunities	Italy	Tiresia (2019)

	Inadequate supply of impact capital to meet expectations	Italy	Tiresia (2019), Hand et al. (2020)
	Difficulty in accessing to financing for organizations with a social purpose	General	OECD (2019)
	Low level of attractiveness of existing social impact organizations	General	Bengo et al. (2021)
	Bias regarding the actual risk/return profile of SII investments	General	Bengo et al. (2021)
Knowledge and Culture	Lack of financial culture	Italy	Tiresia (2019)
	Inadequate knowledge of SII and financial literacy	General	Bengo et al. (2021)
	Insufficient knowledge of SII at policy and practitioner levels	General	OECD (2019)
	Lack of a shared understanding of the concept of social impact investing	General	OECD (2019)
	Low valorization of the peculiarities related to the generation of social impact	Italy	Tiresia (2019)
	Impact washing	General	GIIN (2020)
Policy and Regulations	Lack of enabling regulatory frameworks	General	Bengo et al. (2021)
	Lack of regulation for impact investing	General	GIIN (2019)
	Limited support infrastructure, which includes funding intermediaries that facilitate investments	General	Ormiston et al. (2015), Zolfaghari and Hand (2021)
	Deficiency of intermediaries in most countries	General	OECD (2019)
	Lack of exchange platforms	General	Bengo et al. (2021)
	Limited exit strategies	General	Bengo et al. (2021)

	Lack of public support	Italy	Tiresia (2019)
	Lack of policy support and coordination	Italy	Borrello et al. (2021)
	Absence of government-initiated large impact funds and infrastructure	Italy	Islam (2021)
	Uncertainty surrounding the permissibility of impact investing under law	General	Ormiston et al. (2015), Zolfaghari and Hand (2021)
	Regulations on foreign investment and foreign ownership	General	GIIN (2019)
	Non-existent or limited reporting regulations	General	GIIN (2019)
	Inconsistent and unpredictable application of policies, particularly related to foreign direct investment and taxes	General	GIIN (2019)
	General political instability and corruption	General	GIIN (2019)
	Complex capital controls	General	GIIN (2019)
	Interest rate caps	General	GIIN (2019)
Measurement and Reporting	Difficulty in assessing social performance due to scarcity of reliable data	General	Bengo et al. (2021)
	Desire of businesses and investors to keep their investment information private	General	OECD (2019)
	Lack of coordination and sharing of best practices in the sector	Italy	Borrello et al. (2021)
	High level of information asymmetry	General	Bengo et al. (2021)

	Difficulty in the measurement of social impact	General	OECD (2019), Hand et al. (2020)
	Lack of standards for measuring and reporting social impact	General	Bengo et al. (2021)

Table 3: Summary of barriers found in literature.

It should be noted that in Table 3 also the barriers identified by the GIIN *2020 Annual Impact Investor Survey* (Hand et al., 2020) have been included[2].

To conclude, the importance of understanding the barriers to try to find ways to overcome them was shown by many authors, such as Daggers and Nicholls (2016), which identify the question "What are the barriers preventing investors from taking part in SII?" as one of the aspects of future of academic research.

2.11. Need for a framework to manage barriers

As more and more attention is being paid to academic studies on the financial sustainability of impact investing, meaning papers on the impact-return ratio, what seems to be less discussed is how to overcome the barriers that the actors operating in the market talk about.

The first to comprehend what are the problems that are limiting the growth of the market are the actors that are actually operating in it, as they come in contact with these barriers in their everyday activities.

In the past, some authors have studied these obstacles and tried to give ideas on how to overcome them. For example, Harji and Jackson (2012) studied the challenges that the impact investing market was facing and offered recommendations to industry leaders regarding the challenges and opportunities that may lie ahead. However, looking at their work, many of the issues they identified more than 10 years ago are the same that more updated studies found.

For this reason, it is time to check again why these problems persist, why the activities to overcome them did not work (or at least, did not completely work) and how new actions can be undertaken to help the market to grow and increase the positive impact on society that it desires to achieve.

[2] These challenges were reported in section 2.8 of the literature review.

Aspects such as greenwashing and impact washing, for example, are limiting the potential development of the market. "As interest in impact investing increases, it is important to recognize the range of interpretations and to identify where funds are marketed as impact investments but lack genuine intentionality" (Findlay & Moran, 2019).

Moreover, new challenges might have been faced in the last few years, as more attention is being paid to ESG and sustainability aspects all over the world. Indeed, this attention to sustainability as a whole might actually create some barriers to the impact investing industry, as many companies are starting to speak about impact without really comprehending the meaning behind the world, but it is important to "ensure impact is not just a marketing brand" (OECD, 2019).

However, the way to actually understand what impact investing is, and in this way understand how to solve the problems that are limiting its positive effects, still needs to be deepened.

From all these considerations, what the impact investing literature lacks is a thorough explanation of how to overcome the barriers of the market, and which drivers to invest in to be able to better develop the industry. If these issues are not studied and addressed, the entire impact investment market cannot flourish, consequently reducing the positive effect that impact investing could have on society which urgently needs all the support it can get.

This dissertation will therefore attempt to address this gap in the literature by analyzing the barriers characterizing the impact investing market, focusing on the Italian context, and this will hopefully help both asset owners and asset managers to generate greater impact.

3 Objectives & Research Question

As many challenges in the environmental and social sphere emerge, impact investing poses itself as a solution, by promising to address said issues while also generating financial returns.

Despite its potential, as it emerged from the literature review, impact investing faces various challenges that limit its growth and adoption. As the market for impact investing matures, it is crucial to understand these barriers and drivers and identify potential future challenges.

From what the analyzed papers explained, one of the primary challenges is the skepticism towards impact investing being able to achieve both financial returns and positive social or environmental outcomes. As previously presented, the duality of goals challenge affects not only mainstream finance investors but also philanthropic foundations that may be considering impact investing but fear losing credibility and support. To achieve alignment of goals and investments, it is crucial to develop methods that ensure both endowed money and philanthropic capital are in line with the foundation's mission.

Moreover, there is a lack of standardization in impact measurement and reporting, which makes it challenging for investors to compare and evaluate investment opportunities. Without a common set of metrics to assess impact, it is difficult to determine which investments will truly make a positive difference, and which may be less effective. Many pieces of research show that this lack of clarity can lead to confusion and skepticism among potential investors, ultimately limiting the growth of the impact investing market.

Another significant challenge facing the impact investing industry is the lack of awareness and understanding of impact investing among potential investors. Many investors may not be familiar with the concept of impact investing or may not fully understand how it works, which can make it difficult for them to evaluate impact investment opportunities.

Part of the challenge is that impact investing is still a relatively new and evolving concept, and there is a lack of standardized definitions and metrics around impact.

This can make it difficult for investors to assess the potential social and environmental benefits of an investment and to compare different impact investment opportunities.

Additionally, some investors may view impact investing as a form of philanthropy or charity rather than a viable investment strategy. This misconception can make it difficult to attract mainstream investors to the impact investing space.

Another factor that contributes to the lack of awareness and understanding of impact investing is the limited coverage of the impact investing industry in the mainstream media.

Compared to traditional investing, impact investing does not receive as much attention or coverage in financial news outlets, which can make it difficult for potential investors to learn about the benefits and risks of impact investing.

The lack of awareness and understanding of impact investing may be also due to a lack of education and training among financial advisors and wealth managers. Many investors rely on financial professionals for guidance on their investment decisions, and if these professionals are not familiar with impact investing or lack the skills to evaluate impact investments, it can make it challenging for investors to incorporate impact investing into their portfolios.

One of the key characteristics of impact investing is that it typically requires a longer investment horizon than traditional investments. This is because many impact investments are focused on generating social or environmental benefits over a longer time horizon, rather than simply maximizing financial returns in the short term.

For example, an impact investment in a renewable energy project may require several years to build and develop the infrastructure needed to generate electricity from renewable sources. Similarly, an investment in a social enterprise focused on job creation or education may require several years to build out its operations and impact.

This longer-term focus can create challenges for investors who have short-term investment horizons or who need to generate immediate returns. Many traditional investors, in fact, are focused on generating returns in the short term, often measured in months or even days.

In contrast, impact investors are often focused on generating both financial and social or environmental returns over a longer time horizon. This can require a different mindset and approach to investing, as well as a willingness to accept lower or more variable financial returns in the short term to achieve the desired impact over the longer term.

The demand for impact investing has been growing over the past few years, and it is being driven by several factors. Firstly, investors are increasingly seeking investment options that align with their values and beliefs. Many individuals are looking to make

a positive impact on society and the environment while generating financial returns, and impact investing provides a viable option.

Moreover, there is growing evidence that social and environmental factors can positively impact financial performance, and this is another driver of impact investing. Organizations that prove their activities are organically sustainable or that they are working towards a more sustainable development of the world are expected to face lower reputational risks than those who keep their operations the same. This would lead to higher sustainability of the business in the long term, as the public's interest in sustainability aspects is supposed to keep growing, as the world faces new problems. As a result, investors are considering these factors when making investment decisions. They are looking to invest in companies and projects that are addressing social and environmental challenges while potentially generating higher financial returns in the long run.

Government policies and initiatives can also serve as drivers for impact investing. Governments can provide tax incentives or regulatory frameworks that support impact investing, encouraging more investors to consider this type of investment. Government-led initiatives focused on addressing social and environmental challenges, such as renewable energy or affordable housing, can create new opportunities for impact investors. This can help to catalyze new investments and encourage the growth of the impact investing market.

All these considerations, which have emerged from the review of the literature on impact investing, push the focus of this dissertation on the barriers that are limiting the growth of the impact investing market and the drivers that need to be leveraged to overcome such challenges.

While this topic has been partially studied, also by considering some actors operating in the industry, it seems that not sufficient progress has been made. Therefore, it is relevant to understand whether these barriers have remained the same since those studies and whether new drivers can be found.

These drivers are fundamental as it is not enough to describe the problems the market is facing, but these issues need to be studied and understood, and solutions need to be presented.

The analysis was initiated in collaboration with the European association researching the market, EVPA, and initially focused primarily on European data on the impact investing industry, eventually focusing on the Italian impact investing market.

The choice of starting by participating in the analysis of data for the creation of a report for the European market and then the decision of focusing the research on the Italian context are explained in more detailed information below:

1. The first reason is that in this way it would have been possible to actually get in touch with the actors who face the challenges that will be discussed in this thesis on a daily basis, starting with a European questionnaire and then through semi-structured interviews with Italian impact investing operators.

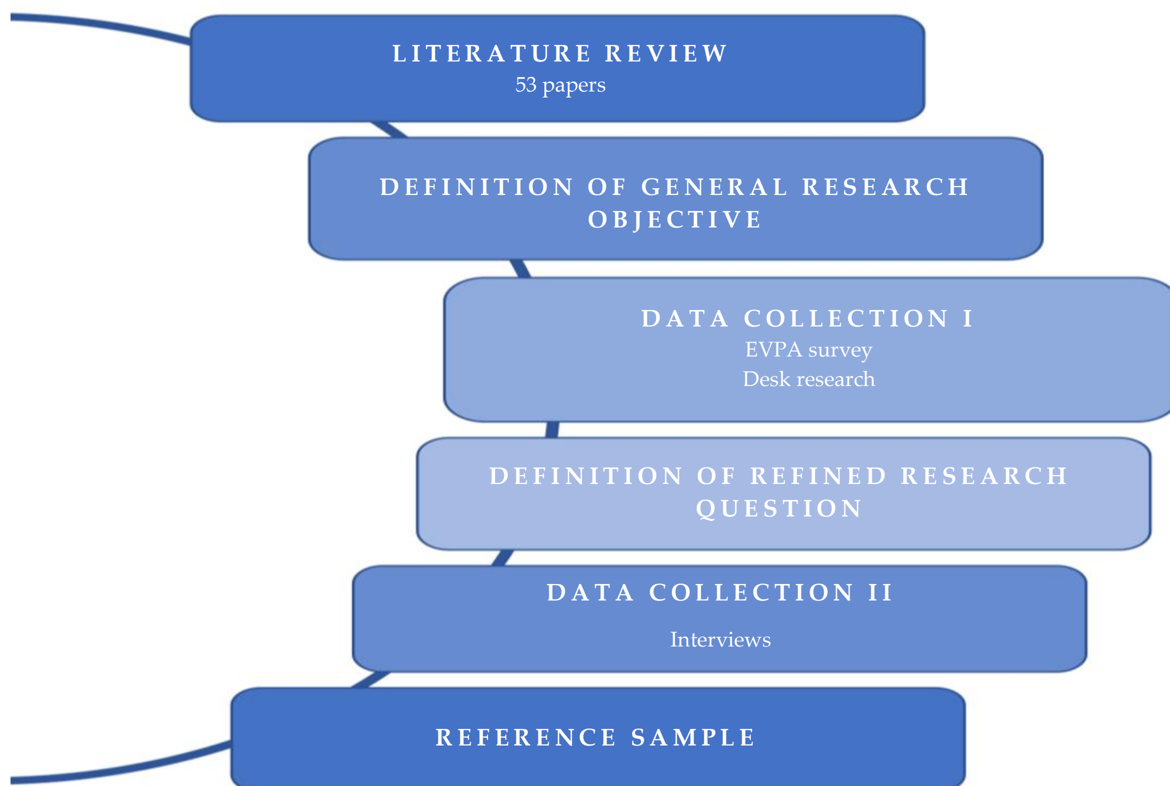
2. Secondly, as this research started from a European perspective on the impact investing industry, the Italian market proved to be peculiar, as it is less developed than other European countries such as Belgium and the Netherlands (Gaggiotti & Gianoncelli, 2022), even though many Italian organizations have been operating in the philanthropic sector for a long time, and this would be a favorable environment for the development of impact investing. Because of these contradictions, it was decided to concentrate the study on this area through more in-depth interviews.

After these premises, the research question that this dissertation will address can be summarized as follows:

Which barriers is the Italian impact investing market facing and how can the actors operating in it overcome them?

4 Methodology

This chapter is intended to guide the reader through all the methodological decisions taken to draft this dissertation. It provides an in-depth breakdown of all the logical steps that have been performed during the analysis. Considering that the different phases required specific and diverse approaches, each of them necessitates a comprehensive explanation with a separate paragraph. The essential stages that were required to complete this work are summarized below.



To begin with, the first task that was carried out was the **review of existing literature** on the topic of impact investing. Once the **general subject of the analysis** was chosen (impact investing), it was important to see the current knowledge and the amount of research already present on this topic. Then, as the dedicated section further explains,

additional investigation of the literature was done to better focus on the chosen research question. In particular, the lack of evidence on the relationship between asset owners and asset managers was noted.

With regard to the collection of the data analyzed for the purpose of this thesis, reference was made to the results of the 2022 **European Impact Investing survey** conducted by EVPA, which is the first harmonized European impact investment market sizing exercise. This data was used as we collaborated with EVPA in the data collection and analysis for this questionnaire. However, this was only the starting point of the analysis, as we integrated the data regarding Italy with **desk research** in the cases of organizations that were asked to complete the survey but did not do so.

In some of the cases, not much information could be found online, so we conducted semi-structured **interviews**. Moreover, the EVPA questionnaire revealed that there are many problems that limit the potential growth of the market, and both asset managers and asset owners seemed to have an opinion on what the market is lacking (or simply what is not working) and how to "fix" it. Therefore, we better **defined our research question** to reflect the importance to understand this aspect and we decided to ask during these interviews what these organizations thought about what was limiting their activities and what was actually helping them.

Lastly, the conclusive section of this chapter regards the **reference sample**, describing all the organizations whose data will be used in our analysis, thus from the EVPA survey, desk research and interviews.

4.1. Literature review

Levy and Ellis (2006) define the literature review process as "sequential steps to collect, know, comprehend, apply, analyze, synthesize, and evaluate quality literature in order to provide a firm foundation to a topic and research method". Its importance is recognized by academics all over the globe, as it lays the foundations for every academic research.

One of the main justifications for performing the literature review is to enable researchers to realize what is already known and what presents gaps that should be tackled (Levy & Ellis, 2006) to somehow justify the proposed study as one that contributes to something new. In addition, to create the basis on which the main research will be built, it also allows comprehending difficulties and solutions that address actual problems with which practitioners are struggling, as well as provide researchers the validations for a given methodology and the reasons why a given approach is optimal for their study (Levy & Ellis, 2006).

The implemented methodology is a narrative literature review, which we chose because it allows the review author to analyze and condense a volume of information, draw conclusions about the subject, spot any gaps or contradictions in the literature, and then direct the audience to a properly specific research question (Baker, 2016). Juntunen and Lehenkari (2019) observed that the process of carrying out a narrative literature review is iterative, unstructured, multi-layered, and comprises a number of written outcomes; the procedure is intertwined with its social setting, where the supervisor, together with other official and unofficial actors, directs and aids the course of the beginning researchers.
Therefore, according to them, the process cannot be considered linear; indeed, the exploration of the literature, the [re]definition of the focus, the analysis and synthesis, and writing are the four iterative steps that are alternated during the process. Many of these actions are combinations of those found in systematic reviews, but the order, significance, and relative focus of each step vary. This iteration was necessary for the drafting of the literature review of this thesis.

Once the general topic of impact investing had been defined to be the broad focus of the thesis, a small selection of data sources was provided by the thesis supervisor. These initial documents, which were a selection of literature reviews, annual reports, and comprehensive overviews on the topic, formed the starting point of the analysis.

The following step involved researching academic and practitioner material on the topic of impact investing, in particular its characteristics, actors, and challenges. It took quite some time to collect papers on impact investing as it partly coincided with the collaboration with EVPA necessary to collect the data; in fact, the search took place between May 2022 and September 2022.

The search for articles to be examined was done using the Scopus database with the aim of finding appropriate documents that could help find definitions of social impact and align different possible opinions around the concept. In Scopus, it is not possible to specify precisely what one is looking for, but one can express it through keywords.

However, using the keyword "social impact" alone is not enough as one could run the risk of getting a wide variety of articles from various fields that might lead in the wrong direction.

Therefore, we used a combination of different keywords to try to identify more precisely what would truly be relevant to the thesis. In particular, the word combinations used to filter the results were:

- Impact investing
- Impact investment
- Impact investor
- Social impact
- Asset manager
- Impact investing and philanthropy

Even using these keywords, some of the results appeared to be out of scope; for example, an article on the *impact* of any kind of *investment* would answer the search. For this reason, a quick screening of titles was enough to exclude those that were outside of the boundaries of the research.

Furthermore, we took under consideration the year of publication, giving the highest priority to papers between 2019 and 2022, but not excluding potentially important documents antecedent to those years.

This collected body of knowledge was then summarized in a dedicated Excel file[3], reporting all the information related to the documents. In particular, the file was made up of a table and each column included an important piece of information that needed to be obtained for examining existing literature, making easier the consultation of the articles when drafting the literature review chapter.

[3] The Excel table was organized in thirteen columns, labelled as it follows:
Authors – Year of publication – Title – Publishing Journal or Editor – Abstract – Type of study – Academic study or Practitioner study – Methodology – Purpose of the paper – Major findings – Relevance of the paper – Recommendations for future research – Further personal comments.

Once the more relevant documents were identified, to decide whether to incorporate them in the literature review or not, we read their abstracts and relative keyword. A total of 6 documents were excluded from consideration as they did not fully reflect the objective of the review, while another 7 documents were considered but not included in the literature review, because they included aspects that were repeated in the other considered papers.

Finally, the analysis led to 53 articles, considering also the 8 initial documents initially provided.

The chosen documents were mainly academic literature; in fact, only 17 out of the total results were practitioners. With regard to academic papers, the majority of them originated from scholarly and peer-reviewed journals.

A selection of these journals is listed here:

- Journal of Business Ethics
- Journal of Small Business & Entrepreneurship
- Journal of Social Entrepreneurship
- Social Responsibility Journal
- Journal of Financial Economics
- The Journal of Alternative Investments
- Journal of Sustainable Finance & Investment

The practitioner documents, instead, were reports provided by international organizations, such as GIIN, EVPA, and OECD, experts in the sector.

In order to avoid losing track of any papers and to benefit from the citation process and the creation of the bibliography from the very beginning, all the papers that could be useful for the revision of literature were downloaded and then immediately stored on the Mendeley Desktop Software[4], in a way to also share them between us.

[4] Mendeley is a free reference manager that can help you store, organize, note, share and cite references and research data. It automatically generates bibliographies, allows to collaborate easily with other researchers online, easily import papers from other research software, find relevant papers based on what one is reading, access one's papers from anywhere online. (Source: Elsevier and Mendeley website)

4.2. Data collection

4.2.1. Survey

Between March and October 2022, the organizations operating in the European impact investing market were asked by the European Venture Philanthropy Association (EVPA) to complete the European Impact Investment Survey. A consortium of networks and research institutions worked together for more than a year to define together the questionnaire, which was conducted on the Survey Monkey Apply platform, an online application management tool through which non-profits, foundations, educational institutions, and businesses can choose applicants for grants, scholarships, sponsorships, and other initiatives, and it was used to create, send, and analyze the EVPA survey. By adopting a uniform questionnaire across Europe, the consortium aims at offering a more informed perspective of the sector. Participation in the questionnaire was voluntary and the languages available were English, Italian, French, and Dutch, so that even smaller and local organizations could have the chance to contribute to the program.

The initiative's goal was to employ the cooperation of several European National Advisory Boards (NABs), academic institutions, and supranational organizations to encourage the creation of a Europe-wide methodology for determining the size and characteristics of national impact investment markets. Some of the partners included:

- For Spain: SpainNAB and Esade Center for Social Impact
- For Italy: Social Impact Agenda per L'Italia and Tiresia – Politecnico di Milano
- For France: FAIR
- For Belgium: King Baudouin Foundation and Solifin
- And others:
    - Center for Social Impact,
    - Netherlands Advisory Board on Impact Investing,
    - Bundesinitiative Impact Investing,
    - Impact Investing Institute,
    - Big Society Capital.

While it is not part of this thesis focus, it is necessary to mention that together with the impact investment survey, also the "European Engaged Grant-making" survey was

launched; the contacted organizations could choose to complete one or the other, based on the type of investments they make. In some cases, after the completion of the engaged grant-making survey, it became clear that the organization in question provided some form of impact investment and because of this, it was further contacted to be requested to respond to the impact investment questionnaire.

While the information we will provide in the following paragraphs relates generally to the questionnaire, its creation, structure, and characteristics, it is significant to explain our involvement in it. Between July and November 2022, we collaborated with EVPA in the collection and aggregation of the data from the questionnaire. We contributed by disseminating the impact investing questionnaire to the targeted organizations, contacting them, offering our support if it was needed, and explaining why their participation was important. Then, we aggregated the data collected, checking the completeness of the responses. We drafted follow-up e-mails for organizations that were struggling to fill in the survey and harmonized the survey with data from countries that decided not to use the EVPA questionnaire. Lastly, we participated in the aggregation of the responses from the different countries to allow the analysis of the overall market.

4.2.1.1. Determining the boundaries of the study

One of the main issues regarding the sizing of the impact investment industry is defining what is considered impact investing and what is not. The consortium decided to determine the boundaries of the analysis building on the framework of the ABC classification and impact classes thanks to the proposal of the Impact Management Project (IMP), while also considering the triad of impact.

The overall impact of a portfolio can be classified according to the type of impact the underlying companies or assets have on people and the environment (A, B, or C), along with the approaches used by the investor to increase the impact. All investors should be able to comprehend the effects of the assets or investment products/funds at their disposal in order to match their portfolios with their goals. Furthermore, in order to avoid being unfairly connected to assets with different impact objectives or being solely evaluated on the basis of financial performance, intermediary investment managers and the assets seeking investment both seek to discover compatible investors. For this reason, the IMP focused on mapping investments based on their impact on people and the planet, by creating three classes: A (Act to avoid harm), B (Benefit stakeholders), and C (Contribute to solutions).

A

For all major negative impacts, all businesses should at a minimum be **Acting to mitigate harm** (A's). Organizations that consistently have detrimental effects on society are instead categorized as doing harm (D, outside of the sustainable organization range). The organization cannot be rated A, B, or C overall until the performance on that outcome improves (becomes an "A"). So, an

organization can be considered as belonging to the A class if, even though it does or may cause harm to the well-being of a group of people or the condition of the natural environment, it is mitigating or reducing this harm. This harm mitigation goal is set when the organization will perform better in terms of the outcome but will not produce a sustainable result within the specified time frame.

B

If an organization not only reduces harm to all stakeholders but also focuses on maintaining their well-being within the sustainability range, it resides in the B class, **Benefitting stakeholders**.

C

Lastly, the C class (**Contribute to solutions**) includes organizations that, while behaving according to the principles of the last explained class, also addresses a social or/and environmental challenge that is not caused by the organization. These unsustainable consequences, which are not the organization's fault, may be the result of a market or regulatory failure, for example the denying a group of people access to a necessary resource or the jeopardizing of the availability of natural resources.

For the sake of completeness, it is necessary to mention that there are also two more classes, outside of the sustainability spectrum: D (Does cause harm), as previously mentioned, in the case an unsustainable outcome is not improving, and M (May cause harm), if there is no performance information for an outcome.

[Source: Impact Management Project]

Based on these definitions, EVPA decided to focus on organizations belonging to the C class, and to consider only the vehicles that reflected the characteristics of this class and exclude all the others (Bs and As).

The other aspect considered for the boundaries definition of the survey is the triad of impact, which was previously described in the literature review chapter. However, it is interesting to understand how these three concepts are considered in practice.

- For what regards intentionality, it is assumed that declared intentions present themselves as impact objectives (what results, for whom), investment choices, and non-financial assistance. The IMP class C serves as a valuable foundation for determining the desired type of influence. Clarifying the relative importance of social vs. financial gains is another benefit of intentionality.

- With respect to measurability, impact investors prefer standardized tools, frameworks, and principles above using any measurement system. Prior to the deployment of money, the impact goals they plan to track must be settled. They

must also be tracked and controlled throughout the investment cycle and evaluated afterward. This technique seeks to connect impact and investment directly and, frequently, to connect investor financial incentives to impact returns. Finally, the process ends with an audited impact report.

- Investments with additionality have the potential to expand new or underdeveloped capital markets, as described in IMP's Impact Classes. Since capital providers accept disproportionate, risk-adjusted profits, they can offer flexible capital. Investors that place a high value on additionality can also actively participate to increase the effect by supplying a variety of non-financial services.

To make sure the survey was as clear for everyone as possible, it was chosen to use the terminology "*impact investment vehicle*" to describe "funds/programs/vehicles that make direct investment in social purpose organizations, managed by the organization itself", since various organizations frequently employ diverse techniques to create impact.

Lastly, it was crucial to consider the issue of double-counting and the focus on the supply of impact capital to social purpose organizations. In fact, many of the organizations operating in the impact investing market do not manage funds directly, but they still consider themselves impact investors. This could be a problem when attempting to size the industry as the same fund could be reported by several organizations. To avoid this, a specific question asks to distinguish between direct and indirect investments in SPOs (Social Purpose Organizations). The possibility to select “commercialization” as the third option was also included, as in past research some of the report's data regarded funds the organization commercializes but does not manage.

4.2.1.2. Structure of the survey

The European Impact Investment survey consists of 45 questions, some of which are optional, and is divided into five different parts, each relating to an important aspect necessary to fully understand the characteristics of the market and the organizations operating in it. The sections, which are in turn divided into more subparts, are as follows.

The *introductory* section starts with two preliminary aspects: general *instructions and consensus* information on the survey, necessary to ensure that the organization agrees with the terms and conditions, and the check whether the organization is indeed *in scope* with the research in question according to a definition of impact investing that includes the triad of impact (intentionality, additionality, and measurability).

Once it is certain that the organization falls within the scope, *general information* is requested: the country in which it is based, the type of organization (foundation, family office, etc.), and whether it invests directly or indirectly in social purpose organizations (SPOs), defined in the survey as "organizations where one of the main objectives is to achieve measurable social and environmental impact and can be revenue generating or not". As previously reported, a third option (commercialization) is provided. Depending on the type of investment reported, the survey follows different paths.

If the respondent provides an account of *indirect investments* (or *commercialization*), information regarding the volume of said investments, and the type and location of investees are asked. Additionally, if some names of the main funds/programs managed in Europe in which they invest are provided, it is checked whether the names of the organizations that manage those funds are included in the list of organizations in the European study; if not, they are contacted and invited to respond to the survey. As indirect investment is not the main focus of the survey (to avoid double counting), if this type of investment is the only one chosen, the survey ends here.

If the respondent reports direct investment, the next topic covered by the survey is about the *investment vehicles*, which refer to funds/programs or other impact investment vehicles managed by the organization.

The following group of questions refers to the *investment strategy*, which includes more theoretical aspects, such as the article of the EU Sustainable Financial Disclosure Regulation that characterizes their investment vehicles, or whether the priority is financial or social returns.

Then, the second section deals with a crucial aspect that needs to be gathered: the amount and type of resources these organizations have at their disposal, necessary to determine the size of the European impact investment market. The amounts collected are the capital under management, the capital invested, and the size of the investments the organization provides. It is also important to comprehend where this money is coming from – which means understanding the type of funder or source (e.g., corporations, hedge funds, etc.) and the type of asset (equity, debt, etc.) – and what the expectations are in terms of return.

The third section aims to understand the *focus* of the investments, both in terms of the types of organizations supported and the final target beneficiaries of these investments. An attempt is also made to identify the sector that characterizes the investment and the sustainable development objectives that are being targeted. The last piece of information concerning the focus of the investment is the regions in which the assets are invested, with particular attention to the European region as the focal point of the study.

The next issue concerns the investment process. Following the entire duration of the investments, the selection criteria, the types of collaboration, and finally the exit strategies are assessed. This last issue is rather crucial, since in the impact investing market, the primary focus is impact, and it cannot be neglected once the investment relationship comes to an end. For this very reason, the fourth section deals with the measurement and management of impact. Moreover, one of the main differences with traditional investments regards the *non-financial support* provided to investee companies before, during, and even after the investments, which partly determines additionality.

The fifth and last section covers the *growth and future* that these organizations see for impact investing. In particular, it is interesting to see their point of view on the barriers that currently inhibit the expansion of the impact investing sector and the drivers that could instead influence market growth.

Finally, the respondents are asked to provide their preferences regarding the sharing of the data they provided, to facilitate collaboration, peer-to-peer knowledge exchange, and benchmarking opportunities.

The survey questions can be found in the Attachment section (Appendix A).

4.2.1.3. Participation

As the survey was voluntary, it was important to first explain the importance of the participation of each contacted organization (an aspect that was made clear in the e-mail sent with the link to the questionnaire) and secondly to offer support throughout the completion of the survey. Indeed, it was not just an impersonal interaction, but more of a continuous communication between parties. Once the organization started filling out the survey, it was explained that they could contact EVPA in case of uncertainty, both via e-mail and through the comment sections present in the survey.

For example, the organization might not have available (or might not be willing to share) information about the capital they work with, so they could explain this in the designated spaces. After the respondent completed the questionnaire, this was checked to verify that all the answers were consistent, and in case they were not, the organization was contacted for further explanations.

Sometimes an e-mail was not enough to get the organization to respond to the survey, perhaps because at the time of receiving the link to the survey the person contacted did not have the necessary data available, so further contact was necessary. For this reason, we contacted the organization, and we explained that, if necessary, an additional call could be organized to fill out the questionnaire together.

Some of these extra interactions were successful and led to the completion of the survey, while others were less effective but were helpful in understanding the reasons behind the lack of response: some organizations explained that they did not have the resources nor time to answer, some expressed their belief that they were not doing impact investing, while other felt it was too time-consuming and they needed to prioritize their activities.
These aspects are useful to improve the way this research is conducted for future studies on the topic.

The organizations included in the European impact investing industry study conducted by EVPA are 300, with around 518 impact investment vehicles coming from 18 European countries.

While most of the countries adapted to the EVPA questionnaire and procedure, some decided to contact their country's organizations in different ways. In the cases in which the country decided to create its own survey and share the results with EVPA, we worked on the harmonization of the data entries between the European Impact Investment Survey and the data collected by the partners. Once the harmonization was agreed upon between EVPA and the partner, in most of the cases we personally uploaded the harmonized responses on the SurveyMonkey Apply platform

After submitting the response to the SurveyMonkey Apply platform, we downloaded it as a PDF and added the file to a country-specific Dropbox folder. The partial responses were also added to a "Partially completed" folder so that if the organization failed to go back and complete it, they would be contacted, and the partial response would be attached as a reference. Then, it was necessary to make additional checks on the completeness of the response, which were reported on a specific shared Word document ("Data cleaning"[5]), which was consulted, and the needed communication could be carried out.

Moreover, we added information on the response (title of the response, e-mail of the respondent, survey status[6], whether the data cleaning check was done, information on the type of investment strategy, and various comment, both on the responses and the calls made to the organization) to a shared Excel file[7] providing an overview on the organization.

For some partners, like the Italian Tiresia, we shared the files of the responses in an external Google Drive folder, in a way that they could be available for the partner to view and check. Additionally, the status on the shared list[8] of different partners (in particular, Italy, France, Belgium, Turkey, and CEE countries) needed to be updated; in this way, the partner could check the organization that still did not answer (or responded only partially) and could give them a nudge personally.

4.2.1.4. Key data

In September 2022, a discussion between the parties of the consortium and EVPA led to the creation of the following list, which contains the information it was decided to aggregate in order to produce consistent and comparable figures. The key data are:

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[5] The data cleaning file included information on the organization name, the cleaning notes (which could be that in a certain question the total of the percentages do not add up to 100% or that a question was left unanswered) and comments.

[6] The possible status are '*Responded*', '*Partially completed*', '*Responded, only indirect*' (the organization responded to the survey, but reported only indirect investments), *'Out of scope/dropped'*, '*Reacted*' (the organization answered to the email/phone saying that they would complete the survey), '*Reviewed*' (application and review done: the applicant has responded to the survey and the reviewer has validated the answer (no further clarification needed)), '*Support call*' (the organization was supported through a call to complete the survey, e.g. in the case with more than 5 vehicles), '*On hold*' (waiting to contact the respondent), '*Partial data shared by partners*' (the response provided by the partners was imported, but it's incomplete).

[7] This Excel file, called "Dissemination list", included all the organizations that were contacted by EVPA to answer the survey. For each organization, the following information was provided: general information (name, primary country, categorization, etc.), impact survey information (type of survey, European consortium contact, etc.), dissemination information (contacts, status of the response, title and contact related to the survey response, investment strategy, etc.), comments. Moreover, additional worksheets contained information on the dissemination timeline, statistics on the responses, definitions, etc.

[8] Each of these partners created a table (Excel or Google spreadsheet) in which the main information inserted were: names of the organizations, contacts, survey status and comments.

- Number of impact investment vehicles managed
- Assets Under Management: total assets under management and a subgroup of investment with additionality
- Type of organizations, including VC/PE impact fund manager, private financial institution, foundation, family office
- Asset classes, including private and public debts, private and public equity, social outcomes contracting, and real assets
- Geographies: where capital is invested
- Source of funding: institutional investors, individuals – retail, high net-worth individuals, EU funding, financial institutions, and other
- SDGs targeted
- IMM initiatives adopted, including Operating Principles for Impact, Management, SDG Impact Standards, EVPA five-steps process, Impact Management Project (IMP) 5 dimensions of impact

Based on this, we worked on analyzing the data country by country, and once each was done, its information was added to the final aggregated document that was the foundation of the European impact investing market sizing report (Gaggiotti & Gianoncelli, 2022).

4.2.1.5. Survey limitations

The survey, however, poses several limitations that could hinder the credibility of the study's results, and they are:

- *Representativeness*:
  as all the data used in the study is self-reported, it is unverified, especially in the cases of countries without partners.
- *Language and terminology*:
  each country might have a different meaning for the same concept, and this could cause issues comparability-wise.
- *Double-counting*:
  even though it is a concept that was always kept under consideration and many actions were undertaken to avoid it, it cannot be excluded that some cases might have led to double-counting errors.

- *Categorizations*:
  since globally aligned categorization regarding different topics (such as sources of capital, sectors, beneficiaries, type of investees, stages of development, and financial instruments/asset classes) are missing, some considerations might have inaccuracies. Anyways, to avoid this, the consortium checked all European national studies as well as international ones (e.g., GIIN Impact Investor Survey)

- *Geographical focus*:
  to make the questionnaire easier for organizations to complete, the survey focuses on where the money has been invested (thus the country where the investee is based). However, this might not be the same place where the ultimate impacts are generated.

- *Exclusion criteria*:
  when defining the boundaries of the study, the consortium agreed to exclude certain segments of capital that could more generally be included in impact investment.

  These segments include microfinance (as microfinance institutions are considered as social purpose organizations, while microfinance services offered to social purpose organizations are considered as impact investments), and ethical banking (ethical and social banking are included in the scope of the study, if they satisfy the 'intentionality' and 'measurability' pillars).

Moreover, even with the different reminders and requests to complete the survey, many organizations still did not respond, and for this reason, the overall market is not completely represented by the numbers resulting from the analysis of the data coming from the questionnaire. Even the overall size of the industry is not perfectly reflecting the reality of the market.

4.2.2. Desk Research

The lack of responses from organizations, often caused by the absence of the right person to provide the data or the lack of sufficient resources to complete the survey, is not uniform across European countries. While countries like Belgium and Spain provided many responses, countries like Italy seem to be more reluctant to share information about themselves. For this reason, and since Italy is the main focus of this thesis, further research was necessary.

Therefore, taking under consideration the organizations that were studied in the TIRESIA Impact Outlook 2019: Il Capitale per l'Impatto Sociale in Italia (2019) and the list of organizations to which the EVPA impact investing survey was sent, we conducted desk research for those organizations that did not (or only partially) respond to the survey, which amounted to 23 organizations.

To complete the survey, we read web pages, articles and did research on the organizations' websites.

In particular, to find information, the main keywords we used were:

- *Organization name* + "impact investing"
- *Organization name* + "sustainability report"
- *Organization name* + "report"
- *Organization name* + "impact investments"

and others, including the Italian equivalents.

Moreover, we also considered the information that was collected for the TIRESIA Impact Outlook 2019: Il Capitale per l'Impatto Sociale in Italia (2019), which was shared by TIRESIA, as some data regarding the organizations could have already been gathered then. Obviously, since this research was done in 2019, all data were checked to ensure they were up to date.

However, most of the information requested by the survey was nowhere to be found, as many organizations were founded quite recently and do not provide much information, while others are far from new, but do not only operate in the impact investing market and it is therefore difficult to distinguish their operations between traditional and impact investing, both in terms of number and beneficiaries, strategies, etc.

As a result, we were only able to find some of the information we wanted, but even if it was not what was expected, it was still a step towards a more complete view of the Italian impact investing market and its main characteristics.

After the completion of the desk research process, we realized that 3 out of the 23 organizations did not have the characteristics to be included in our study, as they only focused on ESG criteria, which do not fall into the boundaries of impact investing.

All this information gathered through the desk analysis was put into a shared Excel file together with the material collected through the EVPA survey.

It is important to note that some adjustments had to be made to the data to create the data analysis file:

- The EVPA survey asked in several questions to provide an answer for each vehicle the organization reported. Instead, we aggregated the responses without considering the different vehicles.
- Additionally, the survey often requested responses with percentages (of invested capital or assets under management). We decided not to consider percentages, but only the presence of the selected option.

4.2.3. Interviews

This work could be useful for our study on the challenges of the Italian impact investing market, as it allowed us to get in touch with the players who are active in the market and who are the most informed about its problems and opportunities.

This data collection was carried out through a series of interviews, which sought to extract the main issues analyzed in the EVPA survey.

The initial step in the interview process was to identify organizations that did not respond to the EVPA survey and for which there was limited information available through desk research.
To accomplish this, the previously mentioned Excel containing both data from the EVPA survey and the desk research was used and, studying which organizations needed additional information and a deepening of the understanding of the way they work, 14 organizations were identified. Subsequently, we reached out to these organizations via email to request their participation in the study. The email detailed the goals and objectives of the research and explained how their insights would be valuable to the study. In addition, one organization that responded to the EVPA survey was contacted, as it was reputed interesting to ask them for some more information.

The final number of subjects that agreed to give their contribution to the study through interviews was 11.

The chosen method of research was the semi-structured interview, since in this form of qualitative data collection the researcher has a series of matters to investigate but there is also flexibility on the way the questions are set and the way the person being

interviewed can discuss his/her answer. Often, the more open the question was posed, the more the interviewee was proficient in responding.

Indeed, as Edwards and Holland (2013) explain, "in the unstructured interview the researcher clearly has aims for the research and a topic of study, but the importance of the method is to allow the interviewee to talk from their own perspective using their own frame of reference and ideas and meanings that are familiar to them".

This was particularly important as some organizations did not completely fit into a specific category (for example, asset owner and asset manager), so they needed to be free to diverge from the set of questions based on their situation.

An interview protocol was developed for the 10 subjects who chose to participate in the study.
The protocol began by explaining the objective of the study and the definition of social impact investments. Following these explanations, the first question was aimed at categorizing the respondents based on the type of investments they made, direct or indirect, which allowed for the determination of whether the organization in question was an asset manager or asset owner. Indeed, depending on their response, the interview would then take one of two distinct paths, one for asset owners and one for asset managers. This allowed us to gather insights tailored to each group's unique perspectives and experiences.

The interview protocol was designed to be comprehensive and cover various aspects of the respondents' work, including their approaches to impact investing, the challenges they faced, and their perspectives on the industry's future. By tailoring the questions to each group's specific role in impact investing, we were able to gather more in-depth and meaningful insights.

Although the questions were partially different, the main topics for both actors concerned the size and characteristics (duration, priority in terms of return or impact, SFDR classification) of the investments they worked with and the types of organizations they invested with; useful information to get an accurate view of the Italian market situation.
Asset managers were asked more questions, as their direct contribution to choosing and managing investments makes them more knowledgeable about the sector. Therefore, they were asked about their scouting and screening processes, their expectations in terms of exit strategies and their impact measurement and management process (including whether they consider social or impact risk, what type of IMM initiative they use and whether an external auditor validates their measurements or not).

For both asset owners and asset managers, the interview concluded with a discussion of the barriers to their impact investing activities and possible drivers for growth in the sector in Italy, as this was the main focus for us.

The interview protocol can be found in the Attachments section (Appendix B).

These interviews were conducted in the months of February and March 2023, and they were all carried out via Microsoft Teams.

Before starting the actual interview, we asked the interviewee if we could record the audio of the meeting and, after a positive answer, which every organization's spokesperson gave, we proceeded to do so with more than one device.
The interviews lasted between 20 and 50 minutes. Some organizations, indeed, seemed more reluctant to share and for this reason, such interviews were shorter.
After each interview, we transcribed the content, both questions and answers, into a Word document, one for each organization. The total number of written pages amounted to 44.

All the information was then added to the previously mentioned Excel file.

4.2.4. The reference sample

The operators that agreed to participate in the current study are profiled in the table that follows (Table 4). They are organizations (both asset managers and asset owners) operating in the Italian impact investing market.

As was already said, 14 organizations were contacted for the interview, but only 11 gave their availability. For the 3 organizations that did not participate in the interviews, it was decided to keep the information that was found online through the desk research, to have a more accurate view of the whole Italian impact investing market. Obviously, for these cases (and also for the other organizations that were only analyzed by desk research), the information available was much less than what could be collected by interviewing the organizations, but we believe that it is better to include them even for the little data that could be found. Anyways, the material we will present always reports the number of organizations for which the information could be found/asked.

Considering all types of data collection (EVPA questionnaire, desk research and interviews), the total number of organizations that took part in the study is 39.

The names of the organizations are not disclosed since the majority of the data supplied by the respondents is confidential; nonetheless, the information reported in

the table's last six columns offers sufficient details that may certainly aid in reconstructing the background of each institution.

The second column serves the purpose of identifying whether the organization:

1. Responded to the EVPA survey;
2. Was examined only by desk research;
3. Participated in the interviews.

Each organization will be assigned an identification code (ID) which is obtained by associating a progressive number with the Organization Typology acronym based on the number of institutions of the same type present in the sample. For instance, if the representative of a private financial institution (PFI) is interviewed and there are two other private financial institutions listed in the table before it, the organization will be encoded as PFI3.

The contents of the first column, on the other hand, will be particularly useful for reading the Results section of this paper, as the latter contains a large number of quotations from the interview transcript. In fact, each organization will be linked to the quotation provided by its representative(s) by its identification code (ID).

In order to offer a clear image of the interviewed sample and assist in understanding the Findings that will be presented later, the information presented in the Reference Sample table (Table 4) will be summarized in the following pages in the form of clearly readable graphs.

ID	PARTICIPATION TO RESEARCH	ASSET OWNER AND/OR MANAGER	ORGANIZATION TYPOLOGY	EQUITY OR DEBT - BASED
SGR1	EVPA Survey	Asset manager	SGR	Equity-based
IFM1	EVPA Survey	Asset manager	VC/PE impact fund manager	Equity-based
IFM2	EVPA Survey	Asset manager	VC/PE impact fund manager	Equity-based

CB1	EVPA Survey	Asset manager	Commercial bank	Debt-based
IPF1	EVPA Survey	Asset owner Asset manager	Insurance company or pension fund	Equity-based Debt-based
SGR2	EVPA Survey	Asset manager	SGR	Equity-based
MIF1	EVPA Survey	Asset owner Asset manager	Mutual investment fund	Equity-based Debt-based
PFI1	EVPA Survey	Asset manager	Private financial institution	Debt-based
PSSI1	EVPA Survey	Asset owner	Privatized social security institution	Equity-based Debt-based
IH1	EVPA Survey	Asset owner	Investment Holding	Equity-based
CB2	EVPA Survey	Asset manager	Commercial bank	Debt-based
F1	EVPA Survey	Asset owner	Foundation	Equity-based
CB3	EVPA Survey	Asset manager	Commercial bank	Equity-based Debt-based
PF2	EVPA Survey	Asset manager	Private financial institution	Equity-based Debt-based
PF3	EVPA Survey	Asset owner Asset manager	Private financial institution	Debt-based

F2	EVPA Survey	Asset owner Asset manager	Foundation	Equity-based
IPF2	EVPA Survey	Asset owner	Insurance company or pension fund	Equity-based
F3	EVPA Survey	Asset owner	Foundation	Equity-based
IFM3	EVPA Survey	Asset manager	VC/PE impact fund manager	Equity-based
NPI1	EVPA Survey	Asset owner	National Promotion Institute	Equity-based Debt-based
F4	EVPA Survey	Asset owner Asset manager	Foundation	Equity-based
SGR3	Interview	Asset owner	SGR	Equity-based
BA1	Desk Research	Asset manager	Business angel	Equity-based
SGR4	Interview	Asset manager	SGR	Equity-based
SGR5	Desk Research	Asset manager	SGR	Equity-based Debt-based
CB4	Desk Research + Tiresia Outlook 2019 Data	Asset manager	Commercial bank	Debt-based

F5	Desk Research + Tiresia Outlook 2019 Data	Asset manager	Foundation	Equity-based Debt-based
F6	Interview	Asset owner Asset manager	Foundation	Equity-based
F7	Interview	Asset owner Asset manager	Foundation	Equity-based
SGR6	Desk Research + Tiresia Outlook 2019 Data	Asset manager	SGR	Equity-based
IA1	Interview	Asset manager	Incubator and accelerator	Equity-based
ECP1	Interview	Asset manager	Equity crowdfunding platform	Equity-based
SICAF1	Interview	Asset manager	Sicaf	Equity-based
F8	Interview	Asset manager	Foundation	Equity-based
LCIFM1	Desk Research	Asset manager	Listed company investment fund manager	Equity-based Debt-based
LCIFM2	Interview	Advisor (of asset manager)	Listed company investment fund manager	Equity-based Debt-based
FO1	Desk Research + Tiresia Outlook 2019 Data	Asset owner Asset manager	Family office	Equity-based

CB5	Desk Research + Tiresia Outlook 2019 Data	Asset owner	Commercial bank	Equity-based Debt-based
SGR7	Interview	Asset manager	SGR	Equity-based

Table 4: Organizations constituting the reference sample

Initially, as many types of organizations populate the impact investing market, each with its own characteristics and approaches, it is quite natural to showcase a chart that illustrates the various kinds of organizations included in the reference sample.

As can be observed from the graph (Figure 2), more than half of the organizations analyzed fall into the following three categories: foundations, SGRs (asset management companies), and commercial banks.
Nevertheless, the figure shows that even if there are clearly a few types of more common organization types, the variety of actors that comprises the whole market is quite diverse.

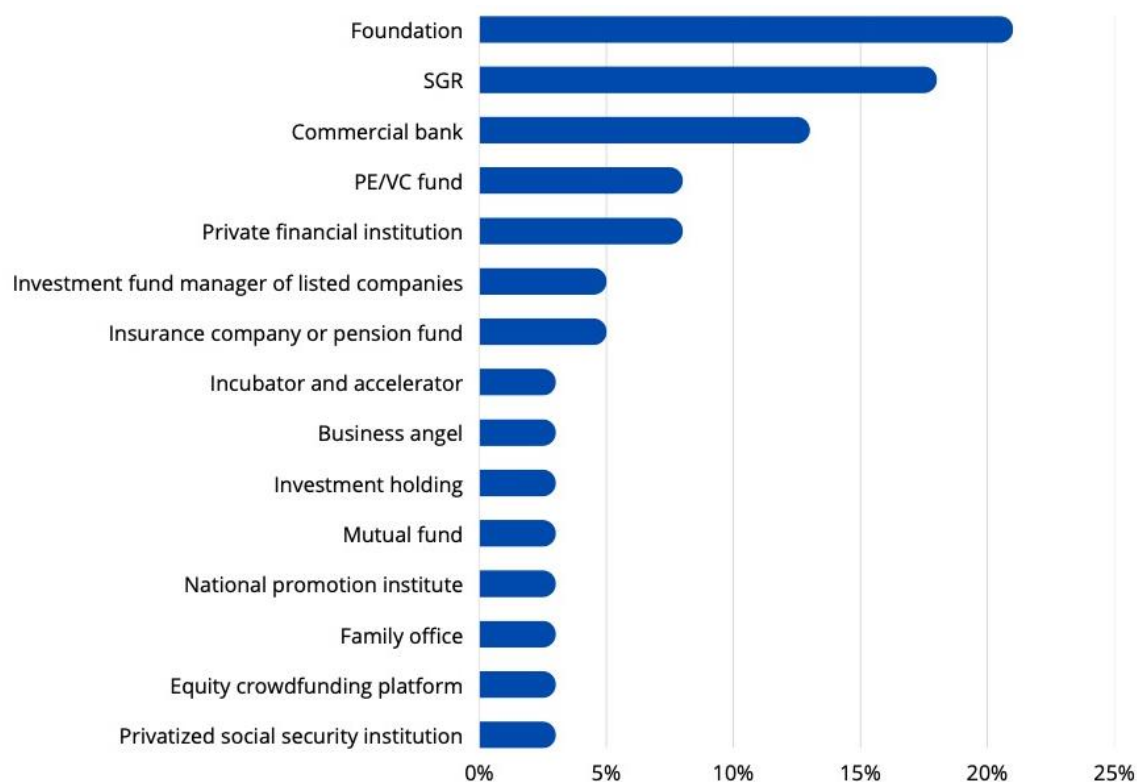

Figure 2: Types of organizations constituting the reference sample

N = 39

A second important aspect is to determine whether the organizations function as asset managers, or if they operate - either solely or partially - with their own financial assets. According to Figure 3, most of the organizations serve the role of asset managers, managing and distributing capital on behalf of other entities.

It is easy to notice that the percentages of organizations that are asset owners and those that act as both owners and managers are equal, making the asset manager the most relevant actor in the population considered.

Moreover, the presence of an advisor of asset manager shows that not all organizations working in the impact investing industry identify in the two general roles, but there are subtle differences.

Indeed, several organizations said that they do not perfectly identify in the two classes that the interview protocol reported.

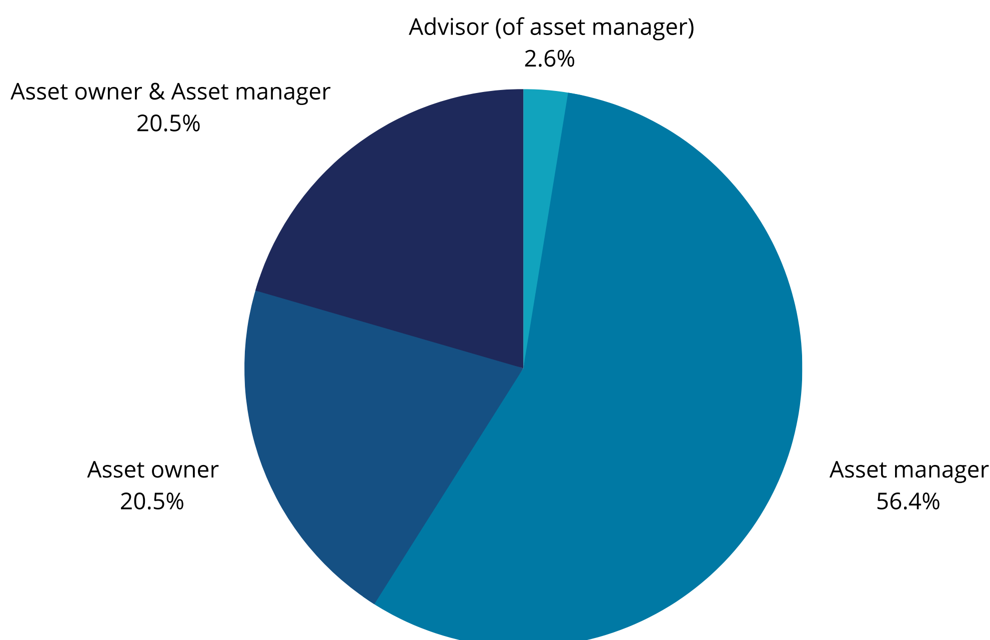

Figure 3: Asset owner or asset manager?

N = 39

Next, operators were classified according to the location of their headquarter in Italian cities (Figure 4) and the geographical area covered with their initiatives (Figure 5).

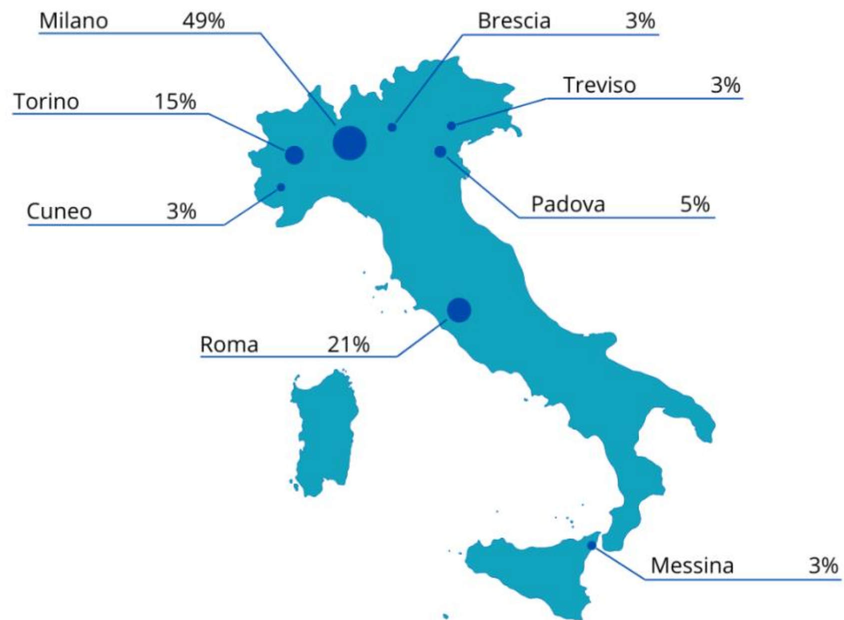

Figure 4: Headquarters location

N = 39

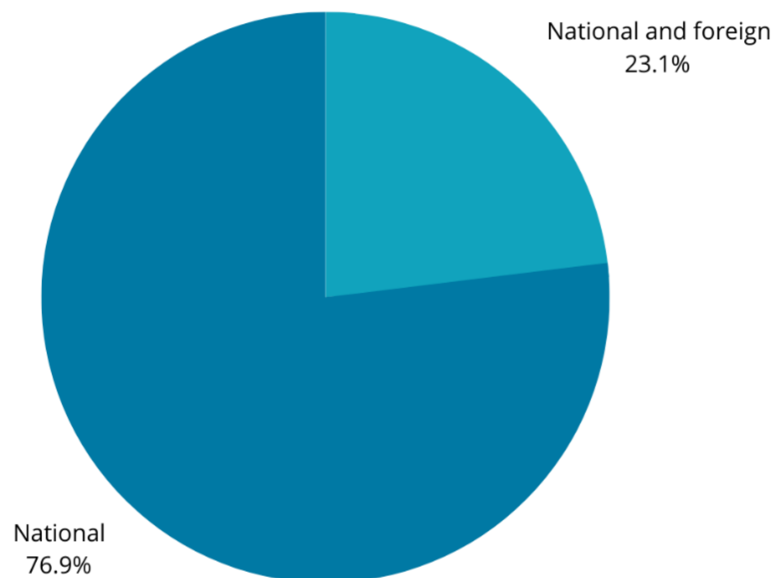

Figure 5: Geographical area covered

N = 26

Subsequently, it was important to investigate whether there was a dominance of actors focused on equity-based investments, debt-based investments or both.

The findings reveal a significant predominance of equity-based investors, as depicted in Figure 6.

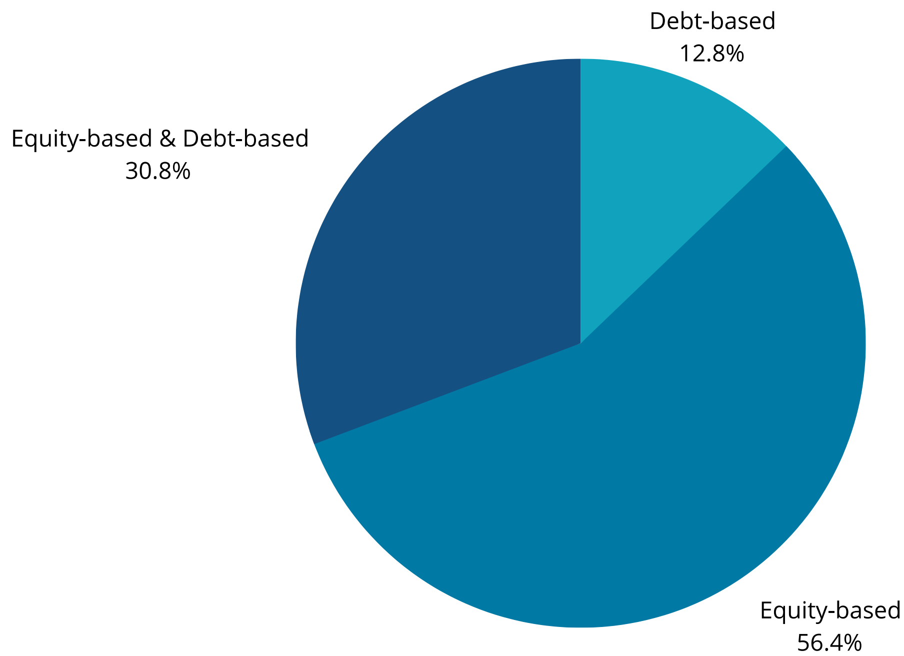

Figure 6: Equity based or debt based?

N = 39

5 Results

The following chapter will be devoted to presenting the data collected through the empirical analysis process.

The purpose of this section is to report the results of the study in a clear and concise manner, highlighting the key findings that support the research objectives. Furthermore, in this section, the data and information obtained from the research will be reported using tables, graphs, charts, or any other relevant visual aids.

The information will be presented in the following order:

As was explained in the description of the reference sample, most of the organizations are asset managers. For this reason, it is important to investigate who are the asset owners that provide the capital for investments.
As seen in Figure 7, most of the organizations (77,3%) reported receiving investment capital from individual investors, which might be both retail/mass merchandising and high net worth/merchant banking.
Another category of asset owners, mentioned by half of the asset managers surveyed, is that of institutional investors. Despite the fact that the majority of organizations involved in the study are foundations, only 27,3% of asset managers stated that foundations are their primary source of capital. In addition, 18,2% of organizations reported having as capital providers financial institutions.

The other percentages, which all fall below 15%, can be found in the accompanying graph.

From EVPA survey:

Q16. Per each vehicle, please estimate what percentage of the capital under management reported was provided by ***each type of funder or source****.*

Figure 7: Types of funder or source

N = 22

When questioned on the capital invested in certain types of organization, the trend represented in Figure 8 shows that the commercial side of an organization is the

preferred investment, as more than half (58,8%) of the organizations reported supporting traditional businesses with intentional social impact, while nonprofits with commercial activities get invested by 47,1% of organizations.
These are followed by nonprofits without commercial activities (29,4%); finally, less than 20% invest in for-profit enterprises with a social mission (both with and without profit lock).

From EVPA survey:

Q22. For each vehicle, out of the capital invested reported, please estimate the distribution (in %) of this amount according to the ***types of organizations*** *that you supported.*

Figure 8: Types of organizations supported

N = 17

Although very few questions were asked to asset owners in the EVPA survey, it was considered important to ask them whether their indirect investments were of type A, B, or C[9] by asking the question below.

Their answers, reported in Figure 9, show that in 80% of organizations, the third-party funds channel impact investments towards investees that contribute to solving specific social and/or environmental challenges that affect otherwise underserved people

[9] As previously explained in the methodology section ("Determining the boundaries of the study"), the IMP created these three classes to map investments based on their impact on people and the planet.

and/or the planet, and not only to investees that work to generate positive effects as in 50% of the cases.

Nevertheless, in a significant 40% of the cases impact investments are channeled to investees that use social and/or environmental data to maximize financial value in the medium and long term; this means those investments do not fall into the A, B, C characterization.

From EVPA survey:

*Q5. To what **type of investees** do these third-party funds/programs channel your impact investments?*

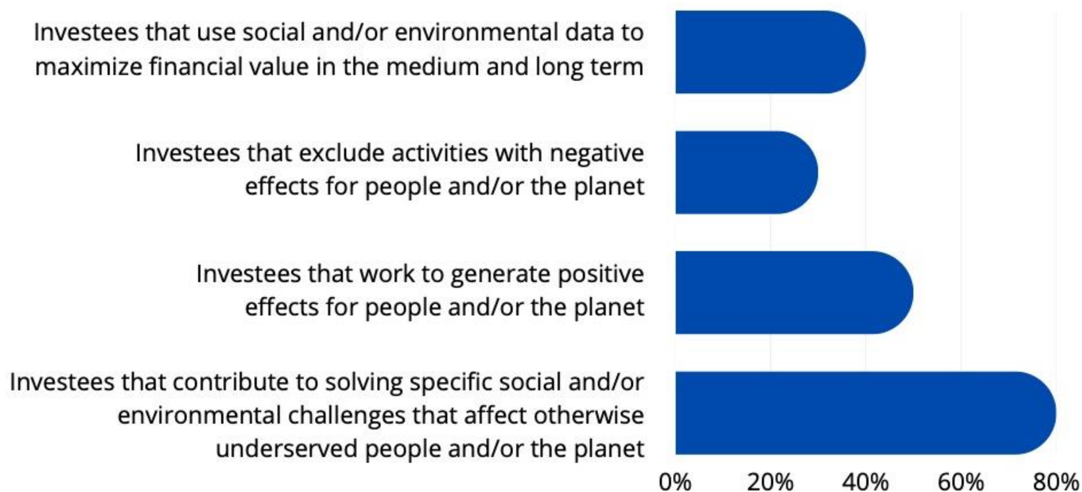

Figure 9: Types of investees

N = 10

In order to understand if the organizations are working towards a standardization of the investment terminology and characteristics, it is important to see whether they are using the EU's SFDR classification or not.

The results showed in the pie chart (Figure 10) reveal that, while most of the organizations are using the aforementioned classification, half of the 25 considered entities classify their investment vehicles as Article 9 ("a financial product has sustainable investment as its objective") and 19,2% as Article 8 ("a financial product promotes, among other characteristics, environmental or social characteristics").

Regardless of the article, 30,8% of respondents are still not using the SFDR classification.

During the interviews, however, it emerged from several asset managers who currently characterize their investments as Article 8, that they would like to target Article 9. Moreover, 31,25% of the asset owners interviewed clearly mentioned requiring the funds they subscribe to be at least Article 8, preferably Article 9.

Despite this, once they arrive at the practical implementation, they are confronted with a lack of clarity in the regulation, as explained by the interviewee speaking for the foundation referred to as F6:

> *"Right now, regarding the funds that we subscribe to, we require them to be at least Article 8. Thinking that we are going to get to Article 9 soon is difficult right now, partly because the regulation is still a little bit nebulous. We are going back and forth on a lot of aspects, and so even for fund managers choosing assets that allow them to comply with Article 9, in my opinion, is still a little bit premature".*

From EVPA survey:

Q11.2. If you are using (or planning to use) the classification of the EU's ***Sustainable Financial Disclosure Regulation****, how do you characterize your investment vehicles?*

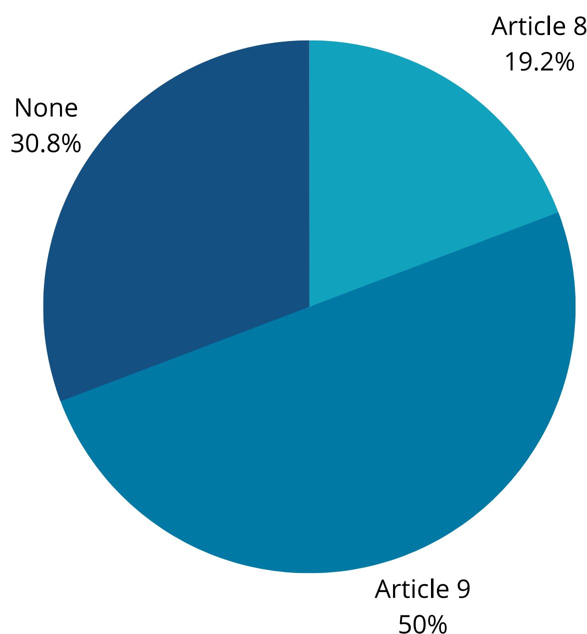

Figure 10: Implementation of the EU's Sustainable Financial Disclosure Regulation

N = 26

As Peter Drucker famously said, "*If you can't measure it, you can't manage it*", it is crucial for organizations to measure impact, and not only claim they create it. For this reason,

the organizations participating in the study were asked which Impact Measurement & Management (IMM) initiatives they are using.

It is important to notice that the question in the survey from EVPA did not allow the respondent to not select any answer; so, this might have partially distorted the result. Because of this, we cannot give any indication regarding the amount of the "No criteria" option (the only ones that had the chance to answer in this way were those that were interviewed). In any case, the reported criteria show relevant trends.

As represented in Figure 11, the most used initiative is the Theory of Change (52%), followed by Metrics and Indicators (48%), which tend to be rather broadly defined. Many organizations have also reported implementing at least some Key Performance Indicators (KPIs) to measure impact. The third most used initiative (36%) are the SDG Impact Standards, which can be understood seen the high level of communication around SDGs. Subsequently, the Impact Management Project (IMP) is found, which was reported by 32% of organizations. Then, 24% of respondents stated that they are using ad hoc programs, as each organization might find itself working on an in-house solution. Other initiatives, such as Principles for Responsible Investment (PRI), IRIS+, Operating Principles for Impact Management, etc., are less frequently used.

From EVPA survey

*Q39. Which of the following initiatives you embed in your **Impact Management and Measurement (IMM)** system?*

Figure 11: Impact Measurement & Management (IMM) Initiatives used

N = 25

Some organizations, however, had clear explanations regarding why they do not use any IMM initiatives, such as in the case of organization LCIFM2, which answered the question of whether it uses any IMM initiatives, saying:

> *"No, the truth is no, because no one is interested. They are nice things, but you need time to waste. [For managers and companies] they are always just marketing tools. ESG impact profiling is becoming market standard, but what the regulator requires is what everyone wants you to do".*

While measuring is an important step in the creation and management of impact, external validation makes it more credible and transparent. Nevertheless, as can be seen in the pie chart (Figure 12), most participants (55%) do not have an external auditor to validate their social and environmental impact, and only a few are considering having one.

The category of organizations in which the practice of having their social and/or environmental impact validated by an external auditor appears to be most common is that of foundations; in fact, 62.5% of them state that they refer to an external auditor for impact validation.

From EVPA survey

Q41. Is your social and/or environmental impact validated by an ***external auditor****?*

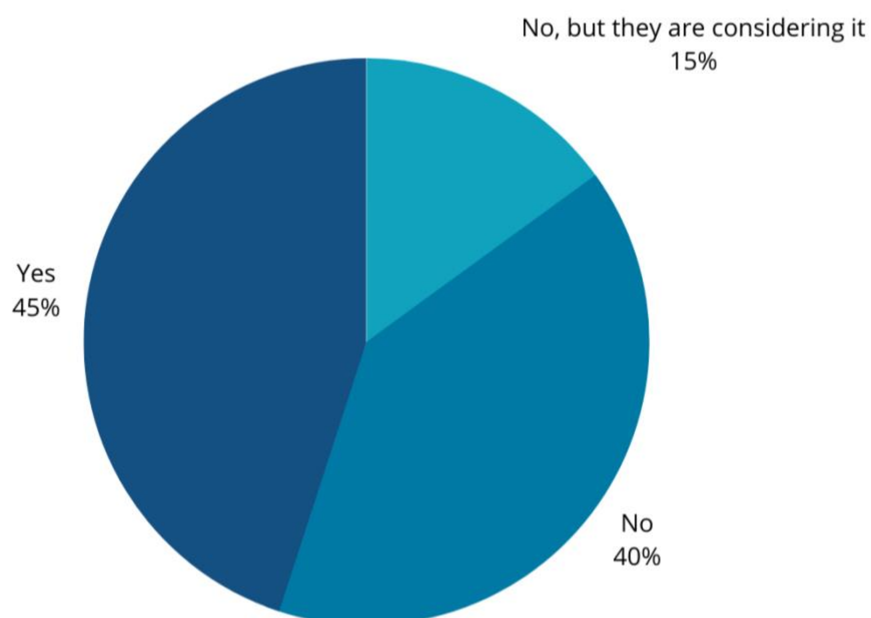

Figure 12: Validation by an external auditor

N = 20

Considering now the investment focus, each participant was asked which was his/her organization's target in terms of stage of development.
The answers to this, shown in Figure 13, prove that most organizations (65,2%) opt to invest in entities that are in the "Growth" phase of their lifecycle (Series B), and just under half choose to in mature organizations. Only 43,5% choose younger organizations (Startup – Seed and Validation – Series A) and a slim 17,4% choose incubation as their target stage of development.

Concerning the fact that most investors choose fairly well-founded SPOs, the spokesman from F6 affirmed:

> *"Regarding social impact investments, we have chosen not to invest in organizations in the pre-seed and seed stages through management funds. We choose more mature and larger entities also because normally when they grow, and the capital they need is large, there are different management funds that participate in the investment itself.*
>
> *If you think of a startup, a property, or a facility for the elderly or for students, it is difficult for one fund alone to carry it forward. Normally it's at least two to three fund managers who get together, each with their part carrying it forward, so in effect, the trade of these funds can be more efficient and less risky".*

From EVPA survey

*Q23. Per each vehicle, looking at the different **stages of development**, what is your target?*

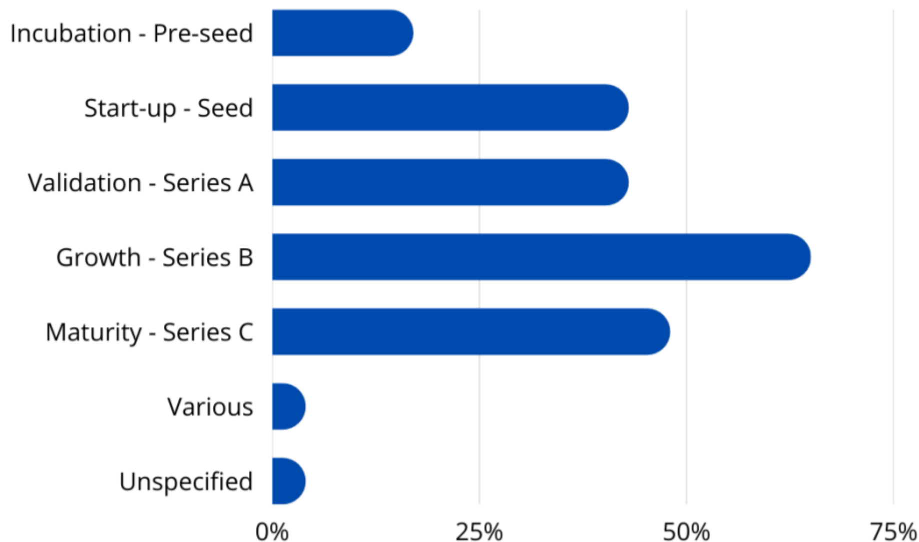

Figure 13: Life cycle phases

N = 23

For what regards the sectors in which they invest, instead, Figure 14 shows the high range of segments considered.
The two most selected options are housing and health (which includes hospitals, rehabilitation, nursing homes, mental health and crisis intervention), both 43,3%.
The third most preferred sector is energy, both in terms of access to energy and renewable energy, with 30% of organizations investing.
Right after energy, five sectors with the same 26,7% follow: social services (including emergency, relief, income support/maintenance), IT/Technology, Employment, Education (primary, secondary, higher, other) and Agriculture.
Another 20% of organizations, moreover, invest in the field of manufacturing and production.
To conclude, the sectors with less than 20% of organizations investing in them are shown in Figure 14.

From EVPA survey

Q25. Per each vehicle, please estimate the distribution of the total capital invested (in %) of this amount according to the ***sectors*** *below.*

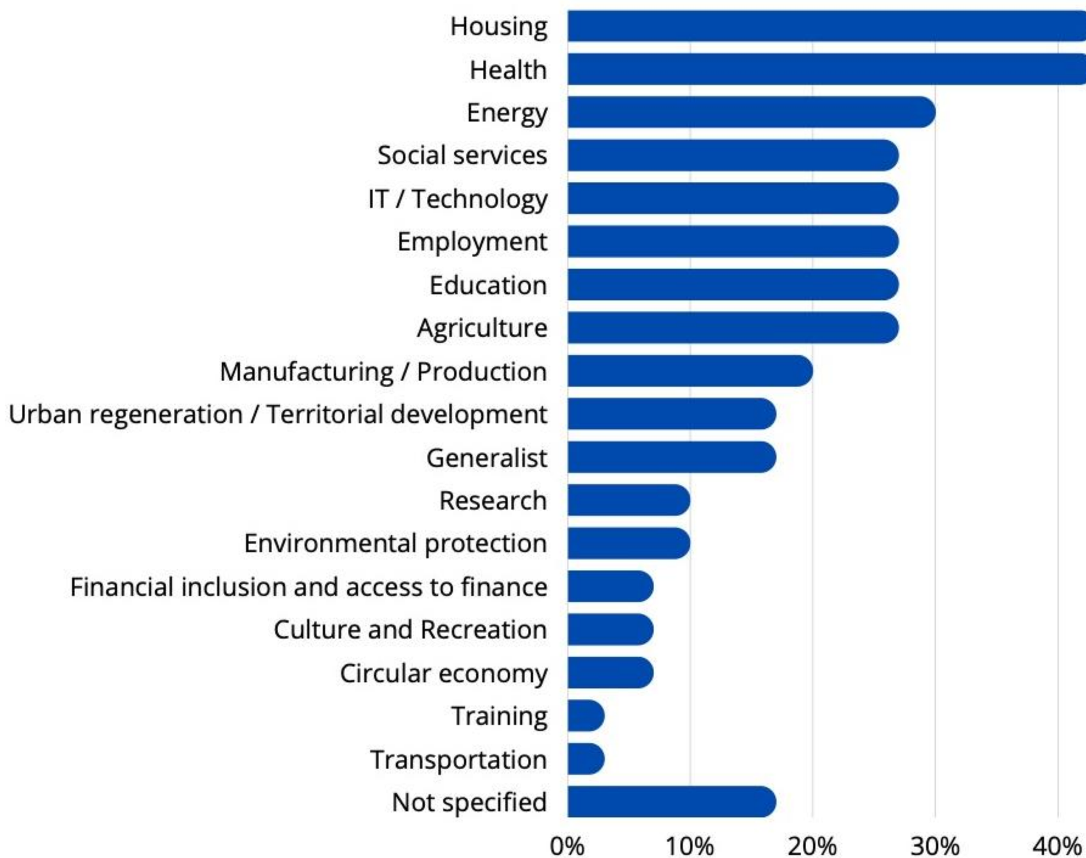

Figure 14: Investment sectors

N = 30

It is relevant to notice that many of the interviewed organizations affirm being open to investing in any sector as long as it allows them to achieve impact objectives.

In this regard, for instance, the respondent from F7 stated:

> *"We actually invest in any organization that can guarantee the achievement of social or environmental impact goals, along with economic sustainability. We have investments in SPAs, social enterprises, and cooperatives; therefore, the legal form itself is not discriminating.*
>
> *Similarly, the sectors are whichever, in the sense that we have investments in companies in the agribusiness sector, in the financial sector, in the social services sector, etc.".*

But how do these organizations find the SPOs in which invest? Most of the respondents (42,3%) say they use their ecosystem to search for potential investees, and another 35,2% report they search for investees proactively instead.

From EVPA survey
*Q30. OPTIONAL Which **channel**(s) do you use to search for investees?*

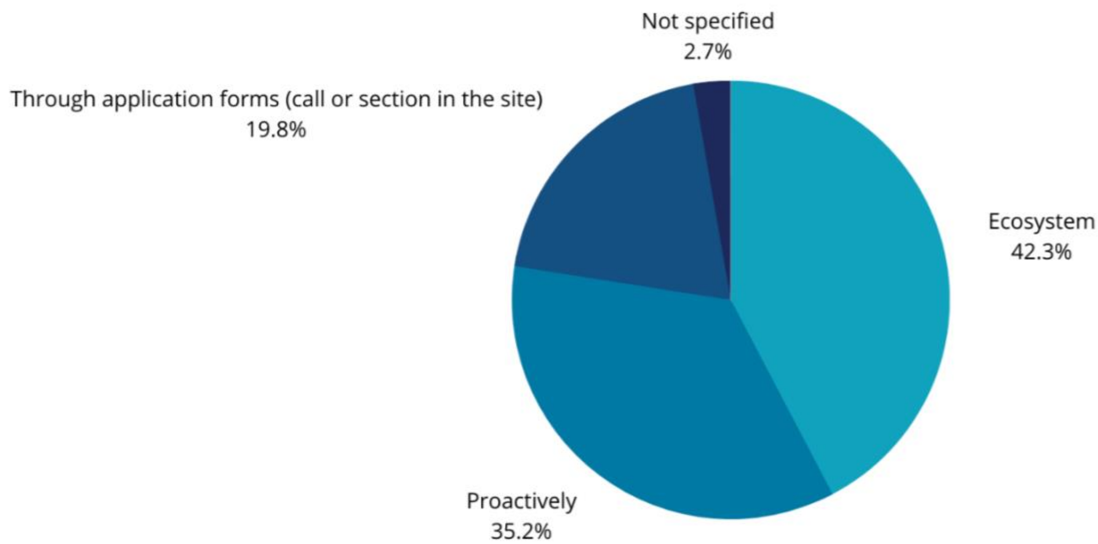

Figure 15: Origination and scouting channels

N = 22

> *"In terms of scouting, there is a need to be very proactive because there are very few impact investing funds in Italy.*

We do this through the relationships we already have with many management companies in Italy and the ability we have had in the past to support the so-called "first time funds," so teams that are raising money for the first time".

(SGR7)

Only in 19,8% of cases the scouting is done through application forms, in a dedicated section of their website.

The information regarding the scouting process is synthesized in the pie chart (Figure 15).

Once potential investees are found, it is crucial to comprehend which are the criteria used to actually select the desired organization. The most reported selection criteria, as seen in Figure 16, is the existence of a clear mission/intention to generate social or environmental impact, an aspect selected in 68,2% of cases.

In this regard, the words of the respondent from IA1 are representative of the views of a good portion of the organizations surveyed:

"To make sure that our investment targets ensure the pursuit of impact we enter directly into their business model.

We don't care what KPIs they bring, what matters is that they show us that their business model has an impact component embedded in it. That way we can be confident that the further they take their business model, the more impact they make".

As could be expected, money plays a relevant role: in 45,5% of cases, the potential for profitability is considered. The third criteria, team composition, as well as impact measurement and a management system, are considered (both 40,9%). In more than a quarter of cases, the potential for scalability/replicability (36,4%) and fair employment policy (27,3%) are also considered.

The least reported criteria can be seen in the chart (figure 16).

From EVPA survey

*Q31. OPTIONAL Which **selection criteria** for **screening** do you use?*

Figure 16: Selection criteria

N = 22

Once the investee has been selected and the investment process has started, it is imperative to understand the expected duration of the investment. This duration may vary significantly as many organizations report a diverse range of investment durations in their portfolio.

On average, however, the most commonly selected investment duration is between four and six years, as reported in 37,5% of cases (Figure 17). In the second place, there is an increase in the duration between six and eight years, which accounts for 20,8% of cases, followed by the duration between eight and ten years, which accounts for 16,7%. Investments exceeding ten years represent 12,5% of the cases; while those ranging between two and four years, and less than two years, are the least frequently selected, accounting for only 8,3% and 4,2% respectively.

It should also be noted that 3 organizations that were interviewed reported a wide range as their average duration, that could not be simply inserted in one of the ranges seen in the chart (these ranges were the ones included in the EVPA survey), such as 3-10 years and 5-10 years. For these cases, it was decided to consider the range that was contained in the one provided. This must be remembered as it shows that in some situations the variability in the duration is quite high.

From EVPA survey

*Q28. Per each vehicle, what is the **average duration** of your investment commitments (number of years) for the investees in your portfolio?*

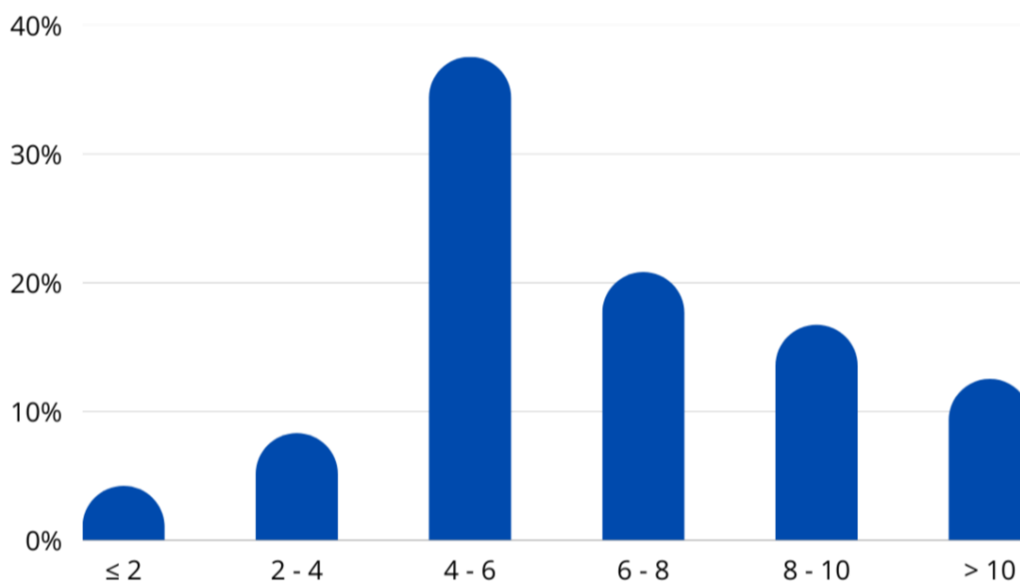

Figure 17: Average investment duration

N = 24

Upon the conclusion of the investment commitment, if an organization has a strong focus on generating and sustaining impact, it may seek to take measures to maintain the impact achieved. Out of the 22 organizations that provided information on this matter, 45,5% stated that they accomplish this by exclusively selecting investees that have social impact embedded in their business model (refer to figure 18).

Another strategy employed by organizations to ensure lasting impact is the integration of impact considerations into the mission of the investees, a practice observed in 27,3% of cases. In less than 20% of cases, precisely 18,2%, the selection of like-minded follow-on investees priorities is the chosen method for maintaining impact in the long-term.

However, despite the aforementioned strategies, as shown in Figure 18, 27,3% of organizations reported that they do not undertake any specific actions to preserve impact after divestment.

From EVPA survey

Q34. How do you make sure that the ***impact*** *of your investment is* ***preserved after your exit?***

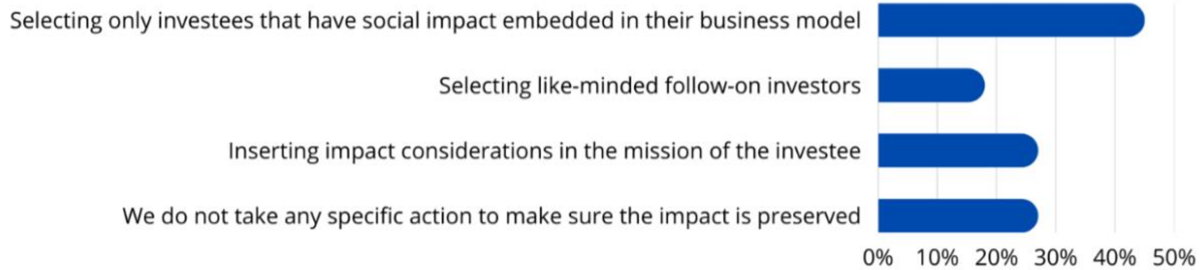

Figure 18: Preservation of impact after exit

N = 22

An important aspect to highlight is the fact that many organizations explain that, since none of their investments has reached the moment of the exit, the issue has not really been raised yet.

In some cases, having not yet reached the exit, organizations for now simply manage the impact before the exit. In the cases of asset owners, in particular, the managing of such impact is based on information that its asset manager reports to them.

For example, organization F6, speaking as an asset owner, reported:

> *"The asset manager is the first to bring to us investors whatever information we ask for. So, we have very detailed reports in front of us and normally we see the evidence of the entity that has benefited from these investments. Right now, from the investment point of view, we only have this".*

In any case, the organizations seem to agree on the necessity to really monitor that the impact is maintained. Organization SGR7 explains:

> *"Exits should certainly be followed very closely because an impact fund selling to a non-impact fund leaves open the question of whether the company continues to have an impact."*

The entire study was conducted based on the premise that in order for an organization to fall within the scope, i.e., operate in the impact investing market, it must make or manage investments that intentionally seek to generate a positive and measurable social or environmental impact along with a financial return (at least capital recovery).

Because of the duality that constitutes the basis of what impact investing is, it is interesting to see whether the organizations in the study consider impact or financial return more important.

Of the total number of organizations, 48% report that they consider both aspects equally important, while 32% prioritize impact (refer to Figure 19). Only 20% of respondents state instead that financial returns represent a clear priority for them.

From EVPA survey

*Q12. In terms of **financial return and social impact**, what is your **priority**?*

Note: we purposely use the term "social" for the sake of simplicity, but the accurate term would be "societal" because the impact may be social, environmental, medical, or cultural.

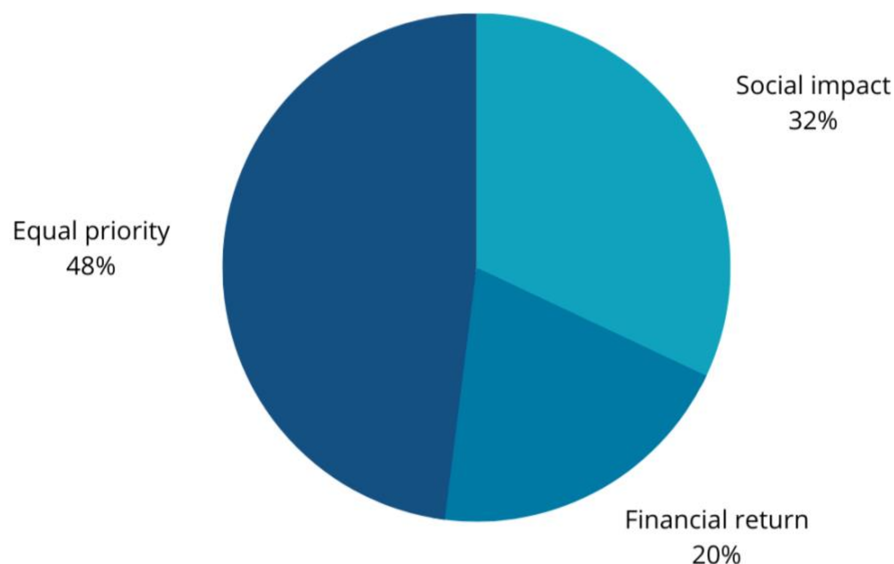

Figure 19: Priority: financial return vs impact

N = 25

Taking the definition of impact investing into consideration once again, financial returns are key, especially when the desire is to see this market grow, which would be impossible without demonstrating its profitability.

In Figure 20, we can see that the majority of respondents (28,6%) report that they expect similar returns compared to traditional investments, while another big portion (23,8%) states that their expectations are much lower, near capital preservation. Looking at the chart as a whole, it seems that there is not a well-established trend, but it would be more complete to see which kind of organizations report the two most selected responses. Those who responded that they expect similar returns compared to

traditional investments mostly fall into the following categories: insurance companies, mutual investment funds, commercial banks, and equity crowdfunding platforms.

Moreover, they usually tend to give equal priority to social impact and financial returns. Whereas, organizations that expect to have very low financial returns, near capital preservation, are mostly foundations or private financial institutions that prioritize social impact over financial returns.

> *"Because we work considering impact as the primary aspect, we do not ask for a market return. We are very patient, this is something that sets us apart, so we always try to support companies if they have some difficulties at a certain time and we ask for a below-market return".*
>
> *(F8)*

From EVPA survey

Q20.1. Compared to the risk-adjusted 'market' rate of return, the ***expected financial return*** *on each vehicle is:*

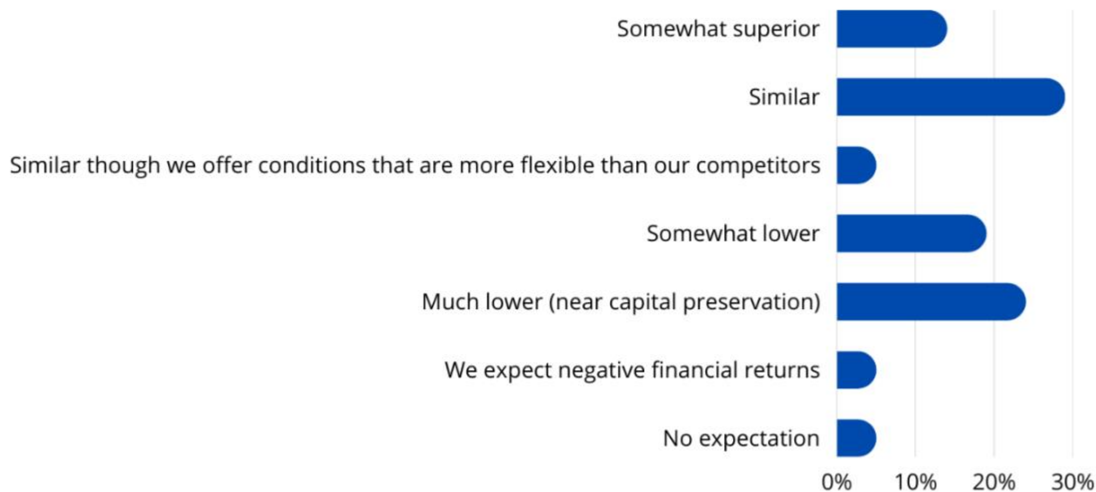

Figure 20: Expected financial return

N = 21

Considering those that report having financial returns as their priority, 40% of them actually also expect financial returns comparable to the risk-adjusted market rate of returns.

Having already given due consideration to the financial return aspect, it is now important to turn the attention to the other defining feature of impact investing, which is impact. In particular, an analysis was undertaken to ascertain the types of impact risks that are typically evaluated during the investment process.

Undoubtedly, the risk of not achieving the social impact objectives declared ex-ante is the most closely monitored one, as was reported in 61,9% of the cases. While the risks of generating negative impact (33,3%) and the risk of mission drift (28,6%) are still considered relevant in over a quarter of the cases, it is apparent that they occupy a subordinate position. A comprehensive breakdown of the various impact risks being monitored is presented in Figure 21.

When speaking of impact risk, the typology of an organization can influence in a considerable way its predisposition to monitor impact-related risks.

For example, foundations pay particular attention to this aspect, as the respondent from F4 affirms:

> *"In our case, being a philanthropic foundation that deals with this all day long, the situation is a little different from another type of investor, such as a family office for example.*
>
> *When we make a choice, we make it hyper-weighted because it is our business; we do not have an issue of accountability with respect to our shareholders, in this sense, we can afford to take more risks with respect to impact".*

From EVPA survey

Q38. Do you monitor the following ***impact risks****?*

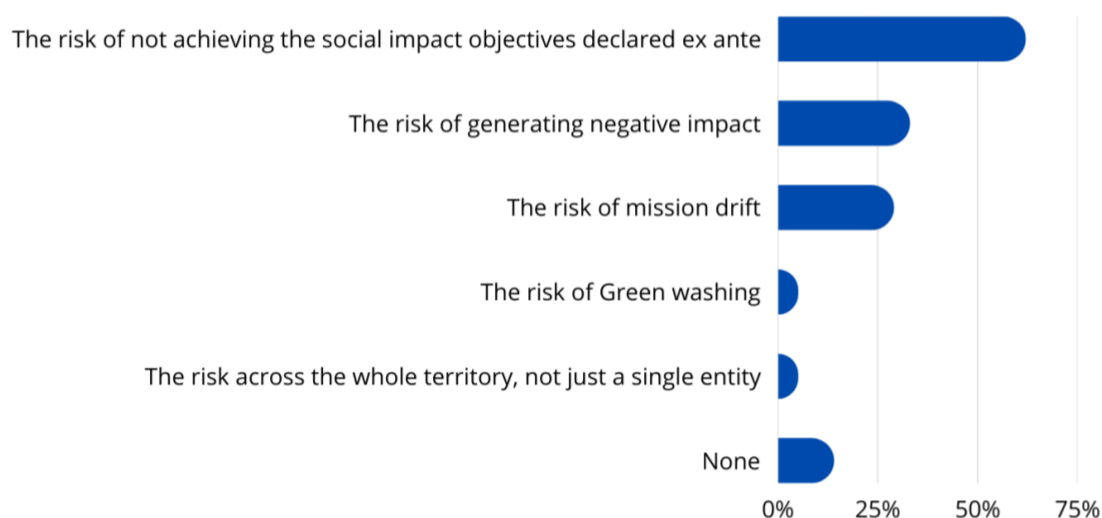

Figure 21: Impact risks

N = 21

Another interesting aspect to take into consideration when looking at impact risks is to check how many organizations that prioritize impact over financial returns also consider at least one type of impact risk, which from the data collected for this dissertation amounts to 75% of the considered organizations.

In addition to providing financial support to the investees, a significant proportion of organizations (98.3%) also provide non-financial support activities. As presented in Figure 22, the four categories of support activities that were proposed in the EVPA survey appear to be equally offered to the investees.
Notably, support with financial sustainability, which involves providing assistance in securing funding from other sources, using investors' reputations to help grantees secure funding from other sources, etc., was reported in 28,7% of cases.
Strategic and operational support, which includes support for strategic planning, development of new products and services, and creation of new business systems or procedures, was selected in 25.3% of cases.
The remaining two options, support with organizational resilience (e.g. human capital support, governance support) and support with impact management (e.g. support in developing the impact strategy and in impact measurement) were stated in a little less than 25% of cases.

It is interesting to notice that the organizations that claim to offer support with impact management as non-financial support activity are almost in their entirety entities that prioritize social impact over financial return and characterize their investments as Article 9 in the SFDR regulation.

From EVPA survey

Q42. What type of ***non-financial support*** *activities do you offer?*

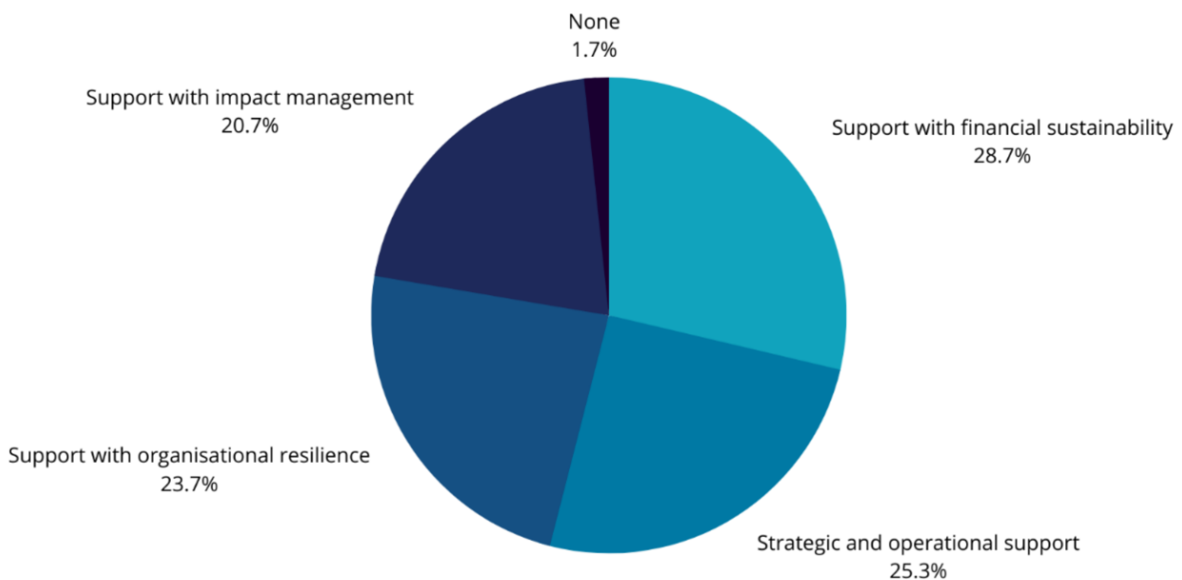

Figure 22: Non-financial support activities

N = 21

Moving on with the analysis of data, some key barriers and drivers have emerged from the research, shedding light on the factors that are shaping the industry and the challenges that investors and managers face.

Considering the EVPA survey as a reference, the challenges that currently inhibit the expansion of the impact investment industry can be divided into three categories:

1. the ones that concern the macro-environment,
2. the ones that deal with capacity and expertise,
3. and lastly the ones regarding impact management and measurement.

As it is shown in Figure 23, the barrier that was cited the most by respondents is the "lack of transparency and/or impact measurement communication" (52,2%) which falls inside the category of impact management and measurement.

Immediately after the "insufficient management capabilities of (potential) investees" was mentioned as a paramount barrier to the expansion of the impact investment industry (43,5%), belonging to the category of challenges that deal with capacity and expertise.

Thereafter from the 39,1% of the answers, it emerges that the "regulatory framework", which falls into the macro-environment category of barriers, constitutes an obstacle to impact investments.

Subsequently, barriers such as: the "lack of understanding of (potential) investors", an "inadequate financial structure", "lack of standardized impact measurement and management", "problems regarding White/Green Washing", and "lack of demonstration and/or comparability of impact measurement" represent a portion of answers that goes between 34,8% and 30,4%.

The other barriers that were mentioned with less frequency are represented in the chart below (Figure 23).

From EVPA survey

Q43. In your opinion, what are the ***barriers*** *that currently inhibit the expansion of the impact investment industry?*

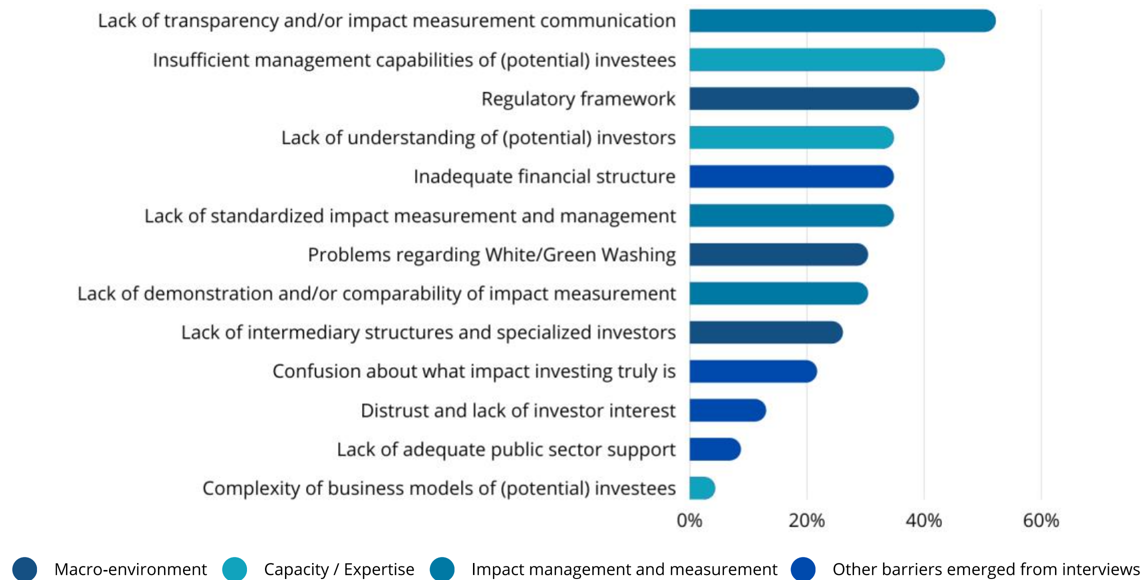

Figure 23: Barriers to impact investments

N = 23

As the "lack of transparency and/or impact measurement communication" is the most cited barrier, it is interesting to see whether the organizations that identified it as a barrier have something in common. In particular, they are all asset managers and more than half of them are either SGRs or commercial banks (63,63%).

Furthermore, only half of these entities have their impact measurement evaluated by an external auditor and the IMM tool that is more popular among them is the Theory of Change (63,63% of respondents use it).

As respondents to the interviews were free to express their opinions regarding the issues facing the impact investing, the challenge of "inadequate financial structure" summarizes the following facets that were reported:

- Inadequate financing ecosystem
- Lack of financial structure
- Lack of large funds

- Mismatch between saying and doing (there is a lot of talking, but little capital involved)
- Limited exit opportunities

For the barrier named "distrust and lack of investor interest", even if it is not one of the most talked about, it should be mentioned that it includes three aspects:

- Low willingness and diffidence of investors to invest patiently
- Unwillingness to accept below-market returns
- Lack of asset owners who genuinely seek balanced returns

Regarding those that instead identified "insufficient management capabilities of (potential) investees" as a crucial barrier, it should be noted that in this category different additional aspects were included:

- Unpreparedness of many entrepreneurs
- Unrealistic expectations of (potential) invested parties
- Expansion of time for negotiating and structuring an investment

The organizations that provided this last challenge ("insufficient management capabilities of (potential) investees") as a barrier have the following characteristics: they all play the role of asset managers, and they are mostly either foundations or commercial banks (62,5%).
Moreover, despite complaining about the insufficient management skills of (potential) investees, only half of them actually provide support with organizational resilience to their investees.
Furthermore, a solid 87,5% of these entities believe that an increase in the managerial capacity of the entrepreneurial third sector would constitute a crucial driver for the growth of the impact investment industry.

When talking about the barrier of "confusion about what impact investing truly is", the organizations explained that in some cases investors do not have a clear understanding of the differences:

- between impact investing and ESG aspects,
- between impact investing and grant-making,
- between impact investing and the third sector,

and sometimes they even believe it to be simply about marketing.

> *"Impact investing is squeezed in the common perception of everything that is social, which is the third sector, nonprofits, volunteerism. There is a great confusion that institutions do not clarify, practitioners do not clarify, and if one wants to be brutal impact investing and the third sector are different things.*
>
> *Obviously, the fact that the third sector needs finance is one thing, the fact that impact investing can invest in some entrepreneurial third sector realities that are in the market is true, but they are not the same thing".*
>
> (LCIFM2)

To summarize the identified barriers, their macro categories and subdivisions, Table 5 is shown.

Macro-categories	Sub-categories (if any)
MACRO – ENVIRONMENT	
Regulatory framework	
Lack of intermediary structures and specialized investors	Lack of intermediary structures
	Lack of specialized investors in the whole value chain
Problems regarding White/Green Washing	
CAPACITY / EXPERTISE	
Insufficient management capabilities of (potential) investees	Insufficient management capabilities of (potential) investees
	Unpreparedness of many entrepreneurs
	Unrealistic expectations of (potential) invested parties
	Expansion of time for negotiating and structuring an investment
Lack of understanding of (potential) investors	
Complexity of business models of (potential) investees	

<table>
<tr><th colspan="2">IMPACT MEASUREMENT AND MANAGEMENT</th></tr>
<tr><td>Lack of standardized impact measurement and management</td><td></td></tr>
<tr><td>Lack of demonstration and/or comparability of impact measurement</td><td></td></tr>
<tr><td rowspan="2">Lack of transparency and/or impact measurement communication</td><td>Lack of transparency and/or impact measurement communication</td></tr>
<tr><td>Lack of enough organizations that are really impact</td></tr>
<tr><th colspan="2">OTHER BARRIERS
EMERGING FROM THE INTERVIEWS</th></tr>
<tr><td rowspan="4">Confusion about what impact investing truly is</td><td>Confusion between impact investing and grant-making</td></tr>
<tr><td>Confusion between impact investing and third sector</td></tr>
<tr><td>Confusion between impact investing and ESG aspects</td></tr>
<tr><td>Diminishing impact investing to a marketing tool</td></tr>
<tr><td rowspan="2">Lack of adequate public sector support</td><td>Incomprehension and inactivity of Italian public institutions</td></tr>
<tr><td>Lack of adequate public sector support</td></tr>
<tr><td rowspan="5">Inadequate financial structure</td><td>Inadequate financing ecosystem</td></tr>
<tr><td>Lack of financial structure</td></tr>
<tr><td>Lack of large funds</td></tr>
<tr><td>Mismatch between saying and doing (there is a lot of discussion, but little capital involved)</td></tr>
<tr><td>Limited exit opportunities</td></tr>
<tr><td rowspan="3">Distrust and lack of investor interest</td><td>Low willingness and diffidence of investors to invest patiently</td></tr>
<tr><td>Unwillingness to accept below-market returns</td></tr>
<tr><td>Lack of asset owners who genuinely seek balanced returns</td></tr>
</table>

Table 5: Breakdown of barriers

Taking once again the EVPA survey as a reference, the drivers that could influence the growth of the impact investment industry can be divided into two categories:

1. the ones related to capacity building,
2. and the ones that deal with collaboration.

By looking at Figure 24, it emerges that the driver that was cited the most by respondents was the "increased presence of institutional investors" (54,5%), which falls inside the category of capacity building.
Right after that, the "increased managerial capacity of the entrepreneurial third sector" was mentioned as an important key factor in the expansion of the impact investment industry (50%), belonging to the category of capacity building. A fair percentage of respondents (40,9%) considers "increasing public sector presence through regulatory support and facilitation" to be relevant as a driver (this includes also the belief that there should be fiscal incentives for impact investments); while the 36,4% of the organizations surveyed believe it would be crucial to "establish an investment approach more aligned with demand needs".
Subsequently, the same amount of entities in percentual terms (27,3%) think that both the "development of a standardized impact measurement and management methodology" and the possibility to "strengthen the ecosystem through multi-stakeholder collaboration" represent aspects that could shape the industry in a positive way. The other drivers, which have been mentioned less commonly, are depicted in the graph below (Figure 24).

From EVPA survey

Q44. Which are the ***drivers*** *that could influence the growth of the impact investment industry?*

Figure 24: Drivers for impact investments

N = 22

Out of those that selected “increased presence of institutional investors”, 77,77% have institutional investors as one of their fund sources. These organizations are mostly SGRs and VC/PE impact fund managers (66,66%) and over half of these entities (55,55%) recognize “increasing public sector presence through regulatory support and facilitation” as another relevant driver for the growth of the impact investing industry. Moreover, some of them (33,33%) think that the “regulatory framework” represents a barrier to impact investing.

Speaking about public support, the problem is not only related to the low support, but often it is about the lack of understanding that the public administration has related to impact investing.

Organization LCIFM2 expressed its discontent on the matter, explaining that:

> *“Public institutions receive European regulations and then have to implement them in Italy, but to me they seem very passive. So, if there is a weakness, it is the incomprehension and inactivity of Italian public institutions”.*

Since impact measurement and management is an important aspect according to the literature on impact investing, the presence of the three barriers related to it (lack of standardized impact measurement and management, lack of demonstration and/or comparability of impact measurement, lack of transparency and/or impact measurement communication) is a crucial aspect. Considering these three topics, 69,56% of organizations reported at least one of them. Out of these organizations, 37,5% recognize as a driver the “development of a standardized impact measurement and management methodology”.

Furthermore, since transparency is a crucial factor that can impede market growth, it is interesting to note that only 45,45% of the organizations that acknowledge "lack of transparency and/or impact measurement communication" as a barrier have their social and/or environmental impact validated by an external auditor.

While no organizations recognized the lack of standardized impact measurement and management, not all of them that having a standard is the way to express to stakeholders the impacts the organizations are working to achieve.

For example, the spokesperson for the organization SGR4 explained:

> *“Having a standard for measuring impact is perhaps not only not useful but risky. What you need to do is very explicitly clarify the social objectives and specify in each case how you intend to measure them, because you may decide to measure them in a way that is not the most optimal, the important thing is that with investors there is transparency of mandate”.*

This seems to mainly apply to social impacts, as the environmental aspects do not usually represent an issue, as many standards are widespread.

To sum up the drivers identified, their macro-categories and their subdivisions, Table 6 is provided.

Macro-categories	Sub-categories (if any)
CAPACITY BUILDING	
Increased managerial capacity of the entrepreneurial third sector	
Establish an investment approach more aligned with demand needs	
Development of a standardized impact measurement and management methodology	
Establish a common definition of impact investment	
COLLABORATION	
Strengthen the ecosystem through multi-stakeholder collaboration	
Increasing public sector presence through regulatory support and facilitation	Increasing public sector presence through regulatory support and facilitation
	Create forms of fiscal incentives
	European regulations
Increased presence of institutional investors	Increased presence of institutional investors
	Increased presence of investors in the impact investing market
	Greater focus on growth capital and private equity
OTHER DRIVERS EMERGING FROM THE INTERVIEWS	
Make better use of opportunities (less dispersion)	
Show the potential of the impact investing market	Prove that the market has relevant dimensions
	Prove that returns are coherent with risks

Increase communication regarding impact investing	Create a culture of awareness about the importance of social impact versus financial return
	Increase communication regarding impact investing
	Stimulate greater interest from the media

Table 6: Breakdown of drivers

6 Discussion

The following chapter will be dedicated to the discussion of the results just presented. In particular, the chapter will be organized into three closely related sections that will guide the discussion.

The first section will begin with a comparison of the barriers that were identified in the literature review that was previously presented. This comparison will help determine whether any of these barriers overlap and, if so, whether they are being addressed or becoming more problematic. In the case of the former, the solving mechanisms employed to tackle these barriers will be analyzed.

Moving on, the second section will make consideration on the drivers that the participants of the study suggested that could help the impact investing market to develop. These drivers will be analyzed in depth to comprehend which barriers they could help tackle. It will be also useful to comprehend whether these problems are context-dependent, so they are specific to the Italian market, or whether they constitute a widespread trend.

Lastly, the third and final section of the chapter will propose solutions to overcome these barriers. This will be done both by implementing what market actors believe to be the way forward, in those cases in which their opinions were consistent with the more pressing issues, and also by suggesting additional solutions, based on the knowledge acquired by the literature papers that were analyzed.

6.1. Comparing barriers found in literature and data

To provide a comprehensive analysis of the outcomes of the empirical research, the chapter will commence with a reflective discussion on how these findings compare with the concepts identified during the review of the academic and practitioner literature.

This will serve as a foundation to build upon, leading to the proposal of effective solutions that address the identified issues. Integrating the study's findings with the concepts presented in the literature has been a crucial step in creating a framework that can comprehensively tackle the issues at hand.

Therefore, this integration of ideas will be pivotal in proposing solutions that are based on empirical research findings and are supported by the literature.

In the columns of the table below (Table 7), the macro categories of barriers, the barriers found in literature, and the year of the paper in which they were mentioned are reported.

Barriers found both in the literature and in the data collected in the various phases of the study have been identified in the last column with the abbreviation "LR+DC" (literature review + data collection).

Moreover, as the focus of this dissertation is the Italian impact investing market, it is important to make a distinction between those barriers taken from the literature that actually refer to the Italian industry and the others. For this reason, in the table the barriers in blue are those from the research focused on Italy.

In particular, for what regards the Italian papers, the results show that in 11 out of 12 cases if a barrier was reported from the literature also emerged from the data collected for this study, although only partially in some cases.

It is interesting to see that the only barrier in the Italian market that was not found in the collected data regards the lack of foundation-specific expertise, as from the data it can be seen that the foundations are the main type of organization that participated in the study.

CATEGORY	BARRIERS	YEAR	BARRIERS FOUND IN THE COLLECTED DATA
Financial Evaluation and Organizational Fit	Restrictions on the application or interpretation of fiduciary duty, or both	2019	
	Overemphasis on economic-financial aspects in investment evaluation, aligned with operators' screening criteria	2019	Partially
	Lengthy due diligence processes	2019	Partially
	Risk of moral hazard by neglecting the economic aspects	2021	
	Misalignment between investors and investees' expectations regarding investment capital-funded growth	2021	Partially
	Eligibility criteria not in line with organizations' characteristics	2021	
	Fear of mission drift due to neglect of social mission	2021	LR+DC
Operational Capacity and Expertise	Unpreparedness of demand (including organizational and managerial inability to manage investor relationships and ensure economic sustainability)	2021	LR+DC
	Poor managerial skills of social ventures	2021	LR+DC
	Lack of foundation-specific expertise, particularly for smaller foundations	2021	

	Lack of expertise in designing, implementing, and managing impact investments	2015	LR+DC
Investment Suitability and Market Conditions	Challenges in including impact investments in investment portfolios	2015	
	Suitability of investment opportunities	2015	Partially
	Problematic business conditions	2019	
	Lack of attractive investment opportunities	2019	LR+DC
	Inadequate supply of impact capital to meet expectations	2019	LR+DC
	Difficulty in accessing to financing for organizations with a social purpose	2019	LR+DC
	Low level of attractiveness of existing social impact organizations	2021	
	Bias regarding the actual risk/return profile of SII investments	2021	LR+DC
Knowledge and Culture	Lack of financial culture	2019	LR+DC
	Inadequate knowledge of SII and financial literacy	2021	LR+DC
	Insufficient knowledge of SII at policy and practitioner levels	2019	LR+DC
	Lack of a shared understanding of the concept of social impact investing	2019	LR+DC
	Low valorization of the peculiarities related to the generation of social impact	2019	LR+DC
	Impact washing	2020	LR+DC

Policy and Regulations	Lack of enabling regulatory frameworks	2021	LR+DC
	Lack of regulation for impact investing	2019	LR+DC
	Limited support infrastructure, which includes funding intermediaries that facilitate investments	2015	LR+DC
	Deficiency of intermediaries in most countries	2019	LR+DC
	Lack of exchange platforms	2021	
	Limited exit strategies	2021	LR+DC
	Lack of public support	2019	LR+DC
	Lack of policy support and coordination	2021	LR+DC
	Absence of government-initiated large impact funds and infrastructure	2021	LR+DC
	Uncertainty surrounding the permissibility of impact investing under law	2015	
	Regulations on foreign investment and foreign ownership	2019	
	Non-existent or limited reporting regulations	2019	LR+DC
	Inconsistent and unpredictable application of policies, particularly related to foreign direct investment and taxes	2019	
	General political instability and corruption	2019	
	Complex capital controls	2019	
	Interest rate caps	2019	
Measurement and Reporting	Difficulty in assessing social performance due to scarcity of reliable data	2021	Partially
	Desire of businesses and investors to keep their investment information private	2019	

	Lack of coordination and sharing of best practices in the sector	2021	Partially
	High level of information asymmetry	2021	
	Difficulty in the measurement of social impact	2019	LR+DC
	Lack of standards for measuring and reporting social impact	2021	Partially

Table 7: Comparison between barriers found in literature and barriers emerging from the collected data

As can be seen, some categories of barriers were mentioned, even if only partially, more than others by the subjects surveyed in the research.

The category in which the concordance between the literature and the collected data is more prevalent is the one of barriers related to "Knowledge and Culture". Subsequently, many similarities were also found in the barriers related to "Measurement and Reporting" and the ones dealing with "Operational Capacity and Expertise".

On the other hand, with regard to the barriers connected to "Investment Suitability and Market Conditions" and "Policy and Regulations", such similarities appear in fewer numbers, until they are almost completely absent in the barriers related to "Financial Evaluation and Organizational Fit".

For each of the six categories, starting from the one most reported by the study participants to the one least reported, some considerations will be provided on how the barriers in the literature compare with those in the collected data.

In addition, the fact that a certain challenge emerged from both the literature and the data will be analyzed by explaining the association between these barriers.

The meaning of "partially" found in the last column of the table should also be explained. As one might assume, the perceived barriers can be expressed in different ways and might accentuate some aspects while giving less importance to others. For this reason, some barriers identified from the data collected – especially from the interviews with the actors of the market – might not completely overlap with those illustrated in the literature review. But even if there is not a complete correspondence between the two aspects, it does not mean that they are not identifying the same (or at least similar) problem. These types of barriers will be analyzed at the end of each paragraph focusing on the different categories.

Knowledge and Culture

For what regards the category of “Knowledge and Culture”, all the barriers from the literature have also emerged from the data collected for this study.

One of the reasons could be that these challenges are extremely similar to each other, as they mainly reflect a lack of knowledge on impact investments and everything that relates to it, both in terms of what the actors operating in the market believe impact investing is and in terms of what relevant policies deal with impact investing.

Considering that one of the main topics covered in impact investing studies is the definition of impact and the importance of getting the world to comprehend how it is possible to have investments that have both a financial return and an impact, it should come as no surprise that the cultural barrier is one of the most prevalent issues.

A big portion of the entities taken into consideration during the data collection phase, in fact, complained that the cultural aspect is one of the most insidious ones when speaking of impact investing.

In this regard, the statement "a cultural clarification operation needs to be made by both practitioners and the public on what we are talking about when we discuss impact investing", from the spokesman of LCIFM2, accurately represents the general feeling of the subjects surveyed.

Now the connections between the barriers found in the literature and the ones that emerged from the study will be analyzed.

- *Lack of financial culture*
  Inadequate knowledge of SII and financial literacy
  Insufficient knowledge of SII at policy and practitioner levels

  The barriers “lack of financial culture", “inadequate knowledge of SII and financial literacy” and “insufficient knowledge of SII at policy and practitioner levels” are most closely connected to the challenge named "lack of understanding of (potential) investors".

  This is because individuals who lack knowledge and literacy in impact investing may struggle to comprehend the concept and potential benefits of this type of investment. They may have a difficult time understanding impact investment vehicles, the importance of measuring impact, the potential risks and returns associated with impact investing, and may invest in ventures that do not have a positive impact on society or the environment.

  Until the moment more correct and complete knowledge on impact investing is disseminated, the market cannot hope to grow substantially, as investors will keep thinking of impact investing as a synonym for grant-making or philanthropy.

Therefore, efforts to address this lack of understanding among potential investors should focus on improving their knowledge of SII and financial literacy through education programs, training, and awareness campaigns that promote financial inclusion and empowerment.

- *Lack of a shared understanding of the concept of social impact investing*

The barrier "lack of a shared understanding of the concept of social impact investing" is most closely connected to "confusion about what impact investing truly is". This is because both barriers revolve around a similar issue - a lack of clarity and understanding about social impact investing.

The lack of a shared understanding of social impact investing refers to the absence of a common understanding of what social impact investing entails and its potential benefits. This confusion can contribute to a lack of investor interest and distrust in social impact investing.

Similarly, confusion about what impact investing truly is, refers to the absence of a clear definition and understanding of impact investing among potential investors. This can lead to a lack of interest in investing in impact-oriented projects and a reluctance to adopt impact measurement and management practices.

- *Low valorization of the peculiarities related to the generation of social impact*

The challenge “low valorization of the peculiarities related to the generation of social impact” is best connected to the barrier “lack of understanding of (potential) investors”. This is due to the fact that investors tend to not believe that social and environmental impact can be achieved without compromising profits, and this aspect is at the foundation of the impact investing definition itself, therefore, if investors do not believe it to be possible, they will not invest in it.

This could also be caused by the fact that some of the organizations that are currently operating in the impact investing market, especially foundations, believe that in order to have an impact, the organization has to lose some potential profit.

For example, the spokesperson for foundation F6 reported: “I believe that an investment that has a very strong social impact inherently has lower profitability, but profitability should not even be sought, that is, the social impact should be sought. I believe the two things cannot coexist so much.”

These types of statements are part of the issue: if investors do not believe that impact investment can have market returns, how can such investments be

attractive to more investors? Without comprehending and valorizing the peculiarities that make impact investing profitable and impactful, the market will remain in the third sector and will always be considered a type of grant-making.

- *Impact washing*

  Impact washing is an important factor to consider when evaluating the features of impact investments. Therefore, it is understandable that overcoming this challenge is also fundamental to successful impact investing.

  However, the barrier named "problems regarding white/green washing" emerged from the EVPA survey, but this did not arise in the interviews. The fact that it was not mentioned during the interviews could suggest that this type of barrier is not yet at the forefront of the minds of impact investors, or that it is a relatively new concern within the industry. With green issues becoming more and more important in the eyes of the consumers, companies may also be more likely to make insincere claims about their impact, contributing to this barrier.

Measurement and Reporting

Partly related to the same aspect is the category of "Measurement and Reporting", as some of its barriers relate to the lack of a standard measurement system, which would make the whole impact investing more comprehensible to people, especially in a context that is looking for ways to spread the knowledge on the topic.

But this aspect is not the only one included in this category; indeed, a barrier that is found both in literature and in the collected data is the scarcity of reliable data and the fact that actors in the market are not sharing their best practices. Reliable data is fundamental to have for investors, especially when trying to show that the market is both profitable and impactful.

However, many impact investing actors choose not to share such data or, in some cases, the data that get shared do not follow a standard measurement. Therefore, they cannot be used for comparisons, which leads external stakeholders to lack confidence in the entire sector.

Now the connection between the barriers found in the literature and the ones that emerged from the study will be analyzed.

- *Difficulty in the measurement of social impact*

The barrier of “difficulty in the measurement of social impact" relates closely with the barrier of “lack of standardized impact measurement and management". The reason for this connection is that the difficulty in measuring social impact stems from a lack of common standards and frameworks for impact measurement and management.

Without standardized metrics and methodologies, it becomes extremely challenging to quantify and compare the social impact of investments accurately. This, in turn, hampers the ability of investors to make informed decisions, distorts the market, and undermines the credibility of impact investing as a whole.

Therefore, addressing the lack of standardized impact measurement and management is critical to overcoming the barrier of difficulty in measuring social impact.

The barriers identified from the data collected which do not completely overlap with those illustrated in the literature review, but still identify rather similar problems will now be presented.

- *Lack of coordination and sharing of best practices in the sector*

  The barrier that emerged from literature named “lack of coordination and sharing of best practices in the sector” can be partially connected to the driver “strengthening the ecosystem through multi-stakeholder collaboration” raised during the study.

  In fact, impact investing is a complex and rapidly evolving field, and there is a need for collaboration and knowledge sharing among different stakeholders, such as impact investors, investees, governments, and academic institutions. By working together, stakeholders can share best practices to exchange knowledge, and develop new solutions to address social and environmental challenges and in this way accelerate the growth of the market as a whole.

  Through multi-stakeholder collaboration, the impact investing ecosystem can be strengthened by building networks, facilitating partnerships, and sharing resources.

- *Lack of standards for measuring and reporting social impact*

  The barrier to impact investing found in literature and named "lack of standards for measuring and reporting social impact" can be connected to the barrier that emerged from the study called "lack of standardized impact measurement and

management". As a matter of fact, the absence of standards for measuring and reporting social impact can lead to inconsistencies in the way that impact is measured and reported, making it challenging to compare the impact of different investments. It can also create uncertainty around the reliability of impact data, making it difficult for impact investors to make informed investment decisions.

While many impact measurement and management initiatives exist and are used, there seems to be missing a standard that could unite all these initiatives, in a way that could make easier both the reporting of these impacts and also the comparison between different investment outcomes.

Operational Capacity and Expertise

With regard to the "Operational Capacity and Expertise" category, most barriers from the literature are reported by the Italian actors as well. Indeed, many of the interviewed organizations reported that often the social purpose organizations do not have the managerial capacity to deal with the investment they are applying for.

In some cases, SPOs found themselves with additional available capital but were unable to actually use it effectively, as their managerial capability did not prove to be up to the task.

For example, organization F7 shared the case of the organizations in its territory that after receiving funds from the PNRR[10] struggled to utilize them as for years no one had paid attention to their requests and now they just received money without being able to gain the capacities necessary to actually take advantage of it.

The spokesperson for foundation F7 explains: "after decades that no one had ever [...] shown interest in them, now they find themselves with millions upon them and they don't have the capacity to manage them, and with very tight timelines. So, they also have to invent possible uses, and, in this way, you can't actually use these funds for serious territorial development policies, geared to real environmental impacts".

Now the connection between the barriers found in the literature and the ones that emerged from the study will be analyzed.

- *Unpreparedness of demand (including organizational and managerial inability to manage investor relationships and ensure economic sustainability)*
  Poor managerial skills of social ventures

[10] Piano Nazionale di Ripresa e Resilienza (PNRR) is the plan approved in 2021 by Italy to revive its economy after the COVID-19 pandemic in order to enable the country's green and digital development.

Lack of expertise in designing, implementing, and managing impact investments

The barriers "unpreparedness of demand (including organizational and managerial inability to manage investor relationships and ensure economic sustainability)", “poor managerial skills of social ventures” and “lack of expertise in designing, implementing, and managing impact investments” are all most closely connected to the barrier "insufficient management capabilities of (potential) investees." Investees' ability to manage relationships with investors and ensure the sustainability of their business model relies heavily on their overall management capabilities.

Without effective leadership and strategic planning, investees may struggle to communicate their impact and attract investments, resulting in a shortage of opportunities for impact investing. Poor management skills can also lead to another barrier, “lack of transparency and impact measurement communication”, further impeding social ventures' ability to attract and retain investors.

Impact investments demand a deep understanding of financial and social impact metrics, which can be challenging for many companies to measure and manage.

Without the requisite knowledge and experience, companies may vacillate in implementing and managing impact investments, thereby failing to produce measurable social impact.

Investment Suitability and Market Conditions

For the category of “Investment Suitability and Market Conditions”, the main aspect considered is the fact that the capital available for impact investing sometimes is not adequate to meet expectations.

Moreover, social purpose organizations tend to have more difficulty in accessing financing, as there is still a considerable bias regarding the risk/return profile. Indeed, a substantial problem is still that many investors do not want to lose financial returns for impact, but at the same time, they do not comprehend that this is not what impact investments do. They may hear about impact investing and believe that it is a trade-off between doing good and doing well financially.

This misunderstanding leads them to perceive impact investments as less attractive than traditional investments that prioritize financial returns alone.

Even for this category, the majority of the barriers from the literature were also found in the data collected and now they will be analyzed.

- *Lack of attractive investment opportunities*
  Bias regarding the actual risk/return profile of SII investments

  Both the barriers “lack of attractive investment opportunities” and “bias regarding the actual risk/return profile of SII investments”, are closely linked to the barrier “lack of understanding of (potential) investors". When investors do not comprehend the potential impact of an investment, it may not seem as attractive to them. Without seeing the potential for financial return and social impact, investors are less likely to invest, resulting in a bias toward more traditional investment options.

  Moreover, the “lack of attractive investment opportunities” is also related to the “inadequate financial structure” barrier. This is because investors tend to view large funds as more appealing opportunities, as they believe such funds offer a greater likelihood of realizing the objectives defined ex-ante.

- *Inadequate supply of impact capital to meet expectations*

  The barrier of “inadequate supply of impact capital to meet expectations" is connected to the barrier of “inadequate financial structure”. In particular, respondents reported that there is a lack of large funds and the current amount of funds and their size are not enough for the current demand, as impact investments become more and more requested.

  This inadequate financing ecosystem does not allow all the interested investors to actually participate in the market, limiting in this way its potential growth.

  For example, the spokesperson for the organization LCIFM2 explained: “There are limited funds and capital owners, from banking foundations to pension funds, that do little, if not anything. So, there is a mismatch between talking and doing.”

- *Difficulty in accessing to financing for organizations with a social purpose*

  The barrier concerning the "difficulty in accessing to financing for organizations with a social purpose" can be connected to the barrier of “lack of intermediary structures and specialized investors" because social purpose organizations often have unique needs and goals that may not fit into traditional investment models.

  This creates a gap between potential investors and social purpose organizations, as traditional investors may not understand the social impact goals or may not have the expertise to support these organizations effectively.

Intermediary structures and specialized investors can bridge this gap by providing funding and support specifically tailored to the needs and goals of social purpose organizations, helping to ensure that they can access the financing necessary to achieve their social impact goals.

The barriers identified from the data collected which do not completely overlap with those illustrated in the literature review, but still identify rather similar problems will now be presented.

- *Suitability of investment opportunities*

  The barrier "suitability of investment opportunities" that emerged from the literature can be connected to the driver "establishing an investment approach more aligned with demand needs" raised during the research, because it highlights the importance of understanding the demand for impact investments and tailoring investment opportunities to meet those needs.

  Indeed, investment opportunities in impact investing can vary significantly in terms of social and environmental impact, financial return potential, and risk profile. It is therefore important for impact investors to identify and prioritize investment opportunities that best fit their investment objectives and are aligned with the demand needs of the communities and stakeholders they aim to serve, which are opportunities that right now seem to be lacking.

  It also partially relates back to the driver "show the potential of the impact investing market", in that the more adequate the investment opportunities in the market, the more investors will understand the potential of such investments and understand that it is possible to achieve both impact and returns.

- *Difficulty in assessing social performance due to scarcity of reliable data*

  The barrier "difficulty in assessing social performance due to the scarcity of reliable data" found in literature can be connected to the barrier of "lack of demonstration and/or comparability of impact measurement" that emerged during the research, as reliable data is a necessary prerequisite for demonstrating and comparing the social impact of different investments.

  Assessing social performance in impact investing is important to ensure that investments are delivering the intended benefits. However, measuring and reporting social impact can be challenging due to the lack of reliable data and standardized impact measurement methodologies. Without reliable data,

indeed, it is difficult to demonstrate the social impact of investments, making it challenging to attract and retain impact investors.

As evidenced during the interview with the spokesman of F4: “most investors, before starting an investment process, look at teams as well as track records, and this second aspect is often missing since impact investing is a completely new field”.

Policy and Regulations

Less were the barriers from the literature that matched the ones collected by the data for the category “Policy and Regulations". The ones that are present, though, mainly include the role of public administrations and institutions in impact investments.

According to both market actors and the authors of the papers studied, government and institutional support for these investments is insufficient. They believe that the responsibility lies with these entities to facilitate such investments since they address problems that the public does not have the resources or perhaps the interests to solve independently.

In addition, the absence of regulatory systems for impact investing coupled with a dearth of facilitation protocols is impeding the potential of the market to expand beyond its current scope. There is much untapped potential that could be realized if more conducive measures were put in place.

Now the connection between the barriers found in the literature and the ones that emerged from the study will be analyzed.

- *Lack of enabling regulatory frameworks*
  Lack of regulation for impact investing

  The barriers "lack of enabling regulatory frameworks" and “lack of regulation for impact investing” can be quite intuitively connected to the barrier "regulatory framework".

  The lack of enabling regulatory frameworks refers to the absence of a legal and governance framework that facilitates impact investing, and therefore the lack of clear rules and guidelines for impact investing. This can discourage potential investors from engaging in impact investing and can also lead to uncertainty for the ones who decide to invest.

  The absence of regulatory frameworks would also lead to various other barriers such as “lack of transparency and/or impact measurement communication”, “inadequate financial structure”, and “confusion about what impact investing truly is”.

- *Limited support infrastructure, which includes funding intermediaries that facilitate investments*
  Deficiency of intermediaries in most countries

  The barriers "limited support infrastructure, which includes funding intermediaries that facilitate investments" and "deficiency of intermediaries in most countries" are connected to the barrier "lack of intermediary structures and specialized investors".

  The success of impact investing relies on specialized intermediaries and investors who facilitate investments and provide guidance to potential investees. However, limited support infrastructure can hinder their growth, preventing impact investing from achieving its goals.

- *Limited exit strategies*

  The barrier of "limited exit strategies" can be connected to the challenge of "inadequate financial structure", which includes the issue of having limited exit opportunities.

  The exit is a fundamental aspect of an investment, but for now, it seems that the possible strategies to end the impact investment are not enough for investors, and this aspect contributes to lower the attractiveness of these types of investments.

  Moreover, a limited amount of potential exit strategies can negatively affect the ability of investees to manage their businesses effectively in the long run. If investees are unable to plan for successful and timely exits, they may struggle to sustainably manage their businesses and generate the desired impact for investors.

  As a result, this presents a challenge for impact investors seeking to invest in impactful ventures run by capable management teams. Without confidence in the management capabilities of potential investees, impact investors may be reluctant to invest capital, hindering the growth of impact investing overall. For this reason, this also affects the challenge of "insufficient management capabilities of (potential) investees".

- *Lack of public support*
  Lack of policy support and coordination
  Absence of government-initiated large impact funds and infrastructure

The barriers “lack of public support, “lack of policy support and coordination” and “absence of government-initiated large impact funds and infrastructure” can all be connected with the barrier "lack of adequate public sector support". In fact, the public sector is a vital player in the promotion and dissemination of knowledge regarding impact investing.

If the government fails to provide adequate support and coordination on the matter, it can lead to decreased awareness, understanding, and acceptance of impact investing. This, in turn, limits the potential for positive social and environmental change on a larger scale. Such a lack of support may discourage private and institutional investors from committing their resources towards impact investing, viewing it as a risky or unsupported opportunity.

To ensure the success of impact investing initiatives, policy support and coordination are essential in creating a conducive environment. Public support is necessary for the development of intermediary structures and regulatory frameworks that balance social and environmental objectives with financial returns, as well as encourage private investment.

When there are inadequate incentives, resources, funding or regulatory frameworks, it becomes increasingly challenging for impact investing to positively impact society and the environment.

The absence of government-initiated large impact funds and infrastructure further compounds the lack of financial support and resources for impact investing, discouraging potential investors and making it difficult for impact-focused businesses and organizations to access the funding and resources needed to succeed.

To provide an example, the spokesperson for LCIFM2 explained that the Italian public institutions still do not have a clear understanding of the impact investing market and its potential, and for this reason, they only follow the European regulations in a passive way.

He reported that “public institutions transpose European regulations and then have to implement them in Italy, but they seem very passive to me, so if there is a weakness it is the incomprehension and inactivity of Italian public institutions.”

- *Non-existent or limited reporting regulations*

The “non-existent or limited reporting regulations” barrier is closely related to the “lack of transparency and/or impact measurement communication” barrier. Without clear and standardized reporting regulations, it becomes difficult for potential investors to understand the impact that their investments are making, and for investees to communicate their impact effectively.

This lack of transparency can lead to a lack of trust in impact investing as a whole, and hinder the growth and development of the industry.

Financial Evaluation and Organizational Fit

The last category, "Financial Evaluation and Organizational Fit", is the one with the lowest amounts of matching barriers. This group of barriers includes some that relate to the belief that in some cases there is a smaller consideration of the financial and economic aspects than of social and environmental aspects.

However, the collected data shows that this is not considered an issue by the actors that participated in the study. In fact, they seem to agree that financial aspects should be given equal importance as the impacts, or at the very least, they should be given significant attention.

Related to this category, there is a barrier that did not emerge when talking about the barriers limiting the growth of the impact investing market, but it emerged during the data collection phase when impact risk was discussed. This barrier, which was presented in the literature as "Fear of mission drift due to neglect of social mission" connects to one of the most popular impact risks, namely "the risk of mission drift".

- *Fear of mission drift due to neglect of social mission*

  As explained by the interviewee of ECP1: "certainly mission drift is one of the risks we always evaluate, and it often depends on governance and founders as well as the feasibility of the enterprise and the scalability of the business model and impact model".

  Furthermore, the fear of mission drift is one of the few barriers actually present in the category, but it is mainly related to the fact that once the social purpose organization grows and more stakeholders are involved in it and more attention could be paid (especially to the economic aspect), it could experience a mission drift as it grows.

  Most of the organizations, though, reported that they are still far from the growth that would make this fear real, as most investments are in the first years of life.

The barriers identified from the data collected which do not completely overlap with those illustrated in the literature review, but still identify rather similar problems will now be presented.

- *Overemphasis on economic-financial aspects in investment evaluation, aligned with operators' screening criteria*

  The barrier to impact investing present in literature and named "overemphasis on economic-financial aspects in investment evaluation, aligned with operators' screening criteria" refers to the tendency of investors to prioritize financial returns over social or environmental impact when making investment decisions. This can lead to a lack of investment in projects or companies with a strong social or environmental mission but lower financial returns.

  Instead, the barrier "distrust and lack of investor interest", which emerged from the study, refers to an unwillingness of investors to invest in something that might have below-market returns or might need more patience to grow. This can lead to a lack of investor interest and a limited pool of capital available for impact investing opportunities.

  These two barriers are connected in the sense that the overemphasis on financial criteria can contribute to the perception of impact investing as a high-risk and low-return proposition, which can further discourage investor interest.

  If investors do not fully appreciate the potential social and environmental benefits of impact investing, they may be more inclined to stick with traditional investment strategies that prioritize financial returns, even if those investments may not align with their values or have negative social or environmental consequences.

- *Lengthy due diligence processes*

  The barrier included in literature and named "lengthy due diligence processes" can be connected to the barrier "insufficient management capabilities of (potential) investees" that emerged from the research, in particular the aspect of the expansion of time for negotiating and structuring an investment (which, as previously explained, is included in such barrier).

  In fact, lengthy due diligence processes can create a burden for potential investees who may not have the resources or expertise to effectively undergo such rigorous evaluation processes.

  Due diligence is a critical step in the impact investing process as it involves a thorough assessment of the potential investee's financial, social, and environmental performance. However, this process can be time-consuming and resource-intensive, which can be particularly challenging for smaller or less established organizations that may lack the necessary management capabilities and resources.

- *Misalignment between investors' and investees' expectations regarding investment capital-funded growth*

  The barrier "misalignment between investors' and investees' expectations regarding investment capital-funded growth" found in the literature can be connected to the barrier "insufficient management capabilities of (potential) investees" that emerged from the study, in particular regarding the unrealistic expectations of (potential) invested parties (which, as previously explained, is included in such barrier). Indeed, in impact investing, investors often expect investees to use the investment capital to grow and scale their operations, achieve their social and environmental impact objectives, and generate financial returns.

  However, investees may not have the necessary management capabilities to effectively manage (or even just accurately predict) the growth and expansion of their operations, resulting in underperformance or failure to meet investor expectations.

It is important to bear in mind that the barriers identified in the literature review must be viewed in the context of the years in which the papers were written. To gain a comprehensive understanding of the current situation, the review focused on papers published within the last four years. Therefore, when comparing the barriers identified in the literature to those derived from the collected data, the temporal aspect should be taken into account.

This allows to have an accurate overview of the barriers limiting market growth and explains why most of these barriers, which the authors of the research considered, also constitute the data collected for this thesis.

However, the literature review led us to consider a study from 2015 (Ormiston et al., 2015), as it was cited in another relevant article (Zolfaghari & Hand, 2021), and it is interesting to see that even if more years have passed, many barriers seem to remain.

There is also one barrier that was pointed out by the participants in the study, which did not find correspondence with the barriers analyzed in the literature review part.

This challenge is the "*complexity of business models of (potential) investees*", which was one of the options proposed in the EVPA survey for the questions related to the barriers currently inhibiting the expansion of the impact investment industry, but that was mentioned by only one organization.

This may seem surprising, given that business model complexity is often considered a significant challenge for investors, particularly in the impact investing space. However, it is important to note that the lack of discussion of this barrier may not necessarily indicate that it is not a relevant issue for impact investors.

One possible explanation for the low mention of this barrier could be that the organizations interviewed had already filtered potential investees based on their business model complexity. It is possible that the investors had already selected investees with business models that they found to be clear and understandable, eliminating the need for them to mention this barrier during the study.

Additionally, it is possible that the investors may have had a high level of expertise in understanding complex business models, making it less of a barrier for them. Alternatively, the investors may have prioritized other barriers that they found to be more pressing or relevant to their investment strategies.

To recap, most of the barriers that were found in the literature can be connected to one – in most cases more than one – of those emerging from the data collected. Moreover, only one more did not explicitly emerge from the literature.

In conclusion, this was a comparison meant to show which barriers of the ones that emerged from data are still in place compared to those in the literature. This is interesting as it shows that almost all these barriers had already been seen by the papers' authors, but they have not been fixed yet.

It is also noteworthy the fact that even though most of the challenges from the literature are not focused on a single country, let alone Italy, the Italian participants outline a similar situation, as the barriers that emerged from the data are associable with those of the literature on the impact investing market globally.

However, for the purpose of proposing solutions on how to overcome these challenges, only the barriers that emerged from the research will be considered, as these are the issues that were reported by the respondents of the study, which are more recent.

6.2. Connecting drivers and barriers

As seen in the previous section, although many of the problems limiting the growth of the impact investing market in Italy have been studied in the past, several barriers have yet to be overcome.

However, the interaction with the actors operating in the Italian impact investing market allowed collecting some ideas on how to solve these issues.

For this reason, this section will analyze the different drivers provided by the study participants that could positively affect the growth of the industry. The main objective is to identify which specific barriers each driver would be capable of effectively addressing.

After analyzing each driver separately, following the order from most to least discussed, the connections between the drivers and the barriers that emerged from the study will be detailed to see which barriers could be overcome and which still remain undealt.

Moreover, connections between drivers will be explored, as it is interesting to study not only how a driver solves a challenge, but also how different drivers support each other.

Increased presence of institutional investors

The presence of institutional investors is important because it brings credibility and legitimacy to the impact investing space, which was previously seen as a niche or alternative investment strategy. These investors have significant financial resources, which means that they can make larger investments, which in turn can lead to a more significant impact.

This is because institutional investors can rely on a great reputation, unlike other types of organizations that may have credibility issues. Often, for example, scandals related to the use of capital in foundation activities have led to lower credibility for other foundations that were not even related to the one that started the problem.

However, as reported by the interviewee from the SICAF1 organization, "although there is a stated interest from potential limited partners, investors, etc., there is still, unfortunately, after a very long time, no culture from professional investors on what impact investing really is."

An increased presence of institutional investors could bring significant benefits to impact investing by increasing accountability, transparency, and standardization within the industry.

Institutional investors have the capability to conduct thorough due diligence, better evaluate the impact of investments, and demand greater transparency and accountability from investees.

They could also help establish a more standardized framework for measuring impact and creating benchmarks for comparison. As a result, this could enhance investor confidence, boost the credibility of impact investing, and attract more investors to the industry, which would in turn help the development of the whole impact investing market.

Increased managerial capacity of the entrepreneurial third sector

To make sure that an investment will be successful, an investor needs to be sure that those who receive the capital have the competencies to actually manage it in an effective manner. However, more than 40% of the participants included in this study believe that this is not always the case, since many of them report that the potential investees often do not have sufficient management capabilities to deal with this kind of investments.

For example, when discussing the issues that the organization's impact investing activities are facing at the moment, the organization ECP1 described as an important barrier "the unpreparedness of many male and female entrepreneurs in knowing how to draft acceptable documents and how to present them in an acceptable manner, or banally even knowing how to compile a business plan and knowing how to handle a call with foreign investors without major trauma for those who have acted as intermediaries".

This proves that increasing the investees' capacity not only would solve the issue of the "insufficient management capabilities of potential investees", but would also tackle the problem of the long due diligence, since, as the spokesperson from ECP1 proves, the investors need to interact often with these potential investees, as documents are not properly prepared, their business plans have problems, etc.

Nevertheless, this issue is being tackled as many organizations support the investees with organizational resilience activities, such as training. The problem could be that not enough provide this type of support, even though many more report the lack of capabilities as a challenge.

Indeed, even though several organizations believe that increasing the managerial capacity would help the market grow, less than half of them are actually attempting to do so, by providing training of some sort.

Increasing public sector presence through regulatory support and facilitation

When the public sector creates regulations that support impact investing, it can help to legitimize the field and make it more attractive to investors who may have been hesitant to invest in social or environmental causes in the past.

For example, the public sector can create tax incentives for impact investments or establish regulations that require companies to report on their social and environmental impact. This kind of regulatory support can incentivize investors to incorporate impact considerations into their investment decisions, which in turn can lead to more funds flowing into impact investments and more businesses embracing social and environmental initiatives as a core part of their operations.

Additionally, when the public sector facilitates impact investing, it can help reduce the barriers to entry that may exist for investors or businesses interested in engaging with the impact investing community. Having greater public sector presence and regulatory support can also help to establish clearer guidelines and standards for impact measurement and financial structures in impact investing.

Facilitation can take many forms, such as providing access to impact assessment tools, offering technical assistance to businesses looking to incorporate social and environmental goals into their operations, and creating networks or platforms for investors and businesses to connect.

A relevant example of facilitation at the moment in Italy is the PNRR ("Piano Nazionale di Ripresa e Resilienza"). However, it emerged from the interviewee from F7, which operates in southern Italy, that: "a big issue in the areas in which we intervene is that of public funds, particularly PNRR funds, which provide for resilience, demographic, social and environmental regeneration of territories and so on, and therefore can generate positive impact if well managed. The problem is the fact that currently, the system of managing these funds risks is not making the most of the potential for impact, but rather causing negative effects, in the sense that these funds are literally "rained down" on territories that often do not have the capacity to manage them, with such tight timeframes that sometimes they even have to invent uses".

Establishing an investment approach more aligned with demand needs

The impact investing field is rising across the globe, and so are the diverse needs of people, communities, and environments. An investment approach that is more aligned with demand needs will help to cater to these diverse needs better.

Moreover, an approach that prioritizes demand needs will also ensure that the impact of the investments is focused on specific areas that need it the most and is more likely

to create long-term sustainability and positive change. Not only it can lead to better investment outcomes and long-term sustainability, but it can also foster improved collaboration between investors, companies, and communities.

The barrier "lack of understanding of (potential) investors" could be solved or diminished by establishing an investment approach more aligned with demand needs. When the investment approach is more aligned with the needs and wants of potential investors, it becomes easier for them to understand the potential impact of their investment. This can lead to increased interest and confidence in impact investing, ultimately overcoming the barrier of lack of understanding.

Aligning the investment approach with demand needs, however, is not only about focusing on the impact and where to work to achieve it. It is also about understanding that investors are first of all looking to make profits.

As long as the aim is to create impact while sacrificing returns, many investors will continue to choose different routes. To avoid this, it is vital to work on making impact investments real investments, focused on having financial returns comparable to the traditional market. Once returns are aligned, it becomes much more rational for investors to opt for impact investments. At this point, the only decision left to make would be between profit-only ventures and impact investments that generate both profit *and* social value. Choosing impact investments would be a clear and logical decision, considering also the favorable effect that they have on a company's reputation.

According to this reasoning, this alignment would help reduce the effects of the challenge of “inadequate financial structure”.

Establishing a common definition of impact investing

Since the first time the term “impact investing” was used, there had been debates about its definition and what was included in its boundaries. The lack of a common definition and of a clear understanding of impact investing can create confusion and skepticism among investors and stakeholders. A common definition of impact investing can help to increase awareness and understanding of the concept, which can attract more investors to the space.

With a common understanding of the goals and principles of impact investing, investors can better assess the social impact and financial returns of potential investments. This can lead to an increase in the number of investments that align with the values and goals of impact investing.

Furthermore, establishing a common definition of impact investing can help to align the industry around a set of values and principles, which can improve collaboration

and cooperation within the space. This can lead to the development of standards and frameworks that can help to measure and report the social and environmental outcomes of impact investments. Therefore, the barrier of "confusion about what impact investing truly is" would be solved or at least diminished by establishing a common definition of impact investing.

Development of a standardized impact measurement and management methodology

As was explained in the review of the literature, many initiatives regarding the measurement and management of impact exist, but still, the development of a standardized methodology is believed to be needed by the actors of the market.

So, the question is, why doesn't everyone use one standard? From what respondents explained, using specific methodologies might take up too much time and resources and not produce enough gain for the organizations.

As long as the issue relates to environmental impact, organizations tend to have an easier time addressing the issue, with many reporting the use of dedicated standards. However, it should be noted that this only helps to address the problem partially.

Nevertheless, the challenge comes when social impact needs to be measured. As this type of impact is less easy to assess, hence the high number of IMM initiatives available, most organizations simply use ad hoc indicators, and few KPIs, which are specific to the investment considered. But this leads to the problem that if everyone uses a different indicator, it is not possible to have fair comparisons between different impact investments.

This could lead investors to not being convinced that the organization actually creates the impact reported, and they might choose to not invest, especially if they are already sacrificing financial returns, and this would not help fix the issue of overemphasis on economic-financial aspects in investment evaluation, aligned with operators' screening criteria.

Therefore, by developing a standardized IMM, the challenge of “lack of standards for measuring and reporting social impact” would be overcome.

Moreover, the more standardized the measuring of impact is and the more comparable the impacts from different investments are, the less prevalent the barrier of “lack of understanding of potential investors” will be. This would lead consequently to a lessening of other problems, such as the low valorization of the peculiarities related to the generation of social impact, consequently tackling the connected barrier “lack of understanding of (potential) investors”. Moreover, it would also allow to deal with the “insufficient management capabilities of (potential) investees”.

For all these reasons, the development of a standardized impact measurement and management methodology would help tackle several barriers.

The problem of convincing organizations to actually implement the standards needs to be addressed, as they do not see the potential (comparability, trust, etc.) advantage, but only its costs and problems. To do so, regulations might need to be adopted. Indeed, one of the reasons why the environmental impact is being measured is because in many cases it is mandatory, and it is becoming the market standard to have it in a certain way. If a standardized IMM for social impact is regulated, organizations will have to follow the standard, and they might finally understand the benefits, rather than only see the issues. Because of this, the development of a standardized impact measurement and management methodology would help tackle the barrier regarding the "lack of transparency and/or impact measurement communication".

Taking into consideration these reflections, since the development of a standardized impact measurement and management methodology would lead to more credibility and higher transparency on the matter, this would also help reduce the "problems regarding white/green washing". Green and impact washing are some organizations' attempts to benefit from the growing consumer interest in sustainability and social responsibility by creating an image that's more positive than reality. This is made possible partially by the fact that without standards, everyone can say they make some kind of impact, especially if the measures are not regulated. With a standardized IMM, this would become harder to do, as organizations would be required to show proof of the impact they report as achieved.

Strengthen the ecosystem through multi-stakeholder collaboration

There is a concept that emerged constantly during the research work, which is that no single entity can solve the world's most pressing social and environmental challenges alone. Indeed, impact investing requires collaboration between investors, entrepreneurs, governments, civil society organizations, and many other stakeholders in order to create a supportive ecosystem that can really drive positive change in society.

Multi-stakeholder collaboration refers to the partnership of individuals and organizations from various backgrounds and sectors coming together to work towards common goals. By collaborating with stakeholders such as entrepreneurs, NGOs, governments, and local communities, impact investors can leverage the expertise and resources of each stakeholder to achieve their objectives.

One of the major benefits of multi-stakeholder collaboration is that it allows impact investors to expand the impact investment ecosystem. Working with different stakeholders provides investors with access to new investment opportunities, insights

into new or emerging markets, and a broadened network of potential partners and collaborators.

Furthermore, collaborating with multiple stakeholders can also deepen the impact investing practice itself. The collaboration may provide impact investors with knowledge of regional or cultural differences or nuances and insights into the communities they seek to serve. They may use the knowledge to make better investment decisions, design innovative financial products that address social and environmental needs or implement more effective impact measurement and reporting systems.

Furthermore, multi-stakeholder collaboration can help to build trust and transparency within the impact investing sector. By bringing together diverse stakeholders, impact investors can create a more open and inclusive ecosystem that promotes accountability and shared learning.

Additionally, collaboration can lead to the creation of intermediary structures and specialized investors that can help to bridge the gap between investors and investees with complex business models. Overall, multi-stakeholder collaboration can help to address many of the challenges that prevent impact investing from reaching its full potential.

Increase communication regarding impact investing

By increasing the communication regarding impact investing, the study's respondents intended three main topics:

1. One of the aspects is the idea that a culture of awareness about the importance of social impact versus financial return should be created.

   With all the problems affecting the world, and not enough attention paid to them, the interviewed organizations believe that it is of utmost importance to make investors comprehend that it is crucial for them to understand the significance of concentrating on the positive outcomes they can bring about instead of solely prioritizing financial profit.

2. The second topic concerns the necessity to stimulate greater interest from the media.

   When it comes to investing, people often rely on what they hear from others. If the media were to devote more attention to impact investing and educate the public on its potential, more investors may be inclined to participate in this type of market. Unfortunately, the industry is seldom mentioned in the media, and

when it is, it is often portrayed as a synonym of philanthropy and grant-making, which only deter potential investors who who value financial return as a principal criterion.

3. Lastly, the last feature simply regards the actual increase in communication regarding impact investing.

   To raise awareness of the market, it is fundamental to have more people talking about it, from experts of the sector to universities and research centers. Communication is key, particularly in defining what impact investing truly is and dispelling any misunderstandings surrounding it. The market is still relatively unknown, so generating more discussion is essential.

However, it is important not to confuse the need to have more communication on the matter and the marketing gimmick that hopes to convince people that the organization is generating impact without actually doing it. The issues of green and impact washing need to be monitored when communicating, as if an organization claiming to be an impact investor is found to be fraudulent, without proper monitoring, the entire industry may suffer the consequences.

In any case, if the communication is clear and effective, the barrier regarding the "confusion about what impact investing truly is" would be diminished, together with "lack of understanding of potential investors" and "distrust and lack of investors' interest".

Increasing communication regarding impact investing could be a driver to solve also the barrier of "lack of transparency and communication" because it would create more awareness and understanding among investors about the impact of their investments. When investors have access to clear and transparent information about the social and environmental outcomes of their investments, they are more likely to make informed decisions and allocate their capital toward companies and projects that align with their values and impact goals.

By increasing communication about impact investing, investors can also discover new investment opportunities and connect with impact-driven organizations that share the same values. This creates a more vibrant and dynamic ecosystem for the impact investing market, which in turn can lead to more innovation and a greater range of impactful solutions.

Show the potential of the impact investing market

As previously mentioned, potential investors appear to lack confidence in the profitability of the impact investing market. This outlook stems from a belief that if the

primary objective is to make a positive impact, the returns must inevitably be lower, resembling simple grant-making.

However, the fundamental aspect of impact investments is the fact that impact and return should both be regarded as crucial, meaning that the impact that the organizations are trying to achieve needs to have considerable returns. Without the focus on profitability, investors will continue to choose to invest in traditional finance, as in that case they can be sure that nothing will be "wasted", lowering their returns.

The goal of showing the potential of the market is to prove to these potential investors that there is already a considerable number of investors that believe this duality to be possible.

Additionally, demonstrating this potentiality involves conveying that engaging in the impact investing market aligns with the growing trend towards sustainability. Across all industries, stakeholders are increasingly prioritizing social and environmental concerns, and they anticipate investments that address urgent global challenges, such as climate change and social inequalities. Investing in impactful organizations will not only give investors enough returns, but it will also allow them to be considered sustainable investors in the eyes of the public.

This is also reported by the research respondents, as the representative for organization IA1 said: "unfortunately, for so long people kept saying that impact investing was something that had to sacrifice return on investment, which is a great way to make bad publicity from my point of view".

Therefore, "showing the potential of the impact investing market" could partially resolve the issue of the suitability of investment opportunities. As it was previously discussed, potential investors need to be convinced that the investment opportunities that are available are in line with what they look for, both in terms of returns and impact.

Furthermore, this driver could also be a step to help gain more public support, as it is crucial to show the public institutions that the more the market of impact investments is aided, the more quickly it will be able to stand on its own.

This is interesting for the public administrations as the social and environmental issues affecting the countries would be partially alleviated by the private sector, lessening the need for public help in such matters. In this way, the public institutions could focus on matters that the private sector cannot yet support. For these reasons, this driver might lower the barrier of "lack of adequate public sector support".

This public support could be expressed through the creation of large impact funds to generate momentum in the market, or by lowering taxes affecting such types of investments.

Indeed, some organizations had several, at times different from each other, views on the matter.

The spokesperson for organization SGR3 said: "I personally think that the issue is not so much to create a specific incentive in favor of these [impact investing funds], but it is to create a system of taxation of financial income, wealth, etc., that penalizes much more what has no impact and instead provides zero taxation to what has impact, this is the tradeoff that should be created in terms of economic policy."

Instead, the representative of foundation F6 explained that, according to them, "through interventions in taxation, these social impact investments can be encouraged."

An opposite view comes from ECP1, whose spokesperson expressed during the interview that "the tax incentives are more than enough, maybe something more could be done for sustainable companies so not only the 30% innovative startup, innovative SME, but also for sustainable companies... but in my opinion that is not the main problem."

Make better use of opportunities (less dispersion)

Impact investing aims to align financial goals with social and environmental objectives. By making better use of opportunities and focusing on initiatives that have the potential to create positive outcomes, investors can achieve both financial returns and social impact.

Additionally, the concept of less dispersion implies a more focused approach, which could result in a more efficient allocation of resources. This approach can help investors to mitigate risk and generate greater returns by investing in projects or initiatives that have a clear path to success. With less dispersion, there may be more streamlined processes and clearer reporting on impact, making it easier for (potential) investors to understand the impact of their investments.

The more these opportunities are exploited, the more the market can expect to have funds of dimensions big enough to attract investors. This would help tackle the "inadequate financial structure" that was complained about by the study's participants, who reported that without considerable funds, no significant investors would really invest in a small market as the impact investing industry is.

In the following table (Table 8), a breakdown of the connections between each driver and the barriers is provided.

The drivers are reported and divided into the three categories (capacity building, collaboration and drivers emerging from the interviews) in the same way they were split in the results.

DRIVERS	BARRIERS
Capacity building	
Increased managerial capacity of the entrepreneurial third sector	Insufficient management capabilities of (potential) investees
Establish an investment approach more aligned with demand needs	Lack of understanding of (potential) investors
	Inadequate financial structure
Establishing a common definition of impact investing	Confusion about what impact investing truly is
Development of a standardized impact measurement and management methodology	Lack of standardized impact measurement and management
	Lack of demonstration and/or comparability of impact measurement
	Insufficient management capabilities of (potential) investees
	Lack of transparency and/or impact measurement communication
	Problems regarding White/Green Washing
Collaboration	
Strengthen the ecosystem through multi-stakeholder collaboration	Lack of intermediary structures and specialized investors
	Regulatory framework

Increasing public sector presence through regulatory support and facilitation	Lack of adequate public sector support
Increased presence of institutional investors	Lack of intermediary structures and specialized investors
	Distrust and lack of investor interest
Drivers emerging from the interviews	
Increase communication regarding impact investing	Confusion about what impact investing truly is
	Distrust and lack of investor interest
	Lack of understanding of (potential) investors
	Lack of transparency and/or impact measurement communication
Show the potential of the impact investing market	Lack of adequate public sector support
Make better use of opportunities (less dispersion)	Inadequate financial structure

Table 8: Connections between drivers and barriers

As can be seen in Table 8, only one of the barriers studied was not addressed by the drivers proposed by the participating organizations, namely the "complexity of the business models of (potential) investees." This may be because only one organization presented it as a challenge. Therefore, it is understandable that no solution was provided, as it may not be as significant of a barrier as the other reported issues.

While the table above (Table 8) shows the connections between the barriers that the Italian impact investing market is facing and the drivers that the study participants believe can help the market grow, another aspect of these drivers needs to be analyzed.

This feature relates to the fact that the drivers are not one or the other nor are they isolated. Instead, they could influence each other, and they might even work better when implemented at the same time, coordinating.

For example, establishing a common definition of impact investing should probably go hand in hand with the development of a standardized impact measurement and management methodology. Both actions, in fact, aim to make impact investing clear in its characteristics (hence the need to have a common, shared definition), which cannot be understood in a widespread manner if impact is not defined (and thus also measured and managed) in a standard way.

At the same time, a common definition of impact investing and a common impact measurement methodology should also be clearly communicated to the public, as a major problem the market is experiencing is the fact that potential investors have a misconception of what impact investing is.

This is because it is often mistakenly confused with grant-making, philanthropy, and similar issues, and investors that are looking for profitable investments decide to look elsewhere.

In order to attract new investors, moreover, it is necessary not only to increase and improve communication about impact investing, but also to actually show the potential that the market holds, since, as explained earlier, the limited size of the market and the mistaken belief that returns are always below the market rate could discourage investors.

Demonstrating this potential would attract both individual and institutional investors, whose presence, as explained, would contribute to the accountability and reputation of the entire industry. Strengthening the ecosystem through multi-stakeholder collaboration is also crucial in achieving these goals.

By providing regulatory support and facilitation, and expanding its presence in impact investing, the public sector has the potential to play a significant role in fostering growth in this area. The increased presence of the public sector can help to create a more favorable environment for impact investing, which in turn can encourage more investors to participate and ultimately spur growth in the sector.

Furthermore, there is also a need for education and training to drive the implementation of standardized measurement methodologies and convince organizations to actually utilize them.

Training would provide investors with the necessary skills to evaluate and manage investments effectively, while organizations can use measurement techniques to prove the effectiveness of their impact and attract more investments.

All these connections between drivers prove how one single action cannot hope to tackle every challenge the impact investing market is facing, but a bundle of solutions should be implemented to really make a difference.

6.3. Leveraging the drivers for the development of the market

In this final section of the discussion, all the information that was analyzed and reviewed until now will be used to propose solutions to the barriers that emerged from the collection of data.

Some of these proposals will revolve around the drivers proposed by the respondents, as it should be recognized that they are the most competent people regarding the subjects since they actually face those issues every day.

The main actions to undertake should involve those aspects that are considered barriers in most of the cases.

As it was often recalled in this thesis work, measuring and managing impact is a complex aspect, because it involves understanding multiple dimensions, stakeholders, and outcomes. There are various frameworks and tools available to measure and manage impact, such as Social Return on Investment (SROI), Global Reporting Initiative (GRI), and United Nations Sustainable Development Goals (SDGs).

Investors, however, have different preferences and priorities, leading to diverse impact frameworks and metrics. This results in a **lack of standardized impact measurement and management**.

In several cases, impact investors rely on self-reported data from investees, which can lead to subjectivity and bias. Limited data availability and quality can limit transparency and comparability across different investments. This makes it difficult for investors to assess the real impact of their investment and make informed decisions.

The lack of regulatory standards and guidelines on impact investing is what may have contributed to the current absence of a standardized impact measurement and management methodology. Without such standards, impact investors may continue to rely on their individual impact frameworks, and this runs the risk of leading to a lack of comparability and standardization across different investments, lowering their credibility.

Moreover, the **lack of transparency and impact measurement communication** should also be dealt with, especially since more than half of the participants of the study identified it as a challenge hindering the market's development and consequent growth.

If even a small part of the investment lacks in terms of transparency, whether it is the impact reported, the expected returns, or anything else, the investors will become less

interested to invest in the market. This is true since the main issue characterizing this type of investments is the fact that they are supposed to be impactful, and therefore make a difference, and improve someone's conditions.

In order to generate more interest in the topic, it is crucial to be as transparent as possible, because if it appears that some aspects are hidden, it may look like the investment is not as "good" as it is intended to be. Those who invest in impact investing are, at least partially, looking for the possibility to communicate to their stakeholders the fact they are participating in socially oriented investments, and that they are helping people and/or the environment, especially since this is becoming of great concern for the public.

To do so, the reputation of the investor must be extremely stable, as even a small scandal would make the entire investment look like just an attempt at impact or greenwashing.

Of course, all this transparency will also have to be communicated, disclosing the achievements and results of the investments, the impacts that the capital was able to achieve, and not just saying that the investment was "impactful."

But the question is: how is this achievable? Since the main issue revolves around the fact that the promised impact should be clearly measured – in a way that accurately demonstrates how the capital investment worked to achieve that impact – the starting point would be to have a standard in the measurement and management of impact. As it was evident from both the literature papers and the study participants' responses, this is a widely held view: a standard is needed.

However, although most people agree, there is currently no widespread standard.

From what interviewed stakeholders explained, one of the problems is that following any of the existing IMM initiatives step by step takes too much time and too many resources, especially considering that it is not a strict requirement. This is especially true with regard to social impact, while environmental aspects are usually reported according to popular standards.

There are mainly two differences between social and environmental impact:

1. Environmental impact measurements are increasingly required by regulations.

   If an organization is required to provide a certain measurement, this is certainly a motivation that leaves no room to avoid doing so.

2. Environmental aspects are easier to calculate.

   Although figuring out how much CO2 is being emitted by an organization requires managing data collection, having someone responsible for this

measurement, and calculating indicators based on this data, the formulas are well-defined and there is no possibility of confusion.

However, for what regards social impact, it is not that easy. There is no precise aspect that needs to be calculated every time; each social-oriented investment could have subtle differences that could completely change the standard indicator. In fact, many organizations interviewed explained that the indicators used were ad hoc for each individual investment.

Furthermore, the boundaries of the investment are not always clear-cut. For instance, if your investment involves constructing schools in a remote region with poor educational opportunities for children, it can be challenging to determine the extent of your impact. Where, precisely, does your contribution end? The impact that the organization believes it will have could be increasing the average level of schooling and the average age when starting to work. But it could also be the decrease in the number of girls getting married before a certain age, the number of new businesses opening in the area, the level of crime, etc.

All these are impacts that could result from the investment, however, there should be a boundary that determines what is the direct impact, and what cannot be considered as directly impacted by the initiative.

Nevertheless, these are aspects that have already been considered by scholars and experts in the field, leading to the creation of different methodologies, each with its own pros and cons.

The **lack of demonstration and/or comparability of impact measurement** in the impact investing market is another problem connected to this, because it hinders the ability of investors to make informed decisions.

Without clear and reliable information on the impact of investments, investors cannot accurately assess the social and environmental implications of their choices. This can lead to misaligned expectations between investors and investees, as well as a lack of accountability for impact performance. Additionally, without standardized measurement methods and reporting frameworks, it is difficult to compare impact performance across investments, making it more challenging to identify and invest in high-impact opportunities.

As long as organizations are free to choose which IMM initiative to implement, if any, most will continue to superficially use what seems to be easiest for them for the particular investment, which often seems to be simply some indicators.

It is crucial, therefore, to create a system of regulations that forces, in a way, organizations to actually measure and manage the impact. To decide which standard to use, an idea could be to have the European Union determine which of the available initiatives should be followed, while keeping the others as secondary measures. Indeed, it is evident that when an institution is in control of creating a tool (it could be for measuring as well as communicating), people are more willing to follow it, as the feeling is that it would have international worth.

For example, ever since the United Nations brought forth the SDGs, organizations operating in the sustainable sector have adopted them as a measure of their global impact, strategically referencing them in their reports and communications with stakeholders.

Additionally, more organizations should have their social and/or environmental impact validated by an external auditor, as this would add even more credibility to their measures.

Other issues in terms of credibility are connected to the practices of **white and green washing**, which consist in exaggerating or making false claims about the social or environmental impact of investments. One of the main reasons behind this problem is the lack of clear standards and regulations that can effectively measure and manage the impact. This creates an environment where investors and organizations can make unsubstantiated claims without fear of repercussions or scrutiny.

To address this issue, it is necessary to establish a system of regulations that enforces the use of credible measurement systems and requires independent auditing of impact measurements. By doing so, organizations will be held accountable for their impact claims and investors will be able to make more informed decisions. Additionally, the adoption of a unified global standard for impact measurement can be helpful in reducing the confusion and complexity surrounding the current landscape of impact measurement initiatives. This could be achieved, as previously stated, by having a reputable organization, such as the European Union, determine which initiative should be followed and recognized as the industry standard.

Moreover, to demonstrate that impact is indeed an important part of the investment and not just a way to attract capital and attention, it is critical to focus on how the impact achieved can be retained after exiting the investment.

This should be done in different ways:

- By inserting impact considerations in the mission of the investee.

  The mission is the heart of the organization; if impact is not a vital part of it, it will not be a vital part of the investment first, and future activities later.

Although it is not an accurate indicator of an organization's true intentions, it is still important to consider.

Moreover, from the investor's perspective, investing in an organization that is not clearly focused on impact would not seem consistent with the investor's impact investing goal.

- By selecting only investees that have social impact embedded in their business model.

  In the same way that impact should be integrated into the invested organization's mission, it should also be embodied in its business model and everyday practices.

- By selecting like-minded follow-on investors.

  To help with the transition at the end of the investment, it would be helpful to guide the organization in selecting follow-on investors to ensure that the work done has a future and is not abandoned in the past.

  This could be done by giving guidance to the organization on which investors are asking to start the next investment, or even turning to the investor network to find other investors with similar goals.

- By creating a relationship with the investees that lasts longer than the investment.

  In order to ensure the impact remains intact, it is essential to maintain contact even after divesting from the investment. Though it may require allocating resources, this effort can prove beneficial as it affords the chance to monitor impact retention. Additionally, upholding such a practice would serve to illustrate the organization's deep commitment to the value of impact to other potential investors and stakeholders, thereby enhancing its reputation in the industry.

To date, there is still much **confusion about exactly what the impact investing market truly is** and how it works. This uncertainty is often attributable to a lack of effective communication and a **lack of adequate public sector support**.

First of all, it is important to note that impact investing is not a monolithic industry, but rather a range of solutions that aim to generate positive social or environmental impacts along with a return on financial investment. This means that financial products that fall into this category can differ significantly from one another. This

diversity can be confusing, as people often misinterpret the concept of impact investing and its value in terms of financial return.

In addition to this, there is also the observation that communication about impact investing may be insufficient to fully explain the value and goals of the field. While the public is beginning to understand the potential of this type of investment, very often the lack of sufficient information can be a significant obstacle.

In addition, the sector is still relatively new, which means that people may feel uncertain about the risks involved, and therefore may not invest simply due to a lack of concrete information.

The public sector could play a crucial role in the promotion and dissemination of impact investing. Increased public attention could prompt more attention from public institutions to the potential benefits of these investments, as well as provide incentives that could increase investor interest. In particular, increased standards and regulations for investors in this sector could provide greater security and reliability.

Actors operating in the sector explained that while impact investments will continue to be the decision-makers in the industry, the role of the public is crucial in order to boost the development of the market. For instance, in countries such as the Netherlands and Belgium, where the government encourages the development of the sector, the impact investing industry is actually blooming. The importance of the role of the public in Belgium, for example, can be seen by the fact that more than half (55%) of the funding for impact investments comes from state or local public funds, while, when considering the same period, in Italy this source of fund only represents the 5% (Gaggiotti & Gianoncelli, 2022).

In essence, the current confusion in impact investment markets is the result of a number of interconnected and interdependent factors. More (adequate) communication and greater public attention could help clarify the contours of a rapidly evolving sector and increase investor interest, resulting in a new financial paradigm that places not only profit, but also social and environmental impact, at the center.

Another aspect that is crucial to address is the **insufficient management capabilities of (potential) investees**. How can an investor devote capital, time and resources investing in an organization that is not able to manage what it receives? When focusing on market growth, it is important to remember that all the constituent parts of the market must be able to sustain that growth. From what those who work with impact investing report, the general idea is that invested organizations usually lack the capacity and expertise to manage the investment.

In some cases, such as the situation that foundation F7[11] reported, when the injection of capital is sudden and out of proportion, as in some cases it happened with the PNRR program, the organizations do not have the time to adapt and acquire the necessary capacity.

But what about other situations? What about when the investment is sought by the organization and is planned? In this case, the organization should have prepared for it. However, evidence shows that this is not always the case.

Training is obviously the main aspect that could help improve these capabilities. Although some organizations among those that participated in the research already grant this kind of non-financial support, it seems that not enough organizations provide it, or it is not done in the most efficient way.

To remedy this problem, an assessment of the management capabilities of potential investees should be conducted, followed by a proposal for a step-by-step training program, accompanied by "tests" to check the organization's progress. If the potential investee accepts the proposal, the training program and related tests are included in the definition of the investment. In the event that the organization does not keep up with the program (which, of course, must be consistent and not exaggerated), the investor has the right to exit the investment before the deadline. This would push the organization to work harder on training and improvement, since the capital received depends on it.

Turning now to investors in the impact investing market, the widespread feeling is that there is a certain **lack of understanding of potential investors**, the study found.

The main reasons behind this problem appear to be the following:

- Lack of awareness, skepticism about returns and limited information.

  Many investors may simply not be aware of the concept of impact investing or do not fully understand the scope and potential of this market. They may be hesitant to invest in impact because they believe that social and environmental goals may come at the expense of financial returns, especially since there still are some organizations that currently operate in the impact investing industry that share those same thoughts.

[11] See section 6.1.
Foundation F7 explained that there are territories that never received funding, are now inundated with capital thanks to the PNRR, but they are not able to deal with it.

This lack of understanding can prevent investors from seeing the potential returns generated by investments in companies with strong social and environmental goals.

Furthermore, the fact that the impact investing market is still relatively new, often leads to limited information available on the performance and impact of different investments. This can create uncertainty and skepticism among investors, who might decide not to go further with their approach to this industry.

- Complexity of the market.

  Impact investing can be a complex market with different investment vehicles, metrics, and impact measurement tools, which sometimes can be difficult for investors to navigate and understand.

  Moreover, some investors may be hesitant to invest in impact because there is a limited track record of successful impact investments. This lack of understanding can prevent investors from seeing the potential long-term benefits of impact investing.

Connected to this need for specialized knowledge and expertise about impact investing, which many traditional investors may not possess, there is the issue of the **lack of intermediary structures and specialized investors**.

This is a problem for impact investing because it makes it much more difficult to connect potential impact investors with the appropriate impact projects and organizations that require funding. Impact investing lacks the established infrastructure found in traditional investing, which typically includes intermediaries such as banks, brokers, and investment funds. Without the presence of these intermediaries, it can be hard for investors to find impact projects that align with their values and investment goals.

In order to address these issues, some actions that could be taken in order to tackle the problem would be:

- Provide clear and comprehensive information.

  Investors may lack an understanding of impact investing due to a lack of clear and comprehensive information. Therefore, the currently existing impact investing organizations and intermediaries could provide easily accessible information about the opportunities and potential returns of impact investing.

Financial intermediaries like banks and investment funds often have a better understanding of the investment market. Thus, impact investors can collaborate with them and provide information about impact investing to enhance their knowledge about the market. This can help create opportunities for financial intermediaries to offer impact investment products to their customers, increasing the pool of impact investment funds.

Impact investment firms and intermediaries can also actively engage with the wider investment market to share their knowledge on impact investing. Engaging with industry players such as governments and regulatory bodies can also help promote awareness of the positive impact of investment while making the sector more accessible to new investors.

- Educate Investors.

  Investors are also likely to lack an understanding of impact investing because they have not received adequate education on the subject.

  To address this challenge, impact investment managers could organize seminars and conferences to educate potential investors about the benefits of impact investing. One of the key features of such events should be the emphasis on case studies of successful impact investments.

  By displaying examples of real-world successful impact investing projects, the potential investors can gain insights into the technologies, industries, sectors, and regions that have strong potential for positive social and environmental impact.

Despite the growing interest and investment in the impact investing market, the **regulatory framework** that guides and supports these investments has yet to be fully developed. This lack of regulatory guidance poses a challenge for investors and businesses in this space, as they are often left to navigate complex and uncertain legal and regulatory environments which can lead to barriers to entry, constraints on growth, and increased risks.

There are a few potential reasons why the regulatory framework could be problematic for the development of the impact investing industry:

1. Complex regulations

   The regulatory framework can be intricate, making it difficult for investors to navigate and comply with existing regulations.

Not only this is a problem because it is complicated, but this also leads to having to dedicate more time to the issue; in particular it is time that could be more useful and profitable elsewhere.

2. Different regulatory jurisdictions

   The impact investing industry operates in different jurisdictions, and each may have its own regulatory framework.

   This can create confusion for investors who want to invest across borders, and they may either have to limit their investments to one jurisdiction or spend significant amounts of time and money navigating the regulations in different countries.

   This is particularly interesting for the Italian impact investing market, as from the study's results, it can be noted that most Italian impact investors are currently focusing only on the Italian territory, often in the local region where they are based, where they have the most knowledge on both the issues but also the regulations. If the regulations across borders become less complicated to navigate, more attention would be put on the market, as more Italian organizations would start looking to diversify their portfolio and their activities, by trying to spread their impactful actions internationally.

   Indeed, while some societal problems can be typical of a certain area, in most cases, the same issue can be found elsewhere, maybe in faraway places. Therefore, if an organization is being successful in an investment that is solving a certain problem in Italy, it would probably be just as successful in a different country experiencing the same situation.

3. Limited incentives

   Limited incentives for companies that want to invest in social or environmental causes can be another problem, as there are often few tax incentives or other benefits for social enterprises seeking to invest in socially responsible projects. This lack of incentives may discourage some investors from investing in impact-focused projects.

   However, as it was previously discussed, during the conducted study this issue emerged several times, with organizations generally splitting into two main categories: those who believe that this truly represents a huge obstacle to the development of the market and those who recognize the impact of this barrier but do not believe it to be as crucial as other challenges.

Once these regulatory gaps in the impact investing industry have been identified, there are several strategies that can be adopted. They are described here below.

1. Collaboration and coordination.

   To address the regulatory gaps the impact investing industry needs to collaborate with regulatory bodies to design a regulatory framework that fosters impact investment. This collaboration will make it easier for the industry to comply with regulations and promote the industry's growth.

2. Tailored regulations.

   A "one size fits all" approach to regulation might not be effective for the impact investing industry. Tailored regulations can assist regulatory bodies to align with the distinctive features of the impact investing sector.

3. Encourage dialogue and information sharing.

   Encouraging dialogue and information sharing between various stakeholders in the impact investing industry and regulatory bodies will create an opportunity to address the regulatory gaps. This dialogue can potentially lead to regulatory frameworks that align impact investing principles with business objectives.

4. Impact reporting and standardization.

   An essential component of impact investing is to measure impact. Creating a mandatory impact reporting framework can help in addressing some of the regulatory gaps. This framework would ensure that impact investments deliver on social and environmental promises.

   In addition, standardizing the regulatory framework can make it easier for investors and regulatory bodies to get to understand the industry. This approach would streamline the regulation processes stimulating and increasing investor participation in the impact investing market.

Another reason why investors might have some second thoughts about investing in social purpose organizations relates to the **inadequate financial structure** of the impact investing market.

An inadequate financial structure of the impact investing market, indeed, causes the market to lack the mechanisms, tools, and means to enable impact investors to make impact investments in a scalable and sustainable manner. This manifests itself in

several ways, including limited access to capital, lack of standardization and transparency of impact metrics, illiquidity of impact investing, absence of regulatory frameworks, and insufficient knowledge and skills among investors and asset managers.

In essence, an inadequate financial structure first and foremost undermines the growth and effectiveness of the impact investing market, but also limits the ability of impact firms to access the capital they need to grow and scale their impact. Therefore, addressing the financial structure of the impact investing market is critical to unlocking its full potential to drive positive change both in society and the environment.

Along with standardization and collaboration, supporting the development of local capacity and expertise in impact investing can help build a stronger and more sustainable impact investing ecosystem.

One of the issues leading to the inadequate financial structure of the impact investing market is related to the lack of large funds, which would attract more investors. It should be considered, though, that larger funds mean increased complexity, which relates to several factors, such as the **complexity of the business models of potential investees**. Nevertheless, this aspect has been underreported and not given much attention compared to other barriers to impact investing. Most respondents, in fact, believe that this barrier is not critical and can easily be dusted off.

However, it must be acknowledged that in the current economic climate, the business models of potential investees have become more complex and as a result, impact investors are finding it increasingly challenging to navigate through the intricacies of these models.

Yet, it is important to note that the complexity of a business model does not necessarily equate to a loss of opportunity for impact investors. By increasing their managerial skills and knowledge, impact investors can effectively manage the complexities of these models. Through collaboration with the investee, they can identify areas of potential growth and develop strategies to seize such opportunities.

Furthermore, regarding the barrier "**distrust and lack of investor interest**", even though the participants of the study did not report it as the most crucial barrier, it still hinders significantly the growth of impact investments. Investors often face apprehension while investing in a new venture, especially when it is about investing for creating greater social impact. They fear mismanagement or inadequate returns that may result from unconventional investment methods.

However, this barrier could be overcome by a series of steps that could alleviate investors' fears and build trust between investors and investees. Firstly, transparency between them is essential. Investors should have access to all information pertaining to the intended area of investment. It includes the financial statements, potential risks, growth prospects, action plans, and other requisite documentation. The information should be available and accessible to the investors even before deciding to invest. Moreover, engagement with investees is crucial. Regular meetings, interactions, and discussions on project accomplishments, challenges, and future directions help establish a clear understanding of the venture's progress. Frequent interactions prevent surprises, and the investors feel more involved and invested in the project's success. Finally, involving third-party professionals is beneficial. Independent evaluators or social impact analysts could provide objective feedback on the venture's progress, making investors more confident in their investment decision. Their guidance and analysis also help identify areas of improvement, further instilling investor confidence.

The problem of trust existing between investors and investees is often present in the relationship between asset owners and asset managers too. The characteristics of this relationship have changed and evolved in the impact investing market, compared to traditional finance.

In the past, asset owners, such as pension funds, insurance companies and real estate funds, tended to delegate the management of their assets to asset managers, leaving them responsible for investment choice and portfolio management. Today, however, asset owners have become increasingly active in managing their assets and expect asset managers to provide them with more information and transparency on how their money is invested. Moreover, with increased competition and growing pressure to keep costs low, asset managers now have to demonstrate their added value and ability to generate higher returns than the market. This means that asset managers must be able to provide detailed information on their investment processes and past performance and demonstrate how they differentiate themselves from the competition.

In impact investing, the asset owner takes on an active role in shaping the impact of their investments. They are not content simply waiting for financial returns to accrue, instead, they seek out opportunities that will have a positive impact on society and the environment. This ethical aspect is just as important to impact investors as the contractual aspect, which sets out the terms and conditions under which the investment is made.

Therefore, the concept of impact investing creates a positive change in the relationship between asset owners and asset managers as it allows them to work together to

generate a positive social and environmental impact and achieve a sustainable future. The issue of trust gains even more significance as the relationship between the asset owner and the asset manager transforms from one of mere delegation to one that is more collaborative, relying heavily on mutual trust.

Remaining in the theme of the relationship between asset owners and asset managers, there are some barriers out of the ones emerging from the data of this study that are usually more typical of one category rather than the other. Both asset owners and asset managers may struggle with transparency and communication of impact measurement, insufficient management capacity of investees, confusion about what impact investing really is, lack of standardized impact measurement, and complexity of business models of investees.

However, asset managers may have a greater influence on the regulatory framework, brokerage structures, and specialized investors, as they are more directly involved in investment decisions and can advocate for changes in regulations and market structures. On the other hand, asset owners may have a greater influence on the need for adequate public sector support and the creation of adequate financial structures, as they are often the ones providing the capital for investments. These different influences should be considered when implementing the actions proposed in this dissertation.

To conclude, in the following list, a summary of the proposals to tackle the challenges presented in this dissertation is provided.

- Standardized impact measurement and management is a must, particularly for the measurements regarding social impact. A unified global standard for impact measurement should be established to reduce complexity and confusion surrounding impact measurement initiatives and to increase investor participation and understanding of the topic.
- Regulations should be established to make impact measurement and reporting mandatory, and external validation of impact claims should be encouraged.
- Impact should be integrated into the mission and business models of investees, and a long-lasting relationship with them should be established to ensure impact is maintained.
- Since the public sector can play a significant role in promoting and disseminating impact investing and increasing standards and regulations., more communication and public attention are needed to reduce

misunderstandings about impact investing and increase investor interest. Government support, as seen in countries like the Netherlands and Belgium, can encourage the growth of impact investing.

- Training programs are necessary for organizations lacking the capacity to manage impact investments. Assessments of management capabilities and step-by-step training programs should be proposed, and investors should include training as part of the investment to encourage progress and improvement.

- Potential investors in impact investing lack understanding and awareness of the market, therefore clear and comprehensive information, education, and engagement with governments and regulatory bodies are needed to address these issues and promote awareness of the positive impact of an investment.

- Investor distrust and lack of interest can be overcome with transparency, engagement, and involvement of third-party professionals. Moreover, as far as the relationship between asset owners and asset managers is concerned, asset managers can advocate for changes in regulations and market structures, while asset owners can push for adequate public sector support and the creation of proper financial structures.

- The inadequate financial structure of the impact investing market is a significant barrier to investors, and addressing this issue is critical to unlocking the true potential of impact investing. Collaboration and coordination, tailored regulations, and increasing managerial skills and knowledge can help overcome these barriers.

As was previously explained, one single action cannot be considered enough to solve all the issues hindering the growth of the market. For this reason, there is not a single revolutionary solution, but a collection of several smaller actions that, together, will help the impact investing industry to develop.

These considerations are related to the Italian context, as the barriers that were selected and subsequently considered for the study were provided by Italian actors. This, however, does not exclude the possibility that some activities, if not all, could be beneficiaries for other countries as well, as many of these challenges have been studied by literature studying the global market as well as the Italian context. In those cases, though, a more accurate study of the specific barriers should be put in place, since each country might have a more specific challenge as the most limiting to the growth of the market.

7 Conclusive overview

7.1. Conclusions

The aim of the present dissertation was to study the Italian impact investing market to understand what are the aspects that are hindering the development and growth of the industry. The desire was to propose solutions to these challenges in the hope of providing support to the actors operating in the market.

The focus on the Italian context was dictated by the fact that, in comparison to other European countries, such as Belgium and the Netherlands, the nation presents a much smaller impact investing industry. Despite a demonstrated willingness to support the community and the environment through numerous philanthropic organizations operating within the territory, the impact investing landscape of Italy remains relatively dormant.

The review of the literature on impact investing allowed us to study the characteristics of this type of investments, from its definition and misconceptions to the various actors involved in the industry. Our research revealed a considerable number of barriers limiting the growth of the market, first at a global level and then more specifically in Italy. As a result of this discovery, we decided to concentrate our efforts on comprehending the characteristics behind these barriers and how to overcome these challenges.

To conduct the empirical study for this dissertation, we decided to analyze the data relative to the Italian participants of a survey developed in an effort to create a comprehensive overview of the European market. The survey results were complemented by desk research and by the responses resulting from in-depth interviews, carefully designed to deepen the concepts emerging from the survey's results. To make this possible, several actors that operate in the Italian impact investment industry were involved.

Through our discussion with Italian impact investing practitioners, we were able to identify the key challenges facing the market. Among the most cited barriers were the lack of transparency and/or impact measurement communication, the insufficient management capabilities of (potential) investees and limitations within the regulatory

framework. Moreover, the research participants reported many other issues working against the growth of the market – some related to these challenges, some completely different. An important consideration relates to the fact that most of these barriers found correspondence in the content of the literature, as the majority had been already reported by the scientific papers analyzed.

The examination of scientific literature and interaction with Italian players operating in the impact investing market allowed us to identify some possible actions that could be applied to address these issues. Some of these drivers are the creation of a global standard for impact measurement, the development of regulations that make impact measurement and reporting mandatory and the training activities to implement to support the invested organizations.

It should be noted that the different drivers that should be implemented are intricately linked to one another, as no single action can be *the* solution to solve the multitude of complex challenges at hand.

The current study has a dual contribution. On the one hand, it provides an updated view of the Italian impact investing market, with particular attention to the barriers to the growth of the industry and the drivers that could help overcome them. On the other hand, it draws upon both expert insights from those operating in the industry, which have the most knowledge on everyday issues, and academic literature to propose actionable strategies for addressing the challenges faced by the market.

To conclude, this dissertation aims at supporting Italian practitioners in the development of a more advanced impact investing market, while also providing a comprehensive snapshot of its current status.

7.2. Limitations and avenues for future research

In the hopes that academic research will be interested in a further investigation of what is impeding the growth of the impact investing market and how these problems can be solved, this very last paragraph will be devoted to describing the limitations that this study revealed and the potential ways to overcome them.

The first limitation regards the low number of papers specifically addressing the barriers to impact investments. Often the topic is just one of the aspects that studies reflect on, without really deepening the subject to understand what lies behind it.

Moreover, papers usually talk about barriers in general, without really considering differences that could be dictated by the context, as not in every country, or region, the situation will be the same.

The qualitative character of the data acquired has also been a limitation since it prevented the use of rigorous quantitative procedures, which have long been thought by many academics to be the only ones capable of producing conclusions that are compatible with science.

The contribution given through this study is made possible, among others, by the market players' interviews. In this regard, the small number of organizations examined may be a potential weakness of our investigation, together with the fact that only the Italian situation was considered. Including in the research other countries with different experiences would have enriched the research, providing different points of view on the challenges and the possible drivers.

The limitations of the study suggest potential avenues for future research on barriers to impact investing.

Expanding the study to include international countries with varying impact investing landscapes could provide valuable insights. Examining mature and emerging markets together would be particularly informative in determining how distinctive characteristics influence impact investing success rates.

Incorporating national contexts such as institutional, cultural, and political backgrounds, as well as the challenges and strategies that must be employed, would further enrich the analysis.

Exploring both European and non-European markets would also be worthwhile to evaluate the role of the EU in facilitating market growth.

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A Appendix A – EVPA survey

EUROPEAN IMPACT INVESTMENT SURVEY

INTRODUCTION

Instructions and consensus

The purpose of this study is to collect data on European Impact investment. This study is being conducted by a consortium of networks and research institutions and will be conducted online.

If you agree to be in this study, you will be asked to do the following:

- Participation in this research is voluntary and you may withdraw from it at any time.
- By completing this questionnaire, you give consensus to share your data with EVPA and, if you are based in one of the countries listed below, with its national partners:
    - Spain: SpainNAB and Esade Center for Social Impact
    - Italy: Social Impact Agenda per L'Italia and Tiresia – Politecnico di Milano
    - France: FAIR
    - Belgium: King Baudouin Foundation and Solifin
- EVPA and all its partners commit to treat data confidentially. Confidentiality of your research records will be strictly maintained by ensuring all data is kept secure, and only the primary investigator and the research team will have access to this data. This means that nobody else will have access to your data at any point during or after the study. Furthermore, we will only publish aggregate data.
- If you have additional questions or wish to report a research-related problem, you may contact the primary investigator, EVPA, via email at knowledge.centre@evpa.ngo
    - By ticking the selection below, you are agreeing to participate and that you have read, understood, accept and will comply with the instructions, terms and conditions stated above and throughout this research.
- I agree

SCOPE

Q0. Before starting the questionnaire, we need to ensure your organization is on scope for this study. Does your organization make or manage investments* that intentionally seek to generate positive measurable social or environmental impact along with a financial return (at least recuperation of capital)?

> * Remember that "investment" covers the different instruments used (equity, debt, etc.)

In case 'No' was selected:

Q0.1 Are you thinking to start impact investment activities in the future?

- Yes, we have already developed a strategic plan
- Yes, but we have not developed a plan yet
- No, but we would be interested to start thinking about it
- No, and we are not interested in it

Q0.2 What are the barriers that hindered your impact investment activities?

- Macro-environment:
    - Regulatory framework
    - Lack of intermediary structures
    - Problems regarding Impact/Green Washing
- Capacity/expertise:
    - Insufficient management capabilities of (potential) investees
    - Lack of understanding of (potential) investors
    - Complexity of business models of (potential) investees
- Impact Measurement and Management:
    - Lack of standardized impact measurement and management
    - Lack of demonstration and/or comparability of impact measurement
    - Lack of transparency and/or impact measurement communication
- Other: ___

Thank you very much for your interest in completing the European impact investment survey!

GENERAL INFORMATION

Q1. In which country is your organization based?

Q2. How would you classify your organization?

- Business angel
- VC/PE impact fund manager
- Private financial institution (including traditional banking and ethical banking)
- Insurance company or pension fund
- Microfinance institution
- Crowdfunding platform
- Foundation
- Family office
- Listed company investment fund manager
- Development finance agency or entity
- Public financing fund or entity
- Incubator and Accelerator
- Other:______

Q3. Do you invest directly or indirectly in social purpose organizations? (multiple choice)

Definition: Social purpose organizations (SPOs) are organizations where one of the main objectives is to achieve measurable social and environmental impact, and can be revenue generating or not. SPOs can include charities, non-profit organizations and social enterprises.

- Direct investment (managed by the organization itself i.e., your office manages investments in SPOs)
- Indirect investment (i.e. your office invests or channels through third-party funds/programs managed by third parties that invests in SPOs).
- Commercialization of impact investment funds managed by others (i.e., your office commercializes funds managed in other countries or by other organizations

In case:

- only ‘Commercialize impact investment funds managed by others’ was selected or
- ‘Commercialize impact investment funds managed by others’ AND direct was selected in Q3

go directly to Q7 and end the survey.

In case ‘Indirect investment’ was selected in Q3:

INDIRECT INVESTMENT AND COMMERCIALISATION

For Q4:Q6 consider only your indirect investments (i.e. your office invests or channels funds through third-party funds/programs that invest in SPOs).

Q4. Please indicate the volume of impact investment you make/channel through funds/programs managed by third parties.

Q5. To what type of investees do these third-party funds/programs channel your impact investments? Please split your indirect investments (in %) among the following categories:

- Investees that use social and/or environmental data to maximize financial value in the medium and long term.
- Investees that exclude activities with negative effects for people and/or the planet.
- Investees that work to generate positive effects for people and/or the planet.
- Investees that contribute to solving specific social and/or environmental challenges that affect otherwise underserved people and/or the planet.
- We are not able to retrieve this information

Q6. Where are the funds/programs you invest in managed? (multiple choice)

- Our own country
- Other European countries
- Other developed countries
- Developing countries

Q7. OPTIONAL What are the names of the main funds/programs managed in Europe in which you invest or that you commercialize from your office, and which organization(s) manage(s) them? We might invite them to take part in the study.

In case only 'Indirect' or only 'Commercialized' was selected in Q3.: You have finished the European impact investment survey! Thank you for your contribution!

INVESTMENT VEHICLES

In case 'direct' and "indirect" and/or "commercialized" was selected in Q3.:

To avoid double counting, please answer the remaining questions considering only the direct investments in SPOs that you make or manage. Please do not provide any further information about your indirect investments or about investments you commercialize but do not manage. We will collect further data from the relevant third-party investment managers.

Please note that from now on the term "vehicles" refers to funds/programs or other impact investment vehicles managed by your organization.

Q8. How many funds, programs or other impact investment vehicles does your organization manage? (max 5)

Include only funds/programs/vehicles that make direct investment in social purpose organizations, managed by the organization itself.

Note: In case you have all resources grouped together, without differentiating between different funds, programs, please insert "1"

In case 'We manage more than five vehicles" was selected in Q8 display the following message and end the survey:

Thank you very much for your interest in completing the European impact investment survey! If you confirm to have more than five vehicles please submit your answer and you will be contacted for further support from our team. Thank you for your contribution!

Q9. Please name the impact investment vehicles that were active during the last fiscal year.

Note: In case you have all resources grouped together, without differentiating funds/programs with names, you can put the name of the organization in "Vehicle 1".

Q10. OPTIONAL Please report the start date(s) and if applicable end date(s) of the impact investment vehicle(s)?

INVESTMENT STRATEGY

Q11.1. In what type of investees does each vehicle invest? Please select the category that represents the majority of your investments.

- Investees that use social and/or environmental data to maximize financial value in the medium and long term
- Investees that exclude activities with negative effects for people and/or the planet
- Investees that work to generate positive effects for people and/or the planet
- Investees that contribute to solving specific social and/or environmental challenges that affect otherwise underserved people and/or the planet

Q11.2. If you are using (or planning to use) the classification of the EU's Sustainable Financial Disclosure Regulation, how do you characterize your investment vehicles?

- Article 6 (do not integrate sustainability)

- Article 8 (“a financial product promotes, among other characteristics, environmental or social characteristics”)
- Article 9 (“a financial product has sustainable investment as its objective”)
- We don’t know
- We are not using it (or planning to use it in the near future)

Q12. In terms of financial return and social impact, what is your priority?

Note: we purposely use the term “social” for the sake of simplicity, but the accurate term would be “societal” because the impact may be social, environmental, medical or cultural.

- Financial return is a clear priority
- Financial return and social impact are equal priorities
- Social impact is a clear priority

Q13.1. If your investees did not receive your funding, then in general:

- They would probably find funding elsewhere, under similar conditions
- They would probably find funding elsewhere, but on less favourable terms
- It would be very difficult for them to find funding

In case the third option in Q18a. was selected for at least one vehicle

In case the third option in Q13.1. was selected for at least one vehicle

Q13.2. OPTIONAL Could you briefly explain why?

RESOURCES AVAILABLE

FINANCIAL RESOURCES

Q14. What is the amount of capital under management?

Capital under management includes both capital invested/lent and capital available to be invested/lent with the intention of generating social or environmental impact along with a financial return

Clarifications:

- For a fund, this would be the "assets under management".
- For a bank, it would include the outstanding portion of loans (outstanding portfolio) and the total amount of loans under management.

Q15. What is the amount of capital invested?

That is, of the amount of capital under management, how much of it has been invested into organizations, projects, people and/or assets with the intention of generating a social or environmental impact along with a financial return?

Clarifications:

- For a venture capital fund, this would be the volume of the portfolio.
- For a bank, it would include the outstanding part of the loans (outstanding portfolio) and the total amount of credit policies (the same amount as in the question on managed capital).

Q16. Per each vehicle, please estimate what percentage of the capital under management reported was provided by each type of funder or source:

- Individual investors (retail / mass merchandising)
- Individual investors (high net worth / merchant banking)
- Institutional Investors
- Corporations
- Private equity/venture capital firms
- Hedge Funds
- Foundations
- Financial Institutions
- State or local public funds
- Multilateral Organizations (eg. World Bank, IADB, etc)
- EU funding
- Income from own endowment or trust
- Recycled returns from previous investments
- Other, please specify
- Not available

Q17. Per each vehicle, please indicate the percentage of the capital under management through each type of asset:

- Private equity
- Public equity
- Private debt
- Public debt
- Real assets
- Deposits or cash equivalents/monetary assets
- SOC (e.g. SIB/DIB)*
- Other (please specify using comment box)
- Not available

**SOC: Social Outcomes Contracting; SIB: Social Impact Bond; DIB: Development Impact Bond*

Q18. OPTIONAL Please indicate which of the following hybrid financial instruments you deployed in last fiscal year? (multiple choice)

- Mezzanine finance
- Convertible loans (or convertible debt)
- Soft loans
- Revenue sharing agreements (or royalty-based financing)
- Forgivable loans
- Other
- None of the above

Q19. Per each vehicle reported, please indicate the management fees charged to the funders.

Q20.1. Compared to the risk-adjusted 'market' rate of return, the expected financial return on each vehicle is:

- Far superior
- Somewhat superior
- Similar
- Similar though we offer conditions that are more flexible than our competitors
- Somewhat lower
- Much lower (near capital preservation)
- We expect negative financial returns

Q20.2. OPTIONAL Per each vehicle, thinking about financial return:

(a) What was the financial rate of return that has been expected?

(b) What was the financial rate of return that has been achieved?

Q21. Per each vehicle, what is your min, max and average investment size in terms of direct financial support per investee?

STRATEGIES IMPLEMENTATION

INVESTMENT FOCUS

Q22. For each vehicle, out of the capital invested reported, please estimate the distribution (in %) of this amount according to the types of organizations that you supported:

- Non-profit without commercial activities
- Non-profit with commercial activities

- For profit enterprises with social mission with profit lock
- For profit enterprises with social mission without profit lock
- Traditional businesses with intentional social impact
- Not available

Q23. Per each vehicle, looking at the different stages of development, what is your target? (multiple choice)

- Incubation - Pre-seed
- Start-up - Seed
- Validation - Series A
- Growth – Series B
- Maturity - Series C

Q24. Who are the ultimate targets (final beneficiaries) of your investees? (multiple choice)

- No set criteria (Exclusive category)
- Children and youth (including teens, NEETs, etc.)
- Elderly people
- Women
- People with disabilities
- People with diseases (either mental or physical)
- Re-offenders
- Migrants, asylum seekers and/or refugees
- Unemployed people
- Minority ethnic communities
- People in poverty
- People who have experienced crime or abuse
- People who are homeless
- Environment
- Other, please specify:_________________

Q25. Per each vehicle, please estimate the distribution of the total capital invested (in %) of this amount according to the sectors below:

- Culture and Recreation (Culture, Arts, Sports, Other Recreation and Social Clubs)
- Education (Primary, Secondary, Higher, Other)
- Employment
- Research
- Health (Hospitals, Rehabilitation, Nursing Homes, Mental Health/Crisis Intervention)

- Social services (Emergency, Relief, Income Support/Maintenance)
- Environmental protection (forestry, land, waste, air, biodiversity & ecosystems, oceans and costal zones)
- WASH (Water, sanitation, and hygiene)
- Agriculture
- Energy (Access to energy, Renewable energy)
- Housing
- IT/Technologies
- Manufacturing/production
- Urban regeneration / territorial development
- Financial inclusion and access to finance (ie. microfinance, microinsurance, financial education services, banking).
- Other (please specify using comment box)
- Not available

Q26. Which are the Sustainable Development Goals (SDGs) targeted by your organization?

Q27.1. In which world regions are your assets invested? Please estimate the distribution of the total capital invested (in %) among the regions you invested in:

In case 'Europe' was selected in Q27.:

Q27.2. Out of the %__ capital invested in Europe, please specify the distribution of this amount in each country.

INVESTMENT PROCESS

Q28. Per each vehicle, what is the average duration of your investment commitments (number of years) for the investees in your portfolio?

- <= 2 years
- 2-4 years
- 4-6 years
- 6-8 years
- 8-10 years
- 10+ years

Q29. Per each vehicle, how many investees you supported?

- Number of investees at 30 December 2021
- New investees in fiscal year 2021
- New investees foreseen in fiscal year 2022

Q30. OPTIONAL Which channel(s) do you use to search for investees? (multiple choice)

- Proactively
- Applications
- Ecosystem

Q31. OPTIONAL Which selection criteria for screening do you use? (multiple choice)

- No criteria
- Composition of the team
- Governance practices that include a variety of stakeholders
- Fair employee policy
- Impact measurement and management system in place
- A clear mission/intention to generate social or environmental impact
- Potential for profitability
- Potential for scalability/replicability

Q32. OPTIONAL In which types of collaboration have you engaged in the past? (multiple choice)

- We have never engaged in these forms of collaboration
- Hybrid financing mechanisms
- COLLABORATION
  - with public financing fund or entity (excluding co-investment)
  - with academics
  - with incubators and accelerators
  - Other, please specify: _____
- CO-INVESTMENT
  - with foundations
  - with impact funds
  - with financial institutions
  - with VC/PE impact fund managers
  - with traditional VC/PE fund managers
  - with corporations
  - with public financing fund or entity
  - with microfinance institutions
  - with other, please specify: _____
- Other types of collaboration, please specify: _____

Q33. OPTIONAL Per each vehicle, please specify how many investments you exited in the last fiscal year.

Q34. How do you make sure that the impact of your investment is preserved after your exit? (multiple choice)

- We do not take any specific action to make sure the impact is preserved
- Inserting impact considerations in the mission of the investee
- Selecting only investees that have social impact embedded in their business model
- Selecting like-minded follow-on investors
- Other, please specify: ___________

Q35. OPTIONAL To whom have you exited in the past? (multiple choice)

- We have never exited any investment
- Foundations
- Impact funds
- Financial institutions
- Venture capital/private equity investors
- Corporations
- Public funders
- Initial Public Offering (IPO)
- Commercial investor
- Other social enterprises
- The investee bought back the shares
- The investee paid back its liabilities
- Other: ______________

IMPACT ACHIEVEMENTS

IMPACT MEASUREMENT AND MANAGEMENT

Q36. If you measure the social and/or environmental impact of your investments, what do you seek to measure?

- Output: tangible products from the activity e.g. number of toilets installed
- Outcome: changes resulting from the activity e.g. increased access to sanitation facilities
- Impact: broader changes attributed to the activity e.g. improved physical well-being (reduce disease)

Q37. How do you leverage your impact data? (multiple choice)

- We do not use the impact data we collect
- To define or agree on objectives before finalizing the investment
- To select investment opportunities

- To assess investees' progresses on impact
- To decide if and how to unlock additional capital
- To refine our own Theory of Change
- To support investees refining their own Theory of Change
- To set favorable conditions of the investments (e.g. discount on rates) based on results achieved
- To improve results communication with your fund's stakeholders
- Other, please specify: ________

Q38. Do you monitor: (multiple choice)

- The risk of generating negative impact
- The risk of not achieving the social impact objectives declared ex ante
- The risk that the objective of achieving economic returns will overcome the initial mission of generating social impact (mission drift)
- None of the above

Q39. Which of the following initiatives you embed in your Impact management and measurement (IMM) system? (multiple choice)

- Principles for Responsible Investment (PRI)
- Operating Principles for Impact Management
- SDG Impact Standards
- EVPA five-steps process
- Impact Management Project (IMP) 5 dimensions of impact
- SVI Principles of Social Value and SROI
- GIIN Compass
- CERISE
- Theory of Change (ToC)
- GRI
- BLab assessment (B corp)
- Metrics and indicators
- IRIS+
- Other, please specify:_______________

Q40. Do you have any incentive scheme for your managers linked to impact performance? (multiple choice)

- None
- Pay-for-performance
- Stock-options
- Recognition of achievements (e.g. through trophies, gift certificates or extra vacation days)

- Carried interest
- Other, please specify: _________

Q41. Is your social and/or environmental impact validated by an external auditor? (multiple choice)

- Yes, our impact measurement and management system is validated by an external auditor
- Yes, our impact performance is validated by an external auditor
- No, but we are considering it
- None of the above

NON-FINANCIAL SUPPORT

Q42. What type of non-financial support activities do you offer? (multiple choice)

- Support with impact management (e.g. support in developing the impact strategy and in impact measurement)
- Support with financial sustainability (e.g. assistance securing funding from other sources, use investors' reputation to help grantees secure funding from other sources)
- Support with organizational resilience (e.g. human capital support, governance support)
- Strategic and operational support (e.g. strategic planning, support to develop new products and services, support to develop new business systems or procedures)
- None of the above

GROWTH AND FUTURE

GROWTH AND FUTURE

Q43. In your opinion, what are the barriers that currently inhibit the expansion of the impact investment industry? (multiple choice)

- Macro-environment
    - Regulatory framework
    - Lack of intermediary structures
    - Problems regarding White/Green Washing
- Capacity/expertise
    - Insufficient management capabilities of (potential) investees
    - Lack of understanding of (potential) investors

    - Complexity of business models of (potential) investees
- Impact Measurement and Management
    - Lack of standardised impact measurement and management
    - Lack of demonstration and/or comparability of impact measurement
    - Lack of transparency and/or impact measurement communication
    - Other: _____

Q44. Which are the drivers that could influence the growth of the impact investment industry? (multiple choice)

- Capacity building
    - Increased managerial capacity of the entrepreneurial third sector
    - Establish an investment approach more aligned with demand needs
    - Development of a standardised impact measurement and management methodology
    - Establish a common definition of impact investment
- Collaboration
    - Strengthen the ecosystem through multi-stakeholder collaboration
    - Increasing public sector presence through regulatory support and facilitation
    - Increased presence of institutional investors
    - Other: ______

CONCLUSION

Q45. Before concluding, we would like to test your interest in sharing data about your impact investment practices to facilitate collaboration, peer-to-peer knowledge exchange and benchmarking opportunities.

Please note the following answers will be used to develop data sharing opportunities in the future, but we will not disclose any data before getting an official consensus

- Yes, with the wider public (through online platform)
- Yes, but only with other respondents
- No, I do not want to share this information

You have finished the European impact investment survey! Thank you for your contribution!

B Appendix B – Interview protocol

INTERVIEWEES SELECTION CRITERIA: OPERATIONS IN ITALY

Managers of organizations operating, or expected to operate in the coming years, in the Italian market will be interviewed. The target population consists of those for whom it is possible to trace, on public sources, evidence of ongoing activity or concrete intention to undertake activities in the perimeter of finance for impact as defined below. These operators will be interviewed specifically to complement the data collection that took place in 2022 in collaboration with EVPA (European Venture Philanthropy Association).

INTERVIEW PROTOCOL

Preliminary remark

We will refer in the following to the scope of finance for impact, defined as follows:

> *Social impact investment refers to a wide range of investments based on the assumption that private capital can intentionally help create – in some cases in combination with public funds – positive social impacts and, at the same time, economic returns.*

Questions:

1.1. Does your organization invest directly or indirectly in organizations with social purposes?

- Direct investment (managed by the organization itself i.e., your office manages investments in SPOs)
- Indirect investment (i.e your office invests or channels through third-party funds/programs managed by third parties that invests in SPOs).
- Commercialization of impact investment funds managed by others (i.e., your office commercializes funds managed in other countries or by other organizations

Definition: Social purpose organizations (SPOs) are organizations in which one of the main objectives is to achieve measurable social and environmental impact, and they may or may not be income-generating. SPOs can include charities, nonprofit organizations, and social enterprises.

Indirect investments (asset owners):

2.1. Please indicate the volume of impact investments your organization makes/channels through third-party managed funds/programs.

Total volume: ____________

2.2. To what type of invested parties do these third-party funds/programs channel your impact investments?

2.3. Where are the funds/programs you invest in managed?

2.4. What are your expected returns? Do you think there will be an increase in investment, a decrease, for these types of your investments?

2.5. How do you select your investments? What attractive characteristics should they have?

2.6. How do you monitor the actual impacts your third-party managed capital generates?

2.7. What are the barriers to your impact investment-related activities?

2.8. What are the drivers that could influence the growth of the impact investment industry in Italy?

Direct investments (asset managers):

3.1. How many funds, programs, or other impact investment vehicles does your organization manage?

3.2. If you are using (or plan to use) the classification of the EU's Sustainable Financial Disclosure Regulation (SFDR), how do you characterize your investment vehicles?

3.3. In terms of financial return and social impact, what is your priority?

3.4. What is the amount (€) of capital under management?

Capital under management includes both capital invested/lent and capital available to be invested/lent with the intention of generating social or environmental impact along with financial return.

3.5. What is the amount of capital invested (€) to date?

That is, of the amount of capital under management, how much has been invested in organizations, projects, people and/or assets with the intention of generating a social or environmental impact along with a financial return.

3.6. Who are your capital providers? What kind of requirements do they condition the use of capital on? How do capital providers tie your mission to social impact?

3.7. What kind of organizations does each vehicle invest in? What is the stage of your target development? Do you have preferences of sectors in which to invest?

3.8. What is the average duration of your investment commitments (number of years) for the organizations in your portfolio?

3.9. How do you scout potential investment targets? What is the screening process like? What screening criteria do you use and how do you verify that they are indeed impact organizations?

3.10. What are your expectations in terms of exit strategy? What do you think would be typical exits? What types of organizations have you exited investment within the past?

3.11. Do you have a process for measuring and managing impact?

> **3.11.1** Do you consider social risk (or impact risk) in your operations? If yes, what type of impact risk do you monitor?
>
> **3.11.2** Which of the following initiatives incorporated into your Impact Measurement and Management (IMM) system? If yes, please explain how it works?
>
> **3.11.3** Is your impact measurement evaluated by an external auditor?

3.12. What kind of non-financial support activities do you offer?

3.13. What are the barriers to your activities related to impact investing?

3.14. What are the drivers that could influence the growth of the impact investment industry in Italy?