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Impact washing:
the perspective of impact investors in Italy

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Abstract

English version

Since its birth in 2007, the impact investing movement has gained popularity in financial markets all over the world. However, neither academics nor practitioners have yet managed to come up with a common definition of what an impact investment means in practice; this is one of the main reasons why impact investing is still being associated with other forms of sustainable finance, as well as being exploited for impact washing purposes by operators who only aim to leverage on the sustainability trend to maintain their competitiveness on the market.

The situation in the Italian context is no different: moreover, being our national market very young, it is not as developed as that of other countries, such as the USA and the UK; therefore, without a shared definition that is applicable by all operators, the risk is that the market will grow very inorganically, eventually losing its credibility and the transformative power that is at the very basis of impact investors' ambitions.

Until now, the most widespread conceptualisation of impact investing in Italy has been the one based on the so-called impact triad, consisting of three principles: intentionality, measurability and additionality. The first two concepts are considered by the majority of players necessary to define and carry out impact investing initiatives; the third one, additionality, is instead ignored by most, both theoretically and practically, thus creating a considerable gap in literature. Nevertheless, this last principle is actually the one that might allow the impact investing industry to grow while fully maintaining that desire of systemic change that was at the root of this financial practice, therefore contributing to the prevention of impact washing occurrences. In short, additionality means to proactively accept and officially declare to go invest in disadvantaged areas, which potentially yield a higher financial risk and lower return with respect to ordinary financial transactions. Consequently, if impact investors are required to act under this quite radical principle to be considered part of the industry, then it becomes virtually impossible for them to engage in impact washing

behaviours. In this way, it is possible to gain an exact perception of the actual magnitude of the impact investing phenomenon, therefore allowing an organic growth of the industry.
It is thus with the purpose of advancing the knowledge and the practical application of the additionality principle that the present research has been developed. Hence, a qualitative analysis has been performed on the data collected thanks to a series of 46 semi-structured interviews, proposed to the vast majority of practitioners in the Italian impact investing field. The analysis allowed to discover the existence of six perspectives on additionality; through a comparison of the latter with the content of extant literature, it was possible to come up with a proposal for an operational version of the definition of additionality, as well as to draw a research agenda aimed at giving directions for further analysis on this crucial principle.
In addition, leveraging on the results of the analysis and the available literature, two frameworks addressed to impact practitioners have been developed. The first one is designed for impact-specialised operators, to guide them in maximising their additionality; the second one is instead useful for generalist operators to avoid impact washing phenomena and lead their way to the creation of actual, additional social impact.

Abstract

Italian version

Dalla sua nascita nel 2007, il movimento dell'impact investing ha guadagnato popolarità nei mercati finanziari di tutto il mondo. Tuttavia, né gli accademici né i practitioner sono ancora riusciti a trovare una definizione comune di cosa significhi in pratica un investimento ad impatto; questo è uno dei motivi principali per cui l'impact investing è ancora associato ad altre forme di finanza sostenibile, oltre ad essere sfruttato per fini di impact washing da parte di operatori che mirano a fare leva sul trend della sostenibilità soltanto per mantenere la loro competitività sul mercato.

La situazione nel contesto italiano non è diversa: inoltre, essendo il nostro mercato nazionale molto giovane, non è così sviluppato come quello di altri Paesi, come gli Stati Uniti e il Regno Unito; quindi, senza una definizione condivisa e applicabile da tutti gli operatori, il rischio è che il mercato cresca in modo molto inorganico, finendo per perdere la sua credibilità e la forza trasformativa che è alla base delle ambizioni degli investitori ad impatto.

Finora, la più diffusa concettualizzazione di impact investing in Italia è stata quella basata sulla cosiddetta triade dell'impatto, composta da tre principi: intenzionalità, misurabilità e addizionalità. I primi due concetti sono considerati dalla maggior parte degli attori necessari per definire e realizzare iniziative di impact investing; il terzo, l'addizionalità, è invece ignorato dai più, sia nella teoria che nella pratica, creando così un notevole gap nella letteratura. Tuttavia, quest'ultimo principio è in realtà quello che potrebbe consentire all'industry dell'impact investing di crescere mantenendo pienamente quel desiderio di cambiamento sistemico che è stato alla base di questa pratica finanziaria, contribuendo così alla prevenzione dell'impact washing. In breve, addizionalità significa accettare proattivamente e dichiarare ufficialmente di andare ad investire in aree svantaggiate, che comportano potenzialmente un rischio finanziario più elevato e un rendimento inferiore rispetto alle ordinarie operazioni finanziarie. Di conseguenza, se gli investitori ad impatto sono tenuti ad agire secondo questo principio piuttosto radicale per essere considerati parte

dell'industry, allora diventa praticamente impossibile per loro innestare comportamenti di impact washing. In questo modo, è possibile ottenere una percezione esatta dell'effettiva entità del fenomeno dell'impact investing, permettendo così una crescita organica del settore.
È quindi con lo scopo di far progredire le conoscenze e l'applicazione pratica del principio di addizionalità che è stata sviluppata la presente ricerca. È stata quindi effettuata un'analisi qualitativa dei dati raccolti grazie ad una serie di 46 interviste semi-strutturate, proposte alla stragrande maggioranza degli operatori nel settore dell'impact investing italiano. L'analisi ha permesso di scoprire l'esistenza di sei prospettive sull'addizionalità; attraverso il confronto di queste ultime con i contenuti della letteratura esistente, è stato possibile proporre una versione operativa della definizione di addizionalità, oltre che a tracciare una Research Agenda volta a dare indicazioni per ulteriori analisi su questo cruciale principio.
Inoltre, facendo leva sui risultati dell'analisi e sulla letteratura disponibile, sono stati sviluppati due framework rivolti ai professionisti dell'impatto. Il primo è pensato per gli operatori specializzati in attività ad impatto, per guidarli nella massimizzazione della loro addizionalità; il secondo è invece utile per gli operatori generalisti, in modo che essi possano evitare di intraprendere fenomeni di impact washing e iniziare il loro percorso verso la creazione di un effettivo e addizionale impatto sociale.

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List of Abbreviations

ACCA	Association of Chartered Certified Accountants
AUM	Asset Under Management
BAU	Business as Usual
BoP	Bottom of the Pyramid
CPI	Climate Policy Initiative
CSR	Corporate Social Responsibility
CVI	Corporate Visual Identity
Danida	Danish International Development Agency
DCED	Donor Committee on Enterprise Development
DFI	Development Finance Institution
ESG	Environmental, Social, Governance
EU	European Union
EVPA	European Venture Philanthropy Association
GHG	Greenhouse Gas
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Report System
GSG	Global Steering Group for Impact Investment
ID	Identification Code
IFC	International Finance Corporation
IRIS	Impact Reporting and Investment Standards
ISEA	Institute of Social and Ethical AccountAbility
ISO	International Organisation for Standardisation
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
PPP	Public-Private Partnership

RCT	Randomised Control Trial
R&D	Research & Development
SAI	Social Accountability International
SDGs	Sustainable Development Goals
SGR	Società di Gestione del Risparmio
SIAVS	Start-up Innovativa a Vocazione Sociale
SIB	Social Impact Bond
SICAF	Società di Investimento a Capitale Fisso
SICAV	Società di Investimento a Capitale Variabile
Sida	Swedish International Development Cooperation Agency
SMEs	Small- and Medium-sized Enterprises
S.p.A.	Società per Azioni
SRI	Socially Responsible Investing
S.r.l.	Società a Responsabilità Limitata
UC Berkeley	University of California, Berkeley
UN	United Nations
UNCHE	United Nations Conference on the Human Environment
UNCTAD	United Nations Conference on Trade and Development
UNGC	United Nations Global Compact
VC	Venture Capital
WCED	World Commission on Environment and Development

Executive Summary

Introduction

After decades of purely profit-driven interest in the world of business and finance, people and organisations are beginning to understand that economic growth should be pursued in a more socially and environmentally sustainable way. This is how the **sustainability trend** has gained momentum: more and more companies nowadays declare to offer products and services that respect the environment and the people who produce them; sometimes, however, sustainability claims are just a way to maintain a strong competitive advantage on the market in a profit-maximising perspective, therefore giving birth to **greenwashing phenomena**.

The financial industry is no exception: alternative investment methods have indeed been developed, including **impact investing**, which aims to generate a **positive social value** and, at the same time, an **economic return**.

Since its official birth in 2007, impact investing has been able to grow and establish itself in the financial world, but no **operational definition** has yet been found that is able to clearly distinguish this practice from other forms of sustainable finance. This could lead to episodes of **impact washing**, which in turn might undermine the ability of impact investing to establish itself as a financial practice in a genuine way.

All this is even more amplified in the **Italian context**, where the impact investing industry has just been established but already sees the presence of many financial operators with only a few years of experience in terms of social impact. Those, if not properly guided, may be tempted to **adapt impact investing to business as usual practices**, thus undermining its transformative potential.

This research stems from the goal of finding a clear way to **define impact investing** and to **limit impact washing occurrences**. Leveraging on an empirical basis of 46 interviews submitted to almost all Italian impact operators, I will in fact propose an **operational**

definition of the principle of additionality, which the analysis has revealed to be the concept that best denotes the transformative power of impact investing; the definition will be complemented by two **decision-making frameworks** aimed at guiding impact operators in maximising their additionality and, therefore, the social impact they create.

LITERATURE REVIEW

The analysis of extant **academic and practitioner literature** has been carried out on three levels; the first one provides an overview of the definition and the practices of **impact investing**. The second is instead based on an analysis of the phenomena of **greenwashing and impact washing**, considered a major threat to a socially and environmentally sustainable growth. Finally, the third part aims to examine the use that has been made in past literature of the principle of a**dditionality**, both in impact investing and other research fields; in fact, its current definition leads to the hypothesis that a further conceptualization of the principle itself could be very useful to limit impact washing phenomena.

Impact investing has been described in many, slightly different ways throughout the years; one of the most recognised definitions is the one provided by the GIIN (2013), which reads: *"Impact investments are investments made into companies, organisations, and funds with the intention to **generate measurable social and environmental impact alongside a financial return**"*. By declaring that impact investors must have the **intention** of generating impact, this definition distinguishes impact investing from other very diffused forms of sustainable finance, such as the ESG and SRI approaches, which still prioritise the maximisation of profits over the creation of positive social impact.

Impact investing is defined using the so-called **impact triad**, constituted by the principles of intentionality, measurability and additionality. While the first two seem to have been accepted by most academics and practitioners, **additionality is still a much-debated concept**, mainly because it is considered by many as too **radical** and **limiting** for the growth of the sector. However, it might actually represent the principle that, if applied by many, could really be able to limit the number of impact washing incidents.

The problem of impact washing should in fact be tackled before it is too late; in fact, even if there are still not so many evidences of opportunistic deviations in the field of impact investing, the study of the literature on greenwashing has revealed that more and more companies over time have taken advantage of the sustainable trend to **gain market share and maximise their profits**, in many cases also undermining the efforts of those organisations that truly believe in sustainable development. Moreover, the analyses of quite a few scholars have shown that certifications and ex post verifications of sustainability claims are sometimes flawed and unable to contain the phenomenon. This is why, in the case of impact investing, it might be more useful to **address the problem at the root**, by developing an operational definition that leaves very little room for opportunistic drifts; these latter, in fact, must be absolutely avoided in order to understand the **true magnitude** of the impact investing movement, which is the only way to foster a **real growth** of the phenomenon.

It is for this reason that the review of extant literature moved to an analysis of the concept of additionality, which can be considered the most appropriate principle to guarantee a real growth of impact investing. Indeed, its current interpretation in the impact investing field postulates that impact investors should address **undercapitalised areas**, which potentially yield a **higher financial risk** and **lower return** with respect to ordinary financial transactions; this suggests that additionality, if further conceptualised on the basis of its existing definition, might serve as the **discriminating factor** to distinguish those who really pursue impact from those who do impact washing, a behaviour that is detrimental to the organic growth in the sector.

Nevertheless, since this concept still represents a **relatively new idea** within the impact investing industry, the literature addressing it is very limited; it thus felt necessary to explore its application in other research fields as well (i.e. R&D subsidies and public programmes, development finance, climate investments and environmental policies). In these contexts, the central theme is represented by defining additionality as the **differential impact** an initiative is able to generate. This basic concept led to the development of many different **categories of additionality**, which tackle several issues, including the idea of providing the addressed organisations with services that go **beyond the mere capital disbursement**.

The literature on additionality applied to impact investing, while considering these aspects, puts at the centre of its narration the idea - already presented above - that impact investors, in order to be additional, should intervene in undercapitalised areas, therefore possibly accepting a high financial risk and a low economic return. Furthermore, the discussion also focuses on the fact that an additional effect can be generated by the **impact investor**, but also by the **investee** itself, thanks to its innovative and impactful **business model**.

OBJECTIVES & RESEARCH QUESTION

The review of literature revealed that there are **no clear definitional criteria** that can be applied to **avoid the occurrence of impact washing phenomena** in the impact investing market. One principle that may actually provide a strong contribution to prevent them is **additionality**, because of its potential capacity to distinguish the operators who really pursue social impact from those who only want to exploit the current popularity of the impact label.

However, the concept of additionality has not been fully conceptualised yet, and therefore **its application is still very limited**. Hence, the present work focuses on the study of this concept, leveraging on extant literature and semi-structured interviews to Italian impact practitioners in an effort of investigating their opinion of the matter.

It was decided to limit the scope of the analysis to the **Italian market** because of the possibility of conducting the interviews in person, but above all to demonstrate that impact investing is a financial practice that should be applied **not only in the poorest countries**, but also in developed ones like Italy, where the **social inequalities** that impact investors wish to fight seem to continue growing relentlessly.

The research question to be responded with the present dissertation is therefore the following: **how to formulate the principle of additionality so that it can be useful to limit impact washing phenomena within the Italian impact investing industry?**

METHODOLOGY

In order to develop the present research, a few methodological steps were followed.
First of all, the analysis described in the Literature paragraph was performed following the **narrative literature review** methodology, which is deemed as the most appropriate to adopt for a dissertation project (Baker, 2016). To carry it out, a great number of both primary and secondary data sources were consulted, mainly found in databases such as Scopus and Google Scholar.
The collection of **empirical data** was organised in two parts; the first is represented by the organisation of a **focus group**, which saw the participation of 18 organisations, considered the most experienced players in the Italian impact investing industry. This step was followed by a series of **semi-structured interviews** to financial operators for which it was possible to trace, on public sources, evidence of impact investing initiatives in progress or a concrete intention to undertake such initiatives in the Italian market.
The total number of interviews was 46; they were all **recorded** and **transcribed verbatim** (Hsieh & Shannon, 2005) in order to be subsequently examined.
All the interviews, together with the transcription of the focus group, were analysed following a renowned technique in the context of qualitative analysis: the **Gioia Methodology**. Developed by professor Dennis Gioia at Pennsylvania State University, it is aimed at **inductively** extract relevant concepts from the material at disposal (1st-order analysis), which should then be combined with notions emerging from the revision of literature and interpreted by researchers in the light of these latter (2nd-order analysis). The concepts can be further aggregated into more abstract themes (aggregate dimensions), which should enable the examiner to develop a **novel theorisation** of the subject under investigation.
In order to facilitate, but also to strengthen even further the solidity of the study, it was chosen to utilise one of the most famous softwares for the implementation of qualitative analysis: **NVivo**.

Results

The Results section of the present dissertation is divided into two parts: the first, aimed at giving a brief **overview** of the Italian impact investing industry's current state of the art, revealed that the main **motivation** leading financial operators to join the impact market is an evolution of their way of doing business. Moreover, most impact investors, especially equity-based ones, seem to agree that impact operations entail a **higher financial risk** and a **lower return** if compared to ordinary financial transactions. In terms of investment **sectors**, impact players do not show clear preferences, while the majority of them affirmed to favour organisations belonging to the entrepreneurial **third sector** and **profit with purpose** companies as their investees. Furthermore, the analysis revealed that impact-specialised operators prefer to invest in the **seed** and **growth stages** of a company's lifecycle, while generalist impact investors wish to back more **mature** investments. In terms of **screening criteria** adopted by investors in choosing which entrepreneurial initiatives to support, the fundamental ones are represented by the solidity of the business model and the capability of generating social impact. Additionally, impact investors affirmed to be willing to offer **non-financial services** to their investees: these include access to the impact network, capacity building initiatives and awareness raising on the theme of impact finance. Finally, the investors reported as the main **boundaries** of the Italian impact investing industry the lack of financial culture and attractive investment opportunities, as well as an absence of support by the public sector; the main **driver of growth**, on the other hand, is for them represented by an increasing in the awareness about impact investing and a greater public support.

The analysis focused on the principle of **additionality** and **impact washing** revealed the existence of **six macro-themes**, or **perspectives on additionality**. These include various viewpoints of Italian impact investors on the concept; the first one is represented by the belief according to which additional impact investors should accept to **earn less and risk more**, in order to favour the growth of currently undercapitalised areas. The following macro-theme, which has proved to be fundamental for the development of additionality, links the latter to the ability of investors and investees in developing **innovative solutions** to generate **systemic change** and therefore reducing **social inequalities**, which is indeed the ultimate aim of impact investing. Equally relevant is the third macro-theme, which puts in relation additionality with another pillar of the impact triad, **intentionality**: indeed, it is imperative that the expected additional effect of an impact initiative is **intentionally** defined and declared **before** the beginning of the financial operation. The next class is instead related to the fact that the effects of additionality have been defined by some interviewees as **limited**, either **in time** or **in space**; in time, because according to some of them the additional effect of an initiative is only temporary, and in space because some investing organisations have proven to be focused on the development of a very specific territory that currently results to be unserved. Moreover, in the fifth macro-theme, additionality has been linked to the act of concentrating on problems that are neglected by **inefficient welfare systems** (like the Italian one) and to the development of public-private partnerships (PPP). Finally, the sixth theme, more operational than the others, has addressed the issue according to which additionality is often seen as a **barrier limiting innovation** and as a **difficult concept to apply**, especially for generalist operators.

The analysis was completed by a study focused on the perspectives shared by interviewees with regard to **impact washing phenomena**; indeed, the ultimate aim of finding a widely applicable definition of additionality is that of contributing to avoid as much as possible the incidence of such phenomena. What emerged from the interviews' analysis is that, as expected, some Italian organisations plan to use impact products for **marketing** purposes, therefore to reinforce their **competitiveness**; hence, a strict definition of impact investing - which necessarily includes additionality - is very much needed to avoid an **over-exploitation** of the impact label. Moreover, consumers, but also many professional investors, are still mistaking impact investing for other forms of sustainable finance. Therefore, the popularity that the impact movement is gaining at the moment should be exploited by impact-specialised operators to **educate** the vast majority of other players, so to make a significant contribution to the reduction of impact washing phenomena.

Discussion

The Discussion section of the present dissertation starts with an **in-depth comparison** between the notions about additionality found in extant literature and those arising from the results of the empirical research. What emerged is that there are quite a few correspondences, both with respect to literature discussing the principle of additionality in the context of impact investing and in other research fields; in fact, many scholars have raised issues such as addressing **undercapitalised areas** and **disruptive initiatives**, undertaking **risky** and innovative projects, ensuring an **inclusive access to finance**, offering **non-financial services** and building an **ecosystem** of players in order to increase the effectiveness of an industry.

This first part of the chapter was fundamental to develop an **operational definition of additionality** that impact operators can apply in their day-to-day business, to ensure that their contribution to the impact investing industry is **as additional as it can possibly be**. Indeed, it explains what areas and organisations to address, how to do so, which services and benefits one should be able to offer to both investees and fellow impact operators, and finally, the reason why all these elements are functional to the achievement of the maximum possible social inclusion.

As already anticipated, the Italian impact investing industry is mainly constituted by two types of operators: **impact-specialised** players and **generalist** ones, coming from traditional finance, that have introduced impact activities into their portfolios. Since the two groups are quite different in nature, they as well need distinct types of recommendations to follow in order to be effective in applying the operational definition of additionality. It is in this light that two different **frameworks** were drafted.

The first - addressed to impact-centred players - focuses on a **list of categories of additionality**, which represent **non-financial services** that they should be able to offer to both their investees and generalist impact operators. They should do this in an effort to maximise their own additional impact by explaining other impact actors how to increase, in their turn, the additional effect they can have on the impact industry. In particular, the categories of additionality building up the framework include the help that impact operators can offer to investees in increasing the effectiveness of their business model and its consequent capability to scale (**learning** and **scalability additionality**). Moreover, impact-specialised investors should be ready to back very innovative and risky, but at the same time very impactful business ideas (**disruption additionality**). With respect to their generalist colleagues, impact-centred operators could certainly support them in increasing their knowledge on the fundamental characteristics of impact investing (**mentoring**

additionality); moreover, as generalist players tend to invest in organisations that have already passed the early stages of their growth, impact-specialised operators could have the function of proving the scalability of the businesses they invest in, so that the latter can find support from generalist impact investors in case they need a second round of financing (**de-risking additionality**). Strongly connected with this last theme is the fundamental role that impact-centred players have in favouring the construction of a network of impact actors (**ecosystem additionality**). They, in fact, are fundamental to ensure that the invested realities come into contact with investors that are certainly different in nature, but interested in keeping the enterprise's impactful business model intact.
The framework is completed by a call for better **additionality assessment**: indeed, impact-specialised operators should develop, with the help of academics, methodologies to accurately assess not only impact in general but additionality in particular, involving both investees and generalist players in their implementation.

The final framework proposed in this dissertation is aimed at guiding generalist impact players in making their first steps into the impact investing world, so to avoid from the very beginning that they fall into impact washing behaviours. It indeed focuses on **four indications** that investors should put into practice to become actual impact operators.
The first element is **inclusive access to finance**: in fact, even if generalist operators usually show a lower risk appetite and a stronger desire to generate profit than impact-specialised ones, they anyway should ensure access to financial services to subjects that would have been disregarded for ordinary transactions. Moreover, in the event that they take on investments that were initiated by impact-centred operators, they should in no way try to diminish the additional effect that such investments entail: this is the second element of the framework, aimed at **preserving the additionality created at the investee level**. A strong encouragement to **join an impact investing network of players** constitutes the third point of the framework; indeed, partnering with impact-specialised operators is fundamental for generalist ones to increase their knowledge on impact investing practices.
Conclusively, the final element is focused on a **learning by doing** approach: in fact, the structuring of co-investment models might bring significant benefits to all impact industry participants.

It is not needed that generalist operators apply all four points since the beginning of their involvement in the impact investing industry; however, it is only when they do so that they can claim to be on their way to **becoming impact-specialised investors**.

Conclusion

This dissertation was carried out with the objective of **advancing the current knowledge on additionality** and of bringing such a crucial principle down into the everyday reality of impact investments, so to **protect** this innovative way of conceiving finance from **impact washing phenomena**, allowing it to reach its full transformative potential.
Both the study of scientific papers and the discussion with Italian practitioners have been fundamental for the development of the operational definition of additionality, as well as for drafting the two frameworks aimed at reinforcing its effective application by impact-specialised and generalist operators.
The **contribution to research** of the present dissertation is provided by three main factors. First of all, the development of an operational definition of additionality advances the literature by proposing a way to make the concept **applicable in everyday practice**; moreover, the dissertation suggests that second round financing should by provided by generalist impact operators, and not by socially neutral investors, as it has been the norm so far (Brest and Born, 2013; Barnett and Faisal, 2016). Such a proposal aims to stimulate the **self-sufficiency** of the impact investing industry, so to protect it from impact washing drifts. The two frameworks, instead, offer a **concrete support and guidance** in the application of additionality for all impact investing practitioners. They represent an innovative contribution to the field, since the frameworks encountered during the literature review were aimed at selecting which realities to support (Hillebrandt and Halstead, 2018) or at assessing additionality (So and Staskevicius, 2015), but never at guiding operators in maximising their additional contribution to the impact investing industry.

The limitations of the present work are represented mainly by the very **small number of papers in extant literature** discussing the principle of additionality and impact washing phenomena, as well as the impossibility of adopting rigorous **quantitative research**

methods. This latter limit, however, has been overcome thanks to the application of the Gioia Methodology and the use of the well-known software for qualitative research NVivo. To conclude, I contend that future research should focus on the development of methods to clearly **assess the additionality level** of impact investors and their investees, as well as on the advancement of feasible ways to **attract Italian public organisations into the sector**. Moreover, further research should concentrate on the structuring of **co-investments**, which may lead to a substantial qualitative and quantitative growth of the Italian impact investing industry.

1 Introduction

"We are moving towards a better and fairer world, where markets drive doing good while making profit, and people want to do good and do well at the same time.
We must embrace measurable impact as a driver in every investment, business, and policy decision we make.
This is the "invisible heart of markets," guiding their "invisible hand."
This new world will drive an improvement in the well-being of people and planet, creating a fairer and more prosperous future for us all."
Sir Ronald Cohen, Chairman of the Global Steering Group for Impact Investment[1]

What Sir Ronald Cohen says is undeniably true: we are now experiencing incredible attention of both the business and financial worlds towards sustainability. However, in all truth, the very first steps of this movement trace back to decades ago, with the 1987 WCED Report *Our Common Future* - more widely known as the Brundtland Report - probably representing the fundamental turning point. In that report, in fact, the concept of sustainable development was introduced for the very first time, with a definition that really made history: *"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs"*. Unfortunately, the application of this fundamental principle has been neglected for too long by both the private and public sector, and the result is that we now find ourselves facing, together with environmental emergencies, growing

[1] Source: Sir Ronald Cohen's website.

social inequalities in various parts of the world, even in the richest and most developed countries.

Nevertheless, as argued by Sir Cohen himself, we are now witnessing a rather significant shift towards sustainability practices. These latter have indeed gone from being an "added bonus" (Stoffer and Kappa, 2016), with respect to traditional day-to-day operations, to an almost fundamental source of competitive advantage, given that consumers as well are much more careful than in the past regarding the characteristics of the products and services they buy. And while many companies and organisations strongly feel the desire to improve themselves and actually turn their activities into a real force for good, an equally substantial number of corporations implements changes that are superficial and only aimed at maintaining a prestigious position in the market.

The financial world is not excluded from this mechanism: the offer of sustainable financing products is growing and growing every day, and acronyms like ESG and SRI have started to be part of the common vocabulary. Impact investing itself, since the moment of its official birth in 2007, has seen an exponential increase of momentum around its practices, until today, when many financial operators around the world claim to have impact products in their portfolios. But, even in this case, the issue still remains: who does it because they really believe in change, and who is just following a trend? It is extremely important to find an answer to this question, because there is only one way for both socially and environmentally sustainable practices to survive the course of time, and that is to keep well in mind that in order to be effective, impact needs strong commitment, great conviction and, why not, a good dose of passion from those who pursue it.

Impact investing has broadly been defined as investments *"made into companies, organisations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return"* (GIIN, 2013).

Although this description makes it very easy to gain a first insight on what impact investing is all about, in everyday practice it is really not enough: at a time like this, when the market is no longer populated only by the industry pioneers, but also by mainstream investors who are approaching for the very first time this new way of doing finance, it is necessary to set up pillars that make it very clear to understand what falls within the boundaries of impact investing, and what does not.

As a matter of fact, organisations involved in spreading the knowledge on impact investing worldwide (but not only them!) have been committed for years to finding a definition of impact investment that could be easily applicable by as many subjects as possible. However, they still seem to not have succeeded, and the risk of encountering the so-called impact washing phenomena is more alive than ever.

Even in the Italian impact market, which is still small and very unstructured, the danger is that of being late in the conceptualisation of impact investments, which would allow those subjects that are simply following the trend of sustainability to act undisturbed, causing the industry to lose that credibility and transformative power which have been at the basis of its growth.

In our nation's market, the most widespread definition is based on the respect of three fundamental concepts, also called the pillars of impact investing: intentionality, measurability and additionality. The first two are generally accepted by all players, and the discussion about them is based more on the form of their application rather than on the substance of the concepts that they embody; instead, the third pillar is still very much subject to heated discussion. The discordance on the concept of additionality is certainly not positive for the nascent Italian industry: this latter concept, if properly elaborated by researchers and implemented by practitioners, could indeed represent the element that allows impact investing initiatives to enhance their ability to generate great social value and, at the same time, that makes it possible to avoid opportunistic drifts.

It is in this light that this master's thesis work is focused on the study of the concept of additionality and on how this latter principle can be interpreted with the objective of minimising the occurrence of impact washing phenomena.

Leveraging on an extensive review of academic and practitioner literature, as well as on a series of 46 interviews submitted to the majority of the potential impact investors and financiers present on the Italian market, it was possible to deepen the concept and propose a novel interpretation and conceptualisation of the principle of additionality, with the hope of making a certainly very small, but heartfelt contribution in builiding, as Sir Ronald Cohen wishes, *"a fairer and more prosperous future for us all"*.

The work will be structured as follows: after a very extensive literature review, which will be divided into three parts (each one dedicated to one of the fundamental topics covered in this thesis - i.e. impact investing practices in general, impact washing phenomena and the principle of additionality), the objectives of the research and thus the research question will be contextualised and presented. An in-depth explanation of the methodologies used to complete the work will follow, at the end of which the results arising from the analysis of the interviews will be presented. Finally, the last part of the study is dedicated to a critical review of all the outcomes discovered throughout the research and to a proposal for a further conceptualisation of the principle of additionality, as well as to the development of two frameworks dedicated to Italian impact investing practitioners.

2 Literature Review

2.1 Overview

The purpose of the present literature review extends far beyond the conceptualisation of impact investing: in fact, while the latter is now widely recognised as a financial practice - at least in its main terms - it is still characterised by some definitional and practical challenges that may undermine its organic growth (GSG, 2018; Findlay and Moran, 2019; OECD, 2019), especially during this time where impact investing initiatives are gaining so much momentum.

It is in this light that the present chapter will be divided into four macro categories.
The first one will present a brief overview of the concept of investing for impact, with an emphasis on the distinction between the latter and philanthropy, as well as with other forms of sustainable finance. It will also focus on the main definitions of impact investing developed since its birth in 2007, with a further discussion on those three principles that form the so called *impact triad* and that are considered, although at different levels, at the basis of impact investments: intentionality, measurability and additionality.
The second subchapter is instead aimed at exploring the extant literature about the phenomenon of greenwashing, which has been and still is a constant threat to the authentic development of sustainable practices in businesses. This circumstance has proven to be likely to happen in the financial world as well, since some actors may label some of their products

as impact ones just for the sake of following the ongoing sustainability trend and gaining additional competitive advantage.

The third section will dive into a further discussion on the principle of additionality, the most controversial among the three forming the impact triad. As it will be highlighted, in fact, much of the debate around this concept focuses on its alleged too radical nature, which allows to label as impact initiatives only those with very specific characteristics. However, the application of additionality may be one of the most effective measures to actually avoid the risk of witnessing impact washing phenomena.

Finally, the fourth and final part of this chapter will put an emphasis on those authors that have decided to stress the need for impact investing to have a universally shared definition, which could represent the turning point for a genuine and transparent growth of the market.

2.2 IMPACT INVESTING

"Impact investing is a practice and an industry, yes, but - most importantly - it is also a movement, a movement that seeks to reshape the fundamental purpose of business and capital by integrating impact as the new normal"

Abhilash Mudaliar, Research Director at GIIN[2]

The term impact investing was coined in 2007 at the Rockefeller Foundation's Bellagio Centre with the primary intent of defining and creating a market for those financial operations that aim at generating a measurable social impact, while at the same time providing an economic return for the investors that promote them (Social Impact Investment Task Force, 2014). These initiatives thus qualify as true, full-fledged investments: this actually represents the main distinctive feature from the world of philanthropy, which has dominated for decades the way the business and financial world dealt with urgent social and environmental issues. In fact, as Arosio (2011) pointed out, philanthropic activities cannot, now more than ever, "provide solutions to the challenges our world faces" on their own,

[2] Source: GSG (2018).

because they are not so powerful to actually produce a scalable change. The effect of said activities, indeed, in most cases dissolves after some time into nothing more than a temporary interruption of usual practices.
Impact investing, instead, is intrinsically much more efficient than philanthropy because the invested capital is at least paid back, but in most cases it is actually returned with an additional financial return, that investors can employ to set out new initiatives; moreover, investees are more likely to commit to the achievement of their social and/or environmental goals, since to these latter may depend the development of further relationship with the impact investors (Weber, 2012).

The growth of the impact investing market in both developed and developing countries is one of the expressions of a systemic change happening in economies worldwide, which seeks to establish "a more ethical and socially inclusive capitalism" (Dacin et al., 2011; Höchstädter and Scheck, 2015). Such expressions include, for instance, the increased attention of consumers for ethical and sustainable products, the need for companies to set up extensive corporate social responsibility (CSR) practices and the rise of alternative forms of finance (Höchstädter and Scheck, 2015), such as the ESG and SRI approaches.
In brief, ESG stands for Environmental, Social and Governance and represents a set of criteria that assets owners and managers have started to employ when deciding which companies to invest in. The concept is that they try to only consider putting capital in realities which show a good behaviour in terms of environmentally friendly practices, respect of stakeholders' rights and ethical governance. Over the last years, the ESG screening has been praised for its innovativeness; however, it has proved to still actually be a finance-first approach; indeed, investors have been integrating ESG criteria into their portfolios to basically mitigate the risk of their operations, so to have a further improvement in their financial performance.
On the other hand, Socially Responsible Investing (SRI) is a more advanced approach to sustainable finance with respect to ESG screening. As a matter of fact, it is about fully integrating social and/or environmental considerations while building the portfolio of investments, but it still embeds the idea of "negative screening", which means avoiding investing in organisations that have a negative environmental or social impact and/or do not reflect the investor's non-financial values. Instead of proactively looking to finance

organisations whose core objective is to reach a social or environmental positive impact, like impact investing does, SRI initiatives still look to mitigate portfolios' risks and put financial return in the very first place (Weber, 2012); their strategies to reaching positive outcomes are, therefore, completely different in nature.
In fact, impact investing is much different from the two approaches explained above, as it embeds that proactivity that the other investment strategies do not possess; this is due to the fact that the very first objective of impact investors is to create positive and measurable social impacts, together with, hopefully positive, financial returns (Geobey and Weber, 2013; Weber, 2016; Carè and Wendt, 2018). Furthermore, investing for impact is the only approach that involves the active search and selection of investees (i.e. companies, organisations, projects...) that have as their primary objective and desire the generation of a positive social or environmental impact (Saltuk, 2011; Park, 2018; Agrawal and Hockerts, 2019).

Although what written above seems to be widely agreed and recognised among the academic and practitioner communities, impact investing, thirteen years after its official birth, still continues to miss a structured and stringent definition; one that could outline well, both theoretically and practically, what initiatives can legitimately be considered part of impact investing. This leads to an absence of transparency and to an inevitable confusion with approaches such as the above mentioned ESG and SRI ones. This is mainly due to the fact that research efforts on this new financial strategy have not kept pace with the growing interest that banks, foundations, government agencies, high net worth individuals - to name a few of the actors now involved in the market - have shown towards impact investing, allowing it to become a 502 billion USD dollars industry (GIIN, 2019).
While this unremitting growth certainly represents a positive sign of enthusiasm towards the sustainability of the financial world, it is now time for the academic experts and practitioners to conform to a definitive conceptualisation of the impact investing practices, so that the latter can finally be distinguished from other forms of sustainable finance that, although very valid, do not embed that idea of systemic transformation that is intrinsic to the concept of investing for impact.
Nevertheless, over the years, researchers have unceasingly tried to set some boundaries to the world of impact investing, hence coming up with several definitions. Many of these have

been summarised by Agrawal and Hockerts in their 2019 paper *Impact investing: review and research agenda*; the ones that appear as the most relevant in advancing the literature on the matter will be cited below, in chronological order.

- *"Venture philanthropists (impact investors) desire a* ***close relationship with the social entrepreneur, investing time, human and financial resources*** *intimately helping to achieve the business plan targets."* (Pepin, 2005)

- *"[Impact investing, ed.] helps to address the social or environmental problems* ***while*** *generating financial returns."* (Bugg-Levine and Goldstein, 2009)

- *"The commonly accepted definition for impact investing is an investment that creates social or environmental benefits while also providing a return of principal, with* ***returns ranging from zero to market rate****."* (Rangan et al., 2011)

- *"Impact investing is* ***a sub-set of responsible investing****. Here the investor* ***intentionally*** *invests to achieve positive social and environmental impact in addition to financial return."* (Hebb, 2013)

- *"Impact investments are investments made into companies, organisations, and funds with the intention* ***to generate measurable social and environmental impact alongside a financial return****. They can be in both emerging and developed markets, and target a range of returns from below to market rate, depending upon the circumstance."* (GIIN, 2013)

- *"Definitions of Impact Investments are based on two common principles:*
    - *The* ***blended value principle****, claiming that social finance products and services can and should achieve both financial and social returns (positive social impact).*
    - *The* ***principle of sustainable finance return****, guaranteeing the long-term financial viability of social finance institutions."* (Weber, 2016)

The above definitions are presented in chronological order to underline the progressive emphasis that has been put on the distinction between sustainable finance in general and impact investments, as well as on the concept of *blended value* (Weber, 2016), which highlights the simultaneous search for social and economic returns (even though social ones must always be the priority).
Moreover, it should be noted how, at the very beginning of impact investing practices, these latter were considered on a par with venture philanthropy, which is actually an approach that very much resembles impact investing, however it carries the fundamental distinction of not necessarily striving for a positive financial return from the investment.

The demand for impact investments mainly comes from two set of actors: for profit businesses and the so called third sector (i.e. non-profit organisations), which is now becoming much more structured and capital-intensive, therefore demanding capital that does not come from the traditional philanthropic channels.
Such capital is distributed with different kinds of instruments, which can range from equity-based ones to debt-based ones, even though impact initiatives are commonly known as investments and not as financing operations; the use of multiple instruments, moreover, is one of the characteristics that differentiate impact investing from microfinance, even though the latter has been considered for a long time as a form of impact investing by several scholars (Brett, 2013; Hangl, 2014). As a matter of fact, microfinance organisations make exclusive use of debt instruments (i.e. of loans), and the amount they lend is usually much less than that provided by impact investors (Agrawal and Hockerts, 2019). Furthermore, scholars such as Roundy and colleagues (2017) have pointed out how the latter usually maintain a much higher level of interaction with their investees with respect to that established by microfinance operators. As a final note, it has been observed how the interest rates charged with debt-based impact instruments are generally lower than those asked by microcredit organisations (Davis, 2011).

2.2.1 The Impact Triad: Intentionality, Measurability and Additionality

Over time, researchers have developed some concepts that have proven essential to delineate the characteristics of impact investing operations: these are intentionality, measurability and additionality.

Especially within the Italian context, scholars and practitioners have got into the habit of grouping the three principles together and referring to them as the *impact triad*. The latter is thus employed to accurately determine what actually can be comprised within the impact investing boundaries.

Below, each of the three "pillars" of impact investing will be briefly presented.

Intentionality

Intentionality is, without any doubt, the most widely recognised principle among the three and the one that really sets a difference between impact investing and other forms of sustainable finance. In a few words, a financial operation that falls within impact investing boundaries must show the investor's intent to deliberately achieve a social impact (Johnson and Lee, 2013), defined rigorously *ex ante* the investment; impact investors are, indeed, "socially motivated" (Brest and Born, 2013). This is what highlights the proactivity that distinguishes impact investments from other financial operations that produce an impact only as an externality (be it positive or negative) or, in accordance to what Trelstad (2016) points out, as an "incidental" impact, meaning that impact which occurs as a result of the location and/or the modalities in which an organisation operates, but that was not taken into account at all by said organisation before initiating its activities.

Measurability

Under this pillar, there is the idea that the social impact objectives which were intentionally defined before the beginning of the investment must be estimated - qualitatively and, where possible, quantitatively - both ex ante, during and ex post the investment to verify whether and in what measure they have been achieved and therefore ensure accountability (OECD, 2019).

In this light, several methodologies for assessing impact were born during the years; as pointed out by Viviani and Maurel (2018), the willingness of impact actors to employ them is a "sign of the professionalisation of the impact investing industry". As noted by the OECD researchers (2019), while the evaluation of environmental impacts is actually very advanced (due to the general quantitative nature of such impacts), the assessment of social impacts still needs to evolve and come up with standardised and widely applicable methodologies, able to compare different initiatives. Up until now, the most utilised approaches and tools appear to include IRIS (Impact Reporting and Investment Standards), GIIRS (Global Impact Investing Report System) and the B Lab Certification (Lazzarini, 2018).

On a final note, it is worth pointing out, as Trelstad (2016) observed, that the application of standardised methodologies for impact assessment and the openness of both investors and invested realities to third-party independent verification is indispensable to verify what organisations actually aim at achieving genuine impact.

ADDITIONALITY

Among the three principles, additionality is by far the most debated and therefore the one with the most unclear definition. In its most general characterisation, it can be very briefly synthetized as the willingness of impact investors to provide an additional social value to their investees, which would not have occurred without their involvement (Brest and Born, 2013). Hence, impact investors are defined as the ones willing to invest in the so-called *undercapitalised areas* - may they be, for instance, sectorial or geographical areas - where they are likely to experience a trade-off between social and financial returns, which mainstream investors traditionally do not accept.

At a moment in time when impact investing is gaining such a tremendous momentum and consequently attracting also organisations and individuals willing to adopt its "brand" for a selfish exploitation of the sustainability trend, additionality could really turn out to be the definitional element that allows impact investing to grow in the most authentic way, if widely and correctly applied. For this reason, the literature on the principle of additionality will be extensively analysed in a dedicated section of the present chapter.

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Despite its brevity, this literature review has been useful to accentuate the potential of impact investing in facilitating that systemic change that the business and financial worlds so much need (Tekula and Andersen, 2019). Moreover, it should be noted how this investment strategy can be implemented all over the world: in developing countries, where impact investors can remarkably help in providing additional capital to foster growth and reduce poverty (McWade, 2012) but also in developed ones, to address and reduce the continuously growing inequalities.

2.3 Impact Washing

For centuries, the generally agreed assumption was that an enterprise's objective should be to make as much money as possible, without thinking about the impact that its operations could have on people and on environment. As very eloquently articulated by Milton Friedman (1970) in his shareholder theory, the common belief was indeed that the public sector only had the duty to address social problems, while private companies needed to focus on profit and, if desired, pay back for their scarce social and environmental concerns with some occasional philanthropic activity. More recently, things have changed, shifting from a shareholder theory to the stakeholder theory approach (Freeman, 1984): many people have now understood that the private sector is too eradicated in our societies not to be held accountable for their current conditions, and that it should carry on its activities with the primary objective of doing business at least without causing harm to the world. In other words, companies should put on the same level their profit-making activities and the general interest of people and the environment (Alves, 2009; Stecker, 2016), even if this means to possibly renounce to a portion of earnings.

People, for their part, are increasingly beginning to recognise that sustainability is a serious challenge (Alves, 2009) and have thus started to take into consideration the impact of their consumption habits, preferring to support companies which convey the idea of being socially and environmentally conscious. This is how the concept of greenwashing was born: most corporations have understood the shift that society has made and find themselves under constant pressure to keep up with this change (Aggarwal and Kadyan, 2011); nevertheless, for some of them the focus still remains to make the most money they can, while trying to "wash" up their image in order to not lose customers and to maintain their competitive advantage on the market (Boiral et al., 2017; Lee, 2008).
There is actually evidence that some financial institutions could apply this practice to the impact investing industry, in order to exploit the momentum that the latter is currently gaining purely for marketing purposes and, thus, for their own benefit. This immoral behaviour should be stopped as soon as possible, to let the industry grow organically and maintain its credibility; many have indeed started to wonder what could be the way to block this deceitful deviation: actually, as we will discuss further on, the only possible actions that could really make a difference are to agree on and apply a common, unquestionable definition of impact investing and to rigorously measure the results of those initiatives that claim to be adherent to the impact finance ecosystem. As a matter of fact, a strict application of a robust definition, together with accurate impact measurement, would allow to finally shift from form to substance and to understand what actually are, within the industry, the actors that are taking social impact seriously: with a definition that very clearly distinguishes impact investing from other types of sustainable finance and postulates a great level of detail in measurement, it would become very difficult for mainstream players who only want to profit from the current sustainability trend to hide the substantial inconsistency and very little transformative power that their initiatives entail.

This chapter's objective is to analyse how the notion of greenwashing has been tackled in academic and practitioner literature, with the purpose of gaining some interesting insights that could reveal to be useful for addressing this work's research question. In fact, as it will be presented in the next chapter, the latter aims at proposing one or more frameworks that could help to draw a more refined definition of the third pillar of impact investing: the additionality principle. This one, indeed, could potentially represent the concept that, if appropriately taken as a reference by the majority of professionals in the impact investing industry, would be able to prevent the diffusion of the "washing" phenomena.

Before beginning with the review of extant literature, it is worth mentioning that the greenwashing phenomenon will be examined referring to the multiple terms that, over the years, were born under its umbrella: in particular, when referring to the social impact, it is legit to leave the environmental (hence, *green*) aspect aside and denote the concept as *impact washing*.

Very little has been discussed in past literature about the declination of this topic to the field of impact investing. Actually, the only prominent work that has been released so far is the one by Findlay and Moran (2019), entitled *Purpose-washing of impact investing funds: motivations, occurrence and prevention*. In this research, the two authors provide a novel framework to analyse the adherence of impact funds to their own refined definition of impact investing, which reads: "Impact investments are those that intentionally target specific social objectives along with a financial return and measure the achievement of both (SIIT, 2014). Intentionality encompasses both investor and investee intent (but only the portion of an investee investment owned by investors with intent) and additionality, and needs to be demonstrated at the time of the investment, ideally through due diligence and setting objectives, and throughout the investment, through impact measurement and reporting. The potential trade-off between social and financial returns is accepted, and meaningful impact measurement is required". As explained by Höchstädter and Scheck (2015), while intentionality and measurability are both widely accepted features in the definition of impact investing (and not so contested as additionality is), they are however prioritised very differently depending of the type of market participant[3] in question, and this inconsistence can be rather damaging for the growth of a nascent field. Findlay and Moran thus argue that the absence of a rigorous definition could certainly help the market flourish but could also result in it being exploited by market actors "using the label for purposes of product differentiation and fee generation". To give a quick

[3] Impact investing has been joined over the years by the most different kinds of investors and financiers: PE funds, VC funds, insurance funds, companies, family offices, foundations, commercial and investment banks, to name a few.

example, the authors have found that some of the funds present on the ImpactBase[4] platform lack a certain degree of transparency; if ImpactBase continues to prefer growth over the application of a rigorous definition, the risk is to decisively undermine impact investing's integrity, being ImpactBase the online database of one of the most influential impact finance organisations in the world (i.e. the GIIN).

As Freireich and Fulton (2009) prefigured, if it is not that difficult to label an investment as an "impact" one, then the whole practice could "turn from *doing good* into *feeling good*", leaving the industry to the mercy of investors and entrepreneurs who only see impact investing, and generally sustainability, as a way to be more attractive to potential customers. Findlay and Moran completely agree on this point and, leveraging on the study by Delmas and Cuerel Burbano (2011) which defines the concept of greenwashing as the act of misrepresenting a company's environmental impact through positive communication[5] (i.e. "green communication rather than green action" (Carbone and Moatti, 2011)), they warn that a similar process could happen in impact investing and they label it as *purpose washing*. Their characterisation of this phenomenon says that it "occurs when investors are misled about a manager's impact intentions (including measurement) or an investment's potential impact" (Findlay and Moran, 2019). By applying their definition to the funds listed on ImpactBase, evidence of purpose washing has actually been found. The authors agree that its occurrence could be attributed to two main motivations:

- An excessive desire of fund managers to differentiate their product on the market, thus trying to generate a higher level of fees;
- An effort to sustain the short-term growth of the sector, in the belief that this could help it reinforce its legitimacy.

[4] ImpactBase is an online tool that collects more than 400 impact funds, helping them to connect with investors and advisors from all over the world. Its size makes it the largest impact investing fund database; it was launched in 2009 by the GIIN (Global Impact Investing Network), in the belief that more efficient networking and communication are fundamental to advance and scale impact investing practices.

[5] While the description given above perfectly depicts the phenomenon of greenwashing, another definition is worth mentioning. It is the one indicated by the TerraChoice Group, which puts the focus on the will to betray customers: in fact, greenwashing is theorised as "the act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service".

Per contra, it is worth noting that the authors have not found any evidence of *retrofitting*, a circumstance under which funds originally classified as other types (e.g. ESG or SRI funds) retrospectively claim to be impact investing ones.

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The paper by Findlay and Moran is the only remarkable one which proposes an in-depth study of greenwashing when applied to the field of impact investing; therefore, it appeared necessary to broaden the view by analysing how this concept has been dealt with overtime in other fields and industries. A more comprehensive observation is indeed crucial to understand the reasons why this phenomenon was originally born and how it grew to become a worldwide discussed issue.

It may seem like the hype around sustainability has only grown in the past few years, however this is not the case: as Alves (2009) points out, the concept of sustainable development was basically born "to accomplish the most basic of human motivations: self-preservation". In fact, several years have gone by since some people started to realise that the fate of humanity is beginning to be inevitably tied to that of our own planet, in the sense that we have treated it so badly and we have exploited its resources so much that these are now almost running out. There is only one way to slow this process down, and that is to radically change the way in which we, both as individuals and as organisations, approach the world we live in. Some scholars note that this reasoning could be concretised with the broad adoption of a "triple bottom line" approach (Stecker, 2016), which means for a company to be simultaneously interested in and strive to reach what is best for the society and the environment where it operates, in addition to maintaining a good profitability level (Elkington, 1994; Alves, 2009). However, in a world where it is recognised that, for the longest time, the nature of most part of the private sector has not at all tended to "compassion, consideration, care and restraint" (Bakan, 2004), it can be expected that such an mindset will have a hard time settling down.

The first research paper to be analysed which discusses the sustainability movement and the mistreatment of its purpose dates back to the early 2000s. In it, Laufer (2003) addresses the difficulty of encountering accurate corporate social reporting. Indeed, by quoting Milne and Patten (2002), he argues that this kind of initiative could only represent an "elaborate and convincing façade designed or adopted to conceal the "backstage" activities from prying eyes". This belief is shared by other academics as well, who point out that the voluntary nature of social reporting has advanced the propagation of greenwashing practices, or of the *green spin*, as referred to by Alves (2009). Gray and Bebbington (2007), moreover, claim that the best result that can be achieved by companies with CSR[6] initiatives is to actually "disclose their degree of unsustainability". They warn that "the danger, of course, is that the very concept on which the future of the planet depends - sustainability - will be emasculated, appropriated and destroyed by assertion in the interests of corporations".

Alves (2009) argues that a solution to this deplorable market drift can actually be green marketing[7], in the sense that, if correctly applied, its message could reach a wide number of customers, educate them make it harder for companies to adopt ambiguous practices. Similarly to Alves, Walker and Wan (2011) contend that the correct implementation of *green highlighting* can bring a positive effect and describe the phenomenon as the combination of symbolic and substantive actions[8]: this means that it is right to promote a firm's initiatives for sustainability, but then these have to be concretely employed in ordinary operations.

It would be up to the final consumers to recognise which companies behave also through substantive actions and which ones do not; in reality, as pointed out by de Vries and colleagues (2015), customers tend to frequently suspect greenwashing, especially when they find green initiatives to be in contrast with the company's core business. Nevertheless, Alves (2009) himself underlines that the most diffused CSR paradigms serve to no more than spreading the message that organisations are voluntarily evolving their social and environmental behaviours to more acceptable ones, even if for many of them is just an insincere claim. Indeed, too many managers have shown to go for symbolic actions, rather

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[6] Corporate social responsibility (CSR) can be broadly defined as the alignment between the management's way of conducting the company business and the expectations of stakeholders. A more refined description is provided by Bhattacharya and Sen (2004), who explain that CSR represents all those efforts put in place by companies to "achieve commercial success in ways that honour ethical values and respect people, communities and the natural environment" (Parguel et al., 2011).

[7] Green marketing has been very eloquently described by Polonsky (1994) as "All activities designed to generate and facilitate any exchange intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs with minimal detrimental impact on the natural environment".

[8] Walker and Wan (2011) provide the definition of *substantive action* as the activities that a company has done or is doing currently to address its environmental responsibility. On the other hand, they describe *symbolic actions* as what the company aims to do in the future. In light of these two interpretations, the scholars introduce their own definition of greenwashing as "the difference between symbolic and substantive actions".

than implementing substantive actions to contrast environmental issues (Walker and Wan, 2011), also because, as many academics contend, it is way easier to just communicate green actions as opposed to truly put them into action (Suchman, 1995). To, again, quote the words of Walker and Wan (2011), the *green talk* is not as difficult as the *green walk*; this is certainly true, however firms that are found to leverage too much on symbolic actions could be identified by many stakeholders as "untrustworthy and opportunistic" (King and Lenox, 2000).

Some other scholars such as Kotchen and Moon (2012), cited by Kang and colleagues (2016), note that companies often put in place CSR activities to compensate their past CSI (Corporate Social Irresponsibility). Alves (2009), furthermore, contends that, until strict control systems are put in place, companies will avoid bearing the costs of actually being sustainable, while still maintaining the reputational benefits that a positive image inevitably brings. The result is, practically, the definition of greenwashing.

Notions such as *to greenwash*[9], to *whitewash*[10], to *bluewash*[11] or to *pinkwash*[12] (Lubitow and Davis, 2011; Pope and Wæraas, 2016; Ruggie, 2017; Park, 2018) have thus emerged to indicate and differentiate the various cases that brought clear evidence of companies exploiting the concepts of sustainability and good corporate social responsibility to hide their immoral behaviours regarding social and environmental practices; to depict, in fact, a picture of themselves which was completely untrue.

For many years firms have benefitted from advertising the environmentally friendly characteristics of their products and operations (Polonsky, 1995; Polonsky and Rosenberger, 2001), also by heavily increasing CSR and sustainability-related expenses (Parguel et al., 2011) but, as Grove and fellow researchers argued back in 1996, "Business commitment to

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[9] The word *greenwashing* was actually coined by the American environmental activist Jay Westerveld (Aggarwal and Kadyan, 2011) in a 1986 essay where he discusses the practices adopted by the hotel industry (Motavalli, 2011).

[10] *Whitewashing* is a term that was born to describe situations where companies perform "profit- or brand-enhancing rhetoric despite neutral or even negative performance" (Ruggie, 2017; Park, 2018) caused by a deliberate neglect with respect to previously declared social commitments (Park, 2018).

[11] The term *bluewashing* has emerged to indicate the occurrence under which an organisation attempts at increasing its reputation by agreeing to abide by the United Nations Global Compact (UNGC). Since there are no proper control mechanisms to verify how a company actually behaves, there have been cases in which companies exploit the reputation of the UN to actually boost theirs.

[12] If a company is involved in a *pinkwashing* activity, it means it is using the colour pink and/or pink ribbons to symbolise that it is collaborating to the search of a cure for breast cancer, even though it may be still employing the use of hazardous, and possibly carcinogenic, chemicals in its operations (Lubitow and Davis, 2011).

the environment has often been more evident in the firms' communications than in their actual practices". This is negative not only for the customers, whose opinions get practically manipulated, but also for those other companies that behave much better and whose credibility can be undermined by the confusion that is created in the market: actually, as noted by Alves (2009), the lack of widely accepted standards and specific regulations (Aggarwal and Kadyan, 2011; Stecker, 2016) in social responsibility measurement permits to those corporations which exploit the *green spin* for their own exclusive interest to build an attractive image of themselves in the market, and thus to attract supplementary investments from socially responsible investors. Scholars such as Parkman and Krause (2018) remind, in fact, the necessity of "clear institutional standards or knowledgeable customers to allow firms committed to sustainable practices to differentiate themselves from opportunistic, greenwashing competitors"; they also remind that in several industries the practice of deploying green marketing initiatives just for the sake of boosting sales and charging higher prices (i.e. greenwashing) is still (they wrote their paper in 2018) dangerously diffused, to the detriment of authentic organisations' competitive positions.

As early as in 2003, Laufer already asserted that it is almost impossible to understand how significant a corporation's efforts towards good practices could be, at least without "external, third party verification and monitoring"; as a matter of fact, by quoting a KPMG survey dated back to 2002, he notes that "inconsistency in the approach to verification has adversely impacted the overall credibility of verification with stakeholders"; this theory is supported also by the more recent - and already cited - study of Parkman and Krause titled *The Diamond Model of Authentic Green Marketing* (2018), where they mention that the persistent lack of "standardised, certified, third-party standards" in many industries can undermine the credibility of organisations' social and environmental claims, and favour firms that wish to put in place greenwashing practices.

However, Laufer then recognises that some work has been done over the years to address this scarcity: the number of standards for social accounting has grown, including AA1000[13],

[13] AA1000, which stands for AccountAbility 1000, is a voluntary membership standard developed in1999 by the International Council of the Institute of Social and Ethical AccountAbility (ISEA). It aims at improving the responsibility and performance of organisations, focusing on the quality of their ethical and social commitments.

ACCA[14], the ISO 14201[15] standard and SA 8000[16], to mention a few. Together with him, many other academics - such as Parguel and colleagues (2011) - have shared their confidence in the fact that sustainability standards like these ones could actually obstruct greenwashing practices and reward virtuous organisations.

Ideally, a positive rating provided by a prominent third party should mean that the certified company respects sustainability criteria (Parguel et al., 2011). It is nevertheless dutiful to mention the fallibility of third-party certification: just to give a couple of examples, it was found that the adoption of the ISO 14001[17] certification resulted paradoxically in a greater quantity of toxic air emissions (Russo and Harrison, 2005); moreover, in a Pakistani SA 8000 certified factory 258 employees perished in a fire in 2013, just three weeks before the sadly notorious disaster at the Rana Plaza factory in Bangladesh (Boiral et al., 2017). Accidents like these are beyond tragic, happen way more often than they should and represent one of the many signals which testify that CSR reporting must be taken much more seriously both by private and public actors. Indeed, among the various declination in the greenwashing terminology, a special mention must certainly go to CSR-washing, defined by scholars Pope and Wæraas (2016) as "the successful use of a false CSR claim to improve a company's competitive standing". According to Boiral and colleagues (2017), in fact, greenwashing and CSR-washing are two distinct concepts that mostly differ with respect to the groups of stakeholders they need to mobilise to prevent the "washing" phenomena. The authors bring as an example the one of trade unions, which are considered necessary to implement convincing CSR practices and their related standards: this view is easily agreeable, since, for instance, we could all imagine that with the consistent presence of advocates for labour rights, tragedies such as the Pakistani one mentioned before would very likely not happen.

[14] ACCA stands for Association of Chartered Certified Accountants, a growing reality that believes in the value of accountancy to build a "fairer and more transparent society".

[15] The ISO 14201 is an international standard introduced by the International Organisation for Standardisation (ISO). It explains requirements for self-declared environmental claims, as well as some general and specific evaluation and verification methodologies (Delmas and Cuerel Burbano, 2011).

[16] SA 8000, promoted by SAI (Social Accountability International), is the first international standard which certifies that an organisation is socially responsible. This includes verifying that the latter fully respects the rules of work ethics, firmly rejecting to adopt working conditions characterised by inhumanity, exploitation, unfair salaries and unhealthy workplaces.

[17] The ISO 14001 is another international standard promoted by the International Organisation for Standardisation (ISO); this norm indicates the requirements for the implementation of an environmental management system in any type of organisation (both public and private ones).

CSR initiatives and greenwashing phenomena have been linked by other scholars: for instance, Dewatripont and Tirole (2005) have developed a model which distinguishes between two kinds of greenwashing (Aggarwal and Kadyan, 2011):

- **Hard greenwashing**, that is a practice carried out by companies which disclose positive environmental communication without having implemented any CSR initiative;
- **Light greenwashing** occurs instead when a company lowers the quality level of its CSR activities to shift the focus on green marketing.

The authors have also noted that, generally, the level of CSR activities and the one of greenwashing are negatively correlated: thus, the higher the investments allocated to CSR initiatives by a company, the lower the probability of that firm to put in place greenwashing practices.
If the focus is kept on the sub-concept of CSR-washing, it is worth mentioning the framework developed by Pope and Wæraas (2016), aimed at synthetizing and verifying five conditions, which have been found in literature and are believed by academics to cause CSR-washing initiatives; the authors indeed believe that successful CSR-washing cases happen only when there is the co-presence of all five conditions, which will be examined hereby:

- **1a: "Consumers desire CSR activity".** The authors have found wide evidence in both academic and practitioner literature of the support and demand that consumers are addressing to CSR activities. Because of this high request, the suspicion that some companies may be drafting false CSR statements is real and justified.
- **1b: "Consumers will support CSR activity through purchasing behaviours".** With respect to condition 1a, this one is a bit more controversial. In fact, while the market for virtuous companies' products has steadily grown in the past decades, many papers have found that the market share for those products is still low, if compared to the high growth rates (van Doorn and Verhoef, 2011).

- **2a: “Firms advertise their CSR practices to consumers”.** Advertising of CSR activities has greatly increased over the past years (Pope and Wæraas, 2016). However, the authors have understood that there is no evidence of a strong connection between CSR practices and advertisements.
- **2b: “Consumers are, actually, aware of firm-level CSR advertisements”.** The scholars have proven that this belief is not completely true, since there are very few indications that channels and platform devoted to sponsor CSR initiatives have indeed caused an increase in customers’ awareness.
- **3: “Firms do not put into practice the advertised CSR activities”.** This credence, which basically synthetizes the concept of CSR-washing (advertising CSR initiatives but not putting them in place afterwards) has been found to be varying according to the nature of the policies and initiatives. This finding is line with the final conclusion of Pope and Wæraas’ paper, since they argue that the CSR-washing phenomenon is not as diffused as we believe it is.
- **4a: “Consumers can observe firm-level CSR performance” & 4b: “Consumers do observe firm-level CSR performance”.** The two statements have proven to be discordant: in fact, consumers generally can have a high knowledge of a company’s CSR practices, but many of them clearly do not employ it in their decisions.
- **5: “Consumers award reputation and patronage for CSR statements alone; they are not, rather, deeply sceptical and dismissive of CSR statements”.** This belief is particularly disputed, since Pope and Wæraas have found both evidence of consumers passively accepting CSR claims, and of consumers who actually verify the information they are given.

The authors have added to the CSR-washing path diagram (aimed at linking together the different conditions, and pictured in Figure 1) a further implication, which reads: **“CSR-washing firms receive the same reputational benefits as sincere implementers. This is because consumers value CSR activity, are aware of CSR advertisements, and value CSR advertisements alone, but cannot separate true CSR advertisements from false”**. The findings following this proposition show that, like in CSR-washing practices themselves, there is high uncertainty on the fact that untruthful advertisements are often perceived in the same way as sincere ones.

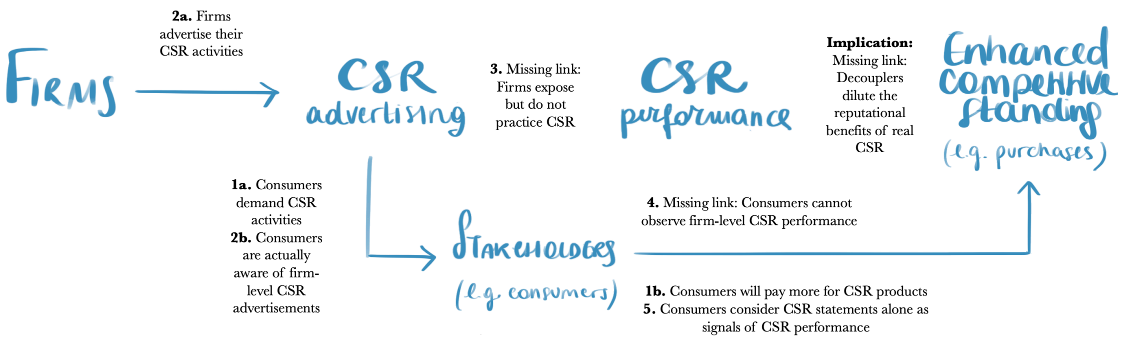

Figure 1: CSR-washing path diagram
Source: Pope and Wæraas (2016)

A lone voice with respect to the attitude shown towards the degree of sincerity of environmental and social responsibility statements is represented by Przychodzeń's paper *Greenwashing - Myth or Reality in the World of Business?* (2013), where the scholar explains that there are several reasons why organisations have begun to really demonstrate commitment in respecting their social and environmental claims; some of these are: increasing the firm's competitive advantage, the presence of sustainability ratings and the risk of being punished for the lack of adherence to CSR claims. Unlike other researchers whose opinions have been or will be examined in this chapter, Przychodzeń sees these factors in a positive manner, arguing that disinformation in corporate social responsibility is not that likely, especially in the world's most developed regions. Moreover, he sees the increasing familiarity of customers with sustainability ratings as encouraging, even though the latter are sometimes not very rigorously measured; nevertheless, one cannot deny that a firm with an unsatisfactory score will not take much time to lose its market attractiveness. Furthermore, the intensification in the use of external auditors[18] for CSR reports analysis is seen as beneficial for the advancement of sustainability in business.

Going back to reporting standards, a more recent development resides in the birth of the Global Reporting Initiative (GRI), which aims at taking sustainability reporting to a whole

[18] Przychodzeń (2013) specifies that four companies have de facto monopolised the external audit market: PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young and KPMG.

new level by bringing the latter “to a level equivalent to financial reporting”. Given the intrinsic qualitative nature of this kind of measurements, this is certainly an ambitious and challenging task to carry on, but it has proven to be essential, together with a much more extensive stakeholder engagement, to hold all corporations finally accountable for their actions. Indeed, sustainability measurements and ratings can really be the turning point for customers to finally be able to make responsible, informed evaluations (Parguel et al., 2011), and for many other categories of stakeholders to understand what projects and companies to support.

As Alves (2009) remarks, only when organisations will really fear to be heavily sanctioned for their false claims, they will change their behaviour and policies. Other scholars, such as Carbone and Moatti (2011) believe that greenwashing is an unavoidable step towards concrete “green actions” and measurement: when there will exist powerful tools for managers and policymakers to actually size the degree of authenticity of a company’s claims (Delmas and Cuerel Burbano, 2011), then the ones in executive leadership positions will eventually convince themselves to actively implement those tools, and most part of the private sector will start shifting towards sustainability. With this regard, Aggarwal and Kadyan (2011) particularly stress the need of ensuring “strict enforcement and compliance of regulations”, penalising those that are found disobeying (by, for instance, imposing bans for certain amounts of time).

The greenwashing practices have so remarkably caught on that researchers, on both the academic and the practitioner side, have started to propose models and to identify patterns to deal with it. One of the most prominent is the one called the “Six Sins of Greenwashing”, released in a 2007 report by TerraChoice Environmental Marketing[19]. In this work, it is argued that a large number of corporations, utilising different methods (such as “eco-labels”, sponsorships, philanthropy activities and even sustainability reports), tend to overemphasise and, in some cases, even misrepresent the social and environmental impact of their products and supply chains. These practices are summarised in the “Six Sins” framework: it is worth

[19] TerraChoice is a Canadian environmental marketing agency and a worldwide leader in environmental certification and green marketing. It was acquired in 2010 by Underwriters Laboratories Inc. (UL), an independent organisation providing safety certifications and sustainability evaluations, in an effort of joining forces in the very crowded field of green labels.

to explore the definition of each of the them, considering that very similar processes could be easily implemented in the impact finance ecosystem:

1. **Sin of the Hidden Trade-Off:** this is about pretending that a product is "green" on the basis of just one of its attributes, or alternatively a very limited set of those. This information is usually not false, but certainly very misleading; this type of behaviour is the most diffused among all of the "sins";
2. **Sin of No Proof:** when there is no disclosure and/or no reliable third-party certification of a company's practices, then there is no proof whatsoever that the latter is behaving correctly;
3. **Sin of Vagueness:** when organisations provide too elusive or ambiguous descriptions of their product, such that they could be easily misinterpreted by some costumers;
4. **Sin of Irrelevance:** this occurs when companies release maybe truthful, but irrelevant information to customers so to deviate their attention from more controversial characteristics of their products;
5. **Sin of Lesser of Two Evils:** this is about diverting the focus from a very relevant and environmentally harmful impact that a product entails to one of its much less important characteristics, but that is actually "green" (e.g. "organic tobacco", or "green pesticides");
6. **Sin of Fibbing:** this is, as the name[20] suggests, about claims that are completely untrue, but that usually do not get exposed because of the lack of independent certification.

For the sake of completeness, it is worth mentioning that some scholars (Delmas and Cuerel Burbano, 2011) have referred to the decision made by TerraChoice in 2009 to add to these six principles a seventh one, called the **Sin of Worshiping False Labels**: this last concerns the behaviours of dishonest companies which simulate third-party environmental certifications to attract their unsuspecting customers. Delmas and Cuerel Burbano (2011)

[20] *To tell a fib* is a colloquial alternative for *to lie* (Source: Oxford English Dictionary).

also mention another categorisation for product greenwashing[21] phenomena: the "Ten Signs of Greenwash" by Ed Gillespie (2008). These partially overlap the "Sins" of TerraChoice; however, it is worth mentioning three of the ten signs[22] which, contrarily, are not repetitive and bring out novel concepts:

- **Suggestive pictures:** the use of imagery that suggests a completely unjustifiable green impact (e.g. flowers blooming from an exhaust pipe);
- **Just not credible:** it happens when a company claims that a dangerous product (e.g. cigarettes) has environmentally friendly attributes;
- **Jargon:** as the name suggests, the use of specific jargon that a customer cannot understand or easily verify.

UC Berkeley researchers Delmas and Cuerel Burbano, in their paper *The Drivers of Greenwashing* (2011), also propose their own framework, aimed at sharing some recommendations to avoid firm greenwashing[23]. They first distinguish between *brown firms* (those that perform poorly at the environmental level) and *green firms* (the companies which have already achieved good levels of environmental performance). The two scholars furtherly divide brown and green firms according to an analysis based on organisations' environmental performances and the relative communication about those environmental performances. The classification is summarised in Figure 2 and results as follows:

- **Vocal green firms:** companies that regularly disclose their good environmental performances;
- **Silent green firms:** companies that have actually implemented virtuous environmental practices, but do not share them publicly;
- **Silent brown firms:** companies that neither have adopted good environmental practices nor disclose information about those they currently follow;

[21] Product greenwashing occurs when the phenomenon regards misinformation about the environmental benefits of a company's product or service (Delmas and Cuerel Burbano, 2011).
[22] The other seven "signs of greenwash" are called: Fluffy language, Green product versus dirty company, Irrelevant claims, Best in class, Imaginary friends, No proof, Out-right lying (Gillespie, 2008).
[23] Firm greenwashing is the action of misinforming consumers about the environmental practices of a company (Delmas and Cuerel Burbano, 2011).

- **Greenwashing firms:** finally, these are the ones that disclose false or misleading positive information about their environmental performances.

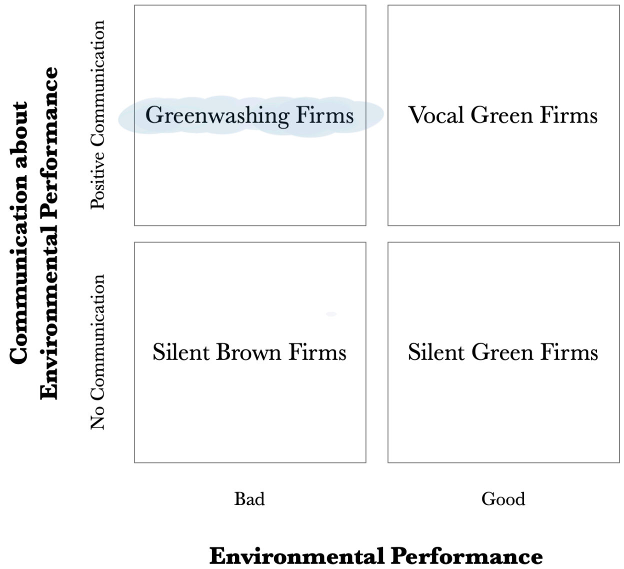

Figure 2: A framework based on Environmental Performance and Communication
Source: Delmas and Cuerel Burbano (2011)

Moreover, Delmas and Cuerel Burbano proceed by differentiating among three types of drivers that influence brown firms in falsely communicating positive information about their environmental procedures:

- **External drivers**, which comprise both stimuli from market actors (i.e. consumers, investors, competitors) and non-market actors (i.e. regulators and NGOs). In particular, they note that regulation of greenwashing is very limited in most countries, while in some others (even developed ones) there is no regulation at all. Additionally, the lack of homogeneity in legislation increases the confusion that multinational companies experience while simultaneously approaching different markets.
  Delmas and Cuerel Burbano also note that the efforts of activists, NGOs and the media can be very beneficial in discouraging some brown firms to release untruthful information (e.g. by spreading information on the most relevant greenwashing cases). The continuously increasing attention of consumers towards environmental matters has very much reinforced the role of such actors; however, the pressure that this level

of attention has been causing, mixed with the desire of maintaining a strong competitive advantage, can lead to a higher incentive for brown firms to falsely picture themselves as sustainable. This makes it tough for customers and SRI investors to identify firms that are actually careful about environmental performances: the researchers indicate that NGOs could actually help SRI investors, whose industry has seen a more than remarkable growth in the past 30 years (Stecker, 2016), in finding authentic green firms to fund.

- **Organisational drivers** are about the atmosphere that reigns inside an organisation in terms of incentive structures, organisational inertia and intra-firm communication. Delmas and Cuerel Burbano mention that it has been proven that asking managers to constantly achieve high financial goals frequently leads to unethical behaviours (Hosmer, 1987).
  Thus, in light of the above, incentive structures should in many cases be revised. The authors furthermore argue that firms that lack an efficient communication system between their different business units (e.g. between marketing departments and product development departments) are more exposed to greenwashing behaviours.
- **Individual psychological drivers** explain how the role of leaders can influence their whole companies' behaviour. The scholars assert that managers habitually have to make their decisions in an unstable environment, characterised by imperfect information. The result can be that decision makers are likely to underestimate the risk of negative consequences that their management style can bring.
  On the contrary, a very constructive example of a leader's influence is that of Yvon Chouinard, the founder of Patagonia. Innovators like him, the authors suggest, could share their best practices and work with other realities in order to spread as much as possible their virtuous interpretation of the business world.

In conclusion, the Berkeley researchers stress the necessity to put in place a multi-stakeholder system, where the most diverse types of actors (businesspeople, NGOs, policymakers, consumers...) all act together to reduce the occurrence of greenwashing phenomena.
More recently, efforts have also been deployed by academics with the aim of proactively creating frameworks to help companies that are willing to actually convey an authentically green image of themselves. One of those cases is undoubtedly represented by Parkman and

Krause's *Diamond Model of Authentic Green Marketing* (2018): it was originally designed taking as a reference the architectural design services industry, where there was a clear evidence of a lack of norms about environmental impact, but it can certainly be modified and adapted to many other markets, the financial one included.

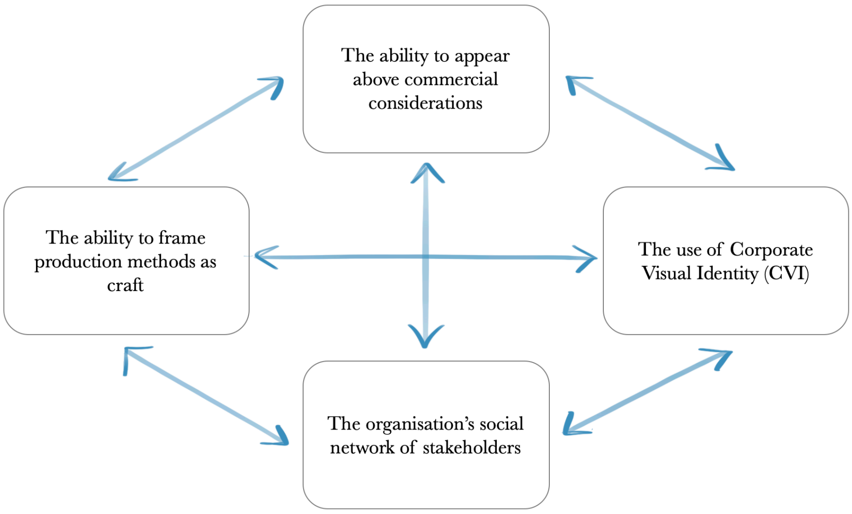

Figure 3: The Diamond Model of Authentic Green Marketing
Source: Parkman and Krause (2018)

As pictured above (Figure 3), the model draws on four themes that, according to Parkman and Krause, should be employed by firms to both inform customers about their genuine dedication to sustainability and to possibly dissuade peers to resort to fraudulent practices. Those four elements are:

- **The ability to appear above commercial considerations.** This factor regards the extent to which customers perceive the firm's product as natural and outside the "reach of marketed culture", i.e. not too advertised and commercialised. In fact, the researchers have found that the less sponsored the environmental claims of a company are, the more clients are prone to consider them valid (Costa and Bamossy, 2001; Holt, 2002; Kozinets, 2002).
- **The ability to frame production methods as craft.** This element relates to the ability of a company of conveying the image of its products as artisanal and

meticulously handmade (Fillis, 2002), but also with an innovative design and high visual appeal.

- **The use of Corporate Visual Identity (CVI).** In the first point of the framework, it was discussed how costumers perceive a firm's environmental claims as more authentic if they are not too exhibited and publicised. However, Parkman and Krause found that a strong CVI - which includes all the symbols and graphical elements (names, packaging, symbols, logos...) that reveal the essence of a firm (Van den Bosch et al., 2006) - should be nonetheless built.
- **The organisation's social network of stakeholders.** The fourth and last element of the *Diamond Model* values the reputation of a company's group of stakeholders and their authenticity in pursuing sustainability objectives themselves. The authors suggest that the association with *high-status* (authentic) actors can boost the company's respectability, while partnerships with *low-status* (inauthentic) actors could undermine the latter.

After having examined the four elements above in light of their company's status, managers should reflect on them to detect the best mix of strategies and tactics (Parkman and Krause, 2018) that will convince consumers of their claims' credibility.

Apart from their undeniable practicality in synthetizing the most common standards of the greenwashing phenomenon and the ways to overcome it, all these frameworks are significant also because they make it perfectly clear that, quoting scholars such as Gray and Bebbington (2007), "the un-sustainability we currently face is deep, systemic and only barely recoverable... we are unable to imagine substantial reductions in un-sustainability without profound structural and systemic change - and soon". As already widely illustrated in this dissertation, impact investing fully embeds the idea of causing, with its presence, a "structural and systemic change" in the financial world: this, however, if this industry stays, as far as it is feasible, in the purest of its forms.

Alves (2009) wonders whether "market capitalism remains the best (and indeed only) practical framework from which to advance the sustainability agenda", even if capitalism itself has revealed a long "history of resource exploitation". He also asks if "liberal capitalism's market efficiency, expressed most ostensibly in its drive toward profit-

maximisation" could be "reconciled with eco-efficiency and the values of sustainability". An answer to these pressing doubts could be Hawken and Lovins' theory on *natural capitalism*, which can be described as a sort of "illuminated" capitalism, since it presupposes that companies should not only value their economic resources, but also their own ability to efficiently use the energy and materials at their disposal and their capability of valorising their human capital (Hawken et al., 2006).
One of the founders of this theory, Amory Lovins, has furthermore embraced the field of "evolutionary development" (Alves, 2009) and has contributed to draft some ideas to advance natural capitalism's goals. These include:

- To recognise that globalisation has overtime generated some damaging behavioural patterns in organisations;
- To promote *biomimicry*[24] models, which entail a high level of efficiency and predisposition to circular economy initiatives;
- To exploit "key areas in the global systems" to prove new models like natural capitalism can work, so to then move the entire system towards sustainable development (Alves, 2009);
- To ask the public and private sectors to embrace "new planetary values" (Alves, 2009), shifting from the mere exploitation of resources to new and intrinsically value adding models.

We should really convince ourselves that it is time for the public and private sector to join forces, whilst trying to innovate a system that is indeed too obsolete to sustain the systemic change that has proven essential for addressing the pressing social problems we are facing in both developed and developing countries. Impact investing could really help in this process, but if we allow it to gain popularity in the markets by letting anyone exploit its appealing "brand", the risk to cause its original meaning to be irreparably softened and distorted will grow exponentially.

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[24] *Biomimicry* (alternatively known as *biomimetics*) is an innovative practice that tries to leverage on and reproduce the biological and biomechanical processes found in nature, with the aim of advancing human mechanisms and technologies.

2.4 ADDITIONALITY

The following chapter will be entirely dedicated to the analysis of all the papers - both on the academic and the practitioner side - that were found when searching for literature on the principle of additionality.
As already declared in the introduction, the whole work will be focused on this theme, which, in this particular period of time when the impact investing industry is gaining momentum but also questioning its true identity, can be the turning point for finally attributing to impact investing an identity that is undoubtedly complementary, but intrinsically separate from the one of "mainstream" sustainable finance. The final purpose, of course, is to avoid as much as possible the manifestation of impact washing episodes, which are absolutely deleterious to the organic growth of the industry. Hence, the principle of additionality is seen as a sort of solution to the possible opportunistic drifts that impact investing could suffer from; this is thus the reason why this chapter immediately follows the one dedicated to the description of those phenomena.

The chapter will be divided in two main sections, purely because the research on the matter followed two macro-themes; the first one is related to the concept of additionality declined to the field of impact investing, while the second one tries to deepen most of the connotations that, over the years, have been attributed to this rather enigmatic term.
The literature review will start with the segment dedicated to the research conducted to find all the fields of study which, in a way or another, have employed the term additionality to advance their research: indeed, it is imperative to first comprehend how the term initially originated and what are the meanings that were attributed to it, before attempting to understand whether some of those meanings were employed to adapt the word to the field of impact investing, or rather the concept of additionality in relation to impact investments is relatively a novel idea.
I shall then finally proceed to analyse the few articles found in existing literature that are aimed at investigating how the principle of additionality has been implemented in impact investing until now. I certainly expected them not to be too many, since additionality is a relative new idea in the industry for several reasons; the main ones are the fact that some

insiders do not consider it to be fundamental for the organic growth of the field, and that those who actually value it as a necessary feature have not yet been able to reach an agreement on what contribution this term should bring to the impact investing industry.
At the very end of this chapter's presentation, the two protagonists of the literature review - the additionality principle and the greenwashing/impact washing phenomenon - will then be joined with the aim of drawing some conclusions on the insights that the review of the pre-existing literature has been able to uncover. For this purpose, I will refer to all those academic and practitioner works that have, in some way, acknowledged the fact that some action must be taken to avoid the risk of impact washing devouring the core meaning and objective of impact investing - that is, in the end, to generate a systemic transformation in the world of finance.

2.4.1 ADDITIONALITY APPLIED TO RESEARCH FIELDS OTHER THAN IMPACT INVESTING

However little the term "additionality" has been treated in relation to the impact investing industry, this is not the case for many other fields of research.
As a matter of fact, as it will be explained in the Methodology section of the present work, thanks to the use of the software Publish or Perish it was possible to construct a database of 960 papers which included the word "additionality" in their title and/or in the body text. Nevertheless, the articles very much repeated themselves in the topics covered and in the use they made of the word "additionality", therefore I could eliminate a substantial number of them and come up with a list of 45 remaining papers, which allowed me to analyse and synthetize how the principle of additionality has been articulated overtime and over the different fields of study.

First of all, the discussion should begin by quoting the definition of *additional* given by the Oxford English Dictionary: dated back to 1563, it reads "That is in addition to something else; added, extra, supplementary" and "A thing which is added to something else; an addition, an extra". There is, actually, an entry referring to *additionality* itself: "The fact or concept of being additional; *esp*. any principle or policy that involves pursuing economic or financial practice according to this concept; *spec.* (in the European Union) the requirement that central funding should supplement, and not replace, national expenditure on a project". The dictionary also mentions a handful of quotations which contain the word: the oldest one comes from a 1959 issue of *The American Economic Review* and concerns the mutual benefits of barter transactions between the US and other recipient countries. Thanks to the information about its birth and background, we can appreciate the novelty of this term, which over the years has been interpreted in many different forms. As a matter of fact, the next chapter will be divided in sections, each one dedicated to one of the different meanings attributed to additionality in extant literature.

ADDITIONALITY IN THE CONTEXT OF R&D SUBSIDIES AND PUBLIC PROGRAMMES

A considerable amount of the literature found revealed to be about the discussion of the effects of R&D subsidy programmes. Indeed, public agencies often show support to Small- and Medium-sized Enterprises (SMEs) by granting them subsidies, aimed at reinforcing their development. In this light, many scholars (Wallsten, 2000; Aerts and Czarnitzki, 2004; Falk, 2007) agree on the fact that the additionality concept was first designed as a tool to evaluate the effects of government support measures in case of market failures (De Smedt, 2015). Furthermore, MacLeod, in his 1974 book *Financing environmental measures in developing countries: the principle of additionality*, mentions that the United Nations Conference on the Human Environment (UNCHE) outlined additionality as referring to funds, specifically "for environmental purposes, additional to the existing flow of resources to the developing world" (UNCHE, 1972).

In this field, many articles talk about "spillover effects generated by public policies" (Méndez-Morales, 2019) or "the extent to which additional innovation activity is stimulated by public support" (Roper and Hewitt-Dundas, 2014): these are the definitions given in this context to additionality, now become a very important concept in the field of innovation policy evaluation, since it basically is a tool to understand what difference a policy makes (Gük and Edler, 2011). The concept has been furthermore divided into four subcategories of effects, which have been mentioned and illustrated by plenty of academics; their descriptions can be summarised as follows:

- **Input additionality**

  A notion attributed to Georghiou (1994), it arises when the public support provided in the form of subsidies for R&D and/or innovation reduces the costs for the firms of implementing such innovative projects, so that companies can increase their private spending for the projects themselves (Gök, 2010). To clarify the definition, it is worth quoting Georghiou (2002) and Knockaert and Spithoven (2009) who explain input additionality as the verification of "whether the firm itself spends at least one additional euro on the research project for every euro received in subsidy".

  Input additionality is also sometimes referred to as **first-order additionality**, because its measurement can be quite immediate, as explained by Autio and colleagues (2008); this last name aims also at differentiating it from **second-order additionality**, which denotes instead the quantification of learning effects resulting from "knowledge spill-overs, horizontal knowledge exchanges between firms, and from other meso- or community-level effect" (Autio et al., 2008).

- **Output additionality**

  Defined as a result-based concept by Knockaert and Spithoven (2009), it in fact measures the amount of output which would not have been obtained without public support (Gök, 2010; Marzucchi, 2012; Kubera, 2016). Output additionality is also determined on the basis of the outputs (hence, the name) of the innovation activities carried out thanks to the received subsidies: these can include new products, new patents to register, new cooperations with other firms, etc.

- **Outcome additionality**

  This concept describes the improvements in the business performance (e.g. the level of sales and profits) achieved thanks to either "new or improved products, processes or services" that could be developed with the help of public support (Georghiou, 2002; Söderblom et al., 2015). According to Goerke and Albers (2016), it is also essential to comprehend the effect of the innovation policy on employment, in a perspective of understanding the degree of welfare-enhancement of the policy itself. Moreover, it is worth reminding that the effects of this last type of additionality tend to evolve in time, so measuring them on the long-term is essential.

Figure 4 schematically sums up the main features of the three declinations of additionality that have been so far explained.

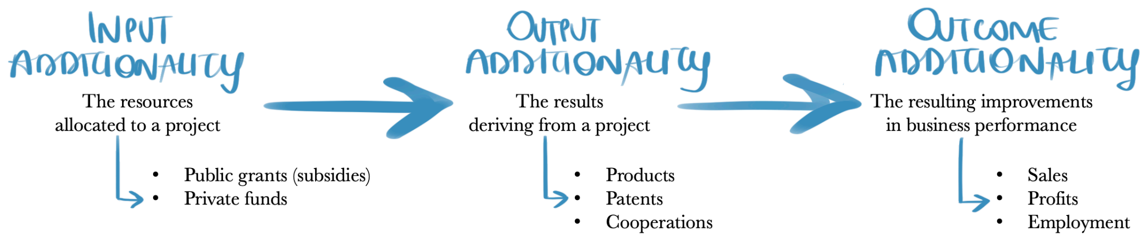

Figure 4: The connection between input, output and outcome additionality
Source: adapted from Goerke and Albers (2016)

- **Behavioural additionality**

  Typically, the impact of innovation policies has been assessed just in terms of input (i.e. the resources dedicated to a project) and output measures (i.e. the results stemming from the project itself), underestimating the potential that those policies could have on the company's rationale and attitude (Kubera, 2016) and, therefore, underrating the learning effects that can be sustained beyond the project's lifetime (Roper and Hewitt-Dundas, 2014): it was in this light that the concept of behavioural additionality was born.

  This declination of the notion of additionality, moreover, stems from the observation that one of the prevalent effects of innovation policy was to adjust the ways in which the company's project was being implemented (Georghiou, 2002). A public body - namely the U.K. Department of Trade and Industry - has classified those changes given by innovation policies in three further subdivisions:

  - **Scale additionality:** it occurs when the activity put in place after the innovation policy is actually larger that it would otherwise have been; an example and consequence of scale additionality could, in fact, be economies of scale.
  - **Scope additionality:** this effect is verifiable when, thanks to the government support, the application of an activity is spread on a much wider range of both applications and markets.

- **Acceleration additionality:** this happens when the project's duration in terms of time is extended thanks to the innovation policy.

Some researchers (i.e. De Smedt, 2015), have then hypothesised some other subdivisions of behavioural additionality. Those include:

- **Risk additionality:** thanks to the effects brought by the innovation policy, companies can think about investing in more challenging projects and in early-stage research.
- **Strategy additionality:** this class of additionality effects regards all the changes in the firm's strategic approach that happen because of the policy.

Georghiou (2002) further adds that two fellow scholars (Bach and Matt, 2002) detected another dimension of behavioural additionality, which is about discovering "permanent or persistent changes" in the company's ordinary activities thanks to the policy intervention; this can happen either at a strategic level or at the level of acquiring new competences. The two academics thus name this novel dimension as **cognitive capacity additionality**, the name coming from the fact that they question whether the policy intervention "changes the cognitive capacity of the agent" (Bach and Matt, 2002). Finally, Chapman and Hewitt-Dundas (2015) postulate the existence of another type of additionality under the umbrella of the behavioural one: **attitudinal additionality**, which is very specific since it exclusively refers to the act of measuring the firms' CEOs level of increase in the propensity towards "innovation, risk and change".

Literature on the additionality generated by public policies does not stop here: indeed, for example, Roper and Hewitt-Dundas (2012) have pointed out that input, output, outcome and behavioural additionality should be joined by two further concepts, which have been named **network (or relational) additionality** and **resilience**: while the first one measures the increases of firms' innovation networks thanks to the adoption of the public policy, the latter examines to what extent the company is able to cope with the intrinsic uncertainty of the business environment.

Furthermore, Weresa and colleagues (2018), in their work *Strengthening the knowledge base for innovation in the European Union*, besides all the previously mentioned ones, cite three more classes of additionality concepts: the first one is represented by **challenge additionality**, which is actually very similar with respect to risk additionality, since it is described as when public funding encourages firms to launch or participate to riskier projects. The following concept is, instead, represented by **follow-up additionality**: this occurs when, with the help of the public policy, it is feasible for the subsidised organisation to start follow-up projects. Finally, the third new effect is called **management additionality** and takes place, as the name suggests, when one of the benefits of public support is an improvement in the firm's management routine.

It should be remembered that, traditionally, the literature about subsidy programmes has very much concentrated on studying the effects of input additionality, almost neglecting those coming from the other types of additionality phenomena.

Coming to the end of this paragraph, a special note regarding public programmes should be dedicated to the definition of additionality given in the context of supranational funds; there is more than one article which refers to the latter, however I will take as a reference the one by Del Bo and Sirtori (2016), whose primary aim is to explore whether and why "EU Structural Funds[25] complement or substitute domestic public funds". In this paper, they state that additionality is referred to "the extent to which additional, supranational funds, allocated to promote economic development in target areas or sectors, increase the total amount of domestic (at the national or regional scale) public spending, instead of replacing it". Fundamentally, it is expected that the additional effect of supranational funds will be to join forces with (and not completely substitute) the domestic funds, with a final - additional - positive impact on the beneficiary's economy.

[25] The EU Structural Funds are the main instrument employed by the European Union in its investment policy; articulated in five different funds, their central aim is to foster the economic growth and the employment rates of the member states (Source: European Commission website).

ADDITIONALITY IN THE CONTEXT OF DEVELOPMENT FINANCE

According to Carter and colleagues' 2018 working paper *The Elusive Quest for Additionality*, the understanding of the principle of additionality in the field of development finance is described as "making an investment happen that would not have happened otherwise", meaning without the intervention of a Development Finance Institution[26] (DFI) or other public sector's organisations such as donor agencies (Koenig and Jackson, 2016); in fact, DFIs are regularly requested to demonstrate and measure their additionality, since sometimes it is not completely understood whether they are actually increasing the amount of the investments directed to the private sector in developing countries, or are just employing their capital to "displace private investors", who would have intervened in those realities anyway (Koenig and Jackson, 2016; Carter et al., 2018). In a similar manner, Heinrich (2014) cites the DCED (Donor Committee on Enterprise Development) *Review of Experience in Partnerships* (2013) to remind that even if donor agencies generally require applicants to demonstrate ex ante and ex post additionality, the related assessments are very limited and imprecise.

Indeed, empirical data show that a strong lack of additionality measurement, and therefore of transparency, is present; according to Heinrich (2014) and Koenig and Jackson (2016), this is due to a number of reasons, including the fact that assessments of additional effects are most of the time too qualitative and regarded as not mandatory for an intervention to go ahead. Plus, obviously, there are not even widely agreed standards on what additionality actually is, let alone on how to estimate its outcomes.

In any case, besides Carter and colleagues' (2018) definition, some other, slightly different ones can be found. For instance, the DCED, while agreeing on the fact that an initiative is additional if no one else would have carried it out, it reinforces the concept by adding that additionality requires also to make said initiative happen sooner than any other donor or investor would have (Heinrich, 2014); in fact, it is worth to quote the definition given in their 2014 working paper *Demonstrating additionality in private sector development initiatives*, which reads: "[Additionality is] the net positive difference that is expected to result from a donor-business

[26] Development Finance Institutions (DFIs) are financial organisations that work to bring capital to private firms in developing countries. Most of them are development banks; however, also bilateral institutions can be found among them, some of which are investment funds (Carter et al., 2018). They are involved in a number of activities, some of which are "primary funtions" (e.g. supporting new companies, investments in intangible capital...) and some others "secondary functions", such as refinancing already existing loans or offering exits from investment to early-stage investors (Carter et al., 2018).

partnership. The extent to which activities (and associated results) are larger in scale, at a higher quality, take place quicker, take place at a different location, or take place at all as a result of a donor intervention" (Heinrich, 2014). In practice, this last description puts the focus on causality, i.e. if a certain additional result has happened *because* of the donor intervention.

Moreover, while the DCED claims that additionality "cannot be proven or exactly measured", it argues, in the person of its researcher Heinrich, that there is anyway room to "enhance [its] assessment in practical ways" (Heinrich, 2014) and proposes an eight-criteria guideline for public organisations to wisely choose what projects to support and an eight-principles one for them to "credibly assess and enhance additionality" (Heinrich, 2014).

THE EIGHT CRITERIA:

1. The enterprise does not have sufficient capital to carry out its project on its own and cannot procure it "within a reasonable time frame" (Heinrich, 2014).
2. The enterprise's management is not able to develop on its own a business model that is so efficient to allow the firm to maximise its social and/or economic development impact.
3. There is strong evidence that the firm would not carry out the project without the subsidy, due to a "perceived negative balance of costs/risks and benefits" (Heinrich, 2014). In fact, additionality is most of the time associated to a higher perceived risk (Sida[27] Challenge Fund Guidelines, 2013),
4. The company would not be able to exploit the services of the public organisation, or services with a similar quality level, at commercial terms.
5. There is sufficient evidence that the initiative to be developed is not similar to other projects already implemented in the market, with or without public funding.
6. The donor's contribution does not displace other "donor-funded support", in whatever form (grants, equity, loans...) it may be (Heinrich, 2014).
7. The intervention of public support is expected to attract other investors that otherwise would have not been interested in the supported firms and projects.

[27] Sida (Swedish International Development Cooperation Agency) is a Swedish government agency that works to reduce poverty in the world (Source: Sida website).

8. The outcomes stemming from the initiative are expected to benefit also the overall business operations of the company, as well as those of other business that operate in the same market and the business environment in general.

THE EIGHT PRINCIPLES:

1. Donors should ask to invested firms additionality-related information in such a manner that the latter are encouraged to share truthful answers.
2. Developing a personal relationship with the investees is particularly significant, at every stage (both when the latter are applying for support and in phase of project design).
3. Donor agencies should always seek to involve third-party experts "in the review and decision-making process" (Heinrich, 2014).
4. It is in any way imperative to try to help companies in enhancing the impact they can achieve, beyond what they have already planned - this is described by Heinrich as the principle of "Adding Additionality".
5. Donors should "consider several types and degrees of additionality" (Heinrich, 2014) to choose those firms and projects that they think would benefit the most from their support.
6. Donors should understand what is the minimum amount of subsidy that is necessary for the desired initiative to take place and take it as threshold from which they should not deviate too much.
7. Quantitative measures and "complicated indices" are not so useful in effectively assessing additionality: in fact, its evaluation should be based on a "clear theory of change" in order to reach a high level of transparency (Heinrich, 2014).
8. The "criteria and process" (Heinrich, 2014) for additionality assessment should always be accurately developed and documented in donor agencies' internal discussions, so to come up with standards and thus increase the credibility of the adopted measures.

As one can argue from reading them, the above criteria and principles are designed to verify the ex ante additionality of beneficiary firms and related projects. This, however, does not guarantee that neither the public organisations nor the beneficiaries will deviate from their agreements; thus, monitoring systems and ex post assessment should really be implemented, even though it is widely agreed that their development is still at its very early stages and that there is indeed much room for improvement. DFIs, donor agencies and other public organisations involved in development finance, Heinrich argues, could actually share the knowledge they have gained with their on-field experience to raise awareness and really advance both theory and practice on the principle of additionality; this would be particularly useful, for instance, to determine what are the initiatives that really allow public resources to complement and not to substitute private ones, thus generating "a real added value" (Heinrich, 2014).

In a similar manner to the context of R&D subsidies and public programmes, where additionality was split in several subcategories, the same approach has been employed in development finance. Indeed, we can distinguish:

- **Financial additionality**
  As Heinrich (2014) argues, this is a sub-category of input additionality, because it is about providing resources that private actors would not have directed to the investments we are referring to in the present chapter. Said resources are usually monetary, and in fact financial additionality happens when DFI interventions propose to finance a project on terms that, it is believed, the market would not accept (i.e. on better terms, holding higher risks in portfolio construction, etc. (Koenig and Jackson, 2016)). In other words, it is the circumstance in which DFIs offer forms of finance that private market investors would certainly not provide. However, Heinrich (2014) reminds that financial resources are not the only benefit public organisations can bring by, and in this light, she mentions **time additionality**, which describes the eventuality in which donor agencies and other public actors accelerate the starting of a project.

- **Investment (or quantity) additionality**

  This type of additionality is oftentimes preferred to financial additionality (Carter et al., 2018); in this case, we refer to an increase in the *quantity* of an investment, with respect to what would have happened with no DFI intercession. Frequently, in fact, the additionality of DFIs' interventions lies in their willingness to grant larger contributions to projects, if compared to what private financiers would have been willing to.
- **Development (or quality) additionality**

  This class of interventions by DFIs aims at changing the nature of investments that private investors would have made, in order for said investments to become more valuable for the investee (Carter et al., 2018). Actually, it has been noted that some DFIs acknowledge the fact that many of their interventions would have happened with or without their participation; however, they usually do increase the impact of those interventions (for example, by posing more favourable terms), so they specifically consider quality additionality as their main model of intervention. Moreover, theory on DFIs' interventions specifies that they increase their quality additionality also by offering supplementary services and benefits, as opposed to traditional investors (Carter et al., 2018); in this way, they are able to further the initiatives' sustainability and scalability (Koenig and Jackson, 2016).

Furthermore, in their study commissioned by the Danish International Development Agency (Danida)[28], Koenig and Jackson (2016) leverage on the work by Mustapha and colleagues (2014) and provide several more shades of the additionality principle; in this case, nonetheless, they particularly focus on the role of donor agencies. These last new categories of additionality are denoted by Koenig and Jackson (2016) as it follows:

- **Aggregation additionality:** the act of backing and aggregating projects in order to differentiate and reduce risks, as well as to share acquired knowledge.

[28] Danida, which stands for Danish International Development Agency, is that branch of Denmark's Ministry of Foreign Affairs that takes care of advancing developing countries' economies by promoting human rights and economic growth (Source: Danida website).

- **Signalling additionality:** when donor agencies take on the role of intermediaries by proving the credibility of the projects they have endorsed and thus making the latter appealing to other investors.
- **Knowledge additionality:** this type of additionality occurs when donor agencies, with their work on the field, improve the quality of investment models and foster knowledge building and sharing.
- **Demonstration additionality:** as the name could suggest, in this instance donor agencies lead by example, proving that it is possible to invest in previously untapped markets and thus serving as de-risking actors in order to attract further capital.
- **Poverty additionality:** this category is particularly relevant since it highlights the role that donor agencies play in developing BoP economies and thus in reducing inequalities, which happens to be one of the most pressing issues our entire world is currently facing.
- **Standards additionality:** donor agencies serve also as mentors for the organisations they support and for the whole industry, hence it is imperative for them to make sure that both investees and other financial operators rigorously adopt the highest environmental, social and governance standards in their activities.
- **Market building additionality:** with their hands-on experience, donor agencies can actually cover the fundamental task of strengthening the market infrastructure and advocating for further research on the industry.

The authors finally remind that yes, it is possible for public actors like donor agencies and DFIs to provide all the above mentioned improvements to the economies of developing countries, however they should always take the time to design their interventions in such a way that it does not support projects which would have gone ahead in any case. Indeed, the risk would not only be that of not respecting the additionality imperative, but also to inevitably waste public resources.

It is equally meaningful to mention that the World Banks' International Finance Corporation[29] (IFC), which is considered the largest DFI in the world, gives its own definition of additionality. Cited by Carter and his colleagues (2018), it is dated back to May 2009 and reads: "IFC's additionality is the benefit or value addition we bring that a client would not otherwise have. In other words, our additionality is a subset of our role that is unique to IFC and that cannot be filled by the client or any commercial financier". Moreover, a technical report for the European Union suggests that additionality is "the *net impact* of an intervention after taking into account what would have happened in the absence of the intervention (reference case)" (Carter et al., 2018).

Coming to the conclusion of this paragraph on the declination of additionality for DFIs, it should not go without mention that the authors of *The Elusive Quest for Additionality*, Carter and colleagues (2018), declare in their paper that they do not see (at least, not currently) additionality as such a fundamental principle, since it embeds the risk of missing investment opportunities that would increase the direction of capital towards countries in need. On the contrary, Danida's Koenig and Jackson (2016) assert that applying the principle is crucial to bring the public and private sectors closer so that they can join forces in the effort of reducing the world's inequalities.

Within the discussion about the principle of additionality in the context of development finance, a special mention should certainly go to the case of microcredit. It, indeed, could help us to approach the analysis of additionality in impact investing, as it demonstrates, like the latter, an interest to contribute to the solution of pressing social problems (i.e., in this particular case, the access to credit of poor communities, which could in this way advance their economic development). As it could be predicted, additionality is, in this instance, thought of as an addition of credit to that normally provided; in most occasions, this is deployed through credit institutions specifically established with the aim of offering microfinance services (Dayachari et al., 2000): exemplary is the case of the Grameen Bank,

[29] The International Finance Corporation (IFC) is a sister organisation of the World Bank and a member of the World Bank Group. It is identified as the world's largest global development institution focused on the advancement of the private sector in developing countries and aims at creating better market opportunities for all people. The IFC has actually declared to commit to the achievement of the Sustainable Development Goals (SDGs) by contributing to "end extreme poverty" and "promote shared prosperity in every country" (Source: IFC website).

founded by the well-known social entrepreneur and economist Muhammad Yunus, who identifies himself as the "banker to the Poor" (Yunus and Jolis, 1998).

ADDITIONALITY IN THE CONTEXT OF CLIMATE INVESTMENTS AND ENVIRONMENTAL POLICY

As noted in the 2018 report of the Climate Policy Initiative (CPI)[30] *Approaches to assess the additionality of climate investments*, written by Escalante and colleagues, the principle of additionality has progressively become a key element in the "climate finance lexicon". They argue that an investment is classifiable as "additional" in the case it determines "a deviation from a BAU (Business as Usual) scenario". They furthermore describe two conditions in which climate investments, made by developed countries and addressed to developing ones, can bring additionality effects: the first one is represented by the transfer of new resources to low- or middle-income countries so that they can advance their methods for fighting climate change. The second one, instead, takes into consideration the effectiveness of the investing initiatives put in place by developed countries.

In relation with environmental policies, a discussion about the utilisation of the term additionality is provided by Gillenwater (2012) in his three-part discussion paper *What is Additionality?*: this is particularly interesting since it connects the concept of additionality to the one of the **baseline**. This last is described as the situation that would arise in the absence of the intervention put in place by the environmental policy (Philibert, 1998; Asuka and Takeuchi, 2004; Gillenwater, 2012), "holding all other factors constant (*ceteris paribus*)" (Gillenwater, 2012); however, for the construction of the baseline, one should not simply take into account the situation that was in effect before the beginning of the intervention (Philibert, 1998), but, instead, consider the changes that would have anyway happened to the original situation had the environmental policy not taken place.
Therefore, the appearance of an additionality effect, Gillenwater contends, is determined by verifying whether "a proposed activity is distinct from its baseline". The complication, in

[30] The Climate Policy Initiative (CPI) is a policy institute gathers 70 between analysts and advisors; its mission is to help institutions, such as governmental and financial ones, but also private companies to sustain growth and, at the same time, address climate risks (Escalante et al., 2018).

these cases, is to assess the causation, i.e. to analyse each of the results generated by the intervention and decide which ones can be attributed to the latter beyond any reasonable doubt.

With regards to climate investments and environmental policies, one should undoubtedly refer to the concept of additionality when put in relation to those carbon reduction projects that can be legally certified to produce carbon offsets[31]. Within this circumstance, literature explains that in the case in which non-additional (i.e. BAU) projects can qualify for carbon finance, then the net amount of greenhouse gas emissions will continuously and inevitably grow, thus questioning the actual truthfulness and usefulness of carbon reduction projects (Ferrey, 2010; McFarland, 2011). Therefore, the notion of **legal additionality** has been conceived in order to represent the situation in which projects or initiatives aimed at generating carbon offsets are not undertaken only because there is a legal obligation that asks so, but because of a proactive willingness to "provide carbon reductions beyond those required by law" (McFarland, 2011).

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Thanks to the analysis carried out in this chapter, we can recognise how some features of the word additionality continue to reappear, even if the term is employed to represent different research fields.

One of those features is the principle of **causality** (i.e. understanding whether the outcomes attributed to an initiative have been actually produced by said initiative, or by other factors (Duflo et al., 2008; Lazzarini, 2018)), in the sense that it is an implication of additionality: as a matter of fact, the word additionality is very frequently used to explain that a change would not have occurred without the presence of a certain - additional - activity (Kölbel et al., 2019). Likewise, in the context of policy intervention (actually, the first one that was addressed in the present literature review) many scholars such as Michaelowa and colleagues (2019) link

[31] A carbon offset is a unit of carbon dioxide equivalent (CO_2-eq) that is avoided in a certain place, in order to compensate the emissions produced elsewhere (Goodward and Kelly, 2010); one tonne of carbon offsets produced signifies that there will be a reduction of one tonne of carbon dioxide, or of its equivalent in other greenhouse gases (GHG).

additionality to the verification of whether a company's project has been made possible thanks to the involvement in a public programme. They further specify that, in order to witness additionality, one must identify an unmet need to which, by means of a specific policy intervention, a solution will be hopefully found.

Other academics reflect that, in the effort of measuring the additionality effects of whatever initiative, one of the most difficult tasks to accomplish is to build up the **counterfactual situation** (McEldowney, 1997; McFarland, 2011; Kubera, 2016), namely what would have happened in the event that the said initiative had not been implemented.

McEldowney (1997), moreover, contends that two concepts close to the one of counterfactual situations - they are considered as the two counterfactual components of additionality (Tokila and Haapanen, 2012), in the sense they tend to reduce it - are those of **deadweight** and **displacement**: while the latter evaluates the "extent to which the generation of a desirable output in one area leads to a loss of the same output in another area" (McEldowney, 1997), the first one estimates the amount of outcome that would have happened had an intervention not taken place (HM Treasury, 2018).

2.4.2 ADDITIONALITY APPLIED TO THE IMPACT INVESTING FIELD

As already announced in the introduction of the present chapter, the current number of papers that approach the issue of the additionality principle in impact investing is very limited. As already extensively described in this chapter's section dedicated to the analysis on extant literature about the impact investing industry, the principle of additionality is most frequently cited as the last pillar of the so-called *impact triad*: intentionality, measurability and additionality. With this regard, this latter is characterised as the willingness by impact investors to direct their capital to those areas where market mechanisms fail or only partially work (Calderini, 2018).

The research for articles that deal with the additionality notion in impact investing started by encountering a paper of one of the most prominent scholars in the field of impact investing, who, since the very beginning of the industry's development, has considered the notion of additionality as necessary: Paul Brest, from Stanford University. In 2013, he, together with Kelly Born[32], wrote an article for the Stanford Social Innovation Review called *Unpacking the Impact in Impact Investing*; this last is undeniably very significant, as it clearly depicts how the application of the additionality principle is fundamental to truly assess which investors are actually pursuing and achieving a concrete social impact with their investments (Barnett and Faisal, 2016; Koenig and Jackson, 2016). Some may argue that it is a relatively old article, being it seven years old; however, considered the paucity of literature on the matter, it still represents a cornerstone of the knowledge we currently have about additionality in impact investing.

Nevertheless, Brest and Born's work begins by presenting the basic characteristics of impact investments, but it soon turns to discussing the **centrality of the counterfactual** in the measurement of impact (Barnett and Faisal, 2016; Lazzarini, 2018): this is a topic that was already encountered when the analysis was still not centred on impact investing. The principle remains more or less the same: Brest and Born (2013), indeed, describe the counterfactual as "what would have happened if a particular investment or activity had not occurred" (as Koenig and Jackson (2016) remind, this view is shared also by a 2015 J.P. Morgan survey of impact investors). Consequently, Brest and Born continue, "for an investment or non-monetary activity to have impact, it must provide *additionality* - that is, it must increase the quantity or quality of the enterprise's social outcomes beyond what would otherwise have occurred". This line of thinking is considerably similar to the one developed in the other fields of study that were previously discussed; as a matter of fact, Brest and Born themselves mention, as an example of this interpretation of the counterfactual, the fact that the latter has been very much exploited in the context of carbon offsets initiatives.

Furthermore, the two academics argue that, presuming that an investee "can productively absorb more capital" at the time of investment, then the latter "has impact if it provides more capital, or capital at lower cost, than the enterprise would get without it" (Brest and Born, 2013).

Leveraging on this assumption, they present five types of *capital benefits* that could be provided by an impact investor and not by mainstream investors; this fact highlights that they could be *additional* with respect to those that are provided by traditional investments, since they might facilitate the invested firms in multiple ways: for instance, in their scaling up, or in

[32] Now Executive Director of the Cyber Policy Center at Stanford University.

refining the methods that the enterprises apply to achieve their social impact objectives. The five *capital benefits* have been originally outlined by Debra Schwartz[33] in the form of five P's, to which Brest and Born sum a sixth one; they are defined as follows:

- **Price -** Impact investors could accept investments whose return is below the market rate;
- **Pledge -** Impact investors/financiers could be willing to assume responsibilities in case of default of the investee (i.e. loan guarantees[34]);
- **Position -** Impact investors/financiers could also allow their investees to consider what is owed to them as subordinated debts[35];
- **Patience -** Impact investors could be less impatient than mainstream investors with respect to their exit from the investment;
- **Purpose -** Impact investors could show much more "flexibility in adapting capital investments to the enterprise's needs" (Brest and Born, 2013);
- **Perspicacity -** Impact investors could certainly be more effective in discovering new and innovative opportunities that mainstream actors are not used to recognise.

Subsequently, Brest and Born touch one that represents a major point of discussion when examining the additionality effect of impact investments; they, in fact, address the distinction between **concessionary** (i.e. an operation whose proponent is willing to let go a portion of financial return, in exchange for a higher degree of social return) and **non-concessionary investments**. They argue that the first ones have impact by definition[36], because, since they are employed to address non-attractive markets (i.e. with low financial returns), they assure capital to companies which, most probably, would have never been taken into consideration by mainstream investors. Thus, the question becomes: can investors consider themselves as

[33] Debra Schwartz was, at the time of writing this article (2013), the director of program-related investments at the MacArthur Foundation. She now serves as the Managing Director of Impact Investments of the same Foundation (Source: MacArthur Foundation website).
[34] A loan guarantee is a promise (by a government or a financial organisation) to pay back someone's or some company's debt, if the borrower cannot pay back for themselves (Source: Cambridge Dictionary).
[35] A subordinated debt is a debt which, in the event that the company that has got into it goes bankrupt or into liquidation, has lower priority with respect to other debts to be settled (Source: Investopedia website).
[36] In reality, there is no certainty for a concessionary investment to reach a positive social impact. Indeed, this kind of investments at very favourable conditions could hide the risk of, for instance, displace healthy competition with other financial players (Brest and Born, 2013).

impact ones if they are willing to provide non-concessionary investments? Moreover, can a non-concessionary investment be additional as well? This is an issue which should be carefully examined to develop a definition of additionality that is certainly aimed at avoiding impact washing, but also at considering all the instances of investors belonging to the impact field.

Coming to the conclusion of the insights provided by Brest and Born on the issue of additionality, it is worth to eventually examine all those types of benefits and supplementary services that could be provided certainly by impact investors, but definitely not by all financial players. Of these latter, Brest and Born mention five, which are defined by the Stanford academics as follows:

- **Finding and promoting impact investment opportunities.** This task is actually addressed to financial intermediaries: their role is in fact of crucial importance, since they could be advantaged in discovering investment opportunities to present to impact investors.
- **Aggregating capital and providing other investment services.** Intermediaries (e.g. fund managers) could be also valuable for their role of possibly reducing "transaction costs by creating economies of scale" (Brest and Born, 2013).
- **Providing technical and governance assistance to enterprises and helping them build strategic relationships.** This function can be deployed by both investors and intermediaries; it consists in assuring enterprises some help with regards to activities they are not very much used to carry out; for example, more experienced financial players could help nascent firms with technicalities and with the construction of a solid network of relationships (with customers, suppliers, other social enterprises, other impact investors...).
- **Gaining socially neutral investors.** This actually represents a rather controversial topic. Brest and Born claim that impact investors who agree to make concessionary investments could serve as "catalysts" for second-round financing by mainstream players, in the event that they are able to prove the actual attractiveness and scalability of a social enterprise's business model.
- **Securing and protecting the enterprise's social mission.** One of impact investors' most crucial duties is the one of ensuring, as far as they can, that the realities

they are supporting do not lose their initial objective of achieving social impact. Brest and Born argue, and rightly so, that social entrepreneurs should be assisted in avoiding *mission drift* dangers especially when they approach socially neutral investors.

In conclusion, given the fact that the supply of such services is typical of impact actors, this list could be read as a series of ideas useful for a greater understanding of what those actors *only* can provide to social business, i.e. what is additional as opposed to what mainstream actors can offer to their investees.

With regards to the other works that have touched the topic of additionality in the impact market, one of the findings that immediately stands out is that academics place a great importance on **causality**, a notion that has been observed to continuously come back in the discussion about additionality. Lazzarini (2018) comments on this last principle precisely by making reference to Brest and Born's (2013) view of additionality, and pointing out that counterfactual scenarios can be constructed in a number of ways: for instance, one approach is that of putting together a group of individuals (i.e. *comparison* or *control group*) that were not exposed to the social impact programme, but with similar characteristics with respect to the ones participating; another, more scientifically accurate way is to make use of *randomised control trials* (RCT).

Nevertheless, other scholars such as Alijani and Karyotis (2019) put a much greater emphasis on another feature attributed to the additionality principle: they, in fact, label the latter as a "distinctive" characteristic of **blended value**, which refers to the ability of organisations to create, at the same time, a positive social, environmental and financial value. They furthermore describe additionality as the element that can allow social enterprises to "achieve their social mission while ensuring continuity, autonomy and growth to achieve social and environmental impact" (Alijani & Karyotis, 2019); however, while it must be recognised that this is a rather diverse perspective from which to observe the concept, the authors do not enter into further discussion, preferring to focus on a broader explanation of the investing *for* impact approach.

On the same line of thinking we find Hillebrandt and Halstead, who in 2018 postulated that **the difference an investor makes** - both by supplying capital and non-financial services[37] (Barnett and Faisal, 2016) - with respect to the performances of the funded organisation is what can be addressed as additionality; they as well reinforce the importance, in order for financial operators to be additional and have a genuine impact, of not choosing to carry on an operation that would have most probably be perpetuated by another investor: in this way, practically, Hillebrandt and Halstead are recalling the value of taking into great consideration the counterfactual situation that would have otherwise occurred and the analysis of the latter. This concept is so significant to them that, later in the article, they propose the idea of **counterfactual social impact**, defining it as “the difference between what happens as a result of your investment and what would have happened otherwise” (Hillebrandt and Halstead, 2018). Interestingly, they furthermore argue that it is appropriate to consider as a displacement effect also the eventuality for an impact investor to conclude an operation that would have alternatively been pursued by another impact investor.
The two scholars’ reasoning about the counterfactual, however, does not stop at this point: as a matter of fact, they leverage on it to further the application of additionality by linking the latter to three types of possible impacts that can be achieved (Hillebrandt and Halstead, 2018):

- **Enterprise impact:** “The counterfactual impact a business has through its products and operations”;
- **Investment impact:** “The counterfactual impact an investment has on the performance of a company or on the wider market”;
- **Non-monetary impact:** “The counterfactual impact an investor has on the performance of a company or on the wider marketplace through means other than providing capital”.

As it can be grasped by the discussion above, these last two authors tend to associate to the notion of additionality the idea of making a difference, may it be through an innovative

[37] Non-financial services include, for instance, networking, capacity building, help with impact measurement procedures, acceleration and incubation programmes.

business model, the good performances of the investees, or the offer of complementary services to the financial ones. In this light, they share six Principles of Impact Investing, asserting that if these last cannot be accomplished, then it is very unlikely for the investor to truly generate a positive impact. The principles will now be cited, focusing on those which particularly embed that "making a difference" approach:

- **Principle 1 - Support companies that benefit (poor) consumers or produce positive externalities.**
- **Principle 2 - Choose a high-impact cause area.** While describing this pillar, Hillebrandt and Halstead mention a tool they have adopted at Founders Pledge[38] to choose the causes to support; it is called the Importance, Tractability and Neglectedness (ITN) framework and consists - as the name could suggest - in reflecting on how many and how badly people are touched by the problem under discussion, on how much feasible it is to improve conditions given the scale of the issue, and finally on considering what degree of emphasis is attributed to the problem at the moment of the analysis, so to deduct whether it is part of an already crowded market (Hillebrandt and Halstead, 2018).
- **Principle 3 - Support companies in uncrowded markets.** Companies in already populated markets, the authors argue, bring with themselves the risk of potentially being easily replaceable by competitors with a similar business model. Thus, firms' counterfactual social impact can be represented by offering their socially valuable products or services on the market sooner than the other market players.
- **Principle 4 - Work in inefficient markets and expect financial sacrifice.** The authors here contend that, in order to be additional, financial operators must offer cheaper capital and/or provide useful non-financial support (Barnett and Faisal, 2016; Hillebrandt and Halstead, 2018); they thus should expect their investments to be not so profitable as "mainstream" ones would be.
- **Principle 5 - Work on problems that are neglected by other impact investors.**

[38] Founders Pledge is a charitable initiative based in London, on behalf of which Hillebrandt and Halstead wrote the report that is here under discussion (*Impact Investing Report*, 2018). Initiated in 2015, it aims at assisting impact investors in building and scaling a sustainable business model: their mission is, indeed, to "empower entrepreneurs to do immense good" (Source: Founders Pledge website).

- **Principle 6 - Work in areas where you have, or can gain, an information or network advantage over other investors.**

Another approach to view the concept of additionality is the one presented by Barnett and Faisal from Openwell Oxford[39]; these two authors have already been cited throughout the present chapter, since in their report *Social Impact Investing: Challenge and Opportunities* (2016) they defend the importance of the concepts so well described by Brest and Born and following academics. However, it is worth reviewing their argument on the fact that an additional characteristic that impact investing can show, with respect to investment approaches that lack a social goal, is that of having a vigorous **multiplicative effect**. Indeed, they argue that impact investors generally put their capital into companies which are in the very early stages of their growth and, thus, unattractive to most financial operators. This circumstance puts impact investors in a situation where they can, thanks to the expertise they hold in recognising truly impactful business models, finance those nascent realities that they see as the most promising in terms of scalability and achievement of a genuine social impact. Once those companies have grown and turned profitable, they will potentially become attractive also to socially neutral investors. The result, Barnett and Faisal claim, is that the market for social impact enterprises will have more capital at its disposal, and therefore be able to reach a much wider number of beneficiaries; to say this phrase in the authors' words, "it leads to a potential scenario where £1 of impact investment has £100 of social return": once a company has manifested the quality of its business practices, it turns from being interesting only to the eyes of impact investors to being attractive also to those of mainstream financial players.

This is certainly a powerful argument to sustain, however one should remember the risk of *mission drift* that some firms may fall into, when attempting to find supplementary capital through traditional channels.

If the focus is shifted specifically towards the Italian impact investing industry, it is worth taking the time to consider the point of view expressed by one of its most prominent actors,

[39] Openwell Oxford, established in 2012, is a social innovation firm that provides support to innovators and creators by bringing them closer to capital and ad hoc consultancy services (Barnett and Faisal, 2016).

Luciano Balbo[40]. In the article *Everything and therefore nothing: why we must reject the 'impact' investors adding nothing new* (2019), published less than a year ago on the European Venture Philanthropy Association (EVPA)'s website as a part of The Impact Papers series, he shows a rather radical approach to the issue of finally defining what impact investing actually is about. As a matter of fact, he argues the following: "Additionality is at the basis of all innovation that a company achieves and therefore cannot be considered as niche in impact investing, but rather as the engine" (Balbo, 2019). With this sentence, he aims at pointing out that intentionality and measurability, while they represent fundamental features to draw the boundaries of the impact investing industry, hold in themselves that subjectivity that has not allowed the sector to avoid the risk of impact washing phenomena perpetrated by mainstream financial players. In fact, at this time there really are no shared methodologies or frameworks that have managed to overcome said subjectivity or that have allowed to compare different investments with a sufficient degree of precision.

Therefore, Balbo contends, the need of a more impartial principle that could help the industry to maintain its initial and intrinsic objective - that of developing innovative business models aimed at solving the most pressing social issues the world currently faces - has emerged; this last principle, according to Balbo, is additionality, which, as stated in the above cited sentence, he considers as the real engine for the organic growth of impact investing. He refers to the traditional venture capital world to remind that something additional is nothing more than what we have always called a "**disruption**[41]", with the only difference that additionality embeds in itself the idea of using such explosive innovative power to respond to pressing society's needs. If we are so naïve to lose track of this concept, Balbo says, impact investing will just quickly transform into a financial product like many others, losing all its potentiality to generate a systemic transformation. It is in this light that the "traditional" distinction between *impact first* and *finance first* investors must be eradicated: impact investors are only those who put the search for innovative solutions at the centre (Balbo calls them

[40] Luciano Balbo is the founder and president of Oltre Venture, the first Italian impact investing fund. An entrepreneur with a twenty-years' experience in PE and VC, he founded the company together with Lorenzo Allevi as an evolution of Fondazione Oltre, the first Venture Philanthropy foundation in Italy (Source: Oltre Venture website).

[41] The term *disruption*, or *disruptive innovation* (an expression coined by the Harvard Business School's professor Clayton Christensen in his 1995 article *Disruptive Technologies: Catching the Wave*) is described by its own developer as "a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors" (Source: Professor Clayton Christensen's website).

solution first investors) and explain to mainstream investors that those ideas which will result scalable and sustainable will then be potentially available to get financed by these latter as well. In this way, it could be easier to detect real impact investors and give them recognition for the fundamental role they play in transforming the financial system in its entirety. It is indeed widely recognised, Balbo conclusively reminds, that decades of exclusive attention to profit making have produced enormous inequalities: if we manage to keep impact investing away from traditional financial mechanisms and to maintain its focus on providing socially valuable and disruptive solutions, it could really be the driving force able to provoke a substantial change in the whole conventional financial market.
As a final insight on the use of additionality in impact investments, it is interesting to cite the definition developed by Bridges Ventures and included in Koenig and Jackson's Danida report (2016). The British impact investment firm, indeed, distinguishes two types of additionality: **investor-level additionality** and **enterprise-level additionality**. The first one is defined as "the extent to which an investor was *integral* to the development or performance of the investment" (Koenig and Jackson, 2016); the last one, on the other hand, is that investment that enables "the investee to deliver a *greater* or *higher quality* of outcome than without the investment" (Koenig and Jackson, 2016). After all, we can understand that applying the additionality imperative is principally seen as not displacing other impact investors or investees' ongoing initiatives.

2.5 THE NEED FOR SHARED PILLARS TO AVOID IMPACT WASHING

In order to let the impact movement scale, we definitely need to leverage on the growing interest that there currently is around it. However, it is necessary to not miss the opportunity of making use of this peculiar moment in time to finally set shared definitions, which is the only way to avoid the pressing danger of impact washing and to preserve the value of this revolutionary way of conceiving finance. As Bugg-Levine and Emerson reminded as early as in 2011, it is imperative that all impact actors join forces to protect impact investing from becoming a "mere marketing tool" or a marketing brand (OECD, 2019).

This whole work stems, in fact, from the belief that, before mobilising too many new players and before widening the boundaries of the industry - which are eventualities that could certainly represent a potential driver for the occurrence of impact washing phenomena - it is imperative to set some concrete, detailed and widely-agreed standards.

Even though the concern regarding the dilution of the concept of impact is relatively very recent, some scholars have already taken the opportunity to talk about this issue and the possible ways to contrast it by addressing them in their papers related to impact investing; it is worth to briefly introduce them, so to have the possibility of get an overview on the magnitude of the problem.

Finlay and Moran, for instance, in their 2019 article about the phenomenon of purpose washing in impact investing funds, note that to meet complex global challenges, impact investing needs to grow in a fast manner (SIIT, 2014). However, with a too fast or too broad expansion, they argue that the danger for impact investments of losing their legitimacy and transparency could be immense. In order to avoid such a circumstance, therefore, both investors and investees should understand what their expectations are with regards to "intentionality, additionality, social impact, financial returns and measurement" (Findlay and Moran, 2019). Nevertheless, the fact that performing impact investments is something that has a different meaning for different people (Merrill Lynch, 2016) and not a unique, shared one is a situation that must be overcome in the shortest possible time, with the development of a more concrete conceptualisation (Merrill Lynch, 2016).

Fortunately, the most prominent experts at an international level seem to have become very aware of this: as a matter of fact, in the 2017 *Annual Impact Investor Survey*, the GIIN research team pointed out that one of the major challenges with respect to the organic growth of the impact investing industry was the "common understanding of definition and segmentation of impact investing market" (GIIN, 2017). Furthermore, by confronting their 2017 report with the newest one, published in mid-2019, it should be noted that researchers found that 4% of their respondents actually even mentioned a worsening in the progress to a common characterisation of impact investing, with respect to two years earlier; even though a four-point percentage may seem irrelevant (especially if it is put in relation with the high number of respondents of the GIIN survey - 253), such a warning, from such an important organisation, should really not be neglected by both academics and practitioners.

Discussions on the integrity of impact investing practices have been addressed, moreover, in a very interesting report by the Global Steering Group for Impact Investment (GSG), where researchers cite industry-based standards as fundamental to ensure consistency and allow comparability between different initiatives (GSG, 2018).

The need for a better conceptualisation of the industry boundaries has been stressed also by the researchers at OECD, who noted that the word *impact* is currently being employed in a rather loose manner (OECD, 2019). In their report *Social Impact Investment 2019 - The impact imperative for sustainable development* they argue that, while the efforts of leading organisations such as the OECD itself, the GSG, the GIIN and others have been crucial for the advancement of the industry, the lack of shared definitional principles still represents one of major barriers to the development of the industry (OECD, 2015). Indeed, they urge industry incumbents to agree on a common language and a set of practices that would allow the industry itself "to gain broader recognition, adaption and credibility" (OECD, 2019); they also stress the fact that policy makers, because of their role of market regulators, should be the very first advocates in trying to limit impact washing phenomena by setting standards able to demonstrate that impact objectives actually represent "a substantive commitment" (OECD, 2019).

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As it can be understood from the brief overview presented above, the perception of the impact investing industry's international representatives is that a standardised definition of the characteristics that an impact investment should possess is fundamental to both advance the field and avoid impact washing phenomena; as it will be discussed later on, the perspective of Italian academics and practitioners is actually not different. This work will therefore try to address the issue and leverage on empirical data in an effort of possibly advancing some understanding on the matter.

3 Objectives & Research Question

On January 12th, 2020 Eurostat published a new statistic which revealed that inequalities in Italy are growing and the social divide between the rich and the poor is continuously expanding, with 20% of the population counting on incomes which are up to six times higher than those earned by the people in most difficulty.
This is unacceptable, especially if we consider that Italy represents one of the most developed countries in the world. As the World Bank's economist Branko Milanović argues in his book *The Haves and the Have Nots* (2010), inequalities are mainly caused by a country's institutional system, hence by the rules of the economic game that nation has decided to play. This is exactly the case of Italy: our economic and welfare system has proved to not be able to efficiently redistribute wealth. In fact, even though our country allocates a considerable percentage of its GDP to the welfare system (Eurostat, 2019), the latter is not able to protect the most vulnerable, therefore letting social inequalities grow uninterruptedly.
Furthermore, we are all aware of the fact that, for a very long time, the world has been convinced that *"the business of business is business"*, as the economist Milton Friedman famously quoted; that means that the private sector has agreed for decades that the only responsibility of businesses was to make profits and distribute part of those to their shareholders, not worrying about the social and environmental consequences of their day-to-day operations. This led to an unceasing growth of polluting practices, accepted as they were the norm, and to workers' exploitation especially in poorest areas of the globe. Although Friedman himself

subsequently and very honestly admitted that his theory was built on wrong preconceptions, the review of extant literature about impact and greenwashing phenomena has confirmed that the belief according to which it is totally normal for enterprises to make money disregarding workers' rights and the environmental implications of their supply chains is still rooted in our capitalistic society.

We have thus arrived at a point in time where these social and environmental issues must be seriously confronted; as introduced in the Literature Review chapter, impact investing was born, inside the financial world, precisely with this objective. What impact investors aim is in fact to provide capital to organisations that have a completely different mindset with respect to the ones previously mentioned: to organisations which believe that it is possible to make money while contributing to solve those social and environmental problems that centuries of complete selfishness have produced.

Thanks to the radical approach which they are characterised by, impact investments have already proven to embed in themselves the potential for a systemic transformation, which is in fact the only viable approach to reduce inequalities and to give voice to all the enterprises that are determined to do business keeping in mind that their actions affect not only their shareholders, but also the community as a whole.

However, like many other industries, impact investing has already been, and will probably continue to be, subject to impact washing phenomena, which may totally undermine its transformative power.

The literature review previously conducted revealed in fact that one issue that the business and financial sectors are now facing is that of impact washing or, more generally, of greenwashing. As widely explained in the previous chapter, in fact, in the recent years we have witnessed attempts by all kinds of companies to picture themselves as sustainable, or on the path towards the sustainability of their operations; but which of them is really speaking the truth, and which of them exploits these topics as a mere marketing tool?

The literature has unveiled quite a few methods to respond to this question; however, in the case it remains unanswered, then the risk is that the new "sustainable" direction taken by the business world really becomes something just aimed at preserving the competitive positions of those incumbents that are already well established in the market.

This issue, as discussed in the Literature Review, has demonstrated to possibly represent the most dangerous threat to the actual willingness of many to solve those urgent social and environmental problems presented at the beginning of this chapter. In a context, in fact, where it is so difficult for consumers and the community as a whole to really distinguish what organisations are actually committed to act responsibly, how can the so needed systemic transformation of the business sector take place? How can a real paradigm shift happen in such ambiguous conditions?

All this reasoning behind the opportunistic behaviours that the sustainably trend may arise can be entirely applied to sustainable finance in general and to the impact investing industry in particular: who is actually committing to these activities because they are convinced of the tremendous effect they can have on society?
If until now the issue has been that of raising, among financial operators, as much awareness as possible on the possibility of investing for producing a social and environmental impact, at this very moment the focus must shift to preserving impact investing's original meaning and objectives from the opportunistic drifts (i.e. impact washing phenomena) that may come from mainstream players. This is crucial to avoid the possibility of seeing the transformative power that impact investing could yield on the financial system being impoverished in such a way that it will eventually become a missed opportunity to generate major social changes.
How is it therefore possible to help the young impact investing industry not to succumb to negative external forces, and therefore impact washing phenomena, in such a phase that is practically the most delicate stage of its growth?
This is, in very generic terms, the leitmotiv of the research question that will be answered by this work.

As argued by Ormiston and colleagues (2015), a lot of academic empirical work still needs to be carried out on impact investing. In particular, significant emphasis should be put on the evidence that neither academics nor practitioners have yet arrived to a practically applicable and unquestionable definition of what an impact investment is: this is one of the biggest reasons why the danger that impact washing phenomena may occur is real and pressing.
Now that impact investing is gaining strength and increasing the size of its deals, the lack of an ultimate definition to screen out what is not a real impact finance operation is indeed a

crucial issue. Shared pillars need to be built in order to have a clear picture of the market: as a matter of fact, Svedova and colleagues (2014), in their study *Demystifying Impact Investing*, claim that with multiple, contemporarily accepted definitions of impact investing, it is impossible to even estimate the true dimension of the movement. Furthermore, this may result in an amplification of the impact washing phenomenon: financial institutions have now understood that "impact" is a very successful brand and therefore could easily employ it just to keep up with their competitors and widen their market share, in an effort of attracting that part of the customer base which is now more and more careful about the impact of its consumption style.

For reasons that will be soon detailed, the focus of the present dissertation will be the Italian impact investing market: although this latter is still at a very early stage of its growth, academics and practitioners already widely agree on a specific definition of impact investing, which is built around the pillars of intentionality and measurability, that have been discussed in the first part of the Literature Review chapter.

However, some between Italian academics and practitioners believe that impact investing's boundaries, to be fully delineated, need the help of a third pillar: additionality.

Extant literature has revealed that experts have yet to come up with an agreement around its definition, therefore generating a substantial research gap with respect to the narrative on impact investing; nevertheless, its current conceptualisation, which has been described as the willingness of impact investors to address areas characterised by capitalisation issues (where they are likely to earn less and risk more for the sake of generating a tangible social impact) shows that this is the principle that might really prevent the occurrence of impact washing phenomena. For instance, because it would be very difficult for mainstream investors, which would arguably never agree to forego a share of their profit in exchange for the generation of social impact, to demonstrate with clear and solid facts that the initiatives they support are additional in this sense.

Therefore, the final decision, also in the light of the insights that emerged from the literature review, is to contribute to the extant knowledge on additionality by advancing its conceptualisation in an operational manner, i.e. studying the perspectives of Italian impact investors on the subject; in this way, it is more likely that the research output will be constituted by an immediately applicable definition, able to promote an organic growth of the Italian impact investing industry in a financial world that seems so much vulnerable to impact washing phenomena.

As briefly anticipated earlier on, the choice is to narrow the research field down to the Italian ecosystem, for two essential reasons; first of all, it is in this way possible to involve the Italian impact investing practitioners in a series of semi-structured in person interviews. The second motivation, instead, is driven by the desire to demonstrate how impact investing is a financial practice that should be adopted worldwide, thus not only in underdeveloped countries; as a matter of fact, we have discussed at the beginning of the chapter how the social inequalities that impact investing wishes to eliminate are actually continuously growing in our country, generating a social divide that is tremendously harmful with a view to sustainable development.

To conclude this discussion, the final formulation of the research question that will be addressed by the present dissertation can be synthetized in the following way:

How to formulate the principle of additionality so that it can be useful to limit impact washing phenomena within the Italian impact investing industry?

4 Methodology

The fundamental purpose of this chapter is to explain all the methods adopted and followed to be able to perform the research and, subsequently, to draft the present dissertation. Since this work has required to complete different phases, all with their peculiarities, I shall reserve to each of them a dedicated description in the following paragraphs. The figure below (Figure 5) is a synthesis of the main steps that have been necessary to carry on this work.

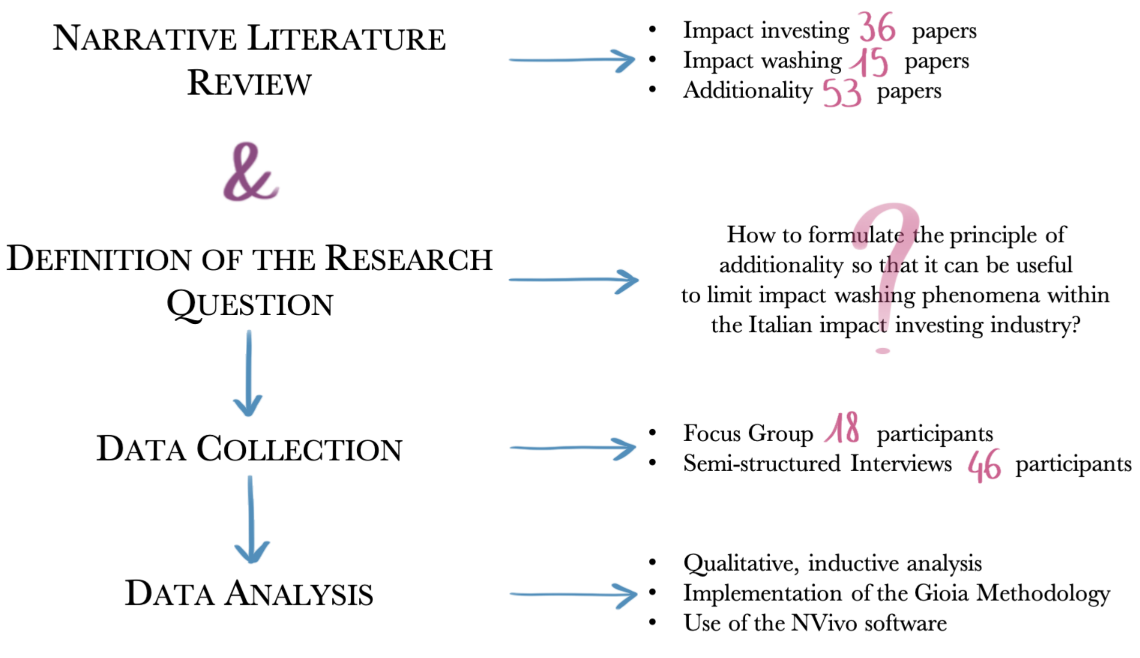

Figure 5: A schematisation of the main methodological steps

The first description will be dedicated to the first task that was carried out: the review of existing literature on the subject of impact investing. Indeed, after having identified the very general topic that address by thesis (e.g. the development of Italian the impact investing industry), I immediately leveraged on the knowledge offered by the scholars working in the field to gain a broad idea of the current state of the art; then, as it will be explained in the dedicated section, further examination of extant literature was performed as soon as the research question progressed in its delineation.

Secondly, having decided to focus the analysis specifically on the Italian impact investing market and on the conceptualisation of one of its prominent principles (i.e. additionality), thanks to the support and recommendations of my supervisor and co-supervisors I was able to reinforce the theoretical research with an empirical one, based on the conduction of semi-structured interviews to Italian impact investors and intermediaries. Those, actually, were preceded by the arrangement of a focus group, which served as a starting point of discussion in preparation for the interviews, that were proposed to practitioners soon afterwards. The description of both the organisation of the focus group and the conductions of the interviews will be extensively detailed in the paragraphs below.

Finally, the conclusive section of the present chapter is dedicated to the most relevant part of research work: the data analysis and the relative description of the findings. I will thus clarify the way in which it was possible to extract relevant information and how the latter will be useful for the advancement of the theory and practice on the principle of additionality, which is expected to give some contribution to the organic growth of the Italian impact investing industry, thus avoiding the occurrence of impact washing phenomena.

4.1 Literature Review

The literature review consists in the collection and systematic analysis of prior scholarly works on a particular topic and/or area of study (Bangert-Drowns, 2005). This process is of fundamental importance because it allows researchers to reinforce their knowledge of the matter, to verify that they are not just solely repeating what has been already discovered by previous scholars, and to demonstrate that the work being conducted is built on solid theoretical foundations (Feak et al., 2009). Moreover, reviewing as many works as possible on the topic of interest is the best way to discover gaps in the literature that should be addressed, in order to advance both theoretical and practical knowledge about the research subject.

The approach adopted is that of a **narrative literature review**, which can be defined as a "comprehensive, critical and objective analysis of the current knowledge on a topic" (Baker, 2016). In particular, it was carried out what Onwuegbuzie and Frels (2016) identify as one of the four[42] most common types of narrative literature review: the **general literature review**. In fact, the latter is specifically suitable to be employed as the introduction of a dissertation project, since it requires "a review of the most important and critical aspects of the current knowledge on the topic" (Baker, 2016) and a preliminary definition of the work's research objective, which in this case can be summed up as "finding ways to formulate the concept of additionality to minimise impact washing phenomena in the Italian impact investing industry".

After having defined what approach to adopt for conducting the literature review, a great number of both primary and secondary data sources[43] was analysed, meaning academic papers and practitioner researches, reports, as well as a few online articles, academic dissertations and book chapters.

Firstly, right after starting the thesis work, I began searching for any type of material that could provide a comprehensive overview of the impact investing industry, from its birth in 2007 up until now. Then, as the research question began to develop, it was necessary to establish two additional streams of research; indeed, the first one was aimed at investigating the notion of impact washing in impact investing but, given the paucity of information on the matter, also in all the other fields that have experienced similar issues. In the end, I

[42] According to Onwuegbuzie and Frels (2016), the other three types are the theoretical literature review, the methodological literature review and the historical literature review.

[43] Primary data sources provide original information on a certain subject; an example could be that of papers published in academic journals which propose a new conceptualisation by describing the methodology employed in the research, as well as a detailed explanation and discussion of the findings (Persaud, 2010).
On the other hand, secondary data sources represent material that has been produced leveraging on the said primary sources; they include, for instance, research summaries divulged in books and magazines, but also critical studies of the work of other authors (Weidenborner and Caruso,1997; Galvan, 2013).

devoted myself to a very extensive exploration of all the ways in which the term additionality has been employed; the research involved a collection of data that comprised all the possible fields of study, so to make sure to gain the most complete picture of its utilisation over the years.

All the material collected was finally reported, analysed and summarised in a dedicated Excel file. It was constituted by a table, whose subdivision in columns, each one dedicated to one relevant aspect[44] of the information necessary to be gathered for studying extant literature, guided me throughout the review of each article and facilitated the subsequent draft of the Literature Review chapter.

For the sake of completeness, it should be mentioned that, after having downloaded all the papers that could be helpful for the revision of literature, they were immediately stored on the Mendeley Desktop Software[45], in order to not lose track of any of them and be advantaged in both the citation process and in the construction of the bibliography from the very beginning of the writing process.

4.1.1 IMPACT INVESTING

The process of looking for academic and practitioner material that discussed the characteristics of the impact investing industry was, as already mentioned, one of the very first steps in the development of the present dissertation.

Since the dissertation project has been for quite some time combined with other commitments, the search for impact investing papers took quite some time to complete; it was in fact conducted between the months of April 2019 and November 2019.

[44] The Excel table was organised 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.

[45] Developed by Mendeley Ltd. in 2008, Mendeley Desktop is a free reference management software that allows researchers to store, organise and share papers, as well as to find additional relevant material thanks to the suggestions provided by the software itself (Source: Elsevier and Mendeley website).

The latter involved the use of multiple databases that are very popular in the academic community, such as Google Scholar, Scopus, Microsoft Academic and Web of Science; a copious number of keywords were also employed: in fact, I tried to come up with the highest amount of word combinations, in order to avoid the eventuality of losing some relevant content along the way. The above-mentioned keywords are reported in the following table (Table 1):

Impact investing
Impact investment
Impact finance
Social impact investing
Impact investing market
Impact finance investment
Social impact bonds
Social enterprise investment

Table 1: A list of keywords to search for impact investing papers

With regards to the Scopus database in particular, the search field was narrowed down by selecting only some categories from the Subject Area options (i.e. Business, Management and Accounting, Social Sciences, Economics, Econometrics and Finance, Engineering).

All the chosen keywords were entered in both Google Scholar and Scopus, in order to double-check the results, while the Microsoft Academic and Web of Science databases were only briefly employed for research refinement purposes.

The main differentiation criterion to decide whether to include the papers detected during the search was to read their abstracts and the related keywords, as well as to have a look at their indexes, if provided.

The final search returned 21 academics papers and 15 practitioner works. As far as the academic ones are concerned, they most came from scholarly and peer-reviewed journals such as those listed in the table shown in the next page (Table 2):

Business and Human Rights Journal
Journal of Business Ethics
Journal of the Community Development Society
Journal of Small Business & Entrepreneurship
Journal of Social Entrepreneurship
Journal of Sustainable Finance & Investment
Research in International Business and Finance

Table 2: A list of academic journals consulted during the literature review process

In addition to those presented above, other very reliable sources included the Harvard Business Review, the Routledge Handbook of Social and Sustainable Finance and the Stanford Social Innovation Review.

Instead, with respect to practitioner sources, the reports drafted by the GIIN, the GSG, the Nesta Innovation Foundation and the OECD proved to be of fundamental relevance.

All the material found was then registered into the previously mentioned Excel file and analysed according to the provided framework.

4.1.2 Impact Washing

There is very little literature about the occurrence of impact washing phenomena in the field of impact investing. As a matter of fact, it was possible to retrieve only one article, published by the Social Responsibility Journal, which approached the subject.

Thus, the choice was to enlarge the perspective by deploying a broad analysis of the impact washing theme, declined in most of its forms, of which the most widely known is greenwashing, i.e. the claim of adopting sustainable practices when it is actually not the case.

The search, which was performed between the months of August 2019 and December 2019, saw as the most used databases Google Scholar and Scopus; same as with impact investing, I tried to put in the search engine the highest possible amount of keywords. The most useful were those reported in the table that is presented in the following page (Table 3):

Impact washing
Greenwashing
Green washing
Greenwashing impact
Greenwashing impact investing

Table 3: A list of keywords to search for greenwashing papers

The final sample was constituted by one article related to impact investing and 14 academic papers describing predominantly greenwashing and CSR-washing occurrences.

4.1.3 ADDITIONALITY

With respect to the search of material discussing the topic of additionality, a distinction must be deployed: in fact, two different approaches were used depending on whether I aimed at finding papers that talked about additionality within the context of impact investing or within other fields of research.

In the case of "general material" about additionality, I figured that it would have been easier and faster to exploit the Publish or Perish software, which is a computer programme that retrieves and examines academic citations (Harzing, 2016). In it, *additionality impact investing* was set as the keyword and Google Scholar was picked as the search engine of choice, being it the one that could have potentially discovered the highest amount of useful papers.
Indeed, the search on Publish or Perish returned 960 articles; the list was saved in an Excel sheet in order to be subsequently analysed; the examination took place between the months of December 2019 and January 2020.
It was necessary to significantly lower this quantity, so I first deleted some of the articles by reading their titles (some resulted, as a matter of fact, completely unrelated to the concept of additionality). It was then possible to notice that some papers were present twice in the database, and therefore the doubles were deleted; essentially, I kept the articles for which the

term "additionality" was in the title, plus some others which proved to be pertinent according to the title itself. At this point, I was left with 85 papers. The last step involved the reading of their abstract in order to double-check their relevance. It was finally possible to cancel another 40 articles, which showed to practically repeat the same concepts already discussed in other works. The final sample, therefore, resulted to be composed of 45 papers, most of them of academic nature.

Instead, as far as the material about additionality related to impact investing is concerned, the search was deployed between July 2019 and December 2019; it more or less reflected the one already conducted on impact investing, therefore involving the use of scholarly databases, especially Scopus and Google Scholar. As it could be easily imagined, the literature on this matter is particularly limited: I was indeed able, after carefully reading the abstracts and the whole text, to register in the database only eight papers, four of academic provenience and four of practitioner provenience.

4.2 Data collection

4.2.1 Focus Group

A preliminary step with respect to the conduct of the semi-structured interviews was the organisation of a focus group, which consists in a group interview where the interviewer, who in this instance is also called moderator, tries to investigate the respondents' opinions towards a topic/phenomenon to which the latter are all exposed (Trinchero, 2008).

The event was held on May 24th, 2019; those invited to the seminar resulted to be 28 representatives of the organisations that are considered the most relevant and experienced players working in the Italian impact investing industry. Of those 28, 18 subjects positively responded to the invitation; although they did not represent all the entities recognised as the most prominent, they still formed a heterogeneous group of players coming from various sectors: in particular, the group was composed of representatives coming from the organisations listed in the following table (Table 4; some organisations saw the participation to the focus group of more than one representative):

5	Commercial Banks
2	Family Offices
2	Regional Financial Institutions
7	Funds[46]
2	Banking Foundations

Table 4: The types of organisations that participated to the focus group

At the time of the event, the method applied to hold the focus group was the Chatham House Rule. As reported on the Chatham House[47] website, the definition reads as follows: "When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed". The approach utilised during the workshop was very inspired by this technique: as a matter of fact, most of the questions proposed (i.e. 13 out of 16) were closed-ended questions with multiple choice answers. To guarantee the anonymity of respondents, the method that was employed to ask the questions was the use of Poll Everywhere (Poll Ev), a web-based response system firstly designed to increase classroom engagement by incorporating answers to polls during lectures. The platform is actually very intuitive to use, since the designated respondents only have to open the Poll Ev website in their devices' web browser and join the presentation started by the interviewers; the answers will then be aggregated by Poll Ev, which can as well provide real time diagrams and charts.

On the other hand, three out the 16 questions did not follow the Chatham House Rule, since it was demanded to the invited investors and financiers to provide very quick answers (of a

[46] The funds operate either as private equity funds or as venture capital funds.

[47] Chatham House is the alternative name for the Royal Institute of International Affairs, which is a British research centre and policy institute whose mission is to "help governments and societies build a sustainably secure, prosperous and just world" (Source: Chatham House website).

maximum length of two minutes) to open-ended questions about pressing issues that have either emerged or are emerging in the Italian impact investing industry.
The answers given during the focus group proved to be very useful to grasp some very initial inspiration for the successive draft of the semi-structured interviews' protocol.

The whole event was recorded so to have the possibility of performing an in-depth analysis on it at a later time. Indeed, after the conclusion of the workshop, I proceeded in putting together a Word document containing a recap of all the answers given by all the experts that were present at the meeting. In particular, for what concerns the insights shared by participants through the open-ended questions, I transcribed them verbatim (Hsieh & Shannon, 2005) and subsequently reported them in an Excel file as well, which served as a database for a following analysis that was deployed thanks to the use of the NVivo software (whose functionalities will be described later on in the present methodological chapter).

4.2.2 INTERVIEWS

After the preliminary step of the focus group, it felt very much needed to conduct a more in-depth analysis with respect to the topics that were briefly covered during the workshop; as a matter of fact, it was then chosen to conduct a series of interviews, in an effort of fostering the dialogue between academics and practitioners (Carè and Wendt, 2018) and with the aim of building an accurate picture of the Italian impact investing market.

The interview process began with the construction of the reference population of possible respondents, a task that was carried out with the help of an Excel database that I previously began to build. Indeed, starting from the month of March 2019, a desk research was initiated, aimed at building a comprehensive picture of the Italian impact investing ecosystem, beyond those organisations that had been invited to the May focus group and, therefore, already with a high degree of influence in the industry.
Said research consisted in trying to detect all those organisations for which it was possible to trace on public sources (i.e. press releases, statements, etc.) evidence of activities in progress

or a concrete intention to undertake initiatives within the scope of impact investing in the Italian market. All the relevant information (e.g. legal form, role in the industry, area of activity, amount of capital invested so far, preferred investment sectors, etc.) about already identified investors/financiers, but also related to the new entrants were thus collected. This information was obtained, as briefly mentioned before, on the organisations' websites, as well as from several press releases that appeared mostly on financial newspapers and social innovation-related websites. To find more easily news of this kind, a dozen of keywords[48] has been exploited. It is possible to read them in the following table (Table 5):

Impact investing Italia
Attori impact investing
Fondazioni impact investing
Banche impact investing
Finanza ad impatto sociale Italia
Fondi di impact investing
Operazioni impact investing Italia
Impact investing Milano
Fondi social impact
Ingressi finanza impatto sociale

Table 5: A list of keywords to search for evidence of impact investing initiatives in Italy

Furthermore, additional information has been obtained by constantly staying updated on the latest news from the sector thanks to the Google Alert function, which allows to receive a daily email carrying the most important news on impact investing found in web pages, newspaper articles, blogs or scientific researches (Source: Google website).

[48] Since the research was aimed at obtaining information related to the Italian impact investing market, the keywords were written in the Italian language. Here is the translation for each of them: *impact investing Italia*, *actors impact investing*, *foundations impact investing*, *banks impact investing*, *impact finance Italy*, *impact investment funds*, *impact investing initiatives Italy*, *impact investing Milano*, *social impact funds*, *new entrants in social impact investing*.

Through the mapping process, it was possible to trace the existence of impact investing initiatives, or of a strong intention to undertake them in a short-term period, for a total of 58 financial operators.

The aim was to build a reference population that was as much heterogeneous as possible with respect to the characteristics of the interviewees, so to come up with a comprehensive picture of the Italian impact market's state of the art. It is thus for this reason that the list of impact players comprised both the entities operating mainly with equity instruments (*equity-based* actors) and those generally employing debt instruments (*debt-based* actors). The graph shown below (Figure 6) synthetizes the types of organisations that constitute the reference population.

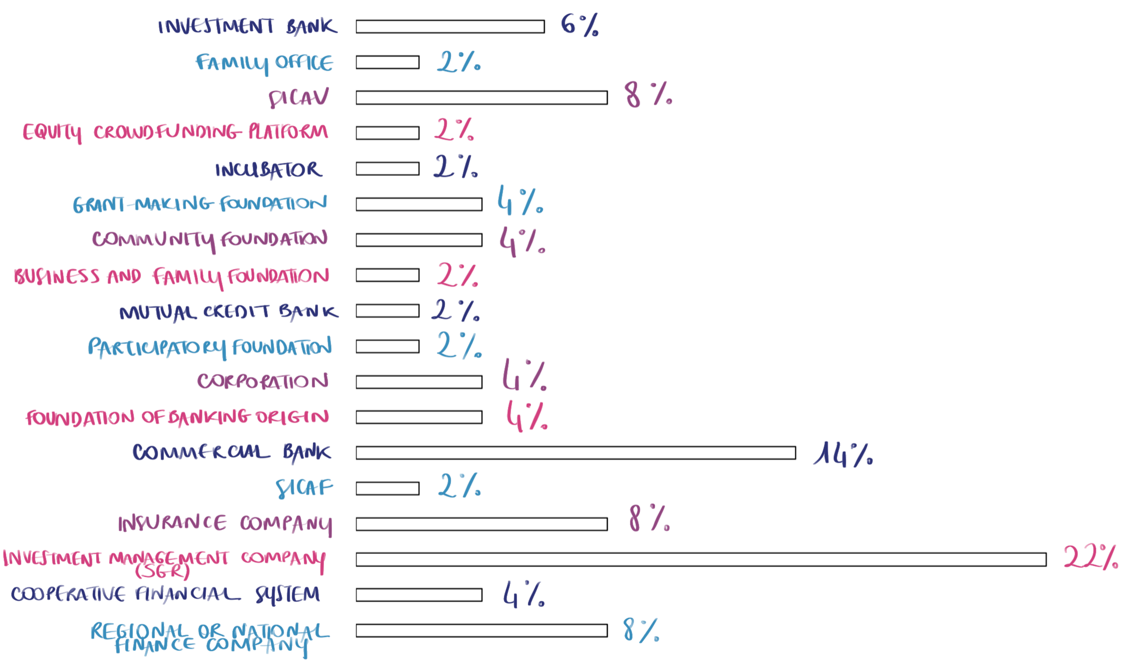

Figure 6: The types of organisations constituting the reference population (N = 50)

All the organisations were contacted to ask for their availability to be interviewed; the final number of subjects that agreed to give their contribution to the study was 46. After the completion of the interviewing process, it was possible to realise that eight out of the 46 actors did not possess characteristics that could identify them as impact investors; in particular, five are actually involved in financing and/or investing operations which do not fall into the boundaries of impact investing, but more into those of other forms of sustainable finance (i.e.

SRI and ESG investing). The other three, instead, are impact actors but only serve advisory purposes.

It was therefore decided to remove those eight players from both the reference population and the reference sample, keeping in mind that these latter were aimed at listing and classifying exclusively the operators that result to be actually involved in the impact investing industry by means of investing and/or financing activities. This is the reason why the reference population has gone from being composed of 58 subjects to being constituted by 50 subjects; further details regarding the population are reported in Table 10, which can be found in the Attachments section (Attachment 1) at the very end of the present work.

Therefore, the final sample for the analysis resulted to be made up of 38 organisations (i.e. the 46 organisations that agreed to be interviewed, minus the eight subjects that got removed from both the population and sample). In the next pages, a few details on the reference sample itself and a brief comparison of it with respect to the reference population will be deployed.

The Reference Sample

The following table (Table 6) is aimed at presenting the characteristics of the operators currently involved in the Italian impact investing market that agreed to participate to the present research.

Given the confidential nature of most of the information shared by the respondents, the names of the organisations are not mentioned; however, the data reported in the last six columns of the table provide a relevant amount of information that can certainly help in reconstructing the nature of each single institution.

The first two columns, instead, serve another purpose: in particular, the second one is meant to clarify whether the organisation participated to both the focus group and the interview, or only to the final interviewing process.

The content of the first column, on the other hand, will be particularly useful for reading the Results sections of the present work, since the latter contains a great amount of citations taken from the interviews' transcription. As a matter of fact, each organisation will be linked to the quote provided by its representative (or representatives) thanks to an identification code (ID) that has been obtained by associating to the Organisation Typology acronym a progressive number, depending on the actual quantity of institutions of the same type present in the sample: to give a quick example, if a citation has been derived by interviewing the representative of a commercial bank (i.e. CB) which, in the present table, is preceded by four other commercial banks, said citation will be codified as CB5.

ID	Participation to research	Asset owner and/or manager	Organisation Typology	Geographical area covered	Specialised or General Financial Operator	Year of entry in the industry	Equity- or Debt- Based
RNFC1	Interview	Asset manager	Regional or national finance company	National	General operators with activities dedicated to impact	2017	Equity-based
CFS1	Interview	Asset manager	Cooperative financial system	National	Operators specialised in activities dedicated to impact	2015	Debt-based
SGR1	Interview	Asset owner and asset manager	Investment management company (SGR)[49]	National	General operators with activities dedicated to impact	2019	Equity-based
IC1	Interview	Asset owner and asset manager	Insurance company	National	General operators with activities dedicated to impact	2019	Equity-based
SICAF1	Focus Group + Interview	Asset manager	SICAF[50]	International	Operators specialised in activities dedicated to impact	2019	Equity-based
SGR2	Interview	Asset manager	Investment management company (SGR)	Regional (Central-Northern Italy)	General operators with activities dedicated to impact	2020	Equity-based
CB1	Focus Group + Interview	Asset manager	Commercial bank	National	General operators with activities dedicated to impact	2017	Debt-based
CB2	Interview	Asset manager	Commercial bank	National	General operators with activities dedicated to impact	2010	Debt-based
CB3	Focus Group + Interview	Asset owner and asset manager	Commercial bank	National	General operators with activities dedicated to impact	2013	Debt-based
FBO1	Focus Group + Interview	Asset owner and asset manager	Foundation of banking origin	Regional (Northern Italy)	General operators with activities dedicated to impact	2013	Equity-based
C1	Interview	Asset owner and asset manager	Corporate	National	General operators with activities dedicated to impact	2017	Equity-based
PF1	Interview	Asset owner and asset manager	Participatory foundation	International	Operators specialised in activities dedicated to impact	2009	Equity-based
MCB1	Interview	Asset manager	Mutual credit bank	National	General operators with activities dedicated to impact	2016	Debt-based
RNFC2	Focus Group + Interview	Asset manager	Regional or national finance company	Regional (Northern Italy)	General operators with activities dedicated to impact	2020	Equity-based
RNFC3	Focus Group + Interview	Asset manager	Regional or national finance company	Regional (Northern Italy)	General operators with activities dedicated to impact	2019	Equity-based
BFF1	Focus Group + Interview	Asset owner and asset manager	Business and family foundation	Regional (Central-Northern Italy)	Operators specialised in activities dedicated to impact	2016	Equity-based
CF1	Interview	Asset owner and asset manager	Community foundation	National	General operators with activities dedicated to impact	2018	Equity-based
FBO2	Interview	Asset owner and asset manager	Foundation of banking origin	Regional (Northern Italy)	General operators with activities dedicated to impact	2011	Equity-based
GMF1	Focus Group + Interview	Asset owner and asset manager	Grant making foundation	National	Operators specialised in activities dedicated to impact	2017	Equity-based
GMF2	Interview	Asset owner and asset manager	Grant making foundation	Regional (Northern Italy)	Operators specialised in activities dedicated to impact	2007	Equity-based
SGR3	Focus Group + Interview	Asset manager	Investment management company (SGR)	National	General operators with activities dedicated to impact	2017	Equity-based
SGR4	Interview	Asset manager	Investment management company (SGR)	International	Operators specialised in activities dedicated to impact	2020	Equity-based
I1	Focus Group + Interview	Asset manager	Incubator	National	Operators specialised in activities dedicated to impact	2015	Equity-based
CB4	Focus Group + Interview	Asset manager	Commercial bank	National	General operators with activities dedicated to impact	2007	Debt-based
RNFC4	Interview	Asset manager	Regional or national finance company	National (mostly Central-Southern Italy)	General operators with activities dedicated to impact	2015	Equity-based
C2	Interview	Asset owner and asset manager	Corporate	National	General operators with activities dedicated to impact	2017	Equity-based
ECP1	Interview	Asset manager	Equity crowdfunding platform	National	Operators specialised in activities dedicated to impact	2018	Equity-based

[49] SGR represents the acronym for Società di Gestione del Risparmio (Asset management company).
[50] SICAF means Società di Investimento a Capitale Fisso (Investment company with fixed share capital).

SICAV1	Focus Group + Interview	Asset manager	SICAV[51]	National	Operators specialised in activities dedicated to impact	2006	Equity-based
SICAV2	Focus Group + Interview	Asset manager	SICAV	National	Operators specialised in activities dedicated to impact	2013	Equity-based
FO1	Interview	Asset owner and asset manager	Family Office	International	General operators with activities dedicated to impact	2013	Equity-based
SGR5	Focus Group + Interview	Asset manager	Investment management company (SGR)	National	Operators specialised in activities dedicated to impact	2016	Equity-based
SICAV3	Interview	Asset manager	SICAV	International	General operators with activities dedicated to impact	2015	Equity-based
SGR6	Interview	Asset manager	Investment management company (SGR)	National	Operators specialised in activities dedicated to impact	2017	Equity-based
IB1	Interview	Asset manager	Investment bank	International	General operators with activities dedicated to impact	2012	Equity-based
IB2	Interview	Asset manager	Investment bank	International	General operators with activities dedicated to impact	2019	Equity-based
CB5	Focus Group + Interview	Asset manager	Commercial bank	National	General operators with activities dedicated to impact	2011	Debt-based
SGR7	Interview	Asset manager	Investment management company (SGR)	International	General operators with activities dedicated to impact	2018	Equity-based
CB6	Focus Group + Interview	Asset manager	Commercial bank	National	General operators with activities dedicated to impact	2018	Debt-based

Table 6: The characteristics of the organisations constituting the reference sample

In the next pages, the information presented in the Reference Sample table (Table 6) will be synthetized in the form of easily readable graphs, in order to depict a clear picture of the interviewed sample; this will be useful for a better understanding of the Results that will be presented later on.

First of all, it is rather natural to present a graph synthetizing the types of organisations that constitute the reference sample, which matches and can be compared to the one representing the reference population (Figure 6). As it can be observed from the graph in the following page (Figure 7), the percentages have remained, more or less, the same.

[51] SICAV stands for Società di Investimento a Capitale Variabile (Investment company with variable share capital).

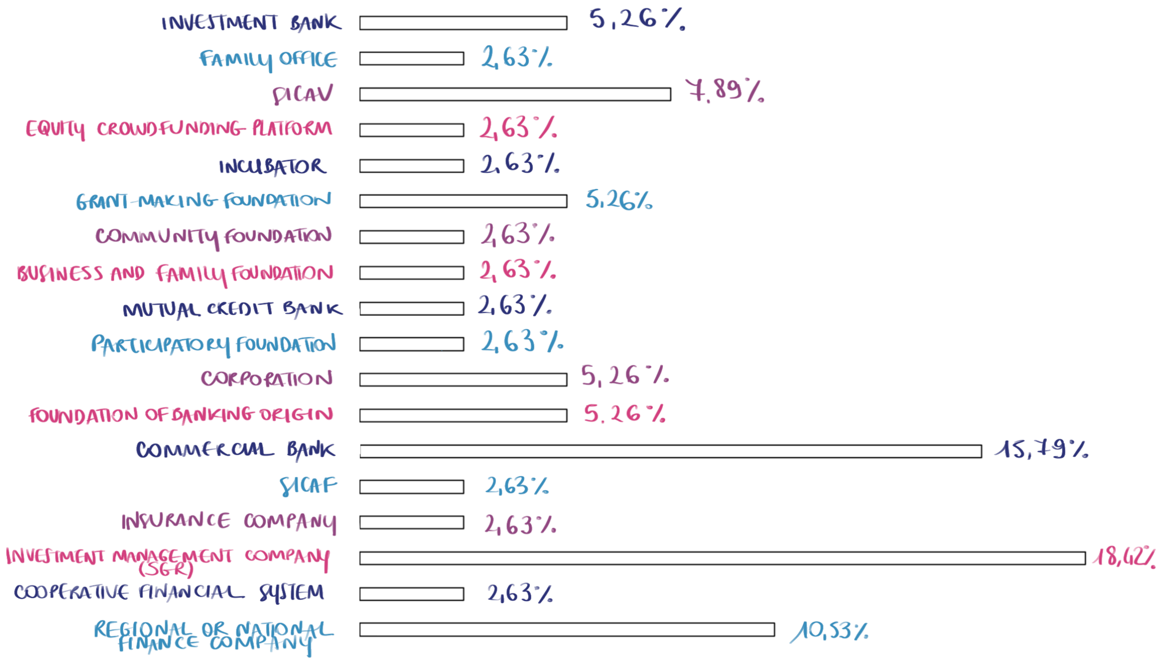

Figure 7: The types of organisations constituting the reference sample (N = 38)

Secondly, it is relevant to understand whether the organisations serve the role of asset managers (i.e. they manage and allocate the capital provided by other subjects) or they work - solely or partially - with their own financial assets.

By analysing both the reference population and sample, the results were as follows (Figure 8):

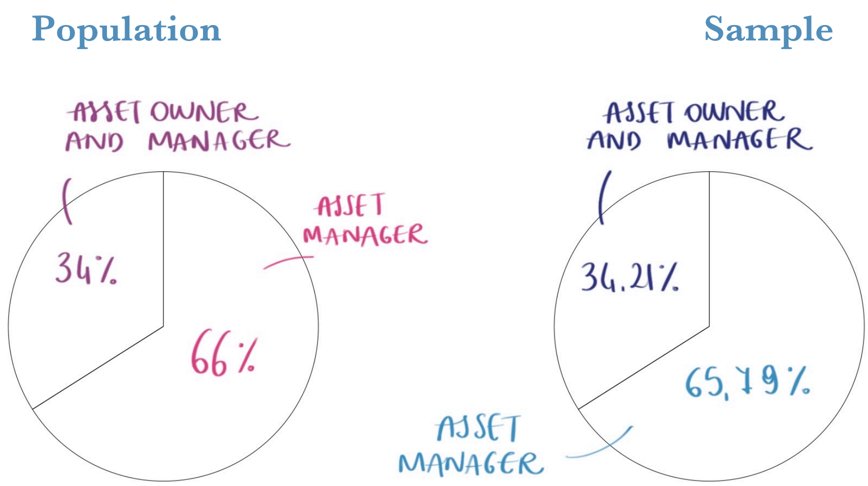

Figure 8: Asset owner vs. Asset manager organisations (N = 50; N = 38)

The operators were then distinguished according to the geographical area that they cover with their initiatives (Figure 9):

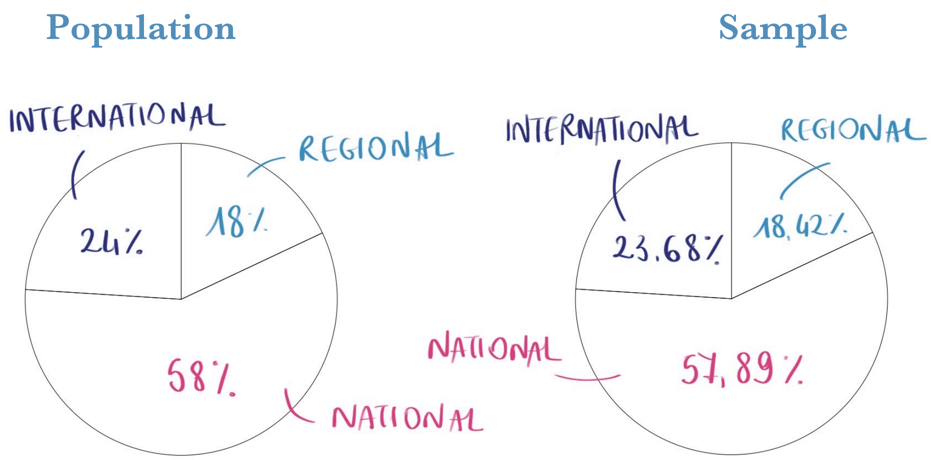

Figure 9: Geographical areas covered
(N = 50; N = 38)

Subsequently, the operators were distributed into two categories: general operators with activities dedicated to impact and operators specialised in activities dedicated to impact. The results of such subdivision are represented in the graphs below (Figure 10):

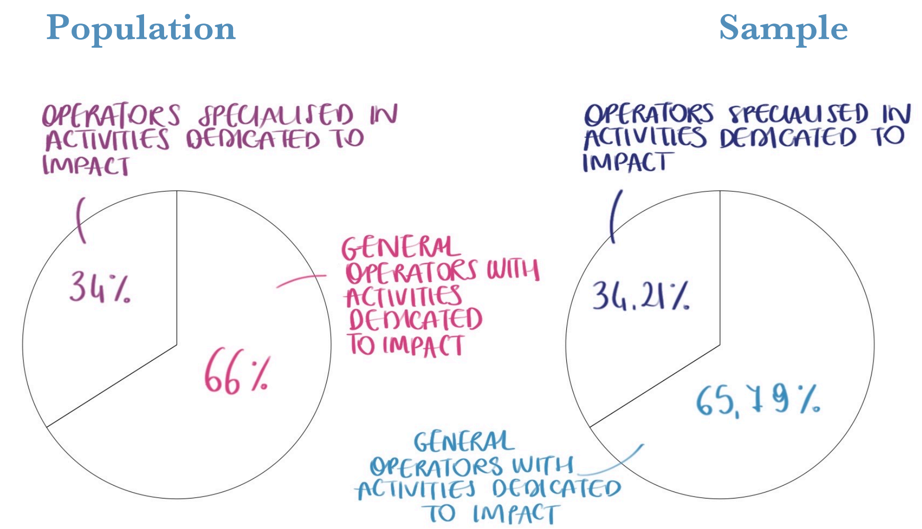

Figure 10: Centrality of impact activities
(N = 50; N = 38)

All the organisations were also codified on the basis of the year in which they entered the impact investing industry (Figure 11 and 12):

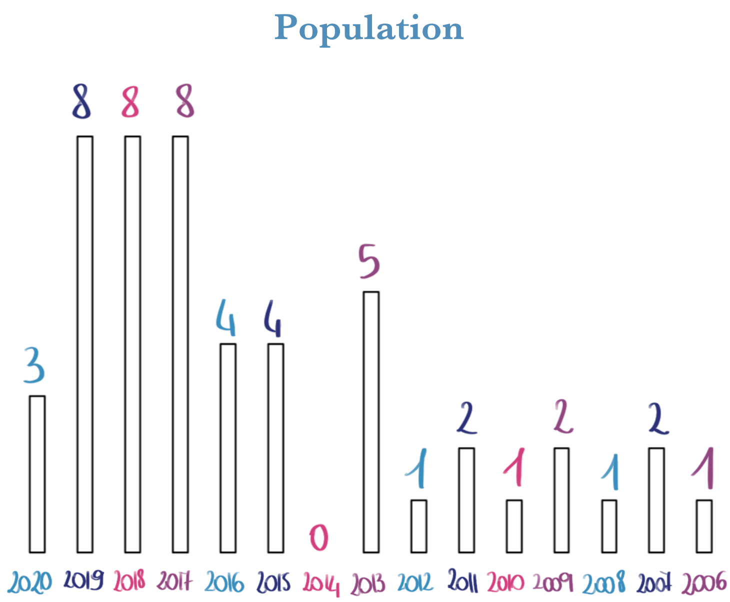

Figure 11: Historical trend of entrances in the industry (reference population)
(N = 50)

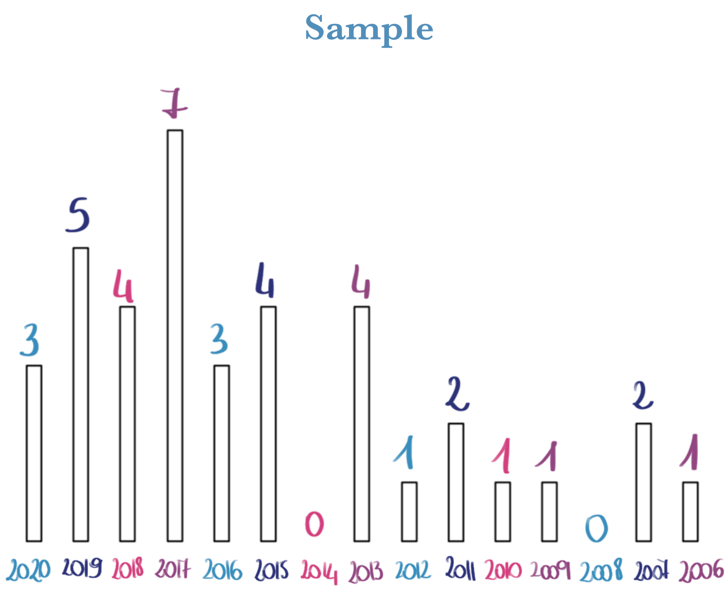

Figure 12: Historical trend of entrances in the industry (reference sample)
(N = 38)

Finally, it was relevant to understand whether there was a prevalence of equity-based actors or debt-based ones; the results show a substantial prevalence of equity-based investors (Figure 13):

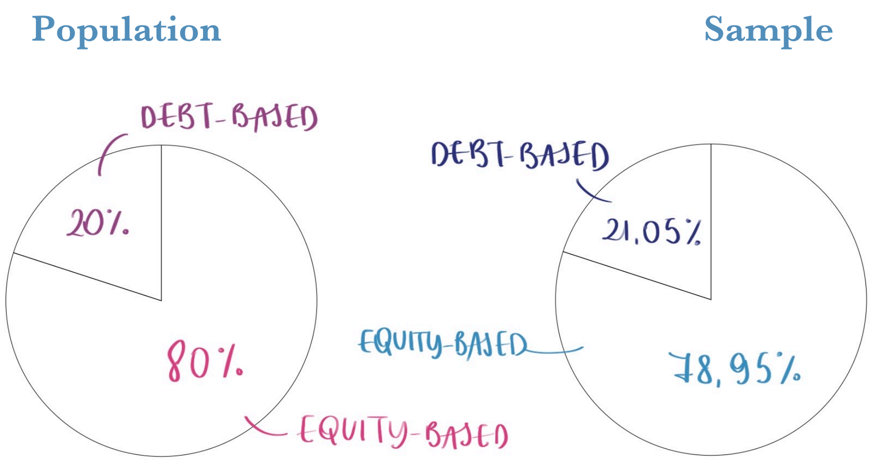

Figure 13: Equity-based vs. Debt-based organisations
(N = 50; N = 38)

On a final note, it was previously mentioned how eight of the subjects that agreed to participate to the interviewing process had to be subsequently removed from both the reference population and reference sample, either because of their non-adherence to impact investing principles or their sole role of advisors within the impact investing industry.

Nevertheless, the interviews featuring these subjects have been as well analysed, and some quotes deriving from them will be actually shared in the Results chapter; it is thus for this precise reason that they have been given identification codes[52] that are in all respects equal to those of the organisations reported in the reference sample.

On the next page, a table (Table 7) that synthetises the most relevant information regarding these latter organisations is presented.

[52] As reported in Table 7, in this instance the identification codes are ADV (Advisor) and NA (Not Applicable).

ID	Participation to research	Organisation Typology	Year of entry in the industry
ADV1	Interview	Management company	2012
ADV2	Focus Group + Interview	Consulting firm	2013
ADV3	Focus Group + Interview	Non-profit organisation	2016
NA1	Interview	Cooperative banking group	-
NA2	Interview	Investment management company (SGR)	-
NA3	Interview	Participatory foundation	-
NA4	Interview	Investment management company (SGR)	-
NA5	Interview	Insurance company	-

Table 7: Organisations excluded from the reference sample

⁂

After the brief but detailed description of the sample of organisation which participated to the research, it is worth to specify that the chosen method of research, a semi-structured interview, is probably the most appropriate one to adopt when the interviewer wishes that the respondents share their ideas in a rather spontaneous manner; as a matter of fact, while structured interviews require to rigorously follow a set of questions from which neither side can divert, semi-structured ones allow the researcher, up to a certain extent, to adapt the interview protocol according to the responses of interviewees. This is one of the many reasons why the semi-structured interview is one of the most employed research methods in qualitative research (Edwards and Holland, 2013).

For the 46 subjects who decided to join the study, an interview protocol was prepared. It was composed of some questions which were suitable for all respondents, and of some others directed exclusively to *equity-based* actors or *debt-based* actors.

The set of questions, divided into thirteen sections, opened with a discussion to investigate the opinion of the respondents with respect to the principle of additionality: I indeed asked the operators for their interpretation of the latter principle, plus whether and how they put such concept into practice in their impact investing initiatives.

Each investor was then required to position his or her institution within a spectrum picturing a simplified representation of the Italian impact investing industry (see Attachment 2 - Table

11), from which it was possible to understand whether the entity in question is a capital provider or a capital manager and whether the governance of the impact activities represents or not the core business of the organisation; in this way, operators were divided into two categories: general operators with activities dedicated to impact and operators specialised in activities dedicated to impact.

The third section was aimed at understanding the motivations behind the organisation's decision to join the impact investing industry. The following questions were instead intended to reconstruct the capital flows within the industry, as well as to analyse the preferences of the operators on the organisations in which to put their capital (in terms of sector, size, legal form). More quantitative information was also sought, such as the capital raised and that already invested (for *equity-based* actors) and the capital employed, as well as future plans (for *debt-based* organisations). It was also important to understand whether the various entities also offered services that are complementary to the investment/financing activity. Subsequently, by referring to the risk/return ratio that could be assumed as typical for an "ordinary" financial transaction, I asked each respondent's opinion about the deviation from this reference (i.e. *disproportionate returns*) when dealing with impact finance transactions and the link between impact and expected performance/credit rating. The pipeline of disbursement of impact capital was then investigated and, in the ninth section, the perspective of the interviewees regarding the definition and consideration in their operations of the concept of social risk was explored. After asking for information about the average duration of a loan or the expected average life of the investments (with forecasts about the possible exit strategies), the interview ended with a discussion on the barriers to the expansion of impact investing in Italy, reflecting also on what could represent the drivers of growth and the actors that could serve as game changers, i.e. those capable of bringing the Italian industry to a definitive turning point.

The interview protocol can be found in the Attachments section (Attachment 2). Although some questions may seem a little detached from the objectives and research question of the present dissertation, it must be pointed out that all of them were designed so that they could help me in getting an idea about the general mindset of the interviewed organisations with respect to impact investing practices: this is actually very relevant in order to gain insights that are useful for studying both the application of the additionality principle and the possible impact washing phenomena that might occur.

The interviews were conducted between the months of June 2019 and November 2019. Of them, 29 were carried out in person, while the remaining 17 were proposed to respondents either via telephone or Skype (video or audio) call.
Before beginning with the interview's questions, I asked the interlocutor for the possibility of audio recording the meeting. I got a positive answer in all cases, and thus I immediately proceeded to do so with, usually, more than one device.
The duration of interviews was generally around 50 minutes each.
Soon after every session, I transcribed verbatim (Hsieh & Shannon, 2005) all the interviews' content - both questions and answers - in 46 Word documents, each dedicated to one of the interviews. The total number of written pages amounted precisely to 305.

4.3 DATA ANALYSIS

In the following section, I will go into detail about the methodology chosen for analysing the material at disposal. After a meticulous explanation of why such choice was made, I will then mention the software employed in order to give a rigorous structure to the analysis. At the end of this last description, I will illustrate all the passages that were made to carry out an in-depth examination and come up with some, hopefully meaningful, conclusions.

4.3.1 QUALITATIVE APPROACHES TO THEORY BUILDING

Given the qualitative nature of the data that would have been obtained by interviewing the investors, it appeared necessary to organise and analyse them through an appropriate method, specific for dealing with this kind of research input.
Thus, it seemed indispensable to investigate how the analysis of such type of data has been managed overtime, particularly within the management and financial fields.

It is widely known that, even though it is characterised by a long history, qualitative research has been much less diffused than the quantitative one for a very long time (Gehman et al., 2017); this is mainly due to the fact that a large number of researchers and scholars, over the past decades, have been questioning its validity: in fact, a lot of them have always been dubious about the degree of scientific rigor that this research category could reach and therefore of its ability to produce credible results and solid theories.
However, things have started to change since the beginning of the new millennium: indeed, most management scholars have begun to consider it as scientific acceptable as quantitative research. Thanks to this fact, qualitative works in management literature have increased in number and have generated a considerable impact on the field, even in terms of new, innovative methodologies and theories aimed at analysing non-quantitative data (Gehman et al., 2017). As a matter of fact, since qualitative research started growing, different approaches to the analysis of such data have emerged; the most widely known include, for instance, the approaches elaborated by professor Kathleen M. Eisenhardt (Department of Management Science and Engineering, Stanford University), professor Dennis A. Gioia (Smeal College of Business, Pennsylvania State University) and professor Ann Langley (Department of Management, HEC Montréal).
Furthermore, La Torre and colleagues (2019) highlighted that, although qualitative methods are quite uncommon in financial studies, the use of empirical research has demonstrated to be of particular relevance, especially in sustainability-related debates (Dentchev et al., 2016; Eisenhardt et al., 2016).
As argued by Gehman and colleagues (2017), for a long time there has been a certain degree of confusion among researchers with respect to what methodology would have been preferable to use in order to obtain the desired outcomes: the consequence is that some works have been drafted combining together methods with different approaches and objectives, which has led to disorganised results that certainly have not helped the field of qualitative research to impose its scientific value in the eyes of sceptic scholars.
The already mentioned paper by Gehman and colleagues (2017), entitled *Finding Theory - Method Fit: A Comparison of Three Qualitative Approaches to Theory Building*, has been crucial in determining which method, among the three previously cited, could be the best one for deploying an in-depth study of Italian investors' perceptions on the additionality principle, through the semi-structured interviews at disposal.

While the technique formulated by professor Eisenhardt is focused on inducting novel theory using multi-case study comparisons (Eisenhardt, 1989) and the one by professor Langley is actually a non-standardised approach to qualitative research, the methodology developed by professor Gioia immediately appeared to be the one that could best suit the present thesis' approach. Indeed, as its creator himself described it, this theory represents a "systematic inductive approach to concept development" (Gioia et al., 2013): by reading the professor's presentation in the 2013 paper *Seeking Qualitative Rigor in Inductive Research: Notes on the Gioia Methodology*, it immediately became clear that it could have considerably helped in the process of developing a new theorisation of the additionality principle, useful to limit impact washing phenomena, by systematising the interviewed investors' insights on the matter.

The following paragraph will present the methodology itself, at first introducing the premises that led to its creation, and subsequently the main steps that are indispensable to properly apply it.

The Gioia Methodology

Professor Gioia has investigated for over 20 years the ways in which it could be possible for qualitative researchers to implement their data analyses and, at the end of them, come up with plausible and credible conclusions (Gioia et al., 2013); indeed, without the adoption of a rigorous methodology, the inevitable risk is that qualitative studies could be considered, at least by the sceptic ones, as enjoyable and maybe well written stories, however without any scientific value.

The idea that led the scholar to develop his methodology was simple, yet innovative: he recognised that, for qualitative data analyses, applying the traditional scientific method is really not the best choice that one can make. As a matter of fact, the latter leverages on existing concepts to discover new knowledge: what is necessary, instead, is a technique that is convenient to build innovative theories, notions and models from the ground up; that, in a nutshell, can underline the originality needed by qualitative works to finally gain the recognition they deserve in academic research.

As it was already introduced in the previous paragraph, Gioia's approach is inductive; this feature is one of those that have been mostly contested for their alleged incapability of meeting the high standards required by scientific advancement (Gioia et al., 2013). What,

then, could be the way to overcome this limit and make the methodology as rigorous as it possibly can be? Professor Gioia and his collaborators have started from some assumptions.
First, they reckon, the people that we rely on to collect the desired information are "knowledgeable agents", in the sense that they are able to effectively explain what they think on the proposed issue and how they are going to take action with respect to said issue; therefore, the researchers must not force on them some predefined assumptions on the matter in question, but rather they should give voice to the informants and analyse their peculiar point of views. This has proved to be a powerful way, together with the ability of the researchers (they are knowledgeable agents as well!) of accurately interpreting the obtained material, to actually have the chance of identifying new patterns of data and conceptualising new theories, rather than just building up on pre-existing convictions (Gioia et al., 2013).
Afterwards, the issue was to come up with a systematic framework to organise information and execute the study, in order to be able to present the final results in such a manner that would enable the analysts to prove the scientific relevance of their findings.
For this purpose, the solution proposed by Gioia involved the construction of a methodology divided in two fundamental steps: a "1st-order" analysis and a "2nd-order" analysis. The first phase must be conducted keeping the focus strictly on the terms and concepts shared by the informants; the second one, on the other hand, should be deployed by making use of "researcher-centric concepts, themes, and dimensions", as written by Gioia and colleagues (2013). The two stages, combining together both the informants' and the scholars' point of view, allow to achieve a comprehensive overview of the phenomenon being studied, as well as helping the reader in appreciating the rigor in the advancement of new concepts and in the construction of the final theorisation (Gioia et al., 2013).
After having presented the general structure of the methodology, it seems natural to wonder where the data that are to be analysed come from. As in most academic studies, Gioia's methodology implies that a specific research question is formulated before initiating the data collection.
Nevertheless, after having completed a first analysis of the methodology, what really indicated that this really is the most appropriate approach to examine the available data is that, as specified by professor Gioia himself, the core of qualitative research is represented by semi-structured interviews. Considering that this is exactly the approach chosen to

conduct the empirical research, I expected to be able to follow the methodology with a satisfying degree of precision.
The semi-structured interview is the ideal input to this kind of technique for the simple reason that it allows the research participants to share their experience on the phenomenon of interest in a very natural way. Other alternatives in data acquisition, like a closed-ended questionnaire for instance, could not guarantee the same wealth of information. This latter is indeed essential to successfully conclude the Gioia Methodology's 1st-order analysis: the more knowledge and the more the informants' visions gained through their own accounts, the richer the codification of their own terms and codes (Gioia et al., 2013) will be. On the contrary, the abundance of information provided by the 1st-level coding could hide the danger of adhering too strictly to the interviewees' terminology also in the 2nd-level one. Instead, researchers at this point need to be ready to introduce in the study their expertise on the analysed matter, together with the notions found by conducting an extensive literature review on the subject under scrutiny. One of the peculiarities of this methodology, indeed, is the fact that it is recommended to perform the review of the existing literature in detail only after having collected all the necessary data and performed 1st-level analysis: in this way, we avoid the risk of being blinded by preconceptions and being influenced by previous theorisations already present in published works.
It is also of the utmost importance for the ones who conduct the research to pay great attention to the drafting of the interview protocol. It is, in fact, necessary that it does not comprise "leading-the-witness" questions (Gioia et al., 2013), namely questions which, in the way they are formulated by the experimenters, could potentially influence the informants' opinions. This could lead to a biased data collection and a decreased probability to generate, at the end of all the work, a new and unprecedented theorisation.

At this stage, before proceeding with the application of the Gioia's methodology to the collected data, it is worth to deepen a bit more the structure of the methodology itself, rather than just briefly mentioning its first two steps.
Firstly, its creator notes that it is common to see a large amount of terms and concepts emerge from the 1st-order analysis. It is vital, he points out, to not feel lost and start categorising them, looking for similarities and differences (Gioia, 2004). It is then useful to label the obtained groups of terms, in order to frame the informants' views in a schematic form.

This stage is where the researchers' perspective comes into play: in fact, the latter serves as a basis to structure the more abstract and theoretical 2nd-order analysis, which will start to seek some answers to the initial research question (Gioia et al., 2013). Indeed, in the methodology's second stage, the viewpoint turns to the researchers' side: it is their responsibility to elaborate on the informants' categories that were previously identified and detect a number of recurring themes and concepts; moreover, if possible, the latter could be further condensed into 2nd-order "aggregate dimensions" (Gioia et al., 2013).

Come to this point, a substantial amount of work has been completed. However, quoting professor Gioia, "You got no data structure, you got nothing" (Gehman et al., 2017). While this phrase may seem a bit exaggerated, having a solid data structure is actually the characteristic that can provide a qualitative study with the scientific relevance we discussed earlier. The data structure can be portrayed with a visual scheme (as in the example pictured below in Figure 14, taken from Corley and Gioia's 2004 paper *Identity Ambiguity and Change in the Wake of a Corporate Spin-Off*) that synthetises all the passages going from 1st-order terms and concepts to 2nd-order themes and, eventually, aggregate dimensions.

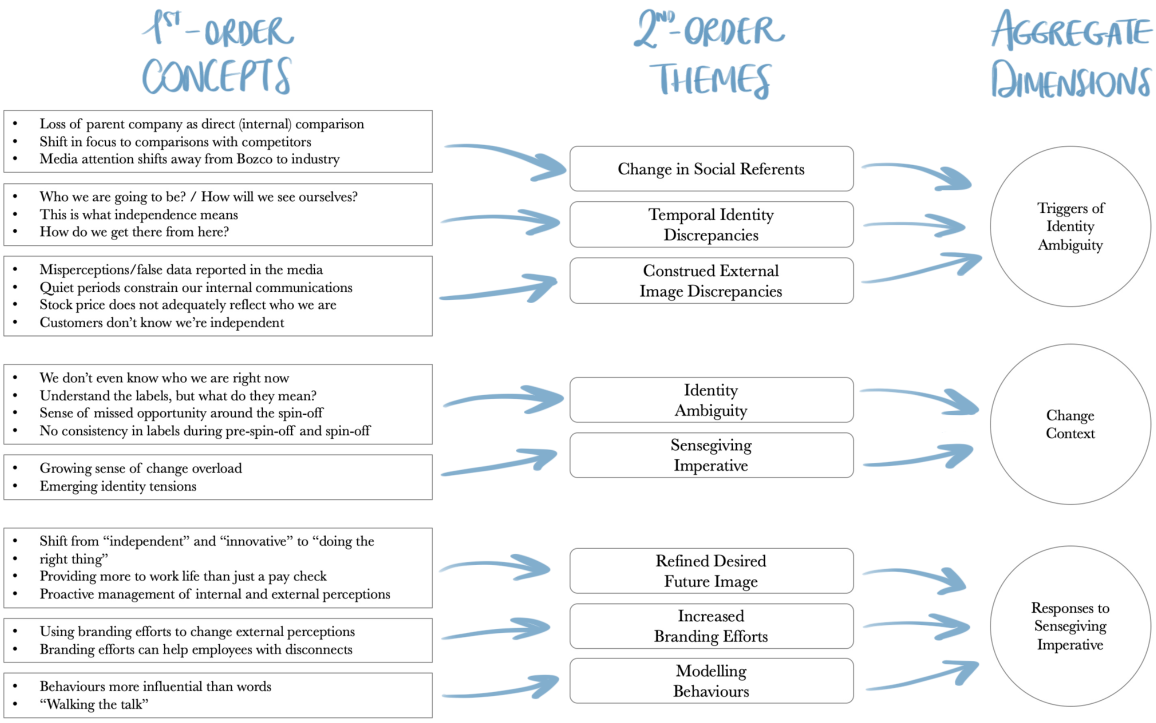

Figure 14: An example of data structure
Source: reproduced from Corley and Gioia (2004)

The obtained scheme is not the final result we aim to acquire. As Gioia and colleagues (2013) indicate, the latter is in fact a static representation, while the objective is to draft a "grounded theory[53] model" able to synthetize all the connections between the many terms, concepts and themes detected throughout the experiment and the journey from data collection to theory construction. Professor Gioia notes that "it is the arrows that set everything in motion" (Gioia et al., 2013), meaning that particular attention should be put in the way the static concepts and themes are linked to each other in the data structure, so that an hypothetic reader could easily understand the big picture that subsists behind the research. Figure 15 shows the grounded theory model originated from the previously showed data structure (Corley and Gioia, 2004). Lastly, in order to demonstrate additional proof that the theorisations developed are in line with the initial data, Gioia also suggests not to be parsimonious in sharing quotes from the interviewees, so to not give the reader a sense of abstract cogitations but one of attachment to the real world.

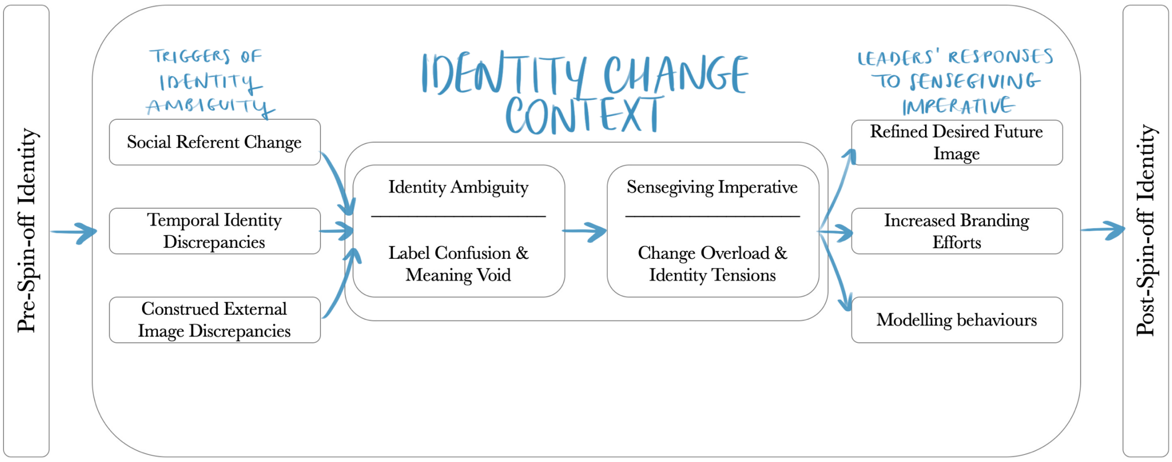

Figure 15: The final Grounded Theory model
Source: reproduced from Corley and Gioia (2004)

[53] Theorised by Barney Glaser and Anselm Strauss in the 1960s, Grounded Theory is a qualitative methodology that was born in the context of sociological research (Tarozzi, 2008). Its name derives from the fact that it is a "bottom up", or a "grounded up" approach, meaning that the researchers start from the data they have collected or are collecting and from those they go up to making their own theorisation. They in fact start building their theory in the course of empirical research, and should possibly avoid analysing the literature beforehand, so to not be biased by it. The emphasis in this technique is therefore placed on the data rather than on theories, which derive directly from the analysis of the data. (Glaser and Strauss, 1967). The Gioia Methodology, as it can be appreciated from its description in the present chapter, is an example of a grounded theory approach.

After having tried to exhaustively explain how the Gioia's Methodology works, I would like to share some conclusive notes about the adoption of the latter to the conduction of the present dissertation work.
Firstly, further evidence that this methodology really is the most fitting to the research approach is represented by the fact that professor Gioia himself specifies that his technique is particularly appropriate for studying "nascent concepts that do not seem to have adequate theoretical referents in the existing literature" (Gioia et al., 2013): this last sentence perfectly describes the current situation of the additionality principle in both academic and practitioner literature.
Furthermore, it should be highlighted that its own creator does not see this methodology as a rigid series of steps to be followed: indeed, and much more than quantitative ones, qualitative researches are in need of techniques which allow a certain degree of flexibility and personalisation. Consequently, to develop a valuable qualitative study, it is essential to remember that the approach of professor Gioia must be considered not as a "formula", not even as a "template", but rather as a methodology constantly open to innovation, that "enables both creative imagination and systematic rigour" (Gioia et al., 2013).

On a final note, it is worth mentioning that, after an in-depth study of the Gioia Methodology, I tried to further expand the knowledge on the technique by reading some papers which have adopted it as their research method. These include:

- Gioia, Thomas, Clark & Chittipeddi (1994)
- Corley & Gioia (2004)
- Clark, Gioia, Ketchen & Thomas (2010)
- Ravasi and Phillips (2011)
- Stigliani and Ravasi (2012).

⁂

Coming to the end of the presentation of the methodology adopted to conduct the research, it is necessary to mention a very similar approach to the Gioia methodology that has as well contributed to inspire the work and to give it a well-defined structure: the so-called **conventional approach to qualitative content analysis**. The latter has been interesting to analyse since it allowed me to feel the inductive approach to qualitative research even more as my own. As explained in Hsieh and Shannon's paper *Three Approaches to Qualitative Content Analysis* (2005), the main purpose of this technique is to allow a deeper comprehension of a phenomenon which has not yet been sufficiently studied in literature. As it is the case for the methodology developed by professor Gioia, the theory on conventional content analysis suggests researchers to start from open-ended interviews to then proceed to a very careful reading of the collected material, in order to potentially extract new meanings from the words of respondents. It then recommends to follow a progressive coding of said words, so as to group them in subcategories: we can understand that this way of proceeding very much resembles Gioia's, however this last goes further in saying that the very first categorisation should be carried out adhering to the terms used by interviewees, while in the successive ones the expertise of the researcher should come into play.

With all that being said, though it may seem very much similar and thus repetitive with respect to the description of Gioia's methodology, a brief study of the conventional approach led to a further understanding of the importance of proceeding with an accurate and meticulous review of each of the conducted interviews.

It is for this purpose that it was indeed chosen to perform the research with the help of one of the most well-known computer softwares for qualitative research, NVivo; its contribution to the present research will be presented in the following paragraph.

4.3.2 The use of the NVivo software

As it was extensively discussed in the above paragraphs, the credibility of qualitative researches has often been questioned in the academic world. However, implementing the use of a well-recognised computer software to organise and analyse the collected data can certainly improve the solidity and transparency of the study.

It is therefore for this reason that the choice was to utilise a specific program to be guided in the examination of the semi-structured interviews. Since, as it is explained in its website, it works pretty much with every qualitative methodology that researchers could apply, it was decided to use NVivo as the computer software of choice. NVivo is in fact a qualitative data analysis (QDA) computer software package[54] that was born to be employed in qualitative studies which involve the coding of a high quantity of data at an in-depth level of analysis (McNiff, 2016).

After a brief but intensive study of NVivo's interface, I immediately began the analysis by importing into the program all the 46 Microsoft Word documents that contain the interviews' transcriptions, plus other two Word and Excel files that comprehend notes on all the investors' responses to the open-ended question on additionality that was proposed to them during the preliminary phase of the focus group held in May.

As the very first step, the two documents carrying the material collected during the focus group were analysed.
I subsequently switched to the much more challenging analysis of the 46 semi-structured interviews: as anticipated earlier, the choice was indeed to examine all the interviews that were carried out, in the hope of finding relevant insights also in the ones of those actors that were removed from the reference sample, either because of their too limited adherence to the requisites for being considered part of the impact investing ecosystem or because of their sole advisory role.
With this being said, I started using the NVivo *Code Selection* feature of the software to deploy what in the Gioia Methodology would be called a 1st-level analysis of terms and ideas provided by respondents. Code Selection, in fact, allows the program user to create for each relevant concept a *node*, which is constituted by a portion of the text selected by the researcher. The nodes belonging to the same concept are grouped together by NVivo, with the aim of helping the researcher in finding meaningful patters in very large amounts of text. The division in nodes, moreover, results very useful with respect to understanding the concepts and themes that were used the most by the industry's practitioners: as a matter of fact, NVivo progressively counts in how many files (and how many times per each file) a certain theme is mentioned.

[54] NVivo is produced by QSR International; its first stable version was commercialised in 2008 (Source: QSR International website).

The total amount of the codified nodes resulted to be 111 for the interviews' analysis and 20 for the focus group transcription's examination.

4.3.3 Application of the Gioia Methodology to the collected data

The present section will describe how the Gioia Methodology has been applied and adapted to the analysis of the experimental material at disposal.
As already anticipated, the purpose of the present dissertation is to study the pillar of additionality in the hope of advancing its conceptualisation, which is something that could help to decrease the occurrence of impact washing phenomena.
In order to perform such investigation, the interview protocol did not only involve a discussion about the additionality principle: indeed, it as well comprised a series of question aimed at studying the perceptions of practitioners concerning all the most relevant aspects of impact investing practices; they were presented earlier in this chapter and can be summarised as the following:

- The **motivations** that convinced impact investors to take part in the Italian impact industry;
- The opinion of investors about the common belief which suggests that impact investing operations are characterised by a higher level of financial risks and a lower level of financial returns (i.e. **disproportionate returns**), which are accepted by impact investors in exchange of a higher social return;
- The investment **sectors** they are interested in and the **screening criteria** they employ to choose what organisations to support with their capital;
- The **non-financial services** they plan to offer to the invested or financed organisations;
- The main **barriers** that, in their point of view, are limiting the growth of the Italian impact investing industry, as well as the **drivers** and **"game changers"** actors that could instead favour such growth.

The elements that have just been outlined have been extremely useful to get an idea about the general modus operandi of impact investors in Italy, which could certainly reflect on their ways of conceiving and applying the notion of additionality. However, such passages of the interviews have not been examined with an approach typical of the Gioia methodology: in fact, they have been coded with the help of NVivo's nodes, but this operation was useful to draft a brief introduction (which can be found at the beginning of the chapter dedicated to the interviews' analysis, in the Results section) that could be convenient to get an impression on how the concept of additionality could be adapted to be employed in such a specific market like the Italian one.

With all of this being put into consideration, it is now time to introduce the details about how the Gioia Methodology has actually been applied in this research.

As introduced in the chapter dedicated the description of the methodology itself, this approach to qualitative research is especially useful when researchers require to find a novel understanding of a specific subject: this view perfectly applies to the objective of the present work with respect to the additionality principle. Indeed, the segments of the interviews which were devoted to the discussion about this latter concept were analysed as postulated in the methodology of professor Gioia.

To build the data structure, which is traditionally composed of 1st-order concepts, 2nd-order themes and aggregated dimensions, the NVivo software came very much in handy. As a matter of fact, in order to collect the so-called 1st-order concepts, which - I shall remind - are those derived from the terms and notions shared by respondents, the NVivo's nodes turned out to be particularly appropriate: I was indeed able to find the specific portion of the text that would have been later used to draft the 1st-order analysis. Since the methodology suggests using exactly the words and terms cited by interviewees to build the first section of the data structure, I personalised a little bit the method and actually employed specific quotes taken from the interviews as 1st-order concepts. This allowed to give a strong sense of attachment to the reality in which impact investors operate every day.

Furthermore, since the interviews were all conducted in Italian, in order to utilise the quotes for the construction of the data structure I proceeded to translate into English the respective segments of the documents.

After having completed these tasks, I leveraged on the extensive literature on additionality previously reviewed to build 2nd-order themes. This is, in fact, the point of the analysis where the extant knowledge on the studied topic came into play: this latter was indeed applied to formulate 2nd-order codifications and the obtained concepts were further synthetized into even more concise aggregate dimensions.

Given the abundance of ideas and notions that has been possible to grasp from such a high number of interviews, it immediately felt clear that it would have been almost inconceivable to come up with a data structure similar to the one developed by Corley and Gioia in 2004 and brought as an example in the explanation of the methodology, mostly in terms of dimensions and consequent ease of reading. Therefore, the choice was to divide the data structure graph according to seven different macro themes: these allowed to devote to each interpretation of the principle of additionality the appropriate attention, as well as to make the analysis more accessible to potential external readers.

The seven graphs resulting from the application of the Gioia Methodology are shown in the following pages (Figures from 16 to 22). All the ideas, notions and concepts deriving from the application of this approach will be reported and explained in a dedicated section of the Results chapter; they will then be further reviewed and examined in the Discussion part.

While the central theme of this research is certainly represented by the analysis of the principle of additionality, one should not forget that the study and subsequent further theorisation of this concept are mainly aimed at avoiding misinterpretations and opportunistic deviations that would lead to the occurrence of impact washing phenomena in the Italian impact investing industry.

It is in this light that it was decided to analyse, and therefore apply the Gioia Methodology, also to what respondents happened to mention about potential impact washing episodes. This latter analysis followed exactly the same process as the one performed on additionality; it will be as well described in the Results section and it will be employed to build a conceptualisation of the principle of additionality that will act in a preventive logic against possible opportunistic deviances in the Italian impact investing ecosystem.

1st Macro-Theme

Perspectives of respondents on impact washing

1st-order concepts

- I believe that **the real risk is that of impact washing**, the fact of using labels in order to get the most different things in, or simply to have an **extra product to offer**.
- The watering down of the notion of impact is a serious risk, which must be absolutely avoided because **the risk is then to lose the very meaning of the sector**.
- In my opinion **impact washing is very dangerous, that is why we need very strict rules**. If everyone can qualify as an impact investor, but behind there is no control and there are no clear criteria shared by all, then there is a **risk of having negative repercussions**.
- Some kind of regulation is fundamental, in order to not leave investors alone, otherwise **it becomes too easy to say that you have made impact investing**.

- We have to pay attention to **the way in which some traditional players will operate**.
- There are many Italian investment funds that now talk about investments of this kind [impact investments, ed.], but **they continue to be what they were before**.
- I find that in Italy the level is very low: **it is marketing**. It seems to me that the impact market was **very quickly colonised by old players**, who changed their skin to play the same game.
- Many operators who have said that they are moving towards this world are doing so with **strategies and ideas that are quite far from the real goal**.
- I happen to talk **to professional investors who do not really care much about impact finance**, let alone additionality. They want to see if, either for **marketing reasons** or for a bit of **greenwashing**, they can put some impact in.
- As long as the for-profit system continues to follow an opportunistic logic, **we are getting nowhere**.
- When there are new phenomena, the fact that there is some "fluff" is normal, all the great innovations start like this. Our "fluff" are the companies that make an impact in a **mere logic of communication and marketing**.

- The client entering the bank has **no idea that there is a difference between sustainable and impact finance**.

- I think **the theme of impact is quite popular now**, so there is a good sensitivity. We are moving in an environment that is **favourable to its development**.

- The market could be favoured by **requiring organisations to have a portfolio component in sustainable finance**, at least part of which in impact funds.

2nd-order themes

- **Rules** and a **strict definition** are needed to **avoid over-exploitation of the "impact" label**
- As it happened in many other industries, some organisations plan to use impact products to **reinforce their market competitiveness**
- **When it comes to financial products, consumers still are not educated** on the different types of sustainable finance
- The **popularity** of the impact and sustainability theme could be exploited for the **education of all possible players**
- **Obliging mainstream players** to adopt impact practices could possibly **worsen impact washing**

Aggregate dimensions

- The ***impact talk*** is not as difficult as the ***impact walk***
- **Education is fundamental** to avoid impact washing
- The impact investing market should be populated by **those who really desire to produce change**

Figure 16: Data structure of the 1st macro-theme

2ND MACRO-THEME

ADDITIONALITY MEANS ACCEPTING TO EARN LESS AND RISK MORE SO TO MAKE UNDERCAPITALISED AREAS GROW

1ST-ORDER CONCEPTS	2ND-ORDER THEMES	AGGREGATE DIMENSIONS
• We intervene with ad hoc financing measures where there are **market failures**. Being a public actor, our theme is that of additional impact on areas where private capital does not arrive. • Additionality is our prominent theme: we try to increase the resources in areas where there could be a **market failure or an underestimation of resources**. • We work in those areas that the legislator has identified as priorities, because they are those where there are the **conditions of greatest disadvantage**. • Our investments are in undercapitalised areas, because **mainstream investors do not see them as attractive, but we intentionally go to those areas** because there is no capital and therefore we go there with the intention of **responding to a social and/or environmental need**.	Impact investors intervene in what they see as the most **disadvantaged and undercapitalised areas**	Investors operating with additionality **accept to earn less and risk more**
• We support the underfunded segments, also at the level of the company's growth phase. We support companies that have such characteristics of positioning, thematic rather than normative, that makes them **struggle to find financial resources**.	Impact investors support companies that are in **early stages of growth and, therefore, riskier**	
• Banks which provide **subsidised** loans to specific actors like those belonging to the third sector, social enterprises... • The investment we made is not part of impact investing in my opinion, because you can make a lot of money from it and any other non-impact investor could do it.	Impact investors earn less than with traditional operations, i.e. they agree to have **concessionary returns**	
• It is about what could be done to bring more financial resources to **organisations that are generally non-bankable or have difficulty in accessing credit**. • It is the concept of **making bankable products that were not bankable before**, of making things that "impatient" capital is not prepared to finance investable in a logic of **patient capital**.	Additionality means more **inclusive access to financial and investment services**	
• Additionality means to **transform semi-market areas into something that works**. • I invest where normal market investors/not so socially responsible investors would not invest, because **there is not a market yet**, so my capital has a particularly important weight.	Impact investors can **transform an ineffective and underdeveloped market into a successful one**	Additionality consists in **funding areas and markets so that they can grow**
• We also intervene in social cooperation, which is an undercapitalized market, but at the same time **we are not the only ones**.	Impact investors intervene in areas that are still undercapitalised, even if **investments from other players have already been made**	
• It is tautologically wrong to think that you are the only one who finances or puts capital, you never are, because you, single company, decide to do it but **you cannot know if others would have done it or not**. • For us, additionality could be producing social change, but **it is not an undercapitalised sector, it is a project that produces strong social change**.	The prominent point of view which links **additionality to undercapitalised areas** is fallacious because it is almost **impossible to verify that an initiative undertaken by an impact investors would not have been considered by any other investor**	
• The essence is precisely to **redistribute capital, with an anti-capitalist effect**, because capitalism would lead to the concentration of capital.	Additionality is linked to a **redistribution of resources** so to decrease the level of social inequalities	
• Additionality in the sense of **additional capital entering the sector**, instead of additional sectors.	A concept close to **quantity additionality**, i.e. bringing more capital to a sector so that a greater impact can be achieved	

Figure 17: Data structure of the 2nd macro-theme

3rd Macro-Theme

Additionality means that investors and investees should develop innovative solutions to generate systemic change, therefore reducing social inequalities

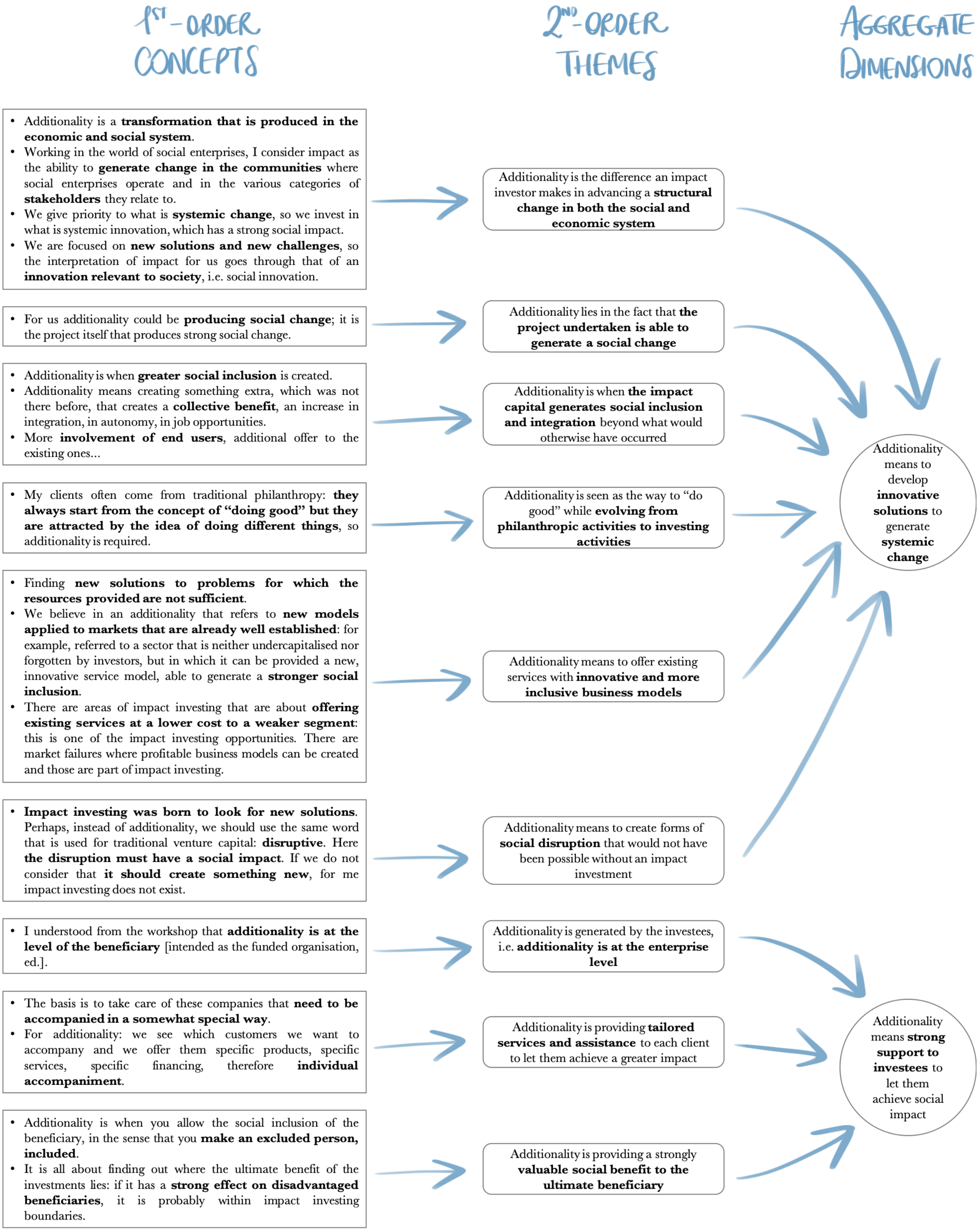

Figure 18: Data structure of the 3rd macro-theme

4TH MACRO-THEME

ADDITIONALITY IS RELATED TO ANOTHER PILLAR OF THE IMPACT TRIAD: INTENTIONALITY

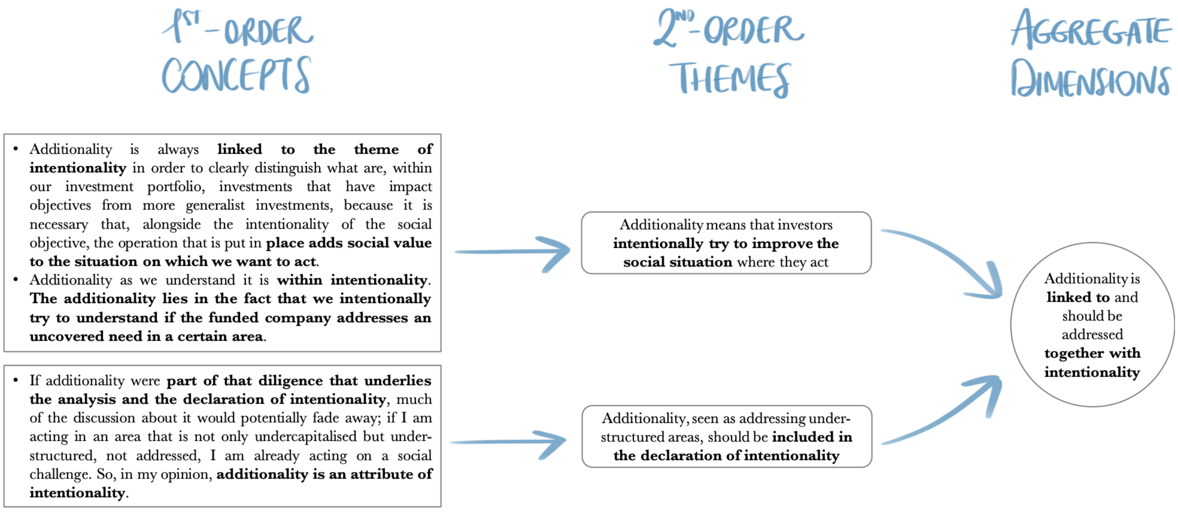

Figure 19: Data structure of the 4th macro-theme

5TH MACRO-THEME

ADDITIONALITY IS CONTEXT-DEPENDENT

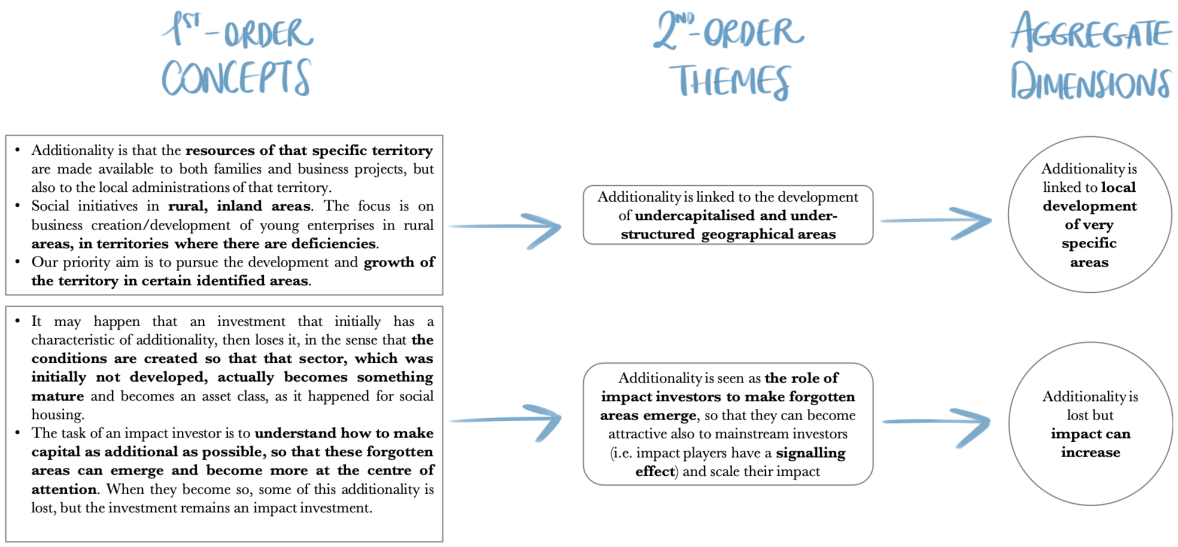

Figure 20: Data structure of the 5th macro-theme

6TH MACRO-THEME

ADDITIONALITY MEANS TO ADDRESS ISSUES THAT ARE NEGLECTED BY WELFARE SYSTEMS AND TO DEVELOP PUBLIC-PRIVATE PARTNERSHIPS

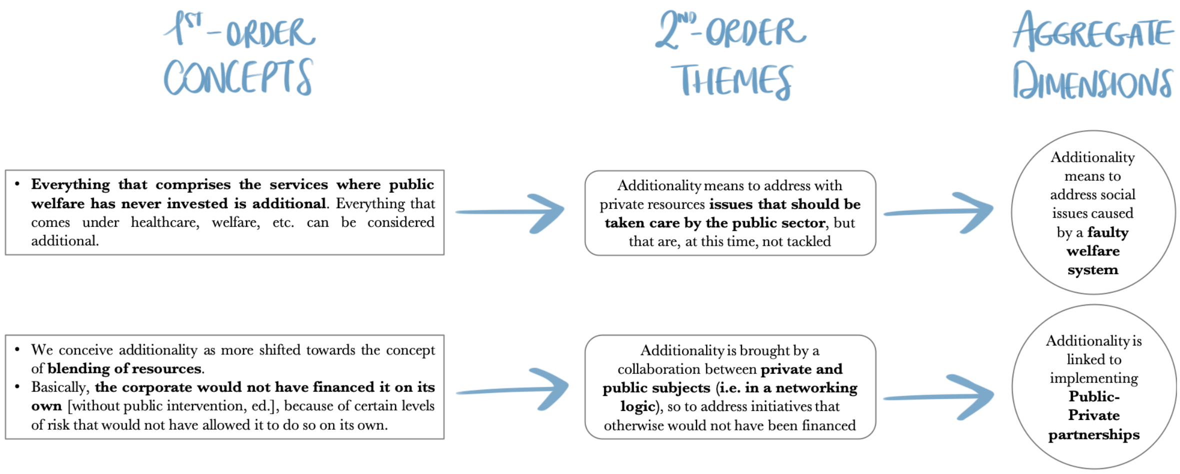

Figure 21: Data structure of the 6th macro-theme

7TH MACRO-THEME

ADDITIONALITY IS SEEN AS A BARRIER TO INNOVATION AND IT IS DIFFICULT TO APPLY

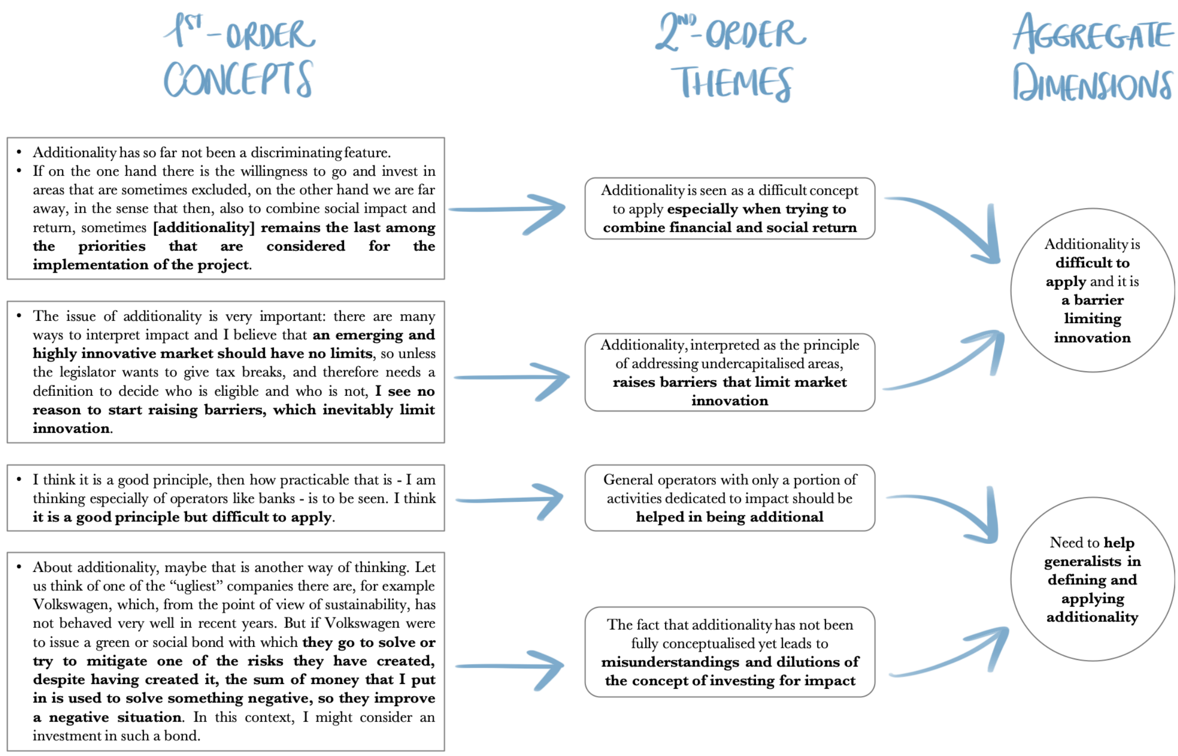

Figure 22: Data structure of the 7th macro-theme

⁂

As professor Gioia pointed out in the description of his Methodology, the analysis performed by building one or more data structures is not the final step of the application of the Methodology itself (Gioia et al., 2013). In fact, as described earlier in this chapter, one should pay particular attention with respect to the way in which the static concepts and themes that form the data structures are linked to each other, in order to be able to construct a solid theorisation with the examined data.

Indeed, at the end of the study, the researcher should manage to synthetize all the connections between the many terms, concepts and themes detected throughout the codification into a final model, which actually describes the progress achieved by the researcher's analysis with respect to the knowledge and theorisation on the subject under study.

It is therefore in this light that I leveraged on all the information analysed in building the seven data structures to develop a new operational definition of the principle of additionality, which takes the form of a graph and is pictured in Figure 29 (within the Discussion chapter); in particular, as the Gioia Methodology postulates, the notions reported at the aggregate dimensions level (employing also some 2nd-order analysis themes to enrich the various descriptions) were connected mainly with a causal and methodological rationale. This means that I started building the operational definition's graph from the notion according to which impact investors should accept to earn less and risk more because they are, first of all, intentional - which is a concept that lies at the basis of this thesis' understanding of additionality applied to impact investing - and linked it with all the other themes by responding to questions such as why, how and when that notion should be applied, as well as what and who should respect and decline that initial concept. It may be easier to understand the logic behind this final scheme by looking directly at it; since this latter is part of the definition itself, it will be proposed, together with a detailed description, directly in the Discussion chapter (Figure 29).

5 Results

The following chapter will be entirely dedicated to the presentation of the results that emerged from the analysis of the collected empirical data.
The presentation will be divided in two main sections. The first one will serve as an introduction to the current state of the Italian impact investing ecosystem: as a matter of fact, before entering into an in-depth analysis and discussion on the principle of additionality, it is fundamental to get an idea of the environment in which the conceptualisation of the principle itself should be put into practice.
Subsequently, particular attention will be devoted to the insights obtained, thanks to the application of the Gioia Methodology, on both the principle of additionality and the occurrence of impact washing phenomena; specifically, the focus will be on the description of the seven macro-themes presented in the Methodology chapter, which were achieved as a result of an inductive analysis performed on all the collected data (i.e. the transcriptions of both the focus group event and the interviewing process).

5.1 Perspectives on the Italian impact investing industry

The following section will offer a discussion about some aspects that were brought to the attention of the investors during the focus group and the interviews, which might be relevant to be reviewed and comprehended before entering into a subsequent discussion on the conceptualisation of the additionality principle.

Motivations leading financial operators to join the impact industry

It is fundamental - especially in a stage like that of the Italian industry, in which many operators are trying to get on board the impact movement - to investigate the actual reasons that are leading organisations in becoming interested in the pursue of impact investing initiatives.

With this respect, the motivations put forward by investors were for the most part divided into three categories, which are presented in the graph below (Figure 23; interviewees were allowed to give one or more answers):

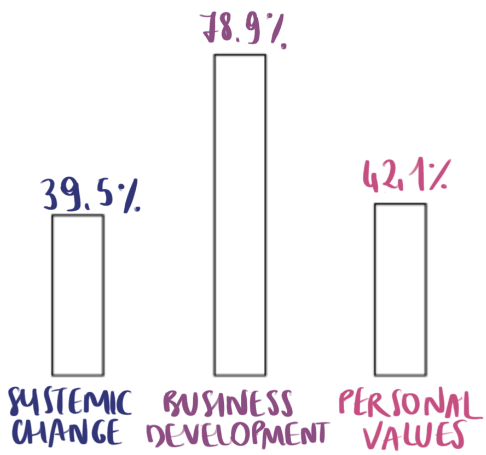

Figure 23: Motivations leading financial operators to join the industry (N[55] = 38)

As it can be noticed by looking at the histogram, 39.5% of respondents argued that their organisations feel a strong willingness to take part to that systemic transformation and consequent shift towards sustainable practices that are taking place in the business and financial world; indeed, the representative of the organisation identified as SGR2 declared:

[55] N = Number of respondents.

"I believe that we are facing a paradigm shift. From this point of view, I am optimistic: I think things are going in this direction [of sustainability and impact, ed.] from a substantial point of view".

Another 42.1%, moreover, suggested that what is convincing their institutions and themselves to embrace impact investing practices is a strong personal ambition to contribute to the reduction of pressing social problems, therefore using financial means for anything but speculative ends, as it has been the norm for a long time.

Finally, most operators (78.9%, to be exact) have linked their entrance into impact investing to an evolution of their way of working; for instance, the representative of a foundation of banking origin (here referred to as FBO2), mentioned that *"the foundations were originally the charitable offices of the banks"*, while now their way of operating is shifting from a grant-making logic to that of a real investment of capital: *"The evolution of the way of "doing foundation" is very important, because the capacity of impact that one has with grant-making is relative; instead, in a logic of impact investing, it is definitely higher, so it is much more effective with respect to the intervention on various social problems"*.

Perspectives on the expected levels of risk and return

One of the most heated discussions in the world of impact investing is the one related to the level of financial returns that operators should expect and the level of risk that they should be prepared to bear.

The interviewees were thus asked to compare their expectations in terms of risk and return with respect to an ordinary financial transaction; also in this case, they were allowed to choose more than one option between lower, equal, or higher level of return (risk).

As far as financial returns are concerned, only 2.6% of investors revealed to hope for higher returns than those brought by the traditional market. Instead, 47.4% claimed that returns in line with mainstream ones can be achieved; finally, 57.9% of interviewees declared to be willing to accept lower returns. This latter information is indeed very much consistent with one of the most shared interpretations of the principle of additionality: in fact, as it will be explained in the second part of the present chapter, many, especially equity-based investors, link additionality with the action of addressing areas and initiatives that are disregarded by mainstream investor because of their limited capacity of yielding satisfying incomes; impact investors, on the other hand, accept to concentrate their efforts specifically to those areas because they put in the first place the creation of great social impact: one investor - speaking on behalf of a foundation of banking origin identified as FBO1 - for instance, mentioned that *"being projects that have an impact target and are tailored to specific social needs, they have a potential return that is enormously lower than what is normal in a for-profit venture capital investment"*.

With respect to the degree of financial risk that can be estimated for an impact investing operation, a distinction must be made between debt- and equity-based operators.

As a matter of fact, 60% of debt-based organisations - category to which belong, for the most part, generalist operators with specific activities dedicated to impact - have indicated that they expect to risk less with impact investing initiatives than with traditional ones. For instance, the spokesman for the commercial bank CB2 noted that those who apply for impact products *"are generally used to not getting ahead of themselves. This probably helps in the dynamics of risk, measured on their commitments to the banking system"*.

Conversely, equity-based investors, who represent the vast majority of the operators specialised in activities dedicated to impact, declared that the financial risk that one should be expecting is in line (85.7%) or higher (86.7%) with respect to that sustained in traditional finance operations. The last datum in particular, for instance, is consistent with respect to the typology of organisations that impact operators tend to address, which oftentimes are companies in very early stages of their growth (therefore bearing a significant risk of failure) and belonging to markets which are generally disregarded by mainstream players, specifically for the high risk they entail: for example, an impact-specialised investor (identified as PF1) mentioned that *"the financial risk is very high. Operating in emerging, developing contexts, we have always served small organisations, which did not receive support from others, so in addition to the level of market risk, there is also a risk derived specifically from the type of organisations"*.

Investment Sectors and Screening Criteria

It is also worth to take a look at the investment sectors that respondents declared to be interested in. This, in fact, can give us an idea of the degree to which they intend to support more disadvantaged areas or, on the contrary, sectors that are generally considered to be profitable.

As it can be comprehended from the histogram shown below (Figure 24; of course, interviewees could choose more than one answer option, hence the percentages), there is actually not a strong preference towards certain areas of investments. Those which anyway seem to be the favourites are urban regeneration, environmental protection, education, training and culture, creativity and leisure: these are indeed all areas which can guarantee the achievement of a strong social impact, although in different ways.

It should furthermore be noted that territory development, which is generally an area of investment that is certainly undercapitalised, is the one taken into consideration the least.

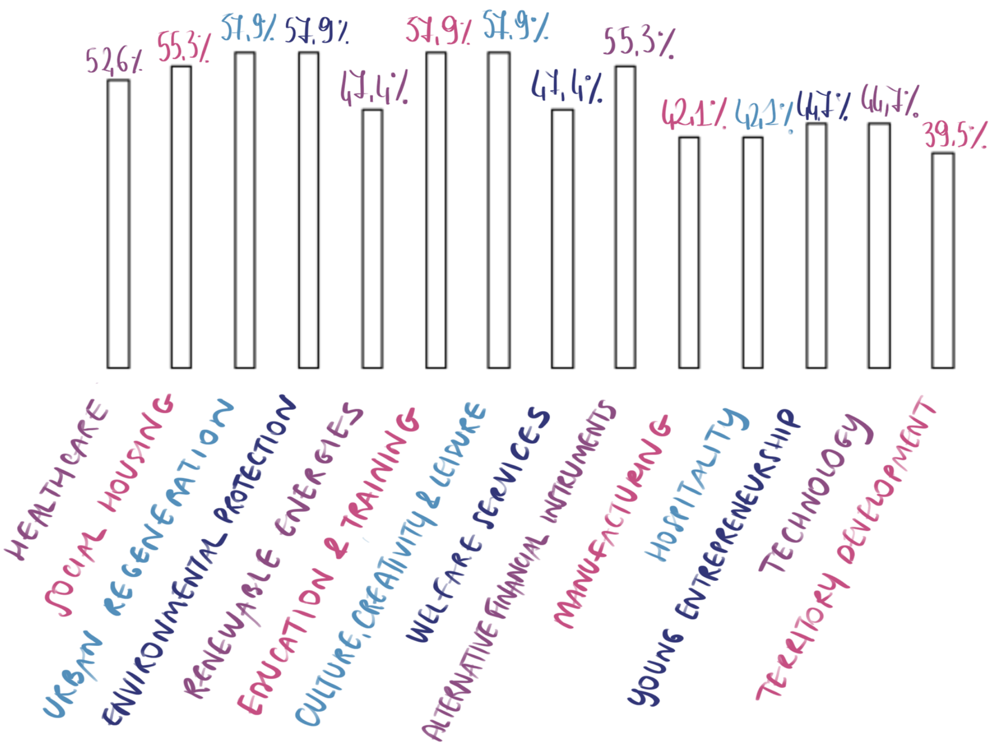

Figure 24: Investment sectors
(N = 38)

Regarding the legal forms of the realities selected by investors, it is possible to observe from the graph in the next page (Figure 25) how numerous investors have stated that they wish to support entities belonging to the third sector, in particular social cooperatives and social enterprises; as one investor (representing the organisation identified as GMF1) noted, these latter could actually be considered as part an *"evolved third sector, a sector of responsible, evolved capitalism"* to which impact investors should very much relate.

Many investors are also interested in profit with purpose companies (therefore with traditional legal forms such as S.r.l.[56] or S.p.A.[57]), whose aim is traditionally to maximise financial returns first, and social returns in the second place.

One impact-specialised investor (speaking for the impact fund referred to as SICAV1), for instance, declared: *"We are not interested in the legal form aspect, but they must be corporations. We do not invest in organisations where the "one share, one vote" rule applies".*

The legally recognised hybrids (such as SIAVS[58] or benefit corporations) are preferred only by 3.2% of investors and therefore it is arguable that they have not yet achieved significant success in the Italian market.

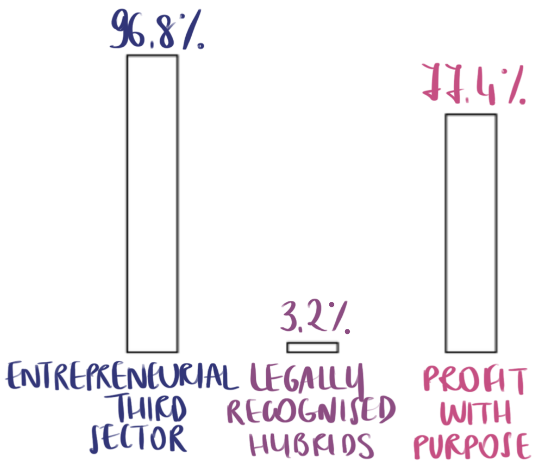

Figure 25: Legal forms of the invested organisations (N = 31)

In view of a future discussion on additionality, it is important to consider at what stage in the lifecycle of organisations respondents are interested in investing. Indeed, additionality is often linked to a higher risk, which the impact investor is willing to bear in return for a satisfactory social return; the financial risk is generally higher in the most embryonic phases of a

[56] S.r.l. (Società a Responsabilità Limitata) is the Italian equivalent for a limited liability company.
[57] S.p.A. (Società per Azioni) is often translated into English as joint stock company or public limited company.
[58] SIAVS is an acronym that stands for Start-up Innovative a Vocazione Sociale (Innovative Social Start-ups); these are companies which are only allowed to operate in the sectors defined by the Legislative Decree No. 155 of 24 March 2006 (social care, healthcare, environmental and ecosystem protection and social tourism, to name a few; Source: Chamber of Deputies website).

company's growth, for instance when the business model is not well defined yet, there is still no structured demand, etc.

With this respect, it is very worth noticing how many respondents (75%), especially those representing organisations which operate mostly with equity-based instruments, declared to be willing to invest in companies that are in the growth stage, which probably represent the most crucial one for their successful development. Equally relevant should be considered the fact that 53.6% of interviewees (of which 83.3% are equity-based) actually stated to be available to support investees in the very early stages of their evolution (i.e. at the seed stage), which, especially in the social field, carry a very high risk of failure. In this situation, for instance, the support that the investor is willing to offer beyond the investment could be extremely significant; however, as noted by the representant of the impact fund SICAV1, the risk can be diversified by mixing the categories of initiatives to support: *"We make both seed and development capital investments, so mainly early stage, but we also invest in companies that already generate revenues and have a potential for growth"*.

The following histogram (Figure 26) summarises what has just been presented.

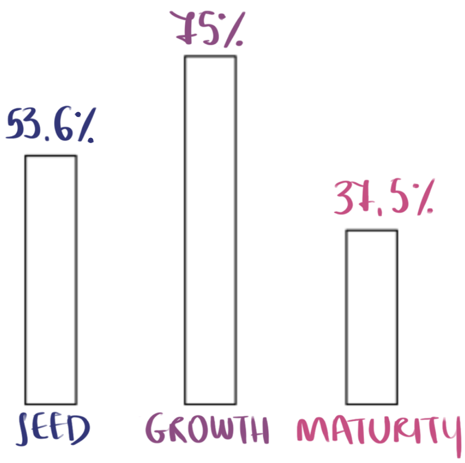

Figure 26: Phases of the invested organisations' lifecycle (N = 32)

It is also fundamental to understand the criteria investors employ when deciding, after the scouting of different realities, in which of the latter to put their capital.

As one could notice by looking at the graph on the next page (Figure 27), the two most important factors that respondents take into account are the solidity of the business model (cited by 83.3% of respondents), followed by the ability of the investee itself to generate a strong social impact (66.7%); for example, the representative of the SICAF1 mentioned that *"we need a solid business proposal: that business project, product or service must respond to needs that have to do with the social dimension. However, this is also an indicator of the capacity of that enterprise to respond to structural needs of the community of reference. When working on social issues, one has the security of working on profound issues"*.

Although one could be surprised that the impact generation capability is not the first priority of investors, it must be put into relation with the fact that we are not talking about philanthropy and donations but real investments, therefore the robustness of the business model is critical also in terms of scalability of the impact itself.

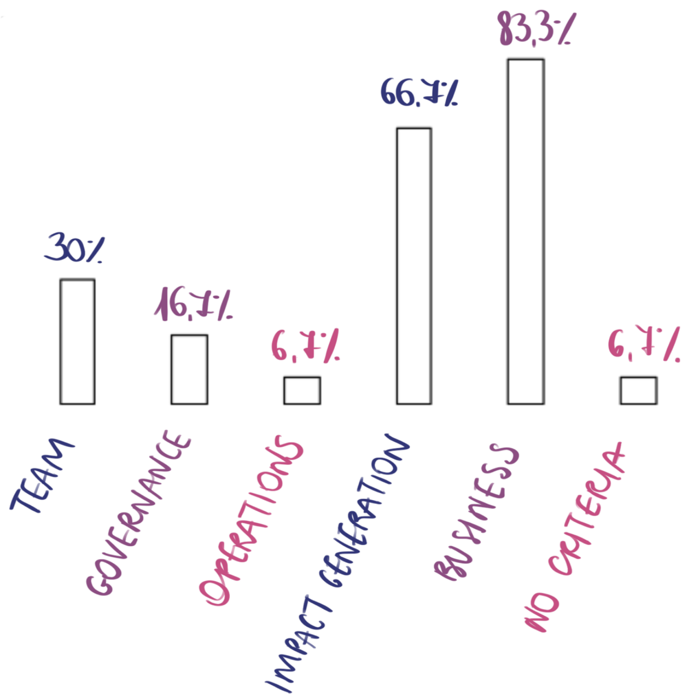

Figure 27: Screening criteria (N = 30)

Non-Financial Services

It is moreover significant to reflect on which services, beyond the sole provision of capital, impact investors are willing to provide to the invested or financed organisations; non-financial services, indeed, could represent a considerable part of that additionality that impact investors, unlike mainstream ones, could be able to provide.

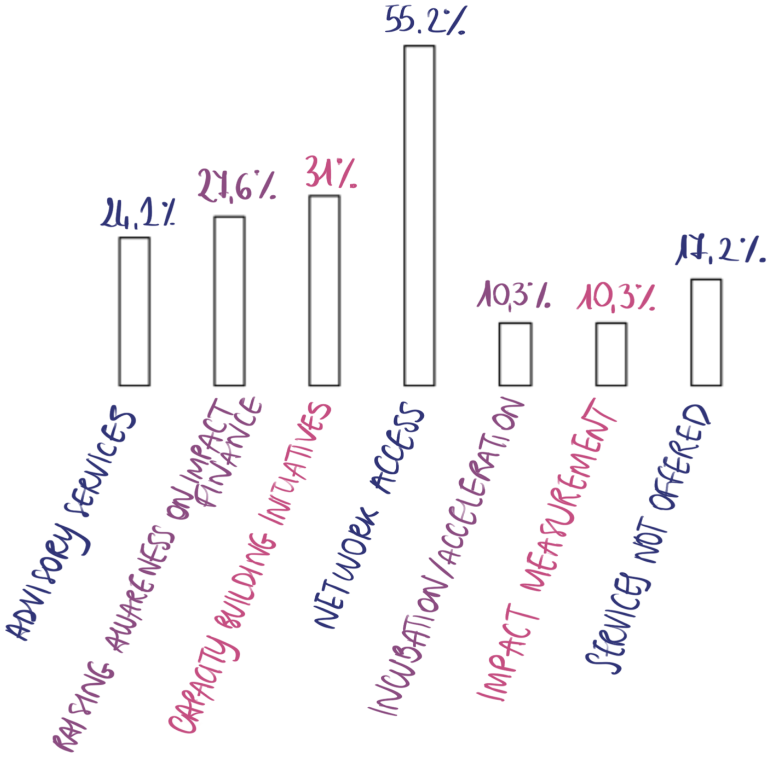

Figure 28: Non-financial services offered to investees (N = 29)

As illustrated in the above diagram (Figure 28), a considerable number of respondents (55.2%, of which 81.3% belong to the equity-based category) believe that they can help their investees in accessing with greater ease the Italian network of impact operators; this is particularly relevant, especially in the perspective of constructing a solid impact investing ecosystem. Network access is followed by three other activities that are very relevant with respect to the growth of the impact market: as a matter of fact, the interviewed players declared to be willing to offer capacity building initiatives (31%), as well as to contribute in the raise of awareness on the characteristics of impact investing (27.6%) and to support their investees with advisory services (24.1%).

With respect to capacity building and advisory initiatives in particular, it is worth sharing what declared by an impact-specialised actor (representing the organisation identified as SGR6): *"Non-financial services consist mainly of accompaniment that focuses initially on product and service* *design and validation. Today we work on the product and service in a maniacal way once we have identified the market, and only then we try to scale up. Then we take care of the impact assessment and the business model. After that we work on the network for scalability and financial metrics that could attract investment"*; in this case, as one can argue, the support to the invested company is a significant all-round assistance in the growth of the enterprise, which could certainly be fundamental for it to actually scale and reach the desired impact.

Still mentioned, but way less popular, were the implementation of acceleration and incubation programmes and the offer of help in measuring impact.

CURRENT BOUNDARIES OF THE ITALIAN IMPACT INVESTING INDUSTRY

Being well aware of the fact that the Italian impact investing industry is still in its very nascent stages, and that it is actually not growing in the way and as much as it should, it was essential to ask practitioner what, in their opinion, can be considered the main obstacles with respect to a genuine market development.

The main problems identified by the respondents were the lack of financial culture of the invested subjects (32.4%), followed by the lack of attractive investment opportunities (27%) and the absence of support from the public sector (24.3%); this last issue is also felt by investors in the form of a lack of tax relief that could encourage them to take on more impact initiatives. To be noted, as well, the presence of demand, according to investors, for excessively patient capital; this, however, must be taken into account if one declares to be willing to undertake high-impact investments, in which the impact itself is measurable only in the long-term: exactly with this respect, the investee representing the fund identified as SICAV1 argued that *"nowadays the financial market wants fast cycle times. Instead, innovation and the achievement of social impact take time"*.

ON THE FUTURE OF THE ITALIAN IMPACT INVESTING INDUSTRY

Equally as important as diving into the most pressing boundaries that have to be faced within the Italian industry is the analysis of what could be the drivers of growth able to bring the market to a decisive turning point.

With this respect, the respondents have mentioned that an increasing in the awareness about impact investing (54.1%) and a greater public sector support through regulatory and fiscal initiatives (40.5%) would be very favourable for an organic raise in volume and effectiveness of actual impact transactions; this position was held, for example, from the representative of a regional financial institution (coded as RNFC3), who affirmed: *"In my opinion, the role of the public is fundamental in this field, both in terms of the regulatory framework and strategic planning; many of the areas in which these initiatives [impact investments, ed.] are going to act are areas that are of interest to politics, mostly because they do not have available the public resources they once had. So, these investments would also be very useful in that sense".*

The interviewees were also asked about what might be the actor that most of all could contribute to the growth of the industry, that is the so-called Game Changer. Coherently with the insights shared in the question regarding the drivers of growth, the investors cited the public sector as the leading actor (58.1%), followed by foundations (19.4%), whose shift from a philanthropic to an investment perspective is central to increase the impact of many initiatives.

Finally, the existence of a network of active stakeholders is considered crucial by 19.4% of respondents.

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Through this brief presentation, it is possible to comprehend how the Italian industry does not have a clear direction yet; there are quite a few actors, coming from different backgrounds, which approach impact investments in very diverse ways. Although this is in some ways inevitable, given their different operating modes, the only way to avoid inorganic growth and consequent opportunistic deviances is to adopt shared principles. While intentionality and measurability are commonly agreed and usually applied, they are not enough to fulfil such purpose: a stronger, more radical principle is needed. Additionality could be the right one, but it is currently being interpreted in too many ways for it to be actually effective. That is the reason why, in the next pages, I will propose an analysis of the concept of additionality that will try to advance its theorisation, so that it will be, perhaps, put in practice by many more impact players in an effort of limiting impact washing practices.

5.2 Additionality & Impact Washing

The present section will be dedicated to the presentation of the perceptions and ideas on the additionality principle shared by the representatives of the Italian impact investing ecosystem during the focus group and the interviews.

In general, the answers given by the respondents concerning the additionality principle saw a rather high level of inhomogeneity among them, especially regarding the interpretation of the meaning given by each interviewee to the impact triad pillar itself.

The findings that will now be presented involve the application of the Gioia methodology to the focus group transcriptions and the interviews' extracts containing insights about the respondents' opinions on the principle of additionality. This means that these latter have been firstly coded and divided in categories according to the shown similarities, and subsequently analysed in the light of the already existing knowledge, found in literature, about the concept of additionality.
The application of the Gioia technique to the available material and the consequently built data structures have been already introduced in the chapter explaining all the methodologies utilised to develop the present research (Figures from 16 to 22).
I remind that, due to the quantity of data and to the high level of detail that the analysis required, this latter has been conducted by choosing to divide the subject under examination into six sub-themes, which are in accordance to the observations shared by impact investors during our meetings.
The six themes describing the concept of additionality will be preceded, as anticipated in the Methodology section, by a description aimed at addressing the analysis of the investors' statements concerning the issue of impact washing; it can be found right below.

1ST MACRO-THEME

PERSPECTIVES OF RESPONDENTS ON IMPACT WASHING

The study of the various declinations of the concept of additionality that we will be analysing is aimed at finding a conceptualisation of the principle able to serve one objective in particular: the one of avoiding the manifestation of impact washing incidents within the field of impact investing. That is, in fact, the only way that can lead to an organic and genuine growth of the industry.

As a matter of fact, quite a few interviewees shared their concern on the fact that impact washing phenomena could really undermine the integrity of impact investments. It is thus worth to read and reflect on what they declared[59].

For instance, the representative of an Italian commercial bank, identified in this research as CB1, stated the following: *"I believe that* ***the real risk is that of impact washing****, of greenwashing, the fact of using labels in order to get the most different things in, or simply to have an* ***extra product to offer****. With an objective, therefore, to have* ***more market share****, which, however,* ***does not lead to any real transformation****"*. He also added that *"the fact that there is a shift on the subject of impact with the aim of* ***gaining market share, but without actually trying to trigger change processes****, on the one hand will make the sector* ***grow quantitatively****, but at the same time the risk is that the sector will* ***lose its original meaning****"*. Although the bank CB1 has very recently started to approach the impact investing industry, this last sentence proves that its spokesman has a clear view of the dangers that are threatening the impact world at this time; these were actually highlighted by another type of actor, a grant making foundation (GMF1), whose delegate reminded that *"the watering down of the notion of impact is a serious risk, which must be absolutely avoided because the risk is then* ***to lose the very meaning of the sector****"*. Moving on to an investment bank (here coded as IB1), the interviewee contended that *"when you talk too much about something [sustainability, ed.], then you have a tendency to ride this wave in a somewhat aggressive way that* ***does not respect the initial principles of the concept****"*. He also recalled the importance of having strict rules and criteria in the definition of impact investing: *"In my opinion* ***impact washing is very dangerous****, that is why we need* ***very strict rules****. If*

[59] As explained in the Methodology chapter, the organisations will all be identified and cited according to the specific identification code (ID) assigned to each of them.

everyone can qualify as an impact investor, but behind there is no control and there are no clear criteria shared by all, then there is a risk of having ***negative repercussions****"*.
Finally, on the same note, the representing person of an Italian association that is at the forefront in the development of impact investing (identified as ADV3) suggested that *"some kind of* ***regulation is fundamental****, in order to not leave investors alone, otherwise it becomes* ***too easy to say that you have made impact investing****"*.

Thanks to these observations coming directly from the world of practitioners, it becomes very much clear that, without proper rules and definitions that actually identify what can be comprised within the domain of impact investing, the risk of witnessing an over-exploitation of the "impact" label is indeed very pressing. In this way, the probability that the original meaning of investing for impact will be diluted and, consequently, that the industry will lose its credibility becomes really high.
Other respondents, indeed, have mentioned how the lack of regulation and of strict definitions cause what Findlay and Moran (2019) cited in their paper about *purpose washing*: the exploitation of the impact label for purposes of product differentiation and, therefore, reinforcement of their market competitiveness.
For instance, the representative of one regional financial company (here identified as RNFC3) mentioned that *"we have to pay attention to the way in which some* ***traditional players*** *will operate"*, in the sense that, if not guided, these latter will be very likely tempted to talk a lot about impact, but at the same time doing very little for the reduction of social problems.
On the same note, another investor (representing the organisation coded as SGR3) pointed out that *"there are many Italian investment funds that now talk about investments of this kind [impact investments, ed.], but* ***they continue to be what they were before****"*: therefore, in such a speculative environment, how can there be a real incentive for impact?
Further evidence of the presence of subjects who prefer to lead the *impact talk* instead of the *impact walk* was brought by interviewees who referred to the willingness of some organisations to exploit impact claims almost exclusively for marketing purposes:

- SGR4: *"I find that in Italy the level is very low:* ***it is marketing****. It seems to me that the impact market* ***was very quickly colonised by old players, who changed their skin to play the same game****."*

- ADV2: *"I happen to talk to professional investors who* ***do not really care much about impact finance****, let alone additionality. They want to see if, either* ***for marketing reasons*** *or for a bit of* ***greenwashing****, they can put some impact in.*
  As long as the for-profit system continues to follow an opportunistic logic, ***we are getting nowhere****."*

As it can be noticed by exploring the literature on greenwashing, behaviours like the ones described above have undermined not only the credibility of firms actually performing greenwashing activities, but also of the ones which are really committed towards sustainability. This could certainly happen in the impact investing industry as well.
Moreover, while in many other industries consumers are becoming more and more capable of recognising authentically sustainable offers which aspire to a real change, the financial world is very much lagging behind from this point of view. The representative of the commercial bank CB1, indeed, mentioned that *"the client entering the bank has* ***no idea that there is a difference between sustainable and impact finance****"*. This is true for retail clients, which right now represent a very small part of the demand for impact capitals, but also for large asset managers and large investors who, as pointed out by an *equity-based* respondent (representing the organisation GMF1) *"cannot distinguish* ***between impact and sustainable finance*** *in general"*. Issues such as these really put the advancement of impact finance at danger: that is why a much deeper education of all impact players is needed. As the spokesman of the foundation codified as FBO2 pointed out, ***"the theme of impact is quite popular now. We are moving in an environment that is favourable to its development****"*: such popularity of impact matters could therefore be exploited to further the knowledge, from both the capital demand and the capital offer side, about the real features that characterise a genuine impact investing initiative. In this respect, a very clear definition of impact investments is more than fundamental. This latter should certainly include the principle of additionality, which, as claimed by the representative of the impact fund here referred to as SICAV2, *"is* ***crucial****, especially at this time when there is a dilution of the concept of impact"*.

As a conclusion to this paragraph, it is worth sharing the point of view of a respondent who mentioned that mainstream players should be obligated to introduce an impact component in their portfolios; he indeed, speaking for the organisation identified as SICAV3, declared that *"the market could be favoured by requiring organisations to have a portfolio component in sustainable finance, at least part of which in impact funds. An* ***obligation to invest, i.e. to make capital available****"*.

However, this would probably lead more to a worsening of impact washing phenomena than to an actual growth of the impact market: in fact, speaking of greenwashing occurrences, we have extensively seen how the pressure of fulfilling external requirements induced many organisations to actually even lie about the sustainability of their practices. This is one of the main reasons why it should be acknowledged that the impact investing market should be populated only by those institutions which are genuinely eager to produce scalable change and not tempted to turn their operations "from *doing good* into *feeling good*" (Freireich and Fulton, 2009).

2ND MACRO-THEME

ADDITIONALITY MEANS ACCEPTING TO EARN LESS AND RISK MORE SO TO MAKE UNDERCAPITALISED AREAS GROW

As the first category of insights shared by investors on additionality, it is worth mentioning the one which is seemingly most in line with the principle's definition that dominates in the Italian context, i.e. the one describing impact investments as those which intervene in undercapitalised areas; areas that would potentially be excluded by any other investor and that are characterised by a trade-off between social and economic return, which means that the willingness to achieve a greater social impact requires giving up a share of economic performance, and conversely.

Such interpretation of additionality and, consequently, of impact investing seems to be mostly shared by institutions that are in relation with the public sector (regional and national financial institutions, for instance) and those operators that are specialised in activities related to social impact.

With respect to public organisations, in fact, all their representatives agreed that the role of impact investing, and the element that makes it additional, should be that of addressing criticalities at the social level in the most disadvantaged and disregarded areas.

In order to get a better appreciation of their view on the matter, it is very worth to read the most relevant passages of the responses given by the interviewees when getting questioned about their attitude towards additionality.

Indeed, starting with the representative of a regional financial institution (identified as RNFC2), she explained the following: *"We intervene with ad hoc financing measures where there are **market failures** and also natural disasters. Being a public actor, one of our recurring themes is that **of additional impact on areas where private capital does not arrive**"*.

Furthermore, the delegate of a fellow regional financial institution (RNFC3) added that *"additionality is our prominent theme. We try to increase the resources, both public but also, indirectly, private, in areas where we believe there could be a **market failure** or an **underestimation of resources**"*. He also mentioned that *"the issue of additionality is important, because we must intervene with public resources, so a typical mission of a regional financial institution when using public resources is to intervene in undercapitalised areas, **where there are deficiencies**. Therefore, the goal in defining the financial instruments (SIB, social impact funds) to be employed is on the one hand to be **resource catalysts**, on the other to **solve/reduce critical issues**"*.

Finally, it is as well worth to mention the thought shared by the spokesman of a national financial institution (RNFC4), who declared: *"We work in those areas that the legislator has identified as priorities, because they are the areas where **the conditions of greatest disadvantage are present**"*.

All the public actors interviewed are actually very new to the impact investing ecosystem; it is nevertheless very relevant that they have here demonstrated to interpret additionality as the objective of contributing in solving market failures, meaning those situations where the allocation of goods and services is far from optimality, and thus inequalities between different sections of the population inevitably grow at an exponential rate.

Another type of actor that has shown a strong propensity to define additionality as the concentration on undercapitalised areas is that of financial operators who have made social impact the focus of their activities. Nevertheless, this time we do not only refer to geographical or sectorial underfunded areas, as in the case of public players; as a matter of fact, the representant of an impact fund here identified as SICAV2, which has actually just started to operate in Italy with the creation of a closed-end impact fund, pointed out the following: *"We believe that the role of impact investing is precisely to support the underfunded segments, therefore also at the level of the* ***growth phase of the company****. So, we decline it in the early stage of a company, which is universally an underfunded segment. We thus support* ***young businesses****, which are struggling to obtain funding, or businesses that perhaps have such characteristics of positioning, thematic rather than normative, that makes them struggle to find financial resources"*. Therefore, in this passage, the investor is underlining the fact that, especially with respect to social businesses and similar realities, the early stages of a company's lifecycle are usually neglected by mainstream investors, in many cases because those companies have characteristics that do not make them feel attractive from a financial point of view and from a risk perspective; as highlighted by another impact-specialised investor (whose institution is here coded as SICAF1), *"operating mainly at an early stage, there is a significant risk component"*.

Finally, the delegate of SICAV2 added that *"in our opinion,* ***additionality is fundamental****, especially at this time when there is a* ***dilution of the concept of impact****"*, hence supporting the link between the application of additionality and the containment of the impact washing phenomenon.

Impact investors can therefore be additional in the sense that they agree to possibly bear a lower financial return and a higher risk (given that, generally, only a few start-ups manage to survive the early stages of growth) in exchange of the opportunity of producing, with the capital allocated, a strong and tangible social impact.

This position actually very much reminds of the distinction addressed by Brest and Born (2013) between **non-concessionary and concessionary investments**, the latter being those investments in which the financial operator is willing to let go a portion of financial return in case there is a strong probability of achieving a high social impact, which is something that a mainstream investor would almost certainly never agree to do. These financial operators, Brest and Born argued, are **impactful by definition**. Precisely in this light, the participant GMF1 - a foundation that is now becoming one of the most prominent players in the Italian industry - mentioned that it is by reaching those which usually are the most neglected areas that the invested capital can have a strong, impactful power. The representing investor, indeed, declared: *"I invest where normal market investors/not so socially responsible investors would not invest, because* ***there is not a market yet, so my capital has a***

particularly important weight". Therefore, the role of the social impact investor would also be that of giving to a certain market segment a chance to grow and consequently become more interesting. Indeed, the above-mentioned representative of the impact fund SICAV2 observed that *"**many areas that are underfunded are actually not so unprofitable**: they have the potential to be not only profitable, but also more profitable than others"*.

Coming back to the point of view describing additionality as linked with lower returns and higher risks, this was explicitly shared by two more actors; the first one, who represented a foundation operating mainly with equity-based instruments (which we will address as BFF1), alluded to this point by bringing as an example one investment that the foundation itself made, which was not considered as an impact one, since *"you can make a lot of money from it and any other non-impact investor could do it"*, he declared. On the same note, the delegate of BFF1 also mentioned that *"for example, I believe that those who invest in **renewable energy** [which has nowadays become a very profitable market, ed.] cannot be traced back to impact finance because they are not additional"*. The second respondent, instead, represented a bank (i.e. a debt-based organisation, here identified with the code CB4) and linked additionality to the offer of **subsidised loans** to specific subjects in need; something which, again, is reminiscent of the concept of concessionary returns pointed out by Brest and Born (2013).

Keeping the focus on the debt-based side of social impact initiatives in particular (for instance, the banking sector represents one of the most prominent categories among the newest players in the industry), it is worth noting that two of the interviewed organisations (of which one is a generalist asset management company identified as SGR1, while the other - CFS1, a cooperative financial system - has a longer experience with respect to the impact world) pointed out that inherent to the concept of additionality is the desire to secure the access to credit to people and companies with characteristics that cause them to be excluded from traditional financing channels. The impact-focused actor, in fact, claimed: *"[Additionality] is about what could be done to bring more financial resources to organisations that are **generally non-bankable** or have **difficulty in accessing credit**"*; on the other hand, the more generalist player, which is just now beginning to explore the impact market, explained that he sees additionality as *"the concept of **making bankable products that were not bankable before**, of making things that "impatient" capital is not prepared to finance investable in a **logic of patient capital**"*, thus stressing the fact that the financier must be prepared to a lower and longer return, as well as to a potentially higher financial risk, compared to traditional forms of financing. The additional impact, consequently, lies in guaranteeing access to financial services to those realities which would be considered not attractive at all by mainstream players.

Some other impact players, while generally agreeing with the definition of additionality provided at the very beginning of this paragraph, specified that being the only investors that would like to intervene in a specific sector or area is actually quite rare; indeed, especially one operator, which is specialised in impact initiatives and here identified as SGR5, pointed out the following: *"We also intervene in* ***social cooperation****, which is indeed an undercapitalised market, but at the same time* ***we are not the only ones****"*. In fact, as reminded by the investor himself, those organisation that have the legal form of social cooperative - which is very typical in the Italian third sector ecosystem - traditionally experience difficulties in finding investments from mainstream players, precisely because of the peculiar characteristics of such a legal form; however, there is not only one type of player interested in supporting such organisations: the interviewee himself, indeed, brought as an example mutual funds, which are also very active in the assistance towards social cooperatives.

Moreover, other interviewees, especially among those belonging to the Italian banking sector, have pointed out their doubts with respect to the wide-known belief that links the additional role of impact initiatives to the fact of being the only investors trying to address a certain area/social issue.

As a matter of fact, the representative of the bank CB6 specified that *"it is tautologically wrong to think that you are the only one who finances or puts capital, you never are, because you, single company, decide to do it but* ***you cannot know if others would have done it or not****"*. However, it should be pointed out that when the definition talks about areas where "other investors" would not go, the allusion is to mainstream investors who might consider the project too unprofitable or, anyway, not attractive, and not to other financial operators which are dedicated to impact.

Instead, the two representatives of another major Italian banking institution (here codified as CB5) said the following: *"For us, additionality could be producing social change, but* ***it is not an undercapitalised sector, it is a project that produces strong social change****"*.

While noticing the clear disagreement with respect to the idea of allocating capital to underfunded areas, it is anyhow worth observing that this statement is consistent with one of the other macro-themes we will be addressing, i.e. the one considering additionality as the capability of impact investments and impact investees to generate a true **systemic change** in society (3rd Macro-Theme).

We can therefore argue that the main findings resulting from the analysis can, until now, be summarised as the following:

- Investors operating with additionality accept to **earn less and risk more**;
- Investors are additional in contributing to **allocate more capital to the most disadvantaged markets and areas** (which can be interpreted in terms of sectors, geographical regions, stages of growth of enterprises, etc.) so that they can grow and develop.

On a final note with respect to notion of additionality linked to addressing the most disadvantaged investment areas, it is worth reflecting on the fact that the novel way of conceiving entrepreneurship and finance - of which a practice such as impact investing is part - inevitably leads to a rethinking of the capitalistic model that has governed most of the world's economic systems for decades and that has been one of the main causes of the great social inequalities that we are now facing worldwide.
One of the interviewed investors, when referring to the principle of additionality, pointed out that the latter could represent that feature able to direct impact investing initiatives specifically in the direction of an effective **redistribution of capital** towards the most disadvantaged segments of the population. Indeed, speaking on behalf of the investing company identified as SGR4, he said the following: *"The essence is precisely to redistribute capital, with an* ***anti-capitalistic effect****, because capitalism would lead to the concentration of capital."*
Therefore, additionality may be theorised as the act of addressing undercapitalised areas and expecting higher risks and lower returns as explained previously in this macro-theme, but with the precise intent of doing so in order to foster a **new model of enlightened capitalism**, able to ensure greater equality in societies all over the world.

On the same line of thinking, albeit with a slightly less "disruptive" approach than the one of rethinking capitalism, another respondent (whose organisation only serves an advisory role and is thus identified as ADV3) mentioned to have heard of *"additionality in the sense of* ***additional capital entering the sector****, instead of additional sectors"*. Therefore, the concept, in this case, is to not go and look for different and lesser known market segments, but to focus on those that historically have had capitalisation issues, contributing to solve such issues. This approach might recall a type of additionality which was discussed in relation to DFI interventions: **investment (or quantity) additionality**, which indeed refers to an increase in the *quantity* of an investment, if compared to what would have happened without the DFI's intercession.

3RD MACRO-THEME

ADDITIONALITY MEANS THAT INVESTORS AND INVESTEES SHOULD DEVELOP INNOVATIVE SOLUTIONS TO GENERATE SYSTEMIC CHANGE, THEREFORE REDUCING SOCIAL INEQUALITIES

Quite a lot of respondents brought up the idea that an investment or a project is additional when it contributes to the generation of systemic change, which would consequently lead to a reduction in inequalities and greater social inclusion. This idea can certainly be further understood by reading some of the statements shared by the investors.

Indeed, the representative of the commercial bank CB1 declared that *"additionality is a* ***transformation that is produced in the economic and social system****"*.

Another debt-based impact operator (identified as CFS1), moreover, said: *"Working in the world of social enterprises, I consider impact as the ability to* ***generate change in the communities*** *where social enterprises operate and* ***for the various categories of stakeholders*** *they relate to"*.

The last two quotes on this matter belong to two impact-specialised investors operating with equity-based instruments; the first one, identified as SGR4 shared the following: *"We give priority to what is* ***systemic change****, so we invest in what is* ***systemic innovation****, which has a strong social impact"*. Finally, the delegate of the organisation SGR6, which is actually a recently established impact fund, added: *"We are focused on* ***new solutions and new challenges****, so* *the interpretation of impact for us goes through that of an* ***innovation relevant to society, i.e. social innovation****"*.

Thanks to these citations, it is possible to comprehend how additionality is perceived as the function of impact investments of producing that societal systemic change which would otherwise be, most probably, disregarded.

One player (representing a leading Italian bank, here identified as CB5) while remaining on the same wavelength, pointed out that *"****it is the project itself that produces strong social change****"*: therefore, the perspective assumed in this case is that the additional effect of producing social change is to be attributed to the invested or financed reality, and not to the investing or financing activity itself. This is actually very much consistent with another idea that will be discussed later on, which links the additionality effect precisely to the recipient of the impact investment, meaning that it is the latter's initiative that should actually be able to generate additionality.

Additionality has also been associated by some interviewees to the ability of impact investments in generating much higher levels of social inclusion than those which we are experiencing nowadays, even in a developed nation like Italy. As a matter of fact, one respondent (representing the commercial bank CB6) mentioned that *"****additionality is when greater social inclusion is created****"*. She also went more in depth by explaining that the concept entails *"the creation of something* ***extra****, that generates a* ***collective benefit****, an increase in* ***integration****, in* ***autonomy****, in* ***job opportunities****"*. Another bank's (CB3) representatives, in addition, cited their interpretation of additionality as providing *"more* ***involvement of end users, additional offers*** *with respect to the existing ones…"*.

Therefore, a further theorisation of the additionality principle should definitely take into account the fact that the **creation of systemic change** is certainly a key added value that impact investing can offer to the whole financial market and, in the end, to the final beneficiaries of impact initiatives; it should be therefore considered as a fundamental objective by as many impact investors as possible.

Another viewpoint mentioned by interviewees during the process of data collection - which is actually very much in relation with the desire of producing a systemic change - is the one associated to the evolution that certain subjects are now experiencing because of their wish to stop carrying out of philanthropic activities, preferring to those real investments; even though the point of view that will now be presented has been offered by only one respondent, it is worth mentioning it because it is referred, in particular, to the Italian context. The interviewee does not work as an investor herself, but rather as a consultant and advisor to several subjects[60], including Italian entrepreneurial families who have always been involved in philanthropic projects, but now wish to broaden their vision and undertake impact investment initiatives. She indeed observed the following: *"My clients often come from traditional philanthropy: they always start from the concept of* ***"doing good"*** *but they are attracted by the idea of* ***doing different things, so additionality is required****. They really do not like the idea of supporting just any project"*. As it may be noted from the citation, in this context additionality is seen as that component of the impact investment that allows investors to "do good things" in a somewhat original way, while evolving from philanthropic to investing activities: the advisor, in fact, has mentioned that her clients are willing to select which projects to support in a very careful way, arguably to be sure that they, for instance, do not cover needs which have been already addressed by other initiatives.

This view is actually very consistent with the production of a systemic social change because impact investing can be considered as a structural evolution of philanthropy, given its actual belonging to the sphere of financial transactions and to its consequent capability of scaling impact, an objective that is much more difficult to realise with the help of mere donations: indeed, as pointed out by the delegate of the foundation GMF2, ***"the impact that can be generated with non-reimbursable contributions is relative****; the logic of impact investing, on the other hand, gives much* ***more responsibility to the investee*** *and therefore provides much more effectiveness to the initiative that is carried out"*.

Proceeding with the analysis, it became clear how one of the most widely shared interpretations of additionality resulting from the interviews is the one linking the principle to the ability of investors in enhancing new solutions (for example, innovative business

[60] For this reason, her organisation will here be addressed as ADV2.

models) aimed at solving pressing social problems, and, therefore, at producing very tangible systemic changes in society.

One respondent, speaking on behalf of a foundation of banking origin (here coded as FBO2), indeed pointed out that something additional is about *"finding* ***new solutions*** *to problems for which the resources provided are not sufficient"*.

Another investor (representing the foundation identified as GMF1), instead, shared what follows: *"We believe in an additionality that refers to* ***new models applied to markets that are already well established****: for example, referred to a sector that is neither undercapitalised nor forgotten by investors, but in which it can be provided a new, innovative service model, able to generate a* ***stronger social inclusion****"*. Therefore, the focal point in this case is not to look for underdeveloped segments or market failures as it was in the second macro-theme resulting from the analysis, but to improve products and services that already exist, in the sense of making them accessible to a much greater number of people. This view was shared by another impact-specialised player (codified as I1, being the related organisation an incubator), who argued that *"there are areas of impact investing that are about* ***offering existing services at a lower cost to a weaker segment****: this is one of the impact investing opportunities.* ***There are market failures where profitable business models can be created*** *and those are part of impact investing"*.

Finally, the delegate of an impact fund identified as SICAV1 defended the thesis according to which *"****impact investing was born to look for new solutions****. Perhaps, instead of additionality, we should use the same word that is used for traditional venture capital:* ***disruptive****. Here* ***the disruption must have a social impact****. If we do not consider that it should* ***create something new****, for me impact investing does not exist"*. He therefore contended that, for impact investing to be additional and actually have a relevant weight with respect to the provision of significant social change, it should be able to deliver very innovative and effective solutions to pressing social issues; solutions that would have been impossible to accomplish without the intervention and expertise of an impact investing operator: *"****Additionality is the real distinguishing element****. Additionality is linked to a* ***solution****: it is therefore a comparison of what an organisation does, compared to other organisation"*, he in fact added. Consequently, a new conceptualisation of additionality should embed the principle of **creating forms of social disruption thanks to the design and development of innovative and more inclusive business models**.

As briefly anticipated earlier on, some respondents stressed the fact that a potential additional effect is not accomplished by the investment of the financial player itself, but by the initiative that the entity receiving such investment is able to set up thanks to the capital provided.
The representative of the impact division of a large Italian bank (identified as CB4), indeed, explained: "*I understood from the workshop [referring to the focus group held in May, ed.] that additionality is* ***at the level of the beneficiary*** *[intended as the funded organisation, ed.]. It is not my initiative that is additional, but the fact that I gave a chance to a beneficiary that otherwise would not have had one*". The key point is therefore to enable the *"creation of [social] value"* by organisations which, most probably, could not have aspired to pursue their impactful ideas without the contribution of an impact investing initiative.
A couple of players, instead, referred to the fact that, in their companies, additionality is linked to the entities they fund in the sense that *"the basis is to take care of those* ***companies that need to be accompanied in a somewhat special way****"*. This latter actor, speaking on behalf of a large banking institution which also operates abroad (here referred to as CB3), specified the following: *"For additionality: we see which customers we want to accompany, and we offer them specific products, specific services, specific financing, therefore* ***individual accompaniment****"*. She therefore clarified that **being additional means to offer very tailored products, services and assistance to each client**, with the aim of helping the latter in achieving a greater impact with its business than what would have been possible with a more generic financing service. Consequently, in this instance the relevance of non-financial services that impact investors can provide is very much stressed: indeed, as mentioned in the introduction to the present chapter, interviews' respondents have declared their willingness in offering services such as capacity building and awareness raising initiatives, as well as advisory services and many more. What can be surely argued is that these practices could absolutely represent additional, irreplaceable services with respect to what mainstream investors offer.

The third and last line of thinking which connects the principle of additionality more to the intermediate or final beneficiary (meaning, for instance, a social enterprise and the final clients of such enterprise) than to the impact investor is the one of some interviewees who highlighted the importance of thinking about the ultimate beneficiaries of impact initiatives, meaning the people whose life could potentially change thanks to the products and services offered by social enterprises and similar organisations: *"Additionality is when you* ***allow the***

social inclusion of the beneficiary*, in the sense that you make an excluded person, included"*, the representant of the commercial bank identified as CB6 stated; another one (speaking for the foundation BFF1), instead, declared: *"It is all about* ***finding out where the ultimate benefit of the investments lies****: if it has a strong effect on disadvantaged beneficiaries, it is probably within impact investing boundaries".* Therefore, in this final case, additionality is considered as the act of procuring a **valuable social benefit to the ultimate beneficiary**. Indeed, this line of reasoning is very much connected with the generation of systemic change and the reduction of inequalities mentioned earlier: as a matter of fact, the only way to achieve these great goals is to start helping as many people as possible, beginning even with small initiatives, but never losing sight of the final goal, in order to generate a continuously greater social impact over time.

In conclusion, it is arguable that the application of the additionality principle should necessarily include a **strong willingness of impact investors** to provide investees with services that go **beyond the mere provision of capital** and that are aimed at supporting them in **achieving a great social impact** in the communities where they operate.

4TH MACRO-THEME

ADDITIONALITY IS RELATED TO ANOTHER PILLAR OF THE IMPACT TRIAD: INTENTIONALITY

When mentioning the impact triad, some investors referenced to the fact that they would prefer to consider the third pillar, additionality, as a sub-category of the first pillar, intentionality[61].

The representative of a foundation of banking origin (here called FBO1), for instance, shared the following thought: *"****Additionality is always linked to the theme of intentionality*** *in order to clearly distinguish what are, within our investment portfolio, investments that have impact objectives from more generalist investments, because it is necessary that, alongside the intentionality of the social objective,*

[61] As a reminder, intentionality is that definitional characteristic of impact investments which advocates for a conscious and deliberate search for a social impact, aimed at pursuing a positive result for the community and explicitly declared ex ante to the use of capital. This results in the proactive search for activities that have the goal to create strong social value.

the operation that is put in place adds social value to the situation on which we want to act". Paraphrasing the interviewee's reflection, one could conclude that, in this case, the principle of additionality is understood as the willingness of investors to declare that they are *intentionally* trying to improve the social situation that they have chosen to address.

This latter point of view was also mentioned by the chief of the impact division of a commercial bank (CB6), who affirmed that *"additionality as we understand it is* ***within intentionality. The additionality lies in the fact that we intentionally try to understand if the funded company addresses an uncovered need in a certain area.*** *We do not care if the initiative is mainstream or non-mainstream, but if it generates a clear, tangible, measurable result on the territory"*.

Conclusively, the spokeswoman for one of the most prominent impact organisations in Italy (here identified as SGR6), which recently launched a closed-end impact fund, proposed an idea that could, according to her, diminish the intensity of the current discussions about the principle of additionality: *"I think a lot of the discussion about additionality is that it should be used as a third pillar. If additionality were* ***part of that diligence that underlies the analysis and the declaration of intentionality****, much of the discussion about it would potentially fade away"*, she said. Moreover, she added: *"If I am acting in an area that is not only undercapitalised, but under-structured, not addressed, I am already acting on a social challenge. So, in my opinion,* ***additionality is an attribute of intentionality****"*. Therefore, in this example, the investor is implying that being additional means bringing capital to the most disadvantaged areas, which is indeed the definition of additionality that has taken hold the most so far; however, **ensuring that additionality is part of the declaration of intentionality** - a practice which is already considered acceptable and necessary by most actors - could make the application of the triad's third pillar seen as an essential condition for an investing initiative to be recognised as fitting within the impact investing domain. Hence, a further conceptualisation of additionality should consider proposing a **revision of the impact triad structure** in order to clarify that additionality is as fundamental as intentionality. Specifically, one should remember that, for an operation to be considered part of impact investing, it is essential that intentionality is declared and documented before any operational activity begins; **such an approach should actually be implemented for additionality as well**: in this way, it would be easier to understand which organisations have immediately (i.e. before the beginning of the investment) dedicated themselves to understanding and assessing their additional effect, so that the subsequent distinction between achieved and not achieved social objectives results as clear and transparent as possible.

5TH MACRO-THEME

ADDITIONALITY IS CONTEXT-DEPENDENT

By using the phrase *context-dependent*, the objective is to emphasise how some interviewees pointed out that **the additional effect of impact investments can be limited either in time or in space**. In time, because some have argued that additionality is only temporary, and in space because some organisations recognise their additionality in the objective of helping very specific, currently unserved territories to emerge.

As already widely discussed, in fact, the additionality of an impact investment is often linked to the focus of investors in reaching undercapitalised areas. The word "area" has been interpreted by respondents in a number of ways: some interpret it in sectorial terms, some think of it with respect to a company's stage of growth, some others in geographical terms. It is precisely this last meaning that we will discuss now: it has indeed emerged from the interviews that some actors consider additionality as the contribution to the local development of a specific territory, in the sense that they remain specifically focused on a single, limited area for all their interventions, as opposed to other investors (mentioned in the second macro-theme of this analysis) that aim at intervening in more than one place among those which show undercapitalisation issued (sometimes even at an international level). Below, some quotes in support of this thesis can be found.

For instance, the representative of the only mutual credit bank that participated to the research (identified as MCB1) pointed out that *"additionality is that the resources of that* ***specific territory*** *[where the bank operates, ed.] are made available* ***to both families and business projects, but also to the local administrations of that territory****"*.

The spokesman of the regional financial institution coded as RNFC3, moreover, specified the following: *"We support social initiatives in* ***rural, inland areas****. The focus is on business* *creation/development of young enterprises in rural areas, in* ***territories where there are deficiencies****"*.

Finally, the organisation referred to GMF2, which actually operates at a regional level just like the financial institution cited above, had its delegate point out: *"Our priority aim is to pursue the* ***development and growth of the territory in certain identified areas****"*.

As it can be argued from their identification code and the brief descriptions shared above, these statements derive mostly from entities, such as financial institutions or foundations, which operate specifically at a local level and are therefore especially interested in the development of a very specific territory. This aspect is particularly relevant in a country like Italy, which is characterised by great heterogeneity among its various regions (also in terms of social issues to be addressed) and therefore strongly necessitates of ad hoc projects to be developed for the different areas. The expertise of these organisation, derived from a profound knowledge of the territory, could therefore be very useful for an efficient and effective allocation of impact capital.

A new conceptualisation of additionality, therefore, should mention the additional impact of contributing to the **local development of specific areas which are currently unserved in terms of minimising major social problems**.

If we instead focus on the limitation of additionality in time, two investors, who are actually considered - in the light of the reference sample - among the most active and experienced players in the Italian impact investing sector, pointed out that the additional role of the impact investor may be that of helping forgotten, underfunded areas to emerge so that they can afterwards become attractive to a much wider audience of investors. Therefore, the focus this time is specifically on those arguments that have highlighted how, after having helped those areas to develop, impact operators could leave the field to socially neutral investors, who would at this point be interested in those segments turned to be appealing thanks to the successful initiatives carried out by impact investors.

It is worth to take a moment to actually read the thoughts they shared during the interviews. Indeed, the delegate of the foundation GMF1 contended that *"it may happen that an investment that* ***initially has a characteristic of additionality*** *then loses it, in the sense that then the conditions are created so that that sector, which was initially not developed, actually* ***becomes something mature and becomes an asset class****, as it happened for social housing"*.

Moreover, the representative of the organisation coded as SICAV1 indicated that *"the task of an impact investor is to understand* ***how to make capital as additional as possible, so that these forgotten areas can emerge and become more at the centre of attention****. When they become so,* ***some of this additionality is lost, but the investment remains an impact investment****"*.

In this light, the same interviewee also mentioned the following: *"I take* ***microfinance*** *as an example: for twenty years people have invested, doing additional work. Today, the largest microfinance investor is Sequoia, which is the largest existing VC company. If we believe that microfinance generates impact,* ***then it also generates it with Sequoia, however Sequoia is not an additionalist****"*.

The two investors thus emphasise that the additional role of impact operators is certainly to invest in disadvantaged areas, but with the primary objective of making sure that their support is functional to let these latter develop and emerge as mature asset classes, thus making themselves attractive to mainstream players as well, because of the lower financial risk and the potential higher return they could entail. Impact investors could therefore serve the role of "de-riskers", as mentioned by the foundation GMF1's representant: *"We feel that we have a* ***de-risking role*** *in the system, so our appetite for risk is high"*.

Therefore, additionality would be at some point lost, because of the maturity reached by the funded investments, but impact would be increased thanks to the greater amount of capital allocated to those, once disadvantaged, sectors when mainstream actors decide to come into play.

It would remain, however, to be understood how to protect this process from impact washing phenomena: perhaps, it would be useful to study the cases of areas and sectors that were once disadvantaged and have nowadays become much more recognised. It is the case, for instance, of the above-mentioned microfinance industry, whose related programmes have seen in recent years quite a few speculative deviations (Mersland and Strøm, 2010).

6TH MACRO-THEME

ADDITIONALITY MEANS TO ADDRESS ISSUES THAT ARE NEGLECTED BY WELFARE SYSTEMS AND TO DEVELOP PUBLIC-PRIVATE PARTNERSHIPS

"I have always taken for granted the fact that, if we are talking about impact investing, we are talking about investments in areas where not enough capital has been invested so far. ***Everything that comprises the services where public welfare has never invested is additional****. Everything that comes under healthcare, welfare, etc. can be considered additional".* This quote reports the thought shared by the interviewee representing an organisation (ADV3) that is not an investor in itself, but probably the most important promoter of the awareness about social impact finance in Italy. The reasoning perfectly follows the principle according to which, in recent years, the private sector has found itself having to meet societal problems that would traditionally be addressed by means of direct State intervention; these needs of the population in fact result to be uncovered, mainly because the current financial situation of many developed countries (including Italy) does not allow to face with public resources all the different social needs that are emerging. It is therefore from this issue that impact investing can take inspiration to have the opportunity to be additional: by going to invest in those realities that wish to contribute in solving the above-mentioned social problems.

This theme was also brought up by the representative of a regional foundation (here referred to as FBO2), who declared the willingness of his institution to *"experiment with an* ***innovative welfare model****"*; he furthermore argued that, while *"basic services to assist vulnerable social groups must remain under the responsibility of public administration resources"*, impact investors should consider to be involved in those *"initiatives that have to do with well-being, with the possibility of reconciling work activities with leisure activities, rather than with relief activities for people with disabilities or their families, which are functions that do not perhaps concern the essential care service, but are nevertheless necessary and may have a* ***paying demand****"*. Therefore, in this category of **non-essential, but very useful services which surround basic welfare** could lie the additional effect of impact investing initiatives with respect to a **faulty welfare system**.

Exactly with this respect, another investor, who described her organisation (registered as C1) as having a finance-first approach (i.e. the desire for social return is subordinate to obtaining a financial return) mentioned an alternative conceptualisation of additionality, which considers the principle as *"shifted towards the concept of* ***blending of resources****. Therefore, on* ***the*** *possibility of using private capital in combination with public resources*". This is actually a very important theme that should be further examined in research. As a matter of fact, the combination of public and private resources can turn into attractive projects which, under other circumstances, would never be taken into consideration: projects that, in fact, would have been financed neither by private organisations (maybe because too risky) nor by the public sector, for instance because of the lack of funds to be destined to social initiatives. The material collected from the interviews offered us an example of blending of resources brought by an investor who remains more profit-oriented than social impact-oriented; however, impact-specialised actors should also consider to look for the involvement of the public sector in some of their projects, since the latter is seen by many practitioners as the great absentee on the impact scene; however, its systematic contribution could lead to a real and strong growth for the sector, as argued by a consistent number of the interviewing process' participants.

An instrument whose implementation could be studied in the Italian reality is, for instance, the Social Impact Bond (SIB)[62]: however, although this instrument has proved to be successful in other countries, it is very difficult to apply because of the very high number of stakeholders involved and the expertise needed, which in Italy would require the overcoming of quite a few important difficulties, first and foremost those of legal and operational nature (Fondazione Cariplo, 2013).

7TH MACRO-THEME

ADDITIONALITY IS SEEN AS A BARRIER TO INNOVATION AND IT IS DIFFICULT TO APPLY

As a final theme to be addressed in this presentation, it is worth to shift the focus from a theoretical perspective to a more operational one.

The current under-conceptualisation of additionality inevitably raises doubts and questions about the applicability and the actual usefulness of the principle, so much so that even an impact-specialised investor (i.e. representing the grant making foundation identified as

[62] A Social Impact Bond is a financial instrument put in place by the public sector and aimed at raising private capital to deal with social problems that would remain unaddressed due to lack of funds (La Torre et al., 2019).

GMF1) revealed that *"**additionality has so far not been a discriminating feature**"* when choosing which projects to undertake. He furthermore added: *"It seems to me that **the issue of additionality limits impact finance interventions** to a phase of development in the market [early stages of development, ed.]; once it becomes mainstream, additionality is lost, and it seems as if the investment were no longer impactful"*; this reconnects to the theme of additionality limited in time that he tackled during his interview.

Moreover, the representative of an asset management company that is only now entering the Italian market (identified as SICAV3), when asked about his level of agreement with the concept, responded: *"If on the one hand there is the willingness to go and invest in areas that are sometimes excluded, on the other hand we are far away, in the sense that then, also **to combine social impact and return**, sometimes [additionality] remains **the last among the priorities** that are considered for the implementation of the project"*. The fear, therefore, of not being able to generate a satisfactory economic return is one of the factors blocking more generalist investors from engaging in initiatives addressed to those areas where impact investing practices are needed the most.

To complete, it is worth mentioning the impression shared by an expert (representing the organisation which in this research is referred to as SGR4) who is now contributing to the launch of an impact fund in Italy, but that can actually boast a long experience in the British impact field. He said: *"The issue of additionality is very important: there are many ways to interpret impact and I believe that **an emerging and highly innovative market should have no limits**, so unless the legislator wants to give tax breaks, and therefore needs a definition to decide who is eligible and who is not, I see no reason to start raising barriers, which inevitably **limit innovation**"*. Although this is certainly a valid point of view, it must be noted that impact investing has got over its very first emerging phase and it should now be provided with a stable and practicable definition, allowing it to become part of the "new normal" that needs to be established in the financial sector. The Italian ecosystem is certainly lagging behind with this respect; however, the role of academia could definitely be that of helping practitioners in their deployment of impact activities so to avoid impact washing phenomena, which might certainly occur in an industry that is still very much underdeveloped.

Strongly connected to the topic discussed in the paragraph just above, there is another theme which was brought up by an impact investor (identified as SICAF1) that claimed: *"**I think***

***[additionality, ed.] is a good principle, then how practicable that is** - I am thinking especially of operators like banks, not so much about a venture fund like ours, which is clearly additional - **is to be seen**. I think it is a **good principle but difficult to apply**"*. This statement is a reminder of how fundamental it is, especially in this first phase of affirmation of the Italian impact investing industry, to **support the more generalist investors in the application of the impact principles**, in order to avoid possible misunderstandings and allow them to contribute to a market growth that is as organic as possible.

As a matter of fact, it is fundamental to briefly reflect on one interpretation of additionality which stemmed from the interviews, but seems to be completely detached from the reality of impact investing.

First of all, I would like to mention that mine is in no way to be intended an accusation against operators who are just now approaching the concept of sustainable finance and impact investing in particular, but rather a desire to clarify the meaning of impact investing and to protect its valuable nature from potential opportunistic drifts or dilutions of the concept itself.

With this being said, it is worth sharing an example of how the concept of additionality can be misinterpreted in such a way that could cause the principle itself to lose much of its capability of addressing systemic change; such example, which was brought by the representative of an organisation that was later removed from the reference sample due to its involvement in ESG and SRI activities rather than in impact ones (and therefore codified as NA4), read: *"About additionality, maybe that is another way of thinking. Let us also think of one of the "ugliest" companies there are, for example Volkswagen, which, from the point of view of sustainability, has not behaved very well in recent years. But if Volkswagen were to issue a green or social bond with which they go **to solve or try to mitigate one of the risks they have created, despite having created it**, the sum of money that I put in are used to solve something negative, so they improve a negative situation. In this context, **I might consider an investment in such a bond**"*.

This reasoning, although it is certainly acceptable from the point of view of supporting big corporations in improving their frequently flawed modus operandi, must absolutely not be mistaken with practices associated to impact investing: in fact, interpretations of this kind could also very easily pave the way to players that wish to use impact arguments just for the sake of marketing purposes. That is indeed one of the reasons why, now more than ever before, the need for an unquestionable and widely applicable definition of additionality - and impact investing in general - must be perceived.

6 Discussion

"When you see the kind of progress impact investments have had in solving social and environmental challenges, it is extraordinary to think about what could be achieved as the industry grows and becomes more efficient."

Jamie Dimon, Chairman and CEO of J.P. Morgan Chase[63]

This next chapter will be devoted to a critical discussion of the results that have just been presented. In particular, it will consist of four main parts, strongly interconnected to each other. Indeed, the discussion will start with an in-depth comparison between the concepts emerged from literature and the results of the empirical research; this has been fundamental to develop an operational definition of additionality, aimed at fostering the efficiency and effectiveness of the impact investing industry. Precisely with this respect, the definition will be supported by two practical frameworks, aimed at guiding impact practioners in their application of the operational definition itself, thus wishing to amplify their additionality and to prevent impact washing occurrences.

In particular, the first framework will be dedicated to impact-specialised investors and will guide them in maximising their additional effect in the application of each element of the operational definition. On the other hand, the second practical framework will be focused on supporting generalist impact investors (i.e. those who have either only recently joined the

[63] Source: GSG (2018).

industry or do not have a clear understanding of additionality) in the basic application of the definition, so that they can increase their expertise and begin their journey to become, in their turn, impact-specialised players.

6.1 A DISCUSSION ON THE ADDITIONALITY PRINCIPLE

As anticipated in the introduction to the present chapter, this latter will be focused on the presentation of an operational definition of additionality and two frameworks aimed at guiding practitioners in understanding and maximising additionality. However, before proceeding to outline them - which actually represent the outcome of the re-elaboration of the results that have emerged from the analysis - it feels necessary to start the chapter with a reflection on how the results of the empirical research "speak" with the notions encountered during the review of the academic and practitioner literature. As a matter of fact, combining the results of the study with the concepts presented in literature has been fundamental to the design of both the operational definition and the two frameworks.

Therefore, this paragraph will be dedicated to an in-depth comparison between what literature revealed with respect to the use of the principle of additionality in the different fields that have been analysed and what the Italian practitioners think about said principle. Following the same structure previously adopted for the Literature Review chapter, the paragraph will be split into two parts: the first one will be aimed at finding similarities and dissimilarities between what was shared during the interviews and the application of additionality in contexts other than impact investing.

On the contrary, the final part of the paragraph will deal with comparing what has already been discussed about the concept of additionality in the field of impact investing and the new concepts that emerged from the inductive analysis of the interviews.

6.1.1 ADDITIONALITY APPLIED TO RESEARCH FIELDS OTHER THAN IMPACT INVESTING

While analysing the literature referred to the study of additionality in the context of R&D subsidies and public programmes, it was found that the term additionality has usually been employed to describe the effects of **government support measures** (through grants and subsidies) **in the event of market failures** (De Smedt, 2015) and a tool useful to comprehend **what difference a policy makes** (Gük and Edler, 2011). This line of thinking, actually, seems to be very much consistent with what represented the very first macro-theme about additionality derived from the analysis of the empirical data at disposal, that is the one putting **additionality in relation to addressing undercapitalised areas**; this latter was mostly shared by regional and national financial institutions, which of course work in close relation with the public sector. The interviewed institutions, indeed, while being private companies (with the legal form of a S.p.A.), manage and operate with public funds. Therefore, **what changes is not the nature of the capital, but the way in which the latter is utilised**: no longer in the form of donations, but of real investments, aimed at generating a complete return on the capital employed and a financial return, although most probably lower than a traditional financial operation. Thanks to this way of operating, the additionality of public support can only increase with respect to what is expressed in the literature: indeed, the fact that the capital can be recovered means that it can be made available **to many more initiatives**, with a consequent amplification of impact; furthermore, an investment has a much more **empowering function** on the addressed reality with respect to a donation.

With respect to R&D subsidies and public programmes, the concept of additionality was moreover split into four major sub-categories: input additionality, output additionality, outcome additionality and behavioural additionality.

Although first three sub-categories did not match what respondents expressed on the subject of impact investing, it is worth mentioning that some correspondence can be found in the fourth category, i.e. **behavioural additionality** (which represents the learning effects that can be sustained beyond the project's lifetime). This latter was divided into further sub-categories; of those classes, a few can be actually put in relation with some concepts derived from the analysis. In particular, risk additionality (De Smedt, 2015) and challenge additionality (Weresa et al., 2018) embed the belief according to which the funded firms, thanks to the help given by the public policy, can **undertake riskier and more innovative projects**, or, in a word, more **"disruptive" projects**. This idea is very much linked to two themes that emerged from the analysis. The first one is, once again, associated to the willingness of impact investors to address undercapitalised areas; this time, however, the reference is to the phases of a company's lifecycle that are oftentimes underfunded, especially in the social enterprises' environment: the very initial ones. Impact investors, in fact, are more willing than mainstream ones to fund companies in their seed and growth stages, even if this behaviour embeds a higher financial risk. In this way, such companies may be more motivated to undertake high-impact initiatives, whereas they would arguably have tried to adapt and "de-risk" their business model if they were looking for traditional capital. It is in this light that impact investors can certainly provide an additionality effect with their investments.

The second theme resulting from the interviews' study to which this discourse can be connected is the one, sustained by quite a few impact-specialised operators, according to which **additionality is about developing innovative solutions to solve pressing social problems**; actually, the discussion very much overlaps with the previous one: in fact, the additionality of the investor lies in supporting the company in **structuring and maintaining** an innovative and "disruptive" business model that generates the greatest possible social impact; this would certainly not happen with the investment of a traditional financial player.

On a final note, it is worth to reflect on a few more declinations of additionality - once again, extracted from the literature on public programmes - which, in the context of impact investing, could be translated into a non-financial, additional support to the investees with respect to what they would have received from regular investors. These are:

- **Strategy additionality**, which was defined as the changes in the firm's strategic approach that happen because of the policy (De Smedt, 2015). With respect to the impact investing industry, this could be translated into a support of the investor in making sure that the company's strategy is effective and that it ensures an organic and long-lasting growth. Said support could also bring a **follow-up additionality**

(Weresa et al., 2018) effect: in fact, thanks to the scalability reachable with the help of the impact investment, investees could have the possibility of enlarging their offer of product and services, and therefore to increase their impact.

- **Network (or relational) additionality**, which entails an increase of the firms' networks thanks to the public policy (Roper and Hewitt-Dundas, 2012). In this case, impact players could be additional in the sense of providing their investees with a strong network of contacts to confront with and to refer to, in order to contribute in building that **ecosystem** which to date does not exist, but that has been repeatedly mentioned as a strong driver of growth for the Italian industry.
- If impact investors agreed to provide services related to strategic and network additionality, they would also undoubtedly contribute with an effect of **resilience additionality** (Roper and Hewitt-Dundas, 2012): this means that, given the support in the development and application of a sustainable strategy and the construction of a robust network of contacts, firms could be as well able to cope much better with the uncertainty of the business environment in which they have to operate.

It is moreover important to address the belief according to which an impact investment is additional only if it can be assumed, with reasonable confidence, that **no other investor would have pursued that investment**. Such a concept can find a correlation with the context of supranational funds; indeed, Del Bo and Sirtori (2016) argue that, in order to assess additionality, one should understand whether supranational funds "**complement or substitute** domestic public funds". If they complement these latter, then the additional effect is guaranteed; otherwise, it is not.

In order to apply a similar reasoning in the impact investing industry, a distinction needs to be made: indeed, if a project is of interest to **more than one impact investor**, because it is clear that a traditional investor would have never carried it out, then that project can be said to be additional. In this case, the action of different impact investors could be complementary: they could, for instance, implement the project in different areas, so as to spread it and possibly increase the impact in a much wider area. If, on the contrary, there is any doubt that **the investment could also be chosen by a mainstream player**, then said investment is, by no means, additional.

An in-depth definition of additionality was presented by DCED's Melina Heinrich (2014), who defined the principle as "**the net positive difference that is expected to result from a donor-business partnership**. The extent to which activities (and associated results) are larger in scale, at a higher quality, take place quicker, take place at a different location, or take place at all as a result of a donor intervention".

This definition, with the necessary adjustments, can also be employed in the field of impact investments; indeed, pretty much all the criteria listed in the definition itself could be used to assess the level of additionality brought by an impact investment. In addition, it should be reminded that, as already anticipated, the act of *investing* instead of *donating* could potentially result in an increased effort of the investees in reaching their social objectives, and therefore a much more scalable social impact.

In the same report where she introduced the definition of additionality, Heinrich listed a series of eight criteria to choose what organisations to fund in order to have an additional effect. Although these were aimed to be utilised by public institutions, most of them can be interpreted in a way that allows them to be useful also to prove the additionality of impact investments pursued by private subjects.

For instance, impact investors could consider to support those organisations that prove to have **a strong idea in terms of social impact, but cannot translate it into an efficient business model on their own**; this reflects, once again, the willingness of impact actors to sustain the most innovative and socially disruptive ideas, so that these can hopefully scale and contribute to a systemic change in the way we perceive the business and financial world (which was actually another theme brought to attention by interviewees).

Furthermore, Heinrich suggested that public donors should concentrate on firms for which there is a strong evidence that they would not carry out the project without the subsidy, due to a "**perceived negative balance of costs/risks and benefits**". As we have seen previously in this chapter, also in the impact investing industry additionality is often associated to the perception of a higher risk, that is not counterbalanced by correspondingly high financial returns. The additionality of the impact investor is therefore linked to **undertaking the project anyway, while being aware that this means to bear greater risks**.

Until now, we have discussed the second and third criterion postulated by Heinrich; however, also the subsequent four can be adapted to ensure that impact investors are as additional as they can potentially be.

Indeed, the fourth criterion suggests that an additional behaviour could be that of helping enterprises that would be unable to make use of the public organisation/donor's services, or services with a similar quality level, **at commercial terms**; in impact investing terms, this is linked not only to the theme of undercapitalised areas, but also to that of **bankability**. In fact, some respondents contended that additionality is related to make bankable realities that, for the traditional banking system, would not have access to credit.

The fifth and sixth criteria involved the recommendation for donors to **not fund initiatives similar to other projects already implemented in the market** (with or without public funding) and the one postulating that the donor's contribution must not displace other contributions of the same type. These are recurrent issues in the field of impact investing as well, and they have already been in some way addressed in this discussion. It is worth to briefly comment them by saying that it would be better to invest in totally new projects, but if one were to support an initiative similar to an existing one in order to allow the latter to **achieve a much greater social impact** (basically with a view to scalability), then such initiative could still potentially be considered additional. Conversely, referring to the sixth criterion, an investment in a firm cannot be regarded as additional if **it replaces a similar project that would have been carried out anyway**, by other investors.

The seventh criterion is a bit more controversial: in fact, it suggests considering as additional an intervention of public support that is expected to attract other investors, which would not have considered the project or the corresponding firm as attractive before the effects brought by the donation. A similar concept has actually been brought up by a few impact players who contributed to the research; in fact, they argued that **additionality is temporary**, in the sense that the role of the impact investor consists in assisting the most disregarded areas and sectors to emerge, so that they can subsequently attract the attention of a wider range of financial operators. However, there is one main doubt: **how is it possible to secure the impactful mission of the funded companies, when they have to deal with mainstream operators which may not be so interested in a great social return?** One solution to this very significant concern could be that of ensuring that impact investors are committed to helping companies in developing a system to secure their mission and control their impact; another solution could be that of creating a **network of practitioners**, where impact-specialised ones can act as **mentors** to those that have recently approached the sector and have a different expertise. These, however, are just ideas that should be further analysed in researches focused on this particular matter.

In addition to the eight criteria, Heinrich also thought about eight principles aimed at "credibly assessing and enhancing additionality" (Heinrich, 2014). Just as for the criteria mentioned earlier on, I will list those principles that are adaptable to the field of impact investing as well. In the first principle, Heinrich claimed that donors should ask to invested firms additionality-related information in such a way that they are **encouraged to provide truthful answers**: in the case of impact investing, this postulate would connect to the theme, which emerged from the research, that additionality lies at the beneficiary level, when with the word "beneficiary" we mean the invested organisation. In fact, a few respondents argued that it is not the financial operator that is additional, but the investee, through the activities that the latter can put in place thanks to the capital provided. In this instance, therefore, the investee should certainly disclose information about its level of additionality; moreover, **the investor itself could bring an additional effect in offering help to measure and enhance additionality on the investee's side**.

With regards to what just said, developing a personal relationship with the investees is particularly significant: this is what was postulated by the second principle of the DCED, and it holds particular relevance in the impact investing field as well, since building an honest relationship between the parties of an impact transaction is one of the crucial steps to maximise the impact itself.

Particularly interesting is the fourth principle shared by Heinrich, is which she introduces the concept of "**Adding Additionality**". This can be adapted to impact investing by saying that it is imperative for investors to help companies in enhancing the impact they can achieve, beyond what these latter had already planned. In this way, they can aspire to add additionality on top of additionality, which is something that would be actually unthinkable for a mainstream operation.

Furthermore, the fifth principle argues that donors should "**consider several types and degrees of additionality**" (Heinrich, 2014): this is actually consistent with what emerged during and after the research. Indeed, the time has come for the principle of additionality to be declined in more than just one form, so to be able to capture all the most innovative and disruptive ways that impact players can deploy to maximise their social impact and trigger systemic change; it is actually in this perspective that I tried to construct an **operational definition of additionality** (i.e. the one presented in the previous paragraph) that would take as much as possible into account all the nuances that the concept of additionality can assume when applied within the impact investing field.

Finally, according to Heinrich, **quantitative measures and complicated indices** are not so useful in effectively assessing additionality; this is actually an argument that has been raised by impact investing scholars as well. In particular, So and Staskevicius, in their Harvard Business School report titled *Measuring the "impact" in Impact Investing* (2015), mention that Paul Brest from Stanford University suggested a simple yet very clear "traffic light labelling system" (where red stands for investments that would have been carried out by any investor, green for what a mainstream player would never take into consideration and yellow for in-between cases). While this method may result a little too simplistic, So and Staskevicius also refer to a scoring system that has been developed by Bridges Ventures to determine additionality both at the investor-level and at the enterprise-level, which could be the right approach to assessing additionality.

Apart from the very relevant report drafted by DCED, the extant literature on the context of development finance offers some interesting declinations of the principle of additionality, the first being **financial additionality**, which occurs when DFI interventions accept to finance a project on terms that, it is believed, the market would not accept; this concept pretty much completely overlaps with those, derived from the research, according to which impact investors address areas which would never be supported by mainstream finance and aim to make bankable subjects which would otherwise be excluded from the credit system.

Another type of additionality, which Carter and colleagues (2018) claim that is frequently preferred to financial additionality, is **quantity (or investment) additionality**; in this case, it entails an increase in the *quantity* of an investment, with respect to what would have happened with no DFI intercession; this speaks very well with what was pointed out by one of the impact-specialised advisors who participated to the research (ADV3), who suggested that, in order to be additional, investors should focus on those areas that have constantly presented capitalisation issues.

The last class of additionality which belongs to the most diffused ones in the field of development finance is the one called **quality (or development) additionality**, and concerns a change made by DFIs in the nature of interventions (that would have not been made otherwise), in order for them to become more valuable for the investee (Carter et al., 2018). It is moreover specified that offering supplementary services and benefits, as opposed to traditional investors, is certainly something that can enhance a potential additional effect, which is indeed a notion that should be taken into account in the impact investing field as well.

Once again in the field of development finance, Koenig and Jackson, in their work for Danida (2016) propose a few other declinations of additionality, specifically focused on the role that donor agencies play; some of them may actually represent relevant concepts to be applied in impact investing practices.

The first of them is **signalling additionality**, which occurs when donor agencies serve as intermediaries, by **proving the credibility of the projects they have endorsed and thus making the latter appealing to other investors**. This is actually consistent the theme, already brought up in this discussion, according to which the additionality of impact operators is active until the projects or areas they endorse become attractive also to more generalist players.

Subsequently, Koenig and Jackson refer to **knowledge additionality**, which means to improve the quality of investment models and foster knowledge building and sharing: this is exactly what should be carried out by impact-specialised operators towards the more generalist operators, who may have only recently entered the impact world and therefore are those most exposed to the risk of impact washing. Strictly linked to this latter theme is the concept of **demonstration additionality**, which means to **lead by example**, also playing the role of **de-riskers** in order to attract additional capital to impactful areas and initiatives. A leading-by-example approach, indeed, could be one of the ways to educate generalist players in maximising their impact, and therefore become, in turn, additional as well. This mechanism would potentially establish a virtuous circle which can lead to the construction a solid **impact investing network**, which in Italy still does not exist; this is coherent with what postulated by Koenig and Jackson in their **market building additionality** principle (i.e. donor agencies could serve as strengtheners of the market infrastructure and as advocates for further research) and would certainly contribute to that systemic change approach that has been highlighted by many participants of the research.

As a final topic that needs to be discussed, particular emphasis should be placed on the issue of **causality** and **counterfactual analysis** (that is an estimation of what would have happened had a certain initiative not taken place), when dealing with the estimation of additionality. Indeed, it is fundamental that the assessment is approached in such a way that what is measured is only the ***net* impact generated by an intervention** (i.e. the impact that is, without any doubt, *caused* by the intervention itself), also in the impact investing field. This kind of themes has been mainly tackled in the literature about climate investments and environmental policies; in this strand of literature, in fact, it is regarded as additional what represents "**a deviation from a BAU (Business as Usual) scenario**" or a deviation from the **baseline** (Gillenwater, 2012), i.e. the situation that would arise in the absence of the intervention put in place by a certain environmental programme, keeping all other factors constant. As a matter of fact, these lines of thinking have actually found great application in the efforts towards the conceptualisation of additionality that scholars and practitioners have carried on until now in the field of impact investing; this is the reason why it is appropriate to refer to this topic for starting the discussion on the principle of additionality applied exclusively in the impact investing setting.

Below, it is possible to find a table (Table 8) synthetizing the main correspondences between the notions presented in literature and the results of the analysis carried out, as well as many useful hints for the construction of the operational definition and the frameworks addressed to impact investing practitioners.

Notions from literature	Research outcomes
Government support measures in the event of market failures, with donations (De Smedt, 2015)	Addressing undercapitalised areas (with actual investments), accepting to earn less and risk more
Helping enterprises that do not implement their projects due to a "negative balance of costs/risks and benefits" (Heinrich, 2014) Risk additionality (De Smedt, 2015)	Undertaking risky and innovative projects, i.e. projects which may yield high financial risks at the time of implementation

Challenge additionality (Weresa et al., 2018)	
Network additionality (Roper and Hewitt-Dundas, 2012) Demonstration additionality (Koenig and Jackson, 2016) Market building additionality (Koenig and Jackson, 2016)	Strong need to build an ecosystem of impact players: impact-specialised investors, generalist investors approaching impact investing and potentially investable enterprises
Helping enterprises unable to make use of investors' services at commercial terms (Heinrich, 2014) Financial additionality (Heinrich, 2014)	Ensuring a much more inclusive access to financial and investment services
Projects similar to others, already implemented, should not be funded with a view to additionality (Heinrich, 2014) "Adding Additionality" (Heinrich, 2014) Challenge additionality (Weresa et al., 2018)	Addressing disruptive initiatives, i.e. those proposing very innovative and potentially very effective solutions to pressing social issues, to actually achieve a systemic change
Additional interventions should be able to attract investments from mainstream operators (Heinrich, 2014) Signalling additionality (Koenig and Jackson, 2016)	Additional interventions should be able to attract investments from generalist impact operators
Donors should ask to invested firms additionality-related information (Heinrich, 2014)	Additionality lies at the level of the invested enterprise
Quantitative measures and complicated indices are not useful in assessing additionality (Heinrich, 2014)	Impact players should try to qualitatively measure additionality - with very linear but effective frameworks
The offer of supplementary services and benefits can enhance additionality effects (Carter et al., 2018)	Impact investors have proven to be willing to offer non-financial services: these, however, must be further structured and theorised in an additional perspective
Knowledge additionality (Koenig and Jackson, 2016) Demonstration additionality (Koenig and Jackson, 2016)	Leading-by-example: impact-specialised actors should help generalist investors in reinforcing their knowledge on social impact
The issue of causality (Duflo et al., 2008; Lazzarini, 2018): what is measured must be only the *net* impact generated by an intervention	In the assessment of an initiative's additionality, particular attention must be placed on the net impact that can be generated by said initiative

Table 8: Notions from literature vs. Research Outcomes - Other research fields

6.1.2 ADDITIONALITY APPLIED TO THE IMPACT INVESTING FIELD

A discussion on the principle of additionality, when related to the impact investing industry, can only begin by mentioning the Stanford Social Innovation Review article by Brest and Born (2013), which emphasises the centrality of the counterfactual in impact assessment. The analysis of the counterfactual means indeed to figure out "**what would have happened if a particular investment or activity had not occurred**" (Brest and Born, 2013); they apply this latter concept in their definition of additionality, according to which the principle can be described as an increase in the quantity or quality of the enterprise's social outcomes beyond what would otherwise have occurred. They argue, finally, "for an investment or non-monetary activity to have impact, it must provide additionality".

Although this actually represents one of the very first conceptualisations of additionality, and therefore it could be now considered as a bit outdated, it nevertheless speaks to quite a few results that emerged from the research. For instance, it very much relates to the fact that **the additionality effect can be provided the by investee**, meaning by the ability of the latter to generate strong social outcomes through its activities, which would have not occurred without the investment of an impact operator. However, in order to do so, the enterprises that impact players decide to put capital in need to be **helped and guided in building a business model that can maximise the impact they can achieve**. In this instance, the support of investors is, in most cases, fundamental to develop a truly impactful way of operating and, subsequently, in scaling the latter; as a respondent (representing the institution coded as CB3) indeed noted, *"the basis is to take care of those companies that* ***need to be accompanied in a somewhat special way****"*.

With this regard, the two Stanford scholars presented a list of six types of **capital benefits** that could be provided **only by an impact investor and almost never by mainstream players**; among those, three proved to particularly reflect some topics that were discovered during the research. First of all, Brest and Born argued that impact operators could accept to fund initiatives whose return would most probably be below the market rate[64] and that they could offer a lot more "**flexibility in adapting capital investments to the**

[64] Brest and Born, in fact, call such investments *concessionary investments*, i.e. when investors are willing to give up a portion of financial earnings in exchange for greater social returns.

enterprise's needs". These arguments are indeed very much coherent with a very prominent theme revealed by empirical data, according to which additionality means that impact investors accept to earn less and risk more, with respect to an ordinary financial transaction, because they have to objective of supporting underfunded and neglected segments of the market to grow and achieve the recognition they deserve. This actually connects to the third of the *capital benefits* that demonstrated coherence with the research findings (called "perspicacity"), in which Brest and Born stated that impact players could potentially be much **more effective in discovering innovative and impactful opportunities**, with respect to mainstream actors. Such a reasoning actually very much relates to another, very significant line of thinking stemmed from the analysis, according to which impact investors should leverage on their social and managerial expertise to recognise what could be the most disruptive and impactful business solutions to pressing social issues; these latter, in fact, must inevitably be addressed in order to achieve that systemic change in the financial world that is the only way for impact investing to reach its ultimate objective: a great reduction in social inequalities.

Another, very important insight that Brest and Born addressed, and that has actually already been discussed when examining the notion of additionality in relation to non-impact fields of research, is that of **additional benefits and services, complementary to the provision of capital, that impact investors can guarantee to their investees**. Among those, for example, we find the discovery and relative promotion of impact investment opportunities: as a matter of fact, impact operators should be very prepared in recognising and, therefore, supporting the most promising impact initiatives, i.e. the most impactful and scalable ideas. Indeed, Brest and Born remind that another additional opportunity for impact investors is to provide their beneficiary enterprises with **technical and governance assistance**, helping them in building strategic relationships with both peers and further capital providers. Precisely in relation to this very last point, in their paper Brest and Born contend that impact investors, i.e. those financial operators who accept to have a lower return in order to support projects with the greatest possible impact, should serve the function of **"catalysts" for second-round financing**, which, they claim, should be the responsibility of socially neutral investors. With this respect, it is arguable that purely mainstream players should be involved in impact operations, even if the latter have surpassed their riskier phases and potentially set up a sustainable business; one possible solution, instead, could be that of involving generalist players that have, although in different measures, already developed activities dedicated to the pursue of impact. This kind of actors, in the Italian market in particular, represent a **considerable portion of the industry**; in many cases, they are not yet ready to undertake the path of impact investing on their own, given their lack of expertise, but they tend to still do so. In this way, they are prone to committing quite a few mistakes: as a matter of fact, for example, they could try to reduce the creation of impact in order to establish a more profitable business[65]; this would be very negative for the invested company and for the market in general, also in relation with the fact that the Stanford scholars themselves mention that one of impact investors' most compelling duties is that of **securing and protecting the enterprises' social mission**: all impact investors, none excluded. It is in this light that generalist players could be very helpful for the support of an investment over time, but they should work together with who undertook the investment in the first place - i.e. impact-specialised investors - to learn how to deal with socially committed enterprises in such a way that avoids **potential mission drifts and impact washing occurrences**. Actually, later in the chapter, a framework developed precisely to guide generalist investors will be presented, so that those organisations which are only now approaching the impact world can set up, from the very beginning, a way of operating that is as impactful and additional as possible.

Shifting the focus from the crucial paper of Brest and Born to other works that, over the years, have dealt with the principle of additionality applied to impact investing, what immediately caught my eye was that Hillebrandt and Halstead (2018) described additionality as the difference an investor makes - **both by supplying capital and non-financial** services - with respect to the performances of the funded organisation. They therefore leverage on the idea of making a crucial difference with respect to socially neutral investors, whether it may be through the development of an innovative business model that maximises

[65] This example was actually brought up during the interview of an impact-specialised operator (representing the institution identified as SGR5). He indeed shared the following account: *"We have invested in a cooperative that employs disadvantaged people, but that produces a high-end food product, distributed by the main organic food chains at a national level, and therefore also generates a decent return. They were intercepted by other investors, who were interested in investing in them mainly because of the returns that that cooperative could entail. The offer of these other investors was to reduce the impact side, i.e. the job placements, which are an economic inefficiency from the business point of view, and then aim to develop more production activity and achieve high returns; at this point the cooperative declined. This fact for me is the main guarantee: these are the investees we want to relate to"*.

the impact performances of the investee, or the offer of services complementing the financial ones (which is indeed a topic that has been already touched during the course of the chapter). With this respect, they linked additionality to three types of impact: the first one is **enterprise impact**, which perfectly matches the idea, shared by a few respondents, according to which the additionality effect can be brought by the investee's idea and way of putting the latter into practice. The second is **investment impact**, which instead reflects the concept of dealing with initiatives that would be most probably discarded by mainstream investors (addressed in the second macro-theme derived from data analysis); finally, we have **non-monetary impact**, which is what can be achieved through those non-financial services that have been repeatedly highlighted in this narrative.

Hillebrandt and Halstead, anyway, did not stop at this point; in fact, they developed a list of six Principles of Impact Investing, three of which actually recall the concept of supporting market areas that are deemed as uninteresting by mainstream players.

The first of these principles is the invitation to choose high impact areas, and mentions the **Importance, Tractability and Neglectedness (ITN) framework**; this latter will actually be furtherly addressed in the paragraph dedicated to operational advices for generalist investors with impact activities, as it could represent for them a useful tool in the **process of choosing the realities to put capital in**.

The other two principles, furthermore, postulated that impact investors should support companies in uncrowded markets and choose to work in inefficient markets and, therefore, expect financial sacrifice.

On a final note, it is worth mentioning the fifth of the six principles, which touches a slightly different topic by postulating that impact investors should actually search for **problems that are neglected by other impact investors**. This is not a *sine qua non* condition for an investor to be classified as additional; instead, the fact some impact investors could be willing to do so much research into social needs that they find areas never addressed before would probably put them in a position of **extra-additionality**.

Barnett and Faisal from Openwell Oxford (2016) emphasised that an impact investing operation is additional when it shows to be capable of generating a strong multiplicative effect, meaning that impact investors generally support companies also in the very early stages of their growth, when they entail a high risk and thus are unattractive to socially neutral players. The additional effect of impact operators, apart from bearing that additional risk, would be, in their opinion, to make the invested entities grow in such a way that most of them can also become attractive in the mainstream market. This theme is related to the debate, presented earlier, on the fact that the role of taking charge of "mature" impact investments should not be assigned to completely socially-neutral investors, but to those who want to approach the impact investing market and are therefore **ready to adapt their modus operandi to the requirements of this industry**.

With respect to the results considering additionality linked more to the company receiving the investment than to the investing institution itself, it is worth mentioning the concept of **enterprise-level additionality**, which has been cited by So and Staskevicius (2015) and defined by Koenig and Jackson (2016) as the fact that an impact investment should enable "the investee to deliver a *greater* or *higher quality* of outcome than without the investment". Once again, therefore, much emphasis is placed on the impact investor's function of being able to guarantee, in addition to capital, a substantial contribution to the growth of the investee both in terms of impact and business.

In order to conclude this discussion, it is imperative to concentrate on the Italian impact investing industry. The latter's most relevant contribution to the literature on additionality is brought by the first Italian impact investing fund's president, Luciano Balbo; as a matter of fact, in his 2019 article published on the EVPA's website, he stressed the importance of the additionality principle as **the engine of impact investing**, i.e. something that is not optional, but actually essential for a financial operation to really produce a great social impact. He furthermore argued that the distinction between *impact first* and *finance first* investors, also discussed by Brest and Born, must be fully abolished and substituted by the concept of ***solution first* investors**, meaning those operators that are determined to develop and/or sustain innovative solutions able to effectively address some of the world's most urgent social issues. Of course, it is easy to recognise that this reasoning is completely in line with what explained in the third macro-theme resulting from the analysis, which is also where the concept of social disruption was introduced; indeed, this last notion is useful to synthetize the two fundamental characteristics of impact investing: high innovativeness combined with the focus on the social side of sustainability.

On a final note, the current page shows a table (Table 9), completely mirroring the previous one (Table 8); it is aimed at summarising the correspondences between the research outcomes and the concepts emerged from the literature focused on additionality applied to impact investing.

Notions from literature	Research outcomes
Increase in the quantity or quality of the enterprise's social outcomes beyond what would have occurred otherwise (Brest and Born, 2013) Enterprise-level additionality (So and Staskevicius, 2015; Koenig and Jackson, 2016) Enterprise impact (Hillebrandt and Halstead, 2018)	Additionality lies at the level of the invested enterprise
The invested enterprises should be helped and guided in building a business model that can maximise impact (Brest and Born, 2013) Provision of technical and governance assistance (Brest and Born, 2013)	Individual accompaniment for each invested reality Learning and scalability effects
Impact operators should accept to fund initiatives whose return would most probably be below the market rate (Brest and Born, 2013) Multiplicative effect (Barnett and Faisal, 2016)	Addressing undercapitalised areas, accepting to earn less and risk more
Impact players could be more effective in discovering innovative and impactful opportunities (Brest and Born, 2013) The concept of *solution first* investors should gain ground (Balbo, 2019)	Addressing disruptive initiatives, i.e. those proposing very innovative and potentially very effective solutions to pressing social issues, to actually achieve a systemic change
Impact investors should guarantee additional benefits and services, complementary to the provision of capital (Brest and Born, 2013) The difference an investor makes - both by supplying capital and non-financial services - with respect to the performances of the investee (Hillebrandt and Halstead, 2018) Non-monetary impact (Hillebrandt and Halstead, 2018)	Impact investors have proven to be willing to offer non-financial services: these, however, must be further structured and theorised in an additional perspective

Impact investors should be "catalysts" for second-round financing by socially neutral investors (Brest and Born, 2013)	Second-round financing should be provided by generalist impact investors
Impact investors should protect the invested enterprises' social mission (Brest and Born, 2013)	Second-round financing should be provided by generalist impact investors, but there must be a tight control over the maintenance of the investee's social mission (i.e. avoidance of mission drifts)

Table 9: Notions from literature vs. Research Outcomes - Impact investing

6.1.3 An operational definition of additionality

A new theorisation regarding the principle of additionality will be here presented, in the form of an operational definition; this latter has been developed in the light of the analysis carried out by studying the interviews proposed to the vast majority of Italian impact investing practitioners, which has then been matched and compared to the notions emerging from the literature on additionality. The objective was to obtain an even more in-depth overview of all the shades of the concept that should have been included in an advanced version of its own definition.

The definition itself, as anticipated above, is more operative than theoretical. This is given by the need to compact the most relevant perspectives on additionality shared by the respondents and emerging from literature into a single framework, as well as the necessity to offer a guide for the correct application of the concept itself - especially to those organisations that have only recently discovered the world of impact investing and may find some difficulties in adjusting their modus operandi to this very peculiar branch of sustainable finance.

As it can be noticed from the image shown on the next page (Figure 29), which indeed represents the operationalisation of the concept of additionality, the latter is represented by a graph explaining the connections between all the relevant elements that have emerged from the analysis. As such, it constitutes the final step of the application of the Gioia Methodology, whose ultimate aim is precisely that of developing a new theorisation of the topic being researched thanks to the concepts emerged from the qualitative analysis of empirical data and their subsequent comparison with extant literature on the topic itself.

A few more methodological details about the construction of the graph were therefore reported in the Data Analysis paragraph, which can be found within the Methodology chapter.

As already mentioned, the operational definition of additionality is meant to be applied by impact investing practitioners in their day-to-day practices. In Italy, impact players are mainly divided into two categories: operators specialised in activities dedicated to impact and generalist operators that have introduced some activities dedicated to impact into their businesses. Given the diverse nature of the two groups, they should be supported in different ways in the implementation of the definition; therefore, the latter will be complemented by two different operational frameworks. The first one, dedicated to impact-specialised actors, will be aimed at helping them maximising their additionality as it is explained in the definition; the second one, instead, will hopefully be useful to generalist operators to approach the operational definition in a much more confident manner.

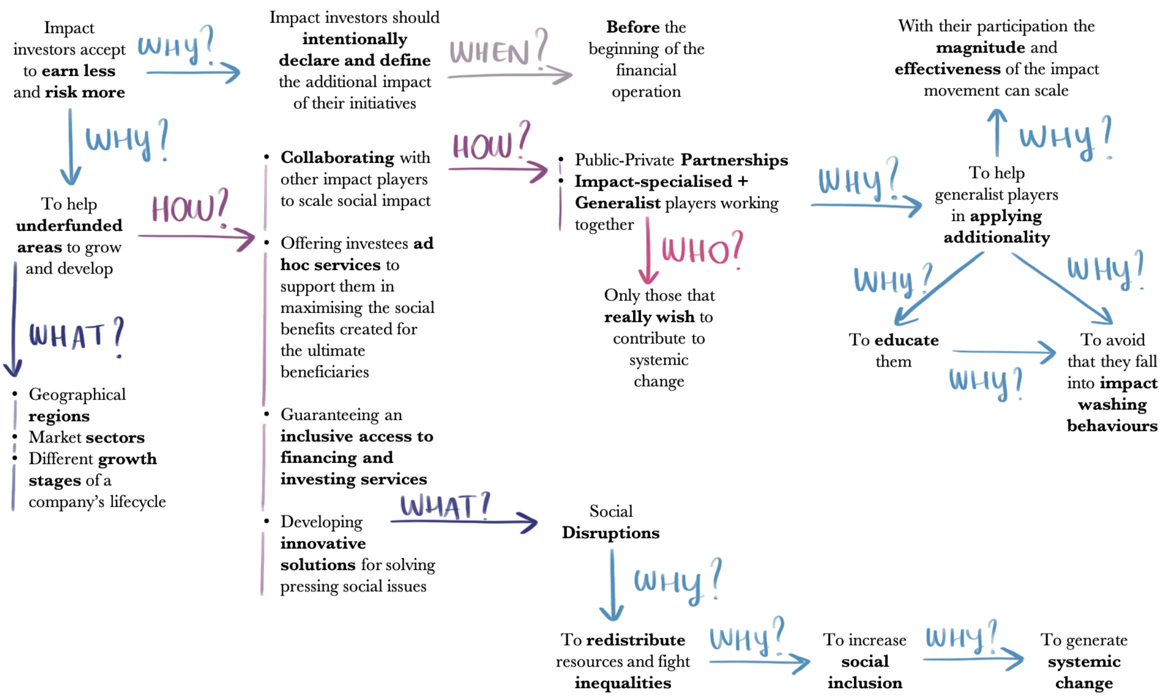

Figure 29: An operational definition of additionality

The operational definition starts from the assumption that impact investors should **intentionally declare and define** the expected additional impact of the initiatives they are going to support; as a matter of fact, the new theorisation that is here presented starts by leveraging on the connection, observed by a few interviewees, between the pillars of **intentionality and additionality**, according to which the willingness to make an additional contribution should be meticulously declared by any financial operator **before** the beginning of an impact investing initiative: for instance, the investor should describe the details of the operation that is about to be undertaken, i.e. the geographical area and market sector in which it will be developed, as well as the group of stakeholders it will affect, the development of the business idea, the expected duration over time, the potential partners in the project, and so forth.

If the financial operators are willing to intentionally declare their expected additional contribution to the achievement of social impact, then they have to accept and be ready to possibly bear a **higher financial risk**, while expecting an **economic return which may be lower than that generally brought by an ordinary financial transaction**. This is a concept that, although questioned by some, remains at the very basis of impact investing since its own birth. It is extensively covered in literature by prominent scholars such as Brest and Born (2013); moreover, Barnett and Faisal (2016) discuss it when mentioning the multiplicative effect that an impact investing operation should entail, meaning that impact operators should support very risky, but impactful initiatives so that these latter can develop, de-risk themselves and become appealing to a wider market.

The financial sacrifice an impact operator is willing to sustain should be made with the desire to **generate the greatest possible social impact in those areas which show the greatest capitalisation difficulties**: as it was widely explained in the presentation of the research results and in extant literature (De Smedt, 2015), these can be **geographical regions**, which for many different reasons (i.e. impervious territories, economically depressed areas, etc.) have not witnessed such growth as to enable them to guarantee their inhabitants the deserved opportunities of social development; such areas can also represent specific **market sectors**, which are generally disregarded by mainstream investors, but that could bring enormous social benefits if supported by the development of innovative business models. Finally, the underfunded areas can be constituted by those **phases of growth of a company's lifecycle** that present a greater default risk and a lower probability of generating profit (Brest and Born, 2013; Barnett and Faisal, 2016): we are indeed talking about the very first stages after an enterprises' birth, which, especially in the social sector, traditionally present the greatest capitalisation issues.

So far, actually, the definition does not really introduce any real innovation, considering the importance given in literature to the action of directing capital to disadvantaged areas; however, this is just the basis of the whole discussion. In fact, as discovered by analysing the available empirical data and confronting them with notions from past studies, there are quite a few ways that impact investors can employ to ensure that they generate additional impact through their work.

There are indeed four main operational directions; the first consists in **implementing targeted collaborations with other representatives of the impact investing industry**, in order to join forces with the aim of increasing from the very beginning the possibility of generating a strong social impact for the investee's targeted beneficiaries. Such collaborations could be essentially of two types:

- Through the **public-private partnership (PPP)** format, which, however, could lead to unsatisfactory results, due to the lack of engagement and support from the public sector itself; in fact, this latter is currently seen as the great absentee in the Italian impact investing market;
- Through **collaborations between operators specialised in impact activities and generalist operators** that have introduced some financing or investing activities dedicated to social impact into their day-to-day businesses; this point is actually been derived not only from data analysis, but also from notions such as knowledge and demonstration additionality (Koenig and Jackson, 2016). These have been conceived in the context of development finance, but can be adapted to impact investing by postulating that impact-specialised actors could help generalist ones in reinforcing their knowledge on social impact and additionality itself.

Focusing in particular on the second point, we can understand how this is particularly appropriate to tackle the continuously spreading phenomenon of **impact washing**. As a matter of fact, by working closely with those organisations that have made social impact their primary mission, the more generalist operators can understand in a better and faster manner how to approach impact investments, so to make their attempts to approach this market as innovative and additional as possible.

First of all, before initiating any kind of partnership, it should be pointed out how the demand to be part of the impact movement must come from the generalist operators themselves, meaning that no one should be forced to put capital into impact initiatives just for the sake of making the industry quantitatively grow: for all financial operators, even the newest ones exploring the impact market, a solid **willingness to set up a proactive search for the generation of social benefit** should in fact be present. There must in fact be a clear intention to be a part of that systemic change that impact investing, since its emergence in 2007, has invoked. Those that wish to participate in impact initiatives just for the sake of improving their image on the market should not be included in impact operations, if only because it is very unlikely that they put the same commitment as those who actually want to participate in systemic change or are driven by particularly strong values; in that case, the risk of having to deal with impact washing would increase exponentially. This danger actually persists also by involving generalist operators with only a few activities dedicated to impact, for instance because they might have very little expertise in this area; however, if they are actually eager to be part of the impact movement and agree to be proactively committed to learning from specialised practitioners, then this latter fact would ensure that they understand and apply the concept of additionality effectively and relatively quickly.

It is essential that generalist operators are involved in the impact investing industry, as they could provide it with a very significant amount of capital (Tiresia, 2019) - which is often necessary to implement more ambitious projects in terms of social impact - but also with expertise as long as financial skills are concerned, since this aspect is sometimes missing among impact investing actors. This reasoning is again configured in a knowledge additionality perspective (Koenig and Jackson, 2016), since the ultimate aim is that of fostering knowledge sharing among all the different impact actors.

As explained before, it is essential that generalist players work as much as possible in conjunction with impact-specialised operators, so that it is harder for them to lose sight of the primary objective of generating a strong, long-lasting and additional social impact by means of the operations that they decide to support; this is actually a theme that will be explored in much more detail in the framework precisely designed for generalist impact investors. This latter is aimed at reinforcing their understanding and application of the present operational definition; it will be proposed later in this chapter, in the paragraph 6.3.

Social impact can also be achieved and maximised by **combining the provision of capital with ad hoc non-financial services**, a way of operating that has been widely discussed in literature (Brest and Born, 2013; Carter et al., 2018; Hillebrandt and Halstead, 2018) and that can certainly be successfully adopted by both impact specialists and generalists.

A list of the non-financial services that Italian impact players are willing to activate, which has contributed to inspire this point of the definition, can be found in the dedicated sub-section of the paragraph 5.1, at the beginning of the Results chapter.

The supplementary accompaniment by investors should be aimed at optimising the additionality effect produced by the recipients of capital (i.e. the invested and/or financed organisations). This kind of support could in fact be crucial for the investees to improve their business models and the way in which the latter are put into practice, in order to obtain the maximum possible social benefit for the ultimate beneficiaries of the impact initiative: the people whose life could actually observe a considerable improvement thanks to said initiative.

In addition to the maximisation of the investees' additionality, which is a topic brought to attention by more than one respondent during the interviewing process, the offer of non-financial services can make a difference in terms of additionality also for the capital providers. Indeed, **the supply of such services is as decisive with respect to additionality as it is the eagerness to address undercapitalised sectors**; this statement is primarily derived by the fact that it is very difficult to claim that operators who are not genuinely keen to achieve a significant social impact would be willing to further extend their commitment, for instance by offering that kind of services to realities typically needing constant support to reach their full potential (as the recipients of impact investments usually are). It is therefore in this light that I suggest how non-financial services could be employed to distinguish impact operators from non-impact ones. Nevertheless, there is still a lot of work to do, on two main directions: the first one is that of refining as much as possible the offer of services complementary to investments that impact-specialised operators can offer. The second is instead represented by an effort of these latter in sharing their expertise with generalist operators, so that eventually they will be able to provide non-financial support to investees as well.

It is therefore for this reason that it is necessary to develop a framework, addressed to impact-centred operators, that could deepen this precise point of the operational definition: in fact, as it will be extensively explained in the next paragraph (Paragraph 6.2), the framework is focused on the additional effect that impact-specialised actors can deliver by offering non-financial services to both their investees and their fellow generalist colleagues.

Moving on with the discussion, it can be observed from the graph how another way to provide an additional contribution in impact investing is to **ensure inclusive access to financial and investment services**. This is, actually, the very basis of impact investing and additionality itself, since notions similar to this one have been brought up in the context of development finance as well (Heinrich, 2014) and have very much inspired this point of the operational definition. Nevertheless, this point needs to be stressed since impact players should never forget their duty to provide an inclusive access to capital while implementing the activities just mentioned, i.e. working closely with other impact operators and offering personalised services to investees; as a matter of fact, the essence of operating in undercapitalised areas is precisely that of including people and enterprises that would potentially be denied access to financial and investment services by mainstream operators (Brest and Born, 2013; Heinrich, 2014; Barnett and Faisal, 2016). Among them, indeed, **the most innovative and impactful ideas could be concealed**, which might exactly need an impact investment in order to start growing and reaching as many beneficiaries as possible.

It is precisely in the direction of developing innovative ideas and solutions to overcome the most urgent social issues that the final theme of this discussion goes. In fact, as it was abundantly explained in the Results chapter, quite a few interviewees have stressed the **connection between additionality and innovation**: this means that it is much more likely to reach a powerful additionality effect by striving to design ingenious approaches to pressing social problems, instead of simply attempting to adapt operating models that have already been tried and tested and have proven to yield limited social impact. This view has been widely supported by the literature on additionality, both when applied to the field of impact investing (Brest and Born, 2013; Balbo, 2019) and other research fields (Heinrich, 2014).

It is actually in this perspective that the concept of **social disruption** originated from the analysis; the notion of disruptive innovation has actually taken hold in the world of business and finance for quite some time now; it is basically associated to the idea of replacing business-as-usual operating methods with very new practices, that may arise as something niche, but then take over and potentially produce a real change of direction in the area they belong to.

This is precisely where a fundamental aspect of the principle of additionality applied to impact investing lies, i.e. **looking for innovative but scalable solutions that can effectively redistribute resources and, therefore, fight the inequalities between social classes that are damaging societies around the world**. In fact, it is only with models of intervention capable of generating an authentic and permanent social inclusion that the true objective of impact investing practices - i.e. a systemic change in the way of approaching the production of wealth - can be achieved.

6.2 A FRAMEWORK FOR IMPACT-SPECIALISED OPERATORS

As indicated in the Methodology chapter when describing the main characteristics of the reference population and sample (Figure 10), the financial operators that focus their activities on the creation of social impact represent about 34% of the total amount of actors in both the population and the sample.

With respect to the reference sample in particular (i.e. the organisations that were indeed interviewed), 13 players out of 38 belong to the impact-specialised category, but **only eight of them have demonstrated to apply the principle of additionality as it has been defined so far** (i.e. referencing to the impact investors' willingness to accept a higher financial risk and a lower return, for the sake of generating the strongest possible social impact) in their day-to-day operations.

Therefore, before they take on the role of mentors for more generalist players and, in general, for new players entering the world of impact - a role which, as mentioned quite a few times during this discussion, would be very functional to the organic growth of the impact market - , it is necessary that they as well deepen the notion of additionality, especially in the light of all the shades of this concept that have emerged from this analysis.

It is thus in this perspective that, in the present paragraph, impact-specialised players will be provided with a few suggestions regarding the application of the additionality principle, taking inspiration from what has been discovered both by analysing the literature on the matter and by carrying out the empirical research that has seen their involvement during the data collection phase.

This framework should be considered as a corollary to the operational definition that was previously presented; this means that, first of all, impact-centred investors should strive to embrace the definition in all its parts, as it represents the prerequisite to yield an additional effect with their operations. Subsequently, as they undeniably are the industry's most experienced representatives, they should try to deepen even more all the nuances of the principle so that they can serve as educators for other categories of impact practitioners (i.e. their investees and their generalist colleagues) which are certainly more at risk in terms of, respectively, mission drifts and opportunistic drifts.

As it may be observed through the graph in the following page (Figure 30), the suggestions are in the form of a series of **categories of additionality**, **all consisting of services complementary to capital supply**; they have been developed taking inspiration from the literature regarding the principle of additionality in both the impact investing industry and the other fields or research, as well as from the content of the interviews to Italian impact investing players, inductively analysed in its entirety.

These categories of the additionality principle should be taken into strong consideration by impact-specialised practitioners when applying the principle of additionality as described in the operational definition presented in the Paragraph 6.1.3. As a matter of fact, this framework is mainly aimed at refining and reinforcing their approach when facing the "how", meaning the ways, listed in the operational definition graph, in which additionality should be operationalised to be as effective as it possibly can: these include collaborations with other impact players, the offer of ad hoc non-financial services to investees, as well as the development of innovative solutions to foster social inclusion.

Figure 30: An operational framework for impact-specialised operators

As shown in the figure above (Figure 30), the framework is structured with a division between the support that impact-specialised operators should grant investees and the one they should provide to other investors, mainly generalist operators with little expertise on impact investing.

Starting from the portion of the framework dedicated to impact operators' investees, we can see that the first category to be listed is **learning additionality**; it has been developed by reflecting especially on the various declinations presented in literature about behavioural additionality, as well as on Brest and Born (2013)'s invitation to provide technical and governance assistance to invested enterprises.

Learning additionality therefore wishes to reinforce the concept according to which investees should be offered ad hoc services aimed at maximising their creation of social impact, which is one of the main points constituting the operational definition presented earlier. In fact, I would describe this additionality category as all those activities, provided by impact investors, which allow the investees to strengthen the effectiveness of their business idea by developing an adequate expertise also with respect to elements that may fall outside social impact, but which ultimately serve to strengthen the latter; some of these could be represented by a well-studied and effective governance system, convincing strategic, marketing and organisational plans, as well as a realistic financial plan. All of this must be accompanied, of course, by a social impact assessment methodology that is as structured as it possibly can.

Moreover, impact-specialised investors could leverage on another major point of the operational definition, i.e. collaborations with other impact players, especially those generalist ones approaching impact investing that represent the focus of the second part of the framework. These latter, indeed, could help in further intensifying the knowledge about the technicalities that lie behind a successful enterprise: in fact, it should never be forgotten that social enterprises and similar organisations are real businesses and therefore, if they wish to achieve the desired social impact, they must as well stand on their own feet at a financial level.

Moving on with the framework, one of the most relevant types of additionality is undoubtedly **disruption additionality**. Connected mainly with the concept of social disruption, which has been discussed both in the Results section and in the presentation of the operational definition, and inspired by Brest and Born (2013)'s "perspicacity" capital benefit, it can be defined as the willingness and capacity of impact-specialised investors to back, or even to develop, particularly innovative and daring business ideas, which as such could potentially lead to a very high degree of social impact among the final beneficiaries. Interpretations of additionality similar to this one have been expressed several times, by the interviews' respondents but also in literature: risk additionality (De Smedt, 2015) and challenge additionality (Weresa et al., 2018), for instance, embed the notion of disruptive ideas applied in the context of R&D subsidies and public programs. The principle of "Adding Additionality" (Heinrich, 2014), moreover, was useful to come up with the disruption additionality principle, since it embeds the idea that the investor should aim at maximising the social impact achievable with an investment - definitely beyond what was originally planned as a result of the initiative - in a *solution first* perspective rather than in an *impact first* or *finance first* perspective. This latter is in fact a dichotomy that must be eradicated (Balbo, 2019) when the objective is to genuinely advance the effectiveness of impact investing practices.

Consequent to the improvement in technical expertise and to the development of a disruptive solution to pressing social issues, the idea that impact operators can support the invested enterprises in terms of **scalability additionality** gains ground. This means that the impact investors which, with their capital, make it possible to start a social business should then take care that this latter is able to actually scale and reach a stable position in the market. However, impact-specialised investors' commitment must not stop here: if fact, if they wish to really contribute to the maximisation of their investees' social impact (as it is postulated in the operational definition of additionality), they should work closely with their investees in order to understand together how to make the business grow as organically as possible, meaning that the ability of the business model to generate social impact must never be affected.

With this respect, impact-specialised investors should make sure that the social enterprise's team has internalised and embraced the concept of additional impact as explained in its operational definition, so that additionality will not be lost or diminished even in the event that the company is approached by more generalist investors, which may tend to be a little more permissive with regard to additionality. This line of thinking very much reminds the one - emerged from both the literature and the interviews - of enterprise-level additionality, according to which a certain degree of additionality is brought by the invested company itself (and not by the impact investor) especially when it has reached a sufficient level of maturity. Moreover, it also takes inspiration from Barnett and Faisal (2016)'s multiplicative effect concept, which explains that once social businesses have grown and potentially developed an adequate profitability level, they turn to be appealing to mainstream financial operators as well.

It is following this reasoning that the notion of **ecosystem additionality** - both from the **investees'** and the **generalist operators' side** - was added to the framework. Indeed, the construction of a solid ecosystem of impact players is imperative to advance the growth of the Italian impact investing industry in the most organic and genuine way possible.

As already mentioned previously in this research, the Italian impact market consists of a rather limited number of impact-specialised players; however, they have recently started to be joined by several generalist investors who introduced impact elements into their portfolios. These latter, especially throughout the empirical research, have demonstrated to not have as radical an approach as most impact-specialised operators; moreover, they have in general not yet reached a clear understanding with regards to the actual meaning of the concept of additionality. This is the reason why one of the main points that were stressed in the definition of additionality was the collaboration between generalists and impact-centred actors, so that these latter can help their generalist colleagues in applying additionality and avoid that they engage into impact washing behaviours.

With this in mind, I began to reflect on quite a few notions, found in the literature review process, that helped in developing the concept of ecosystem additionality. For instance, network additionality (Roper and Hewitt-Dundas, 2012) and market-building additionality (Koenig and Jackson, 2016) highlighted the importance of sharing a common direction in a market that is still quite unstable, as the Italian impact investing one currently is. Moreover, Brest and Born (2013), when discussing the benefits and supplementary services that could be provided by impact players, mentioned the centrality of helping investees in building strategic relationships with both peers and further capital providers, as well as the key role that impact-specialised investors could play in helping them attracting new investors for a "second-round" financing.

Therefore, social enterprises which have managed to set up successful businesses, and are thus in a later stage of growth with respect to those preferred by impact-specialised operators (i.e. the seed and growth stages), could seek additional investments from those generalist operators eager to be part of impact investing. This represents an advancement with respect to the popular belief in literature according to which second-round financing should be provided by socially neutral investors (Brest and Born, 2013; Barnett and Faisal, 2016); in fact, with these latter the risk would be that of seeing the investee's impactful business model distorted for the sake of turning it into a more profitable one. Instead, with generalist operators that are sincerely interested in generating social impact, this danger would very much diminish.

This is the point where the impact-specialised investors come into play: ecosystem additionality, in fact, means that they should aspire to represent a bridge between social businesses needing further investments and operators willing to provide them with such services, with the aim of ensuring that the principle of additionality (as described in the operational definition in Figure 29) continues to be respected; for instance, they may take on an advisory role, by following, when possible, the fundamental steps of the negotiation between the new investor and the social organisation.

As mentioned quite a few times in this last part of the work, the results of the inductive analysis showed that generalist impact investors tend to prefer supporting social impact initiatives that have already gone through the very first phases of their growth. Indeed, this generally means that their business idea has also been validated by the market and therefore bears a lower risk of failure and a potentially increased profit-making capability.

It is actually in this light that a further declination of additionality was developed: **de-risking additionality**. Leveraging on concepts emerged from literature such as signalling and demonstration additionality (Koenig and Jackson, 2016), I would define it as the intention of impact-specialised investors to take charge of the early stages of growth of a business, so as to have the function of de-riskers in the sense of testing the sustainability and credibility of the business model and therefore of proving its scalability to more generalist investors, which should then be ready to take on the investment. Moreover, an impact investor applying de-risking additionality should be willing to explain to more generalist investors the rationale behind working mostly in previously untapped markets and with early-stage organisations. This should be pursued in the hope of fostering the interest of generalist impact investors to become more and more additional overtime, thus beginning to support more daring and disruptive projects on their own.

Strongly connected to this last theme is the final type of additionality proposed with respect to the support that impact-specialised investors could offer to generalist ones: **mentoring additionality**. This notion was originally conceived to deepen the concept, advanced in the operational definition, according to which impact-centred investors should educate generalist ones on the principle of additionality. It is actually one the most relevant notions, together with ecosystem additionality, because those practitioners that have developed a strong expertise with respect to social impact can really help academics in fostering awareness and actual knowledge of the impact investing's pillars, of which additionality is a fundamental component.

Taking inspiration from concepts in literature such as knowledge additionality (Koenig and Jackson, 2016), but also from those non-financial benefits that interviewees have claimed to offer to their investees (i.e. awareness on impact investing, advisory and capacity building services), it is therefore arguable that impact-specialised operators should not provide these latter only to the investments' recipients, but also to generalist impact players, with the intent of generating in them a profound knowledge of impact investing and the ways to make this financial practice as additional as possible.

The interviewing process has revealed that important partnerships between specialist and generalist impact operators are already developing: we should therefore leverage on these alliances to encourage a radical application of the principles of impact investing also by those actors who, as shown by empirical research, tend to be more permissive, thus risking to dilute the concept of impact and, in the most serious cases, to generate impact washing phenomena.
Finally, the last component of the framework dedicated to impact-specialised actors is represented by a call to **additionality assessment**, both from the **investees'** and the **generalist operators' side**. With this phrase, it is meant that impact-specialised players should try to develop methodologies to measure - as accurately as possible - not only impact in general but additionality in particular, and involve both invested realities and generalist players in implementing such methodologies.
As DCED's Heinrich (2014) noted, it is not necessary to put in place "quantitative measures and complicated indices" to assess additionality; as a matter of fact, a precise definition of the counterfactual situation and causality are sufficient to start heading towards an effective evaluation of the additional contribution of each social impact initiative.
With this regard, practitioners should definitely be supported by academics; nevertheless, measures of this kind should be immediately brought down to reality, in order to stimulate a greater application. It would therefore be the task of impact-specialised investors, who have in general already developed an expertise with regard to impact and additionality assessment, to spread their knowledge to those operators that still have a long way to go before being able to carry on impact investing initiatives with firmness and precision.

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As it can be noticed from the image (Figure 30), the different perspectives of additionality are presented as a bullet-pointed list, but they are preceded by blank squares; the idea is that impact-specialised investors should try to check how many of those additional services they are capable of providing. Ideally, they should be able to tick all the boxes; nevertheless, it does not really matter if they cannot do so when they start to apply additionality as described in its operational definition (Figure 29). In fact, the aim of this framework is, above all, to provide all practitioners with a roadmap to follow in their journey towards the refinement of their application of the additionality principle - which must be considered as a prerequisite to be part of the impact investing industry.

6.3 A FRAMEWORK FOR GENERALIST OPERATORS APPROACHING IMPACT INVESTING

The last framework developed in this research is aimed at addressing directly the growing number of generalist operators who are either entering the world of impact investing, or have been part of it for some time but are still confused about the application of its principles, additionality in particular. Indeed, the framework will try to guide them in the application of the operational definition provided previously in the present chapter (Paragraph 6.1.3).
As reported in the Methodology chapter, this category of impact operators represents 65.79% of the reference sample. Of these, no one has managed to fall into the category of impact actors that the Tiresia Impact Outlook 2019 defined as *strictly impact*, i.e. those who respect all three principles of the impact triad: intentionality, measurability and additionality; in addition, as written in the report itself, many of the new entrants do not consider the concept of additionality useful to determine which transactions can fall within the scope of impact investing (Tiresia, 2019). Moreover, 21 of the 30 generalist operators interviewed affirmed that they do not take additionality into account in everyday practice.
It is therefore clear that there is a strong need to undertake awareness and accompanying actions towards these operators when they approach the field of impact investing, to prevent them from pursuing initiatives that risk diluting the concept of social impact or even representing the cause of impact washing incidents.
Nonetheless, it is equally important to understand that these investors should not be excluded *a priori* from the impact investing market; first of all, because many of them are genuinely interested in being part of it to contribute to the generation of social impact and a real systemic change in the financial and business world. Secondly, because, as pointed out in the definitional operation, with their participation the magnitude and effectiveness of the impact movement can scale: indeed, they could lead to a large increase in the capital available for impact operations. As a matter of fact, the assets under management (AUM) of *impact*

operators (those who meet only two of the three criteria of the impact triad - Tiresia, 2019) amounted to 685.3 million euros at the end of 2019, while those belonging to *almost impact* players (i.e. those financial operators who have so far applied only one principle of the triad - Tiresia, 2019) were equal to 942.4 million euros, which is a great amount if compared with the assets managed by *strictly impact* operators, which add up to 197 million euros.

It is in this light that a framework was developed, aimed especially at helping generalist financial players approaching impact investing to respect the definition of the additionality principle, and therefore to avoid being the source of impact washing phenomena, even unintended ones.

As it can be argued from the image presented in the next page (Figure 31), the framework consists of four components, which investors can put into practice simultaneously or progressively. The peculiar structure of the graph was mainly inspired by Parkman and Krause's *Diamond Model of Authentic Green Marketing* (2018), which was encountered when analysing the literature on greenwashing and impact washing; the model drew on four themes that, according to the authors, should be employed in marketing practices to both inform customers about a firm's genuine dedication to sustainability and to possibly dissuade the latter's peers to resort to fraudulent practices, which is actually a topic that is consistent with what we are discussing in this instance. Nevertheless, diamond-shaped models have been employed quite a few times, for instance in business literature: emblematic is the case of Michael Porter's Diamond Model of National Competitive Advantage (1990).

Moreover, it should be mentioned that this scheme is intended to serve as a corollary, specifically addressed to generalist impact investors, to the operational definition of additionality that was introduced in the paragraph 6.1.3 of the present chapter. It is indeed aimed at reinforcing their understanding of the principle of additionality and at guiding them in the process of choice and subsequent support of the selected impact initiatives.

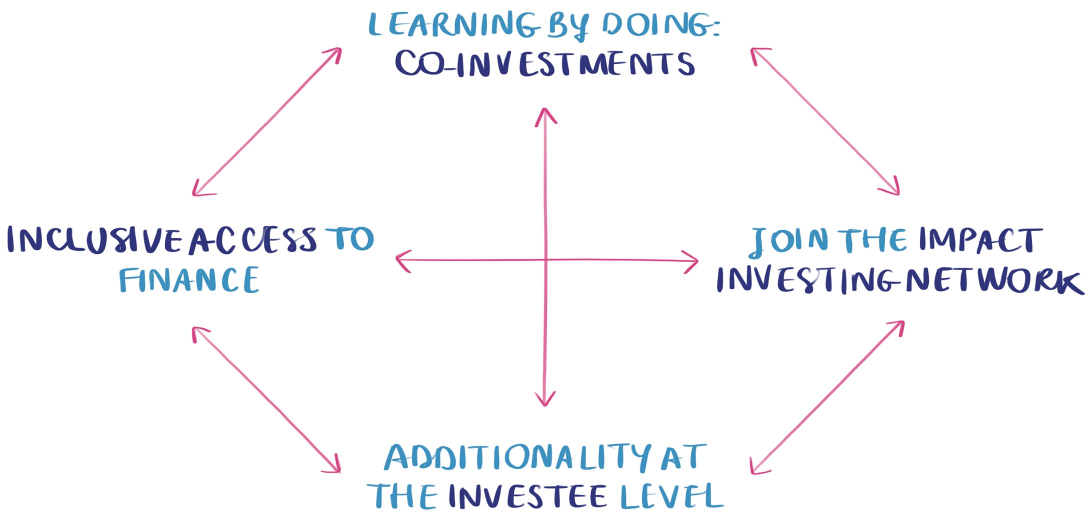

Figure 31: An operational framework for generalist impact operators

I will now proceed to explain the four elements that make up the model; since there is no order of application of the four principles, the graph can be read by starting from each one of its parts.

The discussion will begin by analysing the element which is about **inclusive access to finance**. This has been inserted in order to strengthen the message - introduced in the operational definition - according to which generalist impact investors, even if they show a lower risk appetite than impact-specialised ones, should anyway strive to address undercapitalised areas by securing access to financial and investment services to subjects (i.e. individuals and organisations) that would not be taken into consideration for ordinary transactions. This, of course, with the objective of providing capital to those underfunded areas that were mentioned in the operational definition as the main recipients of impact investments (geographical regions, market sectors, different growth stages of a company's lifecycle).

With this respect, operators may need some further advice in relation to the methods they could employ in order to choose what projects and, consequently, organisations to support. This is a theme that undoubtedly needs to be further deepened; however, during the analysis on extant literature about the additionality principle, I encountered a framework that might be useful to generalist impact operators in this instance: it is the Importance, Tractability and Neglectedness (ITN) framework, developed at Founders Pledge and mentioned by Hillebrandt and Halstead (2018). As explained in the Literature Review chapter, the application of the ITN framework consists in performing a reflection on three levels:

- **How many** and **how badly** people are touched by the social issue which should see a decrease thanks to the project under discussion;
- **How much feasible** it is to improve conditions given the scale of the social issue;
- Finally, considering what **degree of emphasis** is attributed to the problem at the moment of the analysis, so to understand whether it is part of an already crowded market; in fact, without an analysis of this kind, the risk would be that of having a **displacement effect** (McEldowney, 1997), which in this case would mean putting capital into initiatives that could find a way to be financed in any case, while denying it to those really in need of such capital.

Moving on to the second point that is dealt with in the framework, the focus shifts towards an argument which has been very much debated in the course of the research; it is, indeed, the one according to which **additionality lies at the level of the invested or financed organisation**.

As it has been argued quite a few times in this work, an additional role generalist investors could take on is that of taking charge of initiatives and organisations with very impactful, disruptive and additional business models which, after being backed by impact-centred investors at the earlier stages of their growth, happen to need a second round of financing. Of course, as explained in their dedicated framework, it would be up to impact-specialised investors to foster the dialogue and work as a connection between the different sides of the impact investing market, i.e. their current and/or former investees and generalist financial operators.

When needing second round financing, social impact enterprises have potentially gone past the most risky and least profitable stages of their lifecycle, and therefore they have potentially become appealing also to those generalist investors that want to support effective solutions to social issues, but at the same time still wish to make a decent profit out of their investments. This is completely acceptable, but one thing in particular must be clear: that the level of additionality and, therefore, of social impact brought by the investees' activities must never be decreased for the sake of profit.

This is therefore what is required of generalist investors: to verify, even with the help of specialised consultants, that the impact of a project does not diminish over time and that the creation of impact itself is always prioritised with respect to the increase in earnings; at the same time, generalist impact investors must not, in any way, force a change in the business model of the invested companies that may lead to a limitation of their additional contribution.

Generalist impact players could certainly be more effective in assessing the preservation of additionality after they have completely understood what being additional actually means. It is precisely in this perspective that the third point of the framework has been developed; in fact, it argues that generalist investors should be willing to **join an impact investing network** of players. This means that they should participate to capacity building initiatives aimed at increasing their awareness on the concept of additionality and the fundamentals of impact investing in general; as it can be easily understood, in this instance the collaboration of impact-specialised players is fundamental. This is why we are talking about an impact investing network, which completely reflects the concept of ecosystem additionality introduced in the framework directed to impact-centred operators: both type of impact actors, together with their investees, have to be willing to join forces, as well as to teach and learn from each other. The concept of building a network, or an ecosystem in the impact industry is an aspect that is still very much lagging behind within the Italian context; however, it was raised several times by interviews' interlocutors as a topic of discussion: it is for this reason that we should be confident in the fact that the majority of Italian impact players intend to work together to achieve a common goal, that is the creation of greater social inclusion.

The fourth and final principle of the framework is equally structured with a view to a collaboration between different types of impact actors; as such, it aims at highlighting the importance of ensuring that different impact players work together to achieve an optimal application of the additionality principle, as postulated in its own operational definition.

This last principle is actually focused on the concept of **learning by doing**: indeed, co-investment models could be structured, which may lead to quite a few benefits on both the impact-specialised and generalist investors' side.

For instance, with a co-investment it would be possible to increase the amount of capital available for a single initiative from its very beginning; since, as we mentioned earlier, most of the capital that can be potentially used for impact investments is in the hands of generalist impact actors (Tiresia, 2019), their involvement would be crucial to immediately increase the impact achievable with a single initiative. Furthermore, since these latter are traditionally

more risk-averse than impact-centred investors, but (according to the operational definition) they still need to address undercapitalised areas if they want to yield an additional impact, this could be a nice occasion to join disruptive initiatives; in fact, they could leverage on the expertise that impact-specialised operators hold in dealing with risky operations.
On a final, but very relevant note, one of the greatest benefits of co-investments in the impact field is that of having the opportunity to rely on different kinds of expertise at the same time. This could bring the offer of ad hoc non-financial services to investees - one of the most relevant elements constituting the operational definition - at its optimum: for instance, generalist investors could provide more technical and purely financial support, while impact-specialised investors could certainly put into play all their expertise in the field of social innovation, social impact and the development of innovative solutions; this, of course, with the aim of maximising the success of the investment's recipient, but also to teach generalist operators, directly on the field, what it means to invest for impact in a radical and disruptive way. This educational activity, of course, must be focused on the correct application of the additionality principle; with this respect, the operational definition developed in this research may come very much in handy. As a matter of fact, this is one of the most effective ways to avoid any potential impact washing drift, that is actually the ultimate objective around which this framework has been designed.

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To conclude the description of the framework, a very simple scoring system might be hypothesised: if the financial operators under observation have made just one of the points in the framework their own, then they should not be considered additional and should be invited to deepen their knowledge on the matter, if they wish to be considered part of the impact investing ecosystem.
If, on the other hand, there is solid evidence that the operator is putting two or three points of the framework into practice, then it should be acknowledged as part of the impact investing industry and on the path towards additionality.
Finally, if the generalist operator is willing and able to implement initiatives concerning all the four points making up the framework, then it should be regarded as fully additional and on the way to actually become an impact-specialised investor.

7 Conclusions

7.1 A conclusive overview

The objective of the present dissertation was to propose an advancement of the theorisation regarding the additionality principle, which represents one of the three main definitional pillars of impact investing, together with intentionality and measurability.

The desire to focus on this particular principle was dictated mainly by the fact that its correct and firm application could be very useful for the containment of impact washing phenomena. In fact, additionality essentially means that impact investors must officially demonstrate their willingness to invest in disadvantaged areas (where low returns and high financial risks are very likely); if they are formally required to act according to this principle to be part of the impact investing industry, it then becomes almost impossible for them to engage in impact washing behaviours.

These latter, indeed, are becoming increasingly widespread in all fields related to social and environmental sustainability, and impact investing is no exception: moreover, as the latter represents a young industry that has yet to affirm itself in the financial world, impact washing occurrences must be avoided, because they risk damaging the genuine and organic growth of the sector, making it lose the transformative power that is at the very basis of any authentic impact investing initiative.

The empirical research developed in this dissertation was conducted through the organisation of a focus group and 46 semi-structured interviews, which required the participation of the majority of practitioners that constitute the current Italian impact investing industry.

Furthermore, the inductive analysis of the collected data has been preceded by an extensive review of extant literature, which concentrated mainly on the issues of additionality and impact washing, after a brief excursus on the fundamental characteristics of impact investing; this process revealed a substantial qualitative and quantitative gap in the way the principle of additionality has been addressed by both the academic and practitioner literature on impact investing, which have considered it as an accessory aspect and not as the driving force of impact investing, as it actually should be.

Both the study of the scientific papers and the discussion with Italian practitioners have been fundamental for the development of a new definition of additionality that would contribute to fill such a gap in literature; since the analysis of the available material has led to the development of various declinations of the concept of additionality, which should be taken into account by impact operators in everyday practice, I opted to propose an operational definition of additionality, rather than a theoretical one that would have most likely been quite reductive and simplistic.

In short, the interpretation of additionality that has been developed is based on the assumption that impact investors should address areas that are undercapitalised, accepting to earn less and risk more than in an ordinary financial transaction as a consequence of prioritising the search of systemic change solutions rather than profit maximisation; its novelty is represented by the fact that it gives impact operators actual advice on how to do so. In fact, it recommends disclosing the additional impact of an initiative before putting the latter in place, as it is essential to do with the declaration of intentionality. Moreover, it lists the most important ways in which an additional contribution can be achieved: by collaborating with other impact players to increase social impact, by offering ad hoc non-financial services to investees and by developing innovative solutions - i.e. social disruptions - to reach what represents the ultimate objective of impact investing: a systemic change leading to a substantial reduction in social inequalities.

The contribution to research of the present study is also constituted by the development of two operational frameworks; the choice to develop and propose managerial instruments of this kind to encourage the application of additionality is motivated by the fact that such tools have proven to be very useful in managing impact investments, for instance in facilitating the due diligence, as well as the assessment, monitoring and reporting of impacts (Levy et al., 2019).

The decision to build two separate frameworks is instead due to the fact that the analysis carried out highlighted the presence, in the Italian industry, of two main types of impact investors: the first group is constituted by operators specialised in impact activities, while the second, more numerous, is composed of generalist operators who have, more or less recently, introduced some impact activities within their portfolio. Therefore, the frameworks are based on the two groups' peculiar characteristics: in fact, the one for impact-specialised operators focuses on maximising their additionality effect through non-financial services that they should address to both their investees and generalist colleagues. On the other hand, the one for these latter is aimed at helping them to understand what impact investing actually means and to apply the concept of additionality, so that they can leverage on it to avoid engaging in impact washing behaviours.

Therefore, as explained in this brief recap, the present work was carried out with the dual objective of advancing the current academic knowledge on the additionality principle and of bringing this very important concept down into the everyday reality of impact investments, so to protect this truly innovative way of conceiving finance from opportunistic attitudes and allowing it to reach its full transformative potential.

In particular, the operational definition of additionality that has been developed helps to advance the literature on the matter by proposing a declination of the concept that is not only the outcome of academic hypotheses, but also the result of an analysis performed in conjunction with impact practioners; this has allowed to enrich the concepts already present in literature with notions that can make additionality applicable in everyday practice. Moreover, one aspect in particular that has been raised in the literature concerns the role of socially neutral investors in second-round financing. While the latter are generally considered indispensable for scaling up impact investments (Brest and Born, 2013; Barnett and Faisal, 2016), this research advances the literature by proposing that generalist impact investors could take their place. If properly guided in their activities, they can in fact preserve the additionality and the capacity to create impact of the invested entities, something that socially neutral investors would have no interest in doing. This proposal aims to stimulate the self-sufficiency of the impact investing industry, so that it gets increasingly protected from opportunistic and impact washing drifts.

On the other hand, the two frameworks offer a concrete support and guidance in the application of additionality to generalist impact investors themselves, but also to impact-specialised ones. This is actually something that, to my knowledge, has never been proposed before in literature; in fact, the frameworks I encountered during the review of previous research were aimed at selecting which realities to support in an additional perspective (Hillebrandt and Halstead, 2018), or at assessing additionality (So and Staskevicius, 2015), but not at actually guiding practitioners in improving and maximising their additional contribution to the impact investing industry.
It was possible to create these frameworks only thanks to an in-depth work of comparison and dialogue between the literature and the analysis of the practitioners' interviews; the objective is that their structure, simple but complete, makes them an immediate tool for understanding the concrete importance of implementing additionality in the daily practice of all impact investors.

7.2 LIMITATIONS AND FUTURE RESEARCH AGENDA

This very last paragraph will be devoted to explaining the limitations that this study revealed and the possible ways to overcome them, in the hope that academic research will be interested in a further investigation of the potential of the additionality principle in preventing impact washing occurrences.

First of all, it is necessary to mention the very limited number of papers discussing the theorisation and application of the principle of additionality to impact investing practices. With so little literature, in fact, it is difficult to get an idea of what additionality means if one does not have any prior knowledge on the matter. However, this inevitable condition has actually represented a stimulus to further analyse the subject and to actually be very focused in the search for a novel interpretation of the principle of additionality, with the semi-structured interviews to practitioners representing the main source of valuable data.

Another limitation has been represented by the qualitative nature of the data collected; as such, they did not permit the adoption of rigorous quantitative methodologies, which, for the longest time, have been considered by many academics the only ones capable of achieving scientifically consistent results.
This fact, however, has actually been quite easy to overcome because of two essential reasons:

- As explained in the Methodology chapter, academics have now widely accepted the scientific validity of qualitative research;
- The use of a well-tested and rigorous methodology such as the one developed by professor Gioia, together with a data analysis carried out via one of the most renowned softwares for qualitative research (NVivo), helped to come up with clear and accurate results.

With respect to the Gioia Methodology itself, it is relevant to observe how the articles explaining its application recommend that the study should be carried out by more than one researcher simultaneously (Gehman et al., 2017), so that they can perform the analysis individually and possibly arrive to higher level of detail (i.e., in this instance, in terms of 1st-order concepts and 2nd-order themes). Unfortunately, this suggestion could not be followed, since I was the only one analysing all the available data. It would therefore be interesting to understand what could be discovered through a study similar to this one, but conducted by more researchers and with possibly a higher number of interviews to form the empirical basis. However, especially this last point is currently difficult to put into practice, since the interviewed organisations represent practically the totality of those operating in the Italian impact investing market. In any case, the research could be replicated in one of those countries that present a higher number of financial operators involved in impact investing.

Taking into consideration, instead, the actual results deriving from the analysis, there are quite a few aspects that would certainly need to be further developed. The fundamental ones will be listed below:

- As it was highlighted in both the Results and Discussions chapter, additionality should be connected with the first pillar of the impact triad, intentionality, in the sense that the additional efforts that an impact investor is willing to make should be declared before the beginning of any impact initiative, as it happens for the declaration of intentionality.
  However, what no one seemed to notice is a connection of the principle of additionality with the second pillar of the triad: measurability. Indeed, future research should focus on the development of models to clearly assess the additionality level of impact investors and their investees. As affirmed in the explanation of the framework dedicated to impact-specialised actors, this is a task for which the expertise of these latter operators could be extremely useful, since they might help academics in developing frameworks able to measure in a relatively quick manner the additionality level of an impact initiative.
- On another note, I would like to stress the need for further research to focus on the advancement of feasible ways to attract the public sector within the impact investing field. As resulted from this study, there has actually been a principle of commitment, thanks in particular to the involvement of some regional financial institutions. However, this is not enough yet, as the public sector is still seen as the great absentee on the Italian impact investing scene. In particular, precisely in the light of the collaboration between different types of impact operators - which was highlighted both in the operational definition and in the two frameworks - I suggest that future research should concentrate on the implementation of public-private partnerships (PPP), which are still missing in the Italian context. In this case as well, given the practical nature of the research, it would be optimal to seek the participation of the various types of subjects that could contribute to the effective advancement of these practices in Italy (i.e. academics, public sector representatives, private social impact investors, invested subjects, legal experts...).
- Finally, the conclusive part of the description analysing the framework addressed to generalist impact operators highlighted how the structuring of co-investments could be very beneficial; in fact, the joint effort of impact-specialised and generalist players may be central in increasing the effectiveness of impact initiatives and, therefore, in drastically limiting the occurrence of impact washing phenomena. It is in this

perspective that I encourage future research to deeply investigate and determine, down to the smallest details, how such co-investments could be structured, since they may actually determine a substantial qualitative and quantitative advancement of the Italian impact investing industry.

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Attachments

ATTACHMENT 1 REFERENCE POPULATION

Asset owner and/or manager	Organisation Typology	Geographical area covered	Specialised or General Financial Operator	Year of entry in the industry	Equity- or Debt- Based
Asset manager	Insurance company	National	General operators with activities dedicated to impact	2018	Equity-based
Asset manager	Insurance company	National	General operators with activities dedicated to impact	2013	Equity-based
Asset manager	SGR	International	General operators with activities dedicated to impact	2016	Equity-based
Asset manager	Regional or national finance company	National	General operators with activities dedicated to impact	2017	Equity-based
Asset manager	Cooperative financial system	National	Operators specialised in activities dedicated to impact	2015	Debt-based
Asset owner and asset manager	Cooperative financial system	National	Operators specialised in activities dedicated to impact	2019	Equity-based
Asset manager	Investment bank	National	General operators with activities dedicated to impact	2018	Debt-based
Asset owner and asset manager	Community foundation	Regional (Southern Italy)	Operators specialised in activities dedicated to impact	2018	Equity-based
Asset owner and asset manager	Commercial bank	International	General operators with activities dedicated to impact	2009	Debt-based
Asset owner and asset manager	Insurance company	National	General operators with activities dedicated to impact	2019	Equity-based
Asset manager	SICAV	National	Operators specialised in activities dedicated to impact	2017	Equity-based
Asset manager	SGR	International	General operators with activities dedicated to impact	2018	Equity-based
Asset manager	SGR	International	General operators with activities dedicated to impact	2019	Equity-based
Asset manager	SGR	Regional (Central-Northern Italy)	Operators specialised in activities dedicated to impact	2008	Equity-based
Asset owner and asset manager	SGR	National	General operators with activities dedicated to impact	2019	Equity-based
Asset owner and asset manager	Insurance company	National	General operators with activities dedicated to impact	2019	Equity-based
Asset manager	SICAF	International	Operators specialised in activities dedicated to impact	2019	Equity-based
Asset manager	SGR	Regional (Central-Northern Italy)	General operators with activities dedicated to impact	2020	Equity-based
Asset manager	Commercial bank	National	General operators with activities dedicated to impact	2017	Debt-based
Asset manager	Commercial bank	National	General operators with activities dedicated to impact	2010	Debt-based
Asset owner and asset manager	Commercial bank	National	General operators with activities dedicated to impact	2013	Debt-based
Asset owner and asset manager	Foundation of banking origin	Regional (Northern Italy)	General operators with activities dedicated to impact	2013	Equity-based
Asset owner and asset manager	Corporate	National	General operators with activities dedicated to impact	2017	Equity-based
Asset owner and asset manager	Participatory foundation	International	Operators specialised in activities dedicated to impact	2009	Equity-based
Asset manager	Mutual credit bank	National	General operators with activities dedicated to impact	2016	Debt-based
Asset manager	Regional or national finance company	Regional (Northern Italy)	General operators with activities dedicated to impact	2020	Equity-based

Asset manager	Regional or national finance company	Regional (Northern Italy)	General operators with activities dedicated to impact	2019	Equity-based
Asset owner and asset manager	Business and family foundation	Regional (Central-Northern Italy)	Operators specialised in activities dedicated to impact	2016	Equity-based
Asset owner and asset manager	Community foundation	National	General operators with activities dedicated to impact	2018	Equity-based
Asset owner and asset manager	Foundation of banking origin	Regional (Northern Italy)	General operators with activities dedicated to impact	2011	Equity-based
Asset owner and asset manager	Grant making foundation	National	Operators specialised in activities dedicated to impact	2017	Equity-based
Asset owner and asset manager	Grant making foundation	Regional (Northern Italy)	Operators specialised in activities dedicated to impact	2007	Equity-based
Asset manager	SGR	National	General operators with activities dedicated to impact	2017	Equity-based
Asset manager	SGR	International	Operators specialised in activities dedicated to impact	2020	Equity-based
Asset manager	Incubator	National	Operators specialised in activities dedicated to impact	2015	Equity-based
Asset manager	Commercial bank	National	General operators with activities dedicated to impact	2007	Debt-based
Asset manager	Regional or national finance company	National (mostly Central-Southern Italy)	General operators with activities dedicated to impact	2015	Equity-based
Asset owner and asset manager	Corporate	National	General operators with activities dedicated to impact	2017	Equity-based
Asset manager	Equity crowdfunding platform	National	Operators specialised in activities dedicated to impact	2018	Equity-based
Asset manager	SICAV	National	Operators specialised in activities dedicated to impact	2006	Equity-based
Asset manager	SICAV	National	Operators specialised in activities dedicated to impact	2013	Equity-based
Asset owner and asset manager	Family Office	International	General operators with activities dedicated to impact	2013	Equity-based
Asset manager	SGR	National	Operators specialised in activities dedicated to impact	2016	Equity-based
Asset manager	SICAV	International	General operators with activities dedicated to impact	2015	Equity-based
Asset manager	SGR	National	Operators specialised in activities dedicated to impact	2017	Equity-based
Asset manager	Investment bank	International	General operators with activities dedicated to impact	2012	Equity-based
Asset manager	Investment bank	International	General operators with activities dedicated to impact	2019	Equity-based
Asset manager	Commercial bank	National	General operators with activities dedicated to impact	2011	Debt-based
Asset manager	SGR	International	General operators with activities dedicated to impact	2018	Equity-based
Asset manager	Commercial bank	National	General operators with activities dedicated to impact	2018	Debt-based

Table 10: The characteristics of the organisations constituting the reference population

PLEASE NOTE: *The eight interviewed subjects which were removed from the final reference sample (either because of their limited adherence to impact investing principles or because of their advisory-only role) have not been included in the present table.*

ATTACHMENT 2 INTERVIEW PROTOCOL

INTERVIEWEES SELECTION CRITERIA: OPERATIONS IN ITALY (HAVE INVESTED IN ITALY)

The heads or representatives of the organisations that operate or are expected to operate in the next two years on the Italian impact market will be interviewed. The reference population is made up of those for whom it is possible to trace, on public sources, evidence of activities in progress or a concrete intention to undertake activities within the scope of finance for social impact as defined below. These operators will be subjected to a specific interview.

INTERVIEW PROTOCOL

We will refer below to the scope of finance for social impact, defined as follows:

For impact investments we mean a wide range of investments based on the assumption that private capital can intentionally contribute - in some cases, combined with public funds - to the creation of **positive social impacts** and, at the same time, **economic returns**.
In operational terms, the perimeter includes all the financial products and instruments that meet the following criteria, commonly defined as the **impact triad**: intentionality, measurability and additionality.

Intentionality: a conscious and deliberate search for a social impact, with the aim of pursuing a positive result for the community and explicitly declared ex ante to the use of capital. This results in the proactive search for activities that pursue the creation of social value as an objective.

Measurability: the social impact objectives that are intended to be generated with capital must be identified in order to be measurable. Indeed, the social objectives must be measured (quantitatively and/or qualitatively) with the aim of being able to define ex ante the expected impacts, and ex post to verify whether the latter have been efficiently and effectively achieved. Measurability is a fundamental characteristic also during the activity-monitoring phase, since the measurement system can be used as a management tool by the organisations involved in the investments.

Additionality: social impact investments intervene in undercapitalised areas, or in those activities that would otherwise be excluded by any other investor. It is, therefore, common that the activities subject to social impact investments are characterised by a trade-off between social performance and economic return: the achievement of a greater social impact requires giving up a share of economic performance and vice versa.

Everyone:

1a) Looking at additionality there are controversial positions and interpretations. What is the interpretation of additionality that best fits the way your organisation operates? How is that applied for the provision of capital?

1b) How does your organisation, following the criteria that you use as a guideline, allocate its impact capital?

Everyone:

This scheme shows a possible, simplified, representation of the impact finance industry.

Asset owners	Intermediaries	Impact organisations
• National promotional bank • Public administration • Public financial agency • Company • Family office • Banking foundation • Business and family foundation • Fondazione di comunità (Community foundation)	• Commercial bank • Investment/merchant bank • Private equity • Venture capital • Investment fund (SGR) • Investment fund (S.r.l.) • Corporate • Public financial institution • Equity/Debt crowdfunding platform	• Profit with purpose • Società benefit (Benefit corporation) • Start-up innovativa a vocazione sociale (Innovative social start-up) • Social cooperative • Social enterprise • Other third sector organisations

• Insurance fund • Pension fund • Social security fund • European financial institutions • Retail • Others		

Table 11: Actors in the impact investing industry

PLEASE NOTE: *Profit with purpose = organisations that consider social impact as a secondary objective, subject to the achievement of a satisfying financial performance.*

2a) Where would you place your organisation in the above scheme?

2b) In particular, which type of actor best describes your organisation's profile?

2c) Within your organisation, does the governance of the activities related to impact include a dedicated business unit or is it actually the core business of your organisation?

Everyone:

3a) What are the reasons why you started operating in the field of impact finance?

3b) Could you explain the reasons that led your organisation to enter the field of impact finance, focusing specifically on the collection and on the provision of capital?

3c) With respect to the reasons that made your organisation enter this field in the first place, have they changed in time? Was there a sort of adaptation process (new or modified reasons)?

Equity-based:

4a) (Asset manager) Who are your capital providers? What kind of requirements condition the use of capital? How do capital providers constrain your mission to social impact?

4b) (Asset owner) Who are the financial intermediaries in which you allocate capital? To what type of requisites do you condition the use of your capital? How do you constrain the investee's mission to the social impact objectives?

4c) In which organisations (if possible, provide names) have you invested so far? Which specific characteristics (sectors, legal form, size) must the organisations in which you invest your capital satisfy?

Debt-based:

4d) What organisations do you fund (names not required)? Which specific characteristics (sectors, legal form, size) must the organisations you finance satisfy?

Equity-based:

5a) How much have you collected to date?

5b) Is the fundraising still ongoing? If so, what is the fundraising target?

5c) How much of what has been raised to date has already been used?

5d) How much of this amount was allocated in 2018?

5e) What is your estimation for 2019's allocation of capital?

5f) Through which types of financial products are you providing capital to address social impact objectives? In particular, can you specify, for each of those products, the expected and actual level of return, the expected level of risk, and the social impact targets?

5g) What complementary activities to impact investing does your organisation offer, if any? We are talking about non-financial services, e.g. structured relationships with intermediaries (social incubators, accelerators, etc.).

Debt-based:

5h) Through which types of products do you provide capital for impact objectives? In particular, can you specify, for each of them, with respect to an ordinary financial transaction, the expected and actual interest rates, the expected level of risk, as well as the social impact targets?

5i) What is the total amount of capital employed since you started operating within the social impact finance field?

5l) Specifically, how much is the total amount of capital employed in 2018?

5m) Do you already have an investment plan for the upcoming years (in terms of amount and time horizon)?

5n) What complementary activities to impact financing does your organisation offer, if any? We are talking about non-financial services, e.g. structured relationships with intermediaries (social incubators, accelerators, etc.).

Everyone:

6a) With respect to the risk-return trade-off that can be hypothesised for an ordinary financial transaction: in your opinion, how much does a typical social impact investing/financing operation deviate from this reference (*disproportionate returns*)?

Equity-based:

7a) Could you explain what is, in your investment strategy, the link between expected impact and expected return?

Debt-based:

7b) Could you explain what is, in your financing strategy, the link between expected impact and creditworthiness?

7c) More generally, what is the link between impact measurement and credit scoring?

Referring to the impact capital supply pipeline:

Equity-based:

8a) How do you scout potential investment targets?

8b) How is the screening process like? What are the selection criteria you employ and how do you verify that the scouted organisations are actually impact ones?

8c) How do you and your counterparty set the social and financial objectives to be achieved through the capital employed?

8d) After the capital employment, how is the monitoring carried out?

8e) Could you describe what are the methodologies your organisation makes use of for impact measurement?

Debt-based:

8f) How does the origination of transactions take place?

8g) How is the screening process like? What are the selection criteria you employ and how do you verify that the scouted organisations are actually impact ones?

8h) How do you and your counterparty set the social and financial objectives to be achieved through the capital provided?

8i) After the capital provision, how is the monitoring carried out?

8l) Are there any particular covenants that are established between you and your counterparty?

8m) Could you describe what are the methodologies your organisation makes use of for impact measurement?

Everyone:

9a) Do you consider the so-called social risk (or impact risk) in your operations?

9b) If yes, which one of these definitions best describes your notion of social risk?

- The probability of generating negative impact;
- The probability of not achieving the social impact objectives declared ex ante;
- The probability that the objective of achieving economic returns will overcome the initial mission of generating social impact (mission drift).

Equity-based:

9c) How does social risk enter into the assessment of the capital employment?

Debt-based:

9d) How does social risk enter into the assessment of financing opportunities?

Equity-based:

10a) What is the expected average lifespan of your impact investments?

10b) What are your expectations in terms of exit strategies? What do you think could be typical exits for the impact investing industry?

Debt-based:

10c) What is the average duration of the impact loan? (Short - medium-long - stock at the end of the year - average volumes)

Everyone:

11a) In your opinion, what are the barriers that currently block the expansion of the social impact finance industry in Italy?

11b) What are the main regulatory obstacles (Basel, SICAV, etc.) that you believe are preventing the development of your organisation in the social impact finance market?

Everyone:

12) What are the drivers that could influence the growth of the social impact finance industry in Italy?

Everyone:

13) Who do you think could be the game-changer for the advancement of the Italian social impact finance industry? (Please refer to table presented before question 2)