



LISBON  
SCHOOL OF  
ECONOMICS &  
MANAGEMENT  
UNIVERSIDADE DE LISBOA

**MA**  
**DEVELOPMENT AND INTERNATIONAL**  
**COOPERATION**

**MA THESIS**

**MEASURING IMPACT INVESTMENTS:  
A CASE STUDY OF AN INTERMEDIARY, GOPARITY**

**IARA COMUNELLO MARTINS**

**OCTOBER – 2020**



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To the optimists of the world who, with  
their work and designation, contribute to  
lasting positive changes in society.



## ABBREVIATIONS

- AUM – Assets under management
- CO<sub>2</sub> – Carbon dioxide
- CSR – Corporate Social Responsibility
- DFI – Development Finance Institution
- DIB – Development Impact Bond
- ESG – Environmental, social and governance
- GIIN – Global Impact Investing Network
- IFC – International Finance Organization
- IMP – Impact Management Project
- IRIS – Impact Reporting Investing Standard
- MDB – Multilateral development bank
- OECD – Organization for Economic Cooperation and Development
- SDG – Sustainable Development Goal
- SIA – Social Impact Assessment
- SIB – Social Impact Bond
- SII – Social Impact Investment
- SIIT – Social Impact Investment Taskforce
- SME – Small and Medium-sized Enterprises
- UNPRI – United Nations Principles for Responsible Investment
- UK – United Kingdom
- US – United States
- WEF – World Economic Forum



## ABSTRACT

This dissertation aims to comprehend what “impact” means within impact investments, focusing on its measurement and its practice throughout the industry. A brief literature review allows us to understand the main features of the industry, the involved actors and to identify the latest initiatives for impact measurement. The case study of GoParity, a Portuguese start-up acting as an intermediary in the impact investment market, is expected to offer a closer insight into the working of the industry, particularly on the challenges it faces to assess, monitor, and manage impact. The conclusions suggest that despite challenges surrounding measurement, a better built combination of tools, organizational will and resources can strengthen the quality and scale of impact investments to solidify lasting changes in society.

**KEYWORDS:** Impact; finance; investments; measurement.

## SUMMARY

ABBREVIATIONS .....	i
ABSTRACT .....	ii
LIST OF FIGURES.....	iv
LIST OF TABLES .....	iv
ACKNOWLEDGMENTS .....	v
1. INTRODUCTION.....	1
2. THE RISE OF IMPACT INVESTING .....	2
2.1. <i>What is Impact Investing? A definition</i> .....	2
2.2. <i>How did Impact Investing emerge? The concept and the practice</i> .....	3
2.3. <i>Why invest with impact?</i> .....	5
3. MEASURING IMPACT INVESTING .....	7
3.1. <i>Who measures impact and why?</i> .....	8
3.2. <i>How is impact measurement done?</i> .....	8
3.3. <i>Different measurement approaches</i> .....	10
4. THE IMPACT INVESTING SYSTEM .....	11
4.1. <i>Investees: demand of capital</i> .....	13
4.2. <i>Investors: supply of capital</i> .....	14
4.3. <i>Intermediaries</i> .....	16
4.4. <i>Types of Impact Investing Instruments</i> .....	16
4.5. <i>A Critical Reflection on Impact Investing</i> .....	17
5. THE CASE STUDY OF GOPARITY (PORTUGAL) .....	23
5.1. <i>GoParity – Impact Investing through crowdlending</i> .....	23
5.1.1. <i>How does GoParity’s platform work?</i> .....	25
5.1.2. <i>GoParity in the Impact Investments framework</i> .....	27
5.2. <i>Managing impact at GoParity</i> .....	28
5.3. <i>Rethinking impact measurement at GoParity</i> .....	30
5.4. <i>Recommendations</i> .....	32
6. CONCLUSION.....	33
REFERENCES.....	37
ANNEXES.....	41

## LIST OF FIGURES

Figure 1 - World Yearly Average Google Search of the Term “Impact Investment” .....	5
Figure 2 - Publicly Traded Funds With “impact” in Their Names.....	5
Figure 3 - Dimensions of an Impact Measurement Framework .....	9
Figure 4 - Impact Value Chain .....	10
Figure 5 - Social Impact Investment Market - OECD Framework .....	13
Figure 6 - Social Impact to Financial Returns Spectrum.....	13
Figure 7 - GoParity’s Platform Operations from the Investor’s Perspective .....	26
Figure 8 - Basic Structure of a Social Impact Bond .....	42

## LIST OF TABLES

Table 1 - Relational Distinction Between SII Sub-Types .....	41
Table 2 - Risk and Barriers Commonly Perceived Throughout the Industry .....	43

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## 1. INTRODUCTION

How can the private sector help tackle the world's complex social and environmental issues? This debate is on the origins of the sector that would represent the “invisible heart” of markets – impact investing (SIIT, 2014). It is defined by investments with the intent to, while generating financial returns, contribute to measurable positive social or environmental impact (IFC, 2019). Now, thirteen years after the term was coined and the industry grew in terms of assets and attention in the international community, the main concerns regard the urgent global resources mobilization towards the achievement of the United Nations' Sustainable Development Goals (SDGs) (IFC, 2019; Bugg-Levine & Emerson, 2011).

Beyond becoming a buzzword, purposeful investments are on the rise driven by the younger generations who are increasingly interested in the effects of their financial decisions and in how business can address societal and environmental challenges (Kingler-Vidra, 2019; Deloitte, 2019). This reflects a major relevance in studying this subject, once it is a trend expected to be reinforced in the following years, and a demand that businesses will have to undertake. For that reason, it becomes essential to analyze the approach used by the financial sector to contribute to global development through investments. In this perspective, the intention to create a measurable positive impact is indispensable, for it is the aspect that differentiates impact investments from traditional ones. Thus, the key element is impact measurement, which upholds the social and environmental value in relation to financial returns, and infers accountability to the industry's actors (Barman, 2015; Lall, 2019).

This dissertation intends to critically analyze the impact investing market and its assumptions, focusing on the importance of impact measurement and its practice in the industry. For that, it will rely on literature review from reports of international organizations, and academic perspectives on the social and economic phenomenon. Also, it seeks through a case study on GoParity, an impact investment start-up from Portugal, to understand the challenges the industry faces on the assessment, monitoring and management of impact. Through six semi-structured interviews with employees and founders it was possible to understand the internal dynamics and decision-making involving the evolution of a process of impact measurement, and its accountability function towards stakeholders. Moreover, through a personal hands-on experience in the

start-up that involved the development of a measurement system, it was possible to observe the challenges to adapt organizational resources, capacities, and specificities to assessment approaches.

After this introduction, the dissertation has four chapters, followed by a conclusion. The second chapter focuses on defining impact investments, explaining the rise of the industry, and the actors' motivations. The third chapter analyzes in depth the element of measuring impact, describing the motivations behind it, and listing the different approaches. On the fourth chapter, the main actors – investors, investees, and intermediaries – and the main instruments are analyzed, and a critical reflection on impact investing and measurement is presented. Finally, the fifth chapter analyses GoParity, its business and main challenges regarding impact measurement practices. Also, it describes the process of improving impact measurement and next steps towards a complete impact management system. At last, the conclusion connects the case study of GoParity with the literature debate, enabling a discussion on the future of impact investment.

## 2. THE RISE OF IMPACT INVESTING

### 2.1. *What is Impact Investing? A definition*

There are multiple definitions of impact investment<sup>1</sup> used throughout the industry, which might cause challenges to the accountability of investors and their commitment to impact (OECD, 2019; IFC 2019). The International Finance Corporation (IFC), an arm of the World Bank Group that works with the private sector, has attempted to bridge the multiple interpretations by producing a more consensual definition<sup>2</sup>: impact investments are those “*made into companies or organizations with the intent to contribute to measurable positive social or environmental impact, alongside a financial return*” (IFC, 2019, p. 2).

The noun “impact” stands for the forced contact between objects, or “a marked effect or influence” (Oxford Dictionary, 2020). In the international development and evaluation literature, impact addresses “significant or lasting changes in people’s lives, brought about by a given action or series of actions” (Roche, 1999, p. 21). Social impact

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<sup>1</sup> Here we regard social impact investment (SII) and impact investment as the same, i.e., synonyms.

<sup>2</sup> The definition was constructed based on the interpretations of impact investment carried out by 13 organizations including the United Nations Global Compact, the Organization for Economic Cooperation and Development (OECD) and the World Economic Forum (WEF) (IFC, 2019b).

investments (SII) diverge from philanthropy because investors target a financial or capital return; they also contrast to negative screening strategies, which eliminate specific harmful investments (e.g., tobacco or firearms) to minimize negative impacts; and they are distinct from strategies that assess environmental, social and governance (ESG) factors (GIIN, 2019). It is also distinguished from corporate social responsibility (CSR), which addresses social and environmental concerns into corporate practices (Reeder and Colantonio, 2013). “Impact investments proactively target positive impact” (GIIN, 2019, p. 5). By bringing a new dimension – impact – into the capital market thinking beyond risk and return, impact investment requires and is part of a paradigm shift in the capital markets dimensions (SIIT, 2014).

## 2.2. *How did Impact Investing emerge? The concept and the practice*

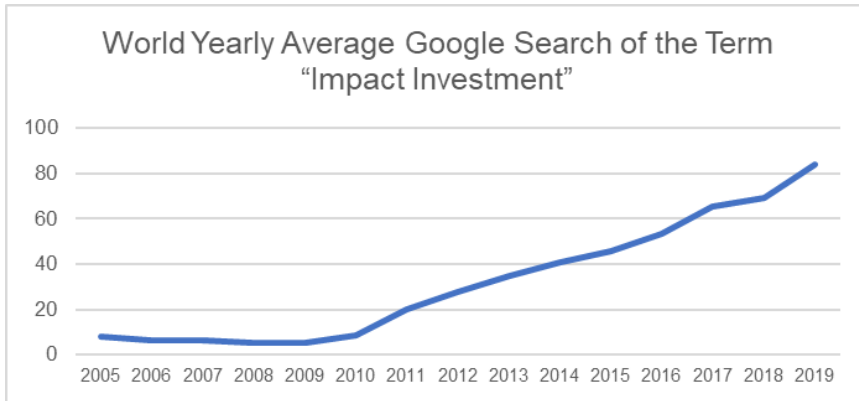
“The idea that our investment decisions can impact the wider world beyond generating financial returns (...) reconnects with centuries-old tradition that held the wealthy responsible for the welfare of the broader community” (Bugg-Levine and Emerson, 2011, p. 11). Investing with purpose beyond profit goes back to 17th century England where the Quakers aligned investment and purchase decisions to their values and to religious congregations in colonial America in the 1800s that aligned business with social values. Later, in the 1970s, it began to connect to the environmental movement and in the 1980s with the anti-apartheid divestment campaigns – riding the wave of socially responsible investing (Bugg-Levine and Emerson, 2011).

The term “social impact” can be traced to a Yale University seminar in 1969, which was followed in the next year by the creation of the Social Impact Assessment (SIA), in the United States, consisting of a set of practices and procedures to identify the socio-economic consequences of large projects (Klinger-Vidra, 2019). In the 1990s, the Labour political party held power in the United Kingdom (UK) and set up a “Social Exclusion Unit”, whose “Enterprise and Social Exclusion” report in 1999 marks, for Golka (2019, p. 22), “the first time that concepts such as social enterprise and a precursor of SII [social impact investment] were acknowledged as priorities for central government”. In its early days, impact investments were associated with financing solutions serving the “base of the pyramid”, or in other words, the poor, through provision of finance to social enterprises and innovative business models (IFC, 2019).

In 2000 emerges the term “blended value”, and seven years later “impact investing” was first coined by a group of early green technology and microfinance funds investors: “If impact investing is what we do, blended value is what we produce” (Bugg-Levine & Emerson, 2011, p. 11). The value is blended because it reintegrates economic, social, and environmental components. When capital is allocated with the intention to generate such blended value, impact investing is the term that provides “a broad rhetorical umbrella under which a wide range of investors could huddle” (Bugg-Levine & Emerson, 2011, p. 13).

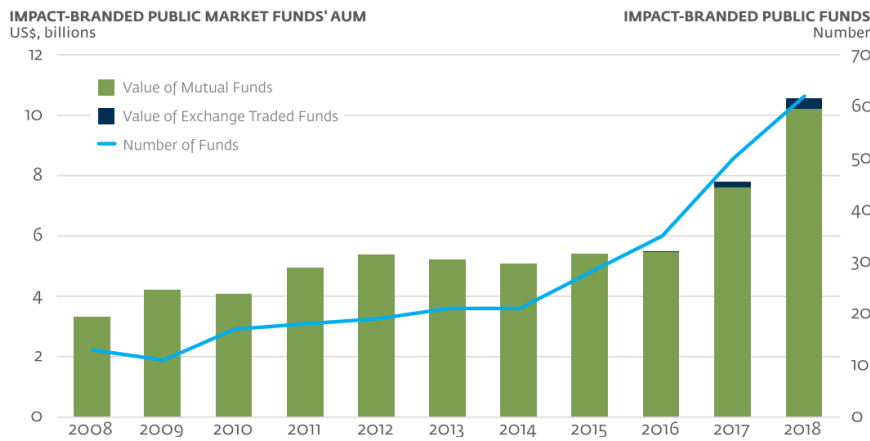
Impact investments gained momentum and interest from society following the strong criticisms faced by the financial sector which was accused as the main culprit behind the 2008 global financial crisis. Finance had created and exacerbated negative social outcomes, and impact investments showed an effort from financial markets to build a healthy society (Dowling, 2017). Since then, the interest in impact investment has been rising. For example, a simple analysis of the Google search for the subject shows clearly how the interest began to rapidly grow from 2008-2009 (see Figure 1). At the same time, an analysis of publicly traded funds with the brand of “impact” also reveals how they have substantially grown since the same period (see Figure 2). The total amount of resources currently under management in impact investment is subject to different interpretations and remains unclear (IFC, 2019). However, the estimates range from \$502 billion to \$1.3 trillion United States (US) dollars. The first estimate is provided by the Global Impact Investing Network (GIIN) (2019) and it is an attempt to discern the size of the impact investment market, while the second estimate includes all investments by the over 450 signatories of the United Nations’ Principles for Responsible Investing (UNPRI) per survey (IFC, 2019).

Figure 1 - World Yearly Average Google Search of the Term “Impact Investment”



Source: Author’s analysis of Google Trends data ([www.google.com/trends](http://www.google.com/trends))

Figure 2 - Publicly Traded Funds With “impact” in Their Names



Source: IFC, 2019, p. 36

### 2.3. Why invest with impact?

Impact investments provide a channel for new resources towards the Sustainable Development Goals (SDGs) of the Agenda 2030, through the provision of finance to organizations addressing social and/or environmental needs with the explicit expectation of measurable social and financial returns. Additional resources for the achievement of the global development agenda are necessary, since the financing gap cannot be fulfilled by governments and the development community alone, therefore the mobilization of private finance has become imperative (OECD, 2019). In addition, impact investment is capable to finance innovative approaches to global problems while providing a framework for testing and scaling ideas, directing capital, measuring outcomes, and

taking the “pioneering risk”<sup>3</sup> (SIIT, 2014). Underlying a series of attributes, there is a set of beliefs central to the impact investment approach: a) that investment can be more effective than donating to help the poor, b) that social motivations can sometimes have more effective results if aligned to financial ones, and c) that many situations do not face an inevitable trade-off between financial and social return (SIIT, 2014).

Regarding returns, each investor aims at different levels and there is no threshold for financial or non-financial returns in the sector (Reeder and Colantonio, 2013). Still, some actors in the industry expect the financial returns to be inevitably at a below market rate, due to its origins in philanthropy, which is validated by studies showing that investors in impact funds are more likely to accept lower returns than traditional investors. However, other studies also demonstrate that impact investors who seek commercial returns, can earn market rate in certain circumstances. Likewise, an analysis of the International Finance Corporation’s (IFC) investments with impact have shown that their returns were competitive with the returns of international capital markets. Therefore, these results suggest the real possibility of achieving reasonable financial returns when investing with intent for impact (IFC, 2019).

With the focus on investments with impact, there is potential of mainstreaming a scope in which the financial sector takes part in tackling the underlying causes of growing demand for social services, instead of only dealing with their consequences (SIIT, 2014). In this scenario, impact investments emerge as a tool for governments to fulfill social and environmental needs more effectively and allocate resources more efficiently with private finance, reserving public resources, that are scarce under growing fiscal constraints, to areas which the private sector does not reach (World Bank Group, 2017; SIIT, 2014). These reduced public resources are expected to become even scarcer due to austerity measures, leaving more social and environmental issues unattended and restraining the achievement of the necessary resources for the SDGs relying on governmental spending (Moore et al, 2012). For this reason, the need of other forms of resource mobilization, associated with the fact that market-oriented instruments have been increasingly employed to address issues important for global civil society, is building up the case for impact investing (Cashore, 2002; IFC, 2019).

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<sup>3</sup> Contrary to mainstream funds who are more conservative towards risk, impact investors value social impact and take the “pioneering risk” by investing in businesses considered otherwise too risky (SIIT, 2014, p. 36).

In addition to the lack of public resources to solve global challenges, SII gains legitimacy through impact measurement and innovative solutions such as crowdfunding. On one side, crowd-based processes consist of mobilizing people to individually finance social ventures. Studies have shown that is provided additional legitimacy because investors from the crowd will select and support projects and causes it values, being democratic per se (Lehner and Nicholls, 2014). On the other hand, organizations achieve legitimization before potential funders and stakeholders through impact measurement, as an accountability mechanism. Usually, some form of measurement from social enterprises is required to receive investment (Lall, 2019).

Furthermore, impact investments place a strong focus on scaling up activities that achieve measurable social outcomes. First, it becomes a viable way for social organizations, which struggle to make large scale impact often for lack of access to a broad range of financing options (SIIT, 2014). But also, the greater the impact that investors seek, the more important it is to support businesses that can scale and create systemic changes to markets. For that reason, recommendations commonly aim at creating competitive, integrated, inclusive, resilient, and sustainable markets to serve populations, including low-income and marginalized groups (IFC, 2019). With that, through the expansion of market-based solutions, it would be possible to close the financing gap in low-income countries with fragile markets, controlled by harsh government regulations and monopolies (IFC, 2019). Thus, impact investment rises as a market-driven response to the growing awareness of the societal challenges' dimension, aiming to provide solutions that join government's and social sector's efforts (SIIT, 2014).

### 3. MEASURING IMPACT INVESTING

Crucial for the impact investment industry is the measurement of impact itself. There has been an unprecedented focus on the measurement of the social and environmental impact that the investments intend to achieve (So and Staskevicius, 2015). The term "measurement" in the impact investment community encompasses what the evaluation sector defines as "monitoring and evaluation" and can be interchangeably used with "impact assessment" (Reisman and Olazabal, 2016; IMP, 2020). The measurement of impact is a defining attribute of impact investment – alongside the investor's intent for



and contribution to impact –, as well as the dimensions of risk and return are measured in terms of their achievements (IFC, 2019; SIIT, 2014). Measuring impact comes from the need to evaluate the non-financial benefits of investment opportunities across multiple dimensions of value – social and environmental (Barman, 2015; Reeder and Colantonio, 2013). Thus, the capacity of measuring impact is a necessary feature to uphold the multiple values entailed in the impact investment and guarantee that the financial perspective does not subjugate the social and environmental values (Barman, 2015).

### *3.1. Who measures impact and why?*

Within the market, the measurement practice contributes to the attraction of mainstream capital for impact investing, while also creating clarity about the concept, credibility about the results and comparability among portfolios (Barman, 2015; IFC, 2019). Assessing the intended social and environmental impact is a task critical to different actors in the impact investment sector. Investors use measurement to understand the consequences to their investments decisions; fund managers measure to achieve comparability across their portfolio; investees or enterprises use the assessment to determine which progress has been made and how to improve; and beneficiaries may wish to be involved in the measurement to improve the level of social and environmental gains (Reeder and Colantonio, 2013). Additionally, most of the Global Impact Investing Network's (GIIN) (2020) survey respondents measure and manage the impact of investments to proactively report impact to key stakeholders, to improve performance, and to communicate impact for marketing or fundraising purposes. Moreover, nearly all respondents measure on the level of outputs, while more than the half seek to understand the outcomes and who experiences the effects (GIIN, 2020).

### *3.2. How is impact measurement done?*

An impact measurement framework consists of a process for performance management in which an impact thesis, impact assessment and impact monitoring are core dimensions, uphold by impact evidence throughout its course (see Figure 3). Impact thesis, or theory of change, represents the logical reasoning which articulates the improvement intended in outcomes, and how the investment contributes to that achievement. Impact assessment, including prior to the investment, allows to link the



impact thesis with the execution and is essential to impact effectiveness. Then, impact monitoring provides documentation of progress against expectations, generating data and enabling course corrections to ensure impact delivery (IFC, 2019).

Figure 3 - Dimensions of an Impact Measurement Framework

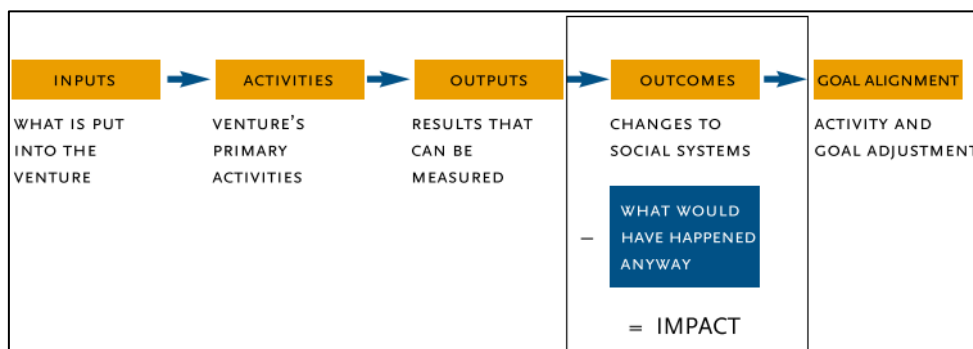


Source: IFC, 2019, p. 41.

Evidence is a crucial element since it provides credibility to the impact investment's ability to achieve positive social and environmental outcomes. The evidence should be linked to indicators, which implicate in data collection and provide for comparability of impact performance on a macro level. At this layer, there have been initiatives to strengthen the evidence base building market data infrastructure, based on standardized indicators. But also, there is evidence on a micro-level, which is related to the individual investor and works as a base for an impact thesis and impact assessment. The collection of this data occurs through ongoing performance data or evaluation-based evidence. The latter consists of evidence from rapid types of evaluations (qualitative comparative analysis and end-beneficiary feedback surveys) or of evidence from (quasi) experimental evaluation (IFC, 2019).

To afford consistency of terminology within the impact industry, the Impact Value Chain was created to differentiate between outputs and outcomes of an impact intervention (see Figure 4). On this perspective, outputs are the results that can be assessed directly for an intervention, such as the number of children participating in an after-school program, while outcomes are the desired changes in the world, for example higher educational achievement for participant children in the program. In this sense, impact turns out to be the share of the outcome that happened because of the activity, beyond what would have happened anyway in the absence of the intervention (Clark et al, 2004).

Figure 4 - Impact Value Chain



Source: Clark et al, 2004, p. 7.

### 3.3. Different measurement approaches

The International Finance Corporation (IFC, 2019) identified three main archetypes of impact measurement frameworks in the industry: a) impact target framework; b) impact rating framework; and c) impact monetization framework. All of them include an impact thesis and an ex-ante assessment both anchored in evidence, and the continuous monitoring of such impact-creating evidence. Yet, they are distinguishable by how they are used to assess impact, ex-ante, and how they support clarity, credibility, and comparability. Besides, features from multiple archetypes coexist in an impact investor's management system (IFC, 2019).

The framework based on setting impact targets for indicators to the portfolio or to each investment is mostly used by private institutional investors. It facilitates implementation, provides clarity about the investor's intent and progress towards performance goals. However, since the targets are specific to each investment, the framework complicates comparison among different investments and different targets. Another challenge is the disregard to the context for the needs targeted when the focus relies on reaching indicators<sup>4</sup> (IFC, 2019). Impact ratings form the second, and predominant, type of framework, which consist of an overarching scoring or rating system to capture multiple dimensions of impact within an investment. They are applied by multilateral development banks (MDBs) and development finance institutions (DFIs), and because investments within a portfolio are rated by the same scoring system,

<sup>4</sup>“For example, it is easy to define and discuss progress against a goal of providing access to water for 100,000 people, but more difficult to capture who exactly these people are (...), whether or not they had access to water before, and other important contextual elements” (IFC, 2019, p. 45).

comparability is a strength. Yet, it lacks clarity on the methods and process of rating the different aspects of an investment (IFC, 2019).

The last and least used framework type has been applied by the public sector for decades and lies on measures of return to assess expected impact value for investments. Known approaches are the social return on investment, benefit cost ratio, social cost benefit analysis, and economic rate of return. Here, impact is translated into a monetary value and grants clarity on the overall impact generated and credibility to direct resources to the most impactful activities. Nevertheless, the framework is challenged by the technical rigor needed for calculation and data collection and specially because monetization penalizes interventions dealing with vulnerable populations and fragile states (IFC, 2019).

Because there is no single measurement method for all needs, the choice of systems and tools must be appropriate for each investor's profile (Olsen and Galimidi, 2008). In fact, most investors use more than one system to measure and manage impact, but the most common is the United Nations Sustainable Development Goals (SDGs) chosen by 72% of respondents of GIIN's (2020) survey. Even though the indicators for the Goals target governments, impact investors align them to existing enterprise indicators, what enabled the SDGs to gain importance among investors and stakeholders, resulting its use to double since 2017 (IFC, 2019; GIIN, 2020). The next most used method is the Impact Reporting Investing Standard or IRIS+ system (consisting of IRIS Catalog of Metrics and IRIS+ Core Metrics Set), and other systems cited by investors are the Impact Management Project (IMP) Five Dimensions, the United Nations Principles for Responsible Investment (UNPRI) and the International Finance Corporation (IFC) Operating Principles for Impact Management. Investors use these frameworks to allow standardization and comparability, but also to communicate their impact (GIIN, 2020).

#### 4. THE IMPACT INVESTING SYSTEM

Once the basic components of the impact investment sector and the key mechanism of impact measurement have been analyzed, it is fundamental to consider the structure of the industry as a whole. This section will address the main actors and issues revolving the

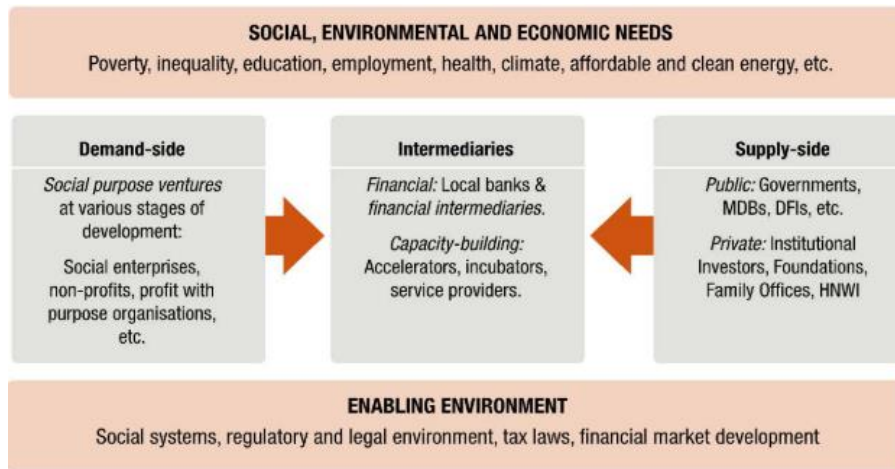
impact investing market. To begin with, Deloitte's Global Millennial<sup>5</sup> Survey of 2019, made evident that the younger generations deal with their money and business decisions differently than previous generations. They pay attention to how a company's product or service has an impact on society and/or the environment, and to the company's ethical behavior. In addition, almost one-third of millennials believe businesses should try to improve society and to improve and protect the environment. At the same time, millennials are skeptical about what business actually are pursuing in those areas, demonstrating a misalignment between their priorities and what they perceived to be business's purpose (Deloitte, 2019). This generational shift represents the purpose the younger generations want from businesses and money, materializing both in the rise of entrepreneurs who seek innovative ways to solve society's problems, as well as potential clients for these impactful organizations (SIIT, 2014).

The starting point of an investment aiming social impact relies on the solution of social, environmental, or economic needs, and the focus lies "on tangible positive changes experienced by the end beneficiaries in various areas of need" (OECD, 2019, p. 66) such as poverty, inequality, climate, education, employment and health. In this sense, the Sustainable Development Goals (SDGs) provide an international recognizable framework with a set of indicators that help attract public and private investments to achieve those goals (OECD, 2019). As well as a traditional market, the impact investing market consists of demand – of capital to finance impact-driven organizations –, supply – of impact capital –, and of intermediaries, who connect demand and supply. In this perspective, the main constituents of the impact system are: a) on the side of the demand, the service delivery organizations and social purpose ventures; b) on the side of the supply of capital, public or private investors; and c) intermediaries to connect supply and demand of capital. Overlooking this structure, the general economic, social, and legal conditions in a country enable the development of the impact investment market (OECD, 2019) (see Figure 5).

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<sup>5</sup> In the survey, millennials encompass people born between the begin of 1983 and the end of 1994 (Deloitte, 2019, p. 4).

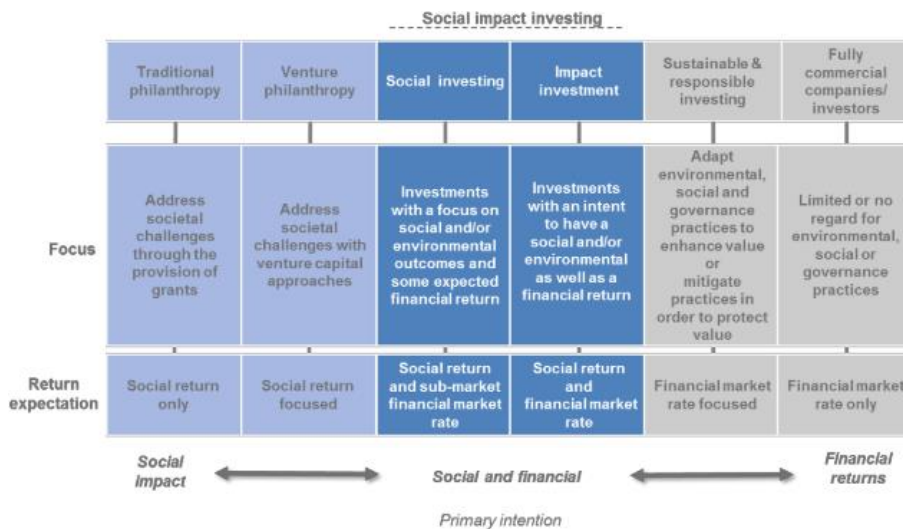
Figure 5 - Social Impact Investment Market - OECD Framework



Source: OECD, 2019, p. 66.

The literature frequently makes use of the continuum concept to integrate on one extreme investment focusing only on financial returns and, on the other, capital which expects only the social return (OECD, 2019). Tending to the middle of this spectrum would be located the social impact investing zone in which it is possible to achieve both social and financial returns (see Figure 6).

Figure 6 - Social Impact to Financial Returns Spectrum



Source: OECD, 2019, p. 30.

4.1. Investees: demand of capital

Representing the actors placed on the demand side for resources in the impact investment market are the social purpose ventures and social delivery organizations.

These organizations might be charities or non-for-profit organizations, social enterprises, social businesses, and social impact-driven businesses. When they receive impact capital, these organizations can address social, environmental, and economic challenges and facilitate the creation of new business models for impact (OECD, 2019). When a business places its social or environmental mission at the center of their business model, either locking that mission into the legal structure of the business, or integrating environmental, social and governance responsibilities into their value propositions, it identifies as profit-for-purpose (SIIT, 2014). Also, the business model these organizations choose to follow defines the level they aim for return and impact, and consequently, the type of capital they attract, conventional or impact driven. In exchange for the financing, the social enterprises work as suppliers of services or goods to the public sector, producing a social return on investment and often along a financial return (OECD, 2019).

Examples of organizations which received financing through impact investing are non-profits such as Habitat for Humanity (OECD, 2019), social enterprises like Revolution Foods, profit-for-purpose such as Microensure, and other impact-driven companies, like Progreso Financiero (SIIT, 2014). Similarly, many enterprises seek certification for their impact, and recur to the B Corporation certification<sup>6</sup> to receive verification of their responsible business practices, being Ben & Jerry, Patagonia and Change.org examples (SIIT, 2014).

#### 4.2. *Investors: supply of capital*

The actors that provide the investment flows can be public - governments, multilateral development banks (MDBs), development finance institutions (DFIs) – and private such as social investment wholesalers, charitable trusts and foundations, local funds, institutional investors and banks, individuals and mass retail (SIIT, 2014; OECD, 2019). Drawing from the definition synthesized by the IFC (2019), there are three main attributes of impact investors: intent, contribution, and measurability. First, the investors express intent “to achieve a social and environmental goal alongside a target financial return” (IFC, 2019, p. 3). Then, the investors demonstrate how their investment

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<sup>6</sup> B Corporation is a certification (from B Lab, a non-profit that aims to use business as a force for good) that measures the entire social and environmental performance of companies, in relation to employees, community, environment and costumers (B Corporation, 2020).

contributes to achieve that goal. At last, the investors assess, with a measurement system, the difference their input caused.

Investors become active with impact investments generally to pursue social and financial goals and to diversify their investments (OECD, 2019). In the GIIN's 2020 impact investor survey, most respondents affirm they are driven by impact, citing as very important motivations to make impact investments: commitment as responsible investors, their mission, an efficient way to meet impact goals, and because it contributes to a global agenda. Still, for many investors, financial factors are a very important motivation: almost half invest as a response to client demand and a third for its financial attractiveness relative to other investment opportunities (GIIN, 2020).

Similarly, the investors' financial targets vary widely from capital preservation to competitive market rate. From the respondents to GIIN's (2020) survey, 67% target mainly risk-adjusted, market-rate returns, while 18% mostly pursue below-market returns that are closer to market rate, and the remaining 15% target returns closer to capital preservation. Interestingly, almost 70% of foundations and non-for-profit fund managers seek below-market returns (GIIN, 2020). For instance, the public sector has an important role as a provider of grants for early-stage development and subsidies, and is a major investor through DFIs (OECD, 2019; IFC, 2019).

Equally important, Golka (2019) identifies two groups of impact investors which self-classify as such, perform financial intermediation, and impact assessment. The first group consists of a set of impact investors that concentrate on companies in existing markets, organized in for-profit models and competition. Most commonly in the United States, prominent examples are consumer good markets, where the investors attempt to alter the operation of the firms by introducing social and/or environmental metrics. The second type of investors direct efforts mainly to not-for-profit and public organizations, concentrating the change within the welfare state, and is prominent in the United Kingdom. See Annex A for more details on the distinctions between SII sub-types. Examples of suppliers of financing through impact investing are governments such as the United Kingdom, foundations like Bill & Melinda Gates Foundation, MDBs like the International Finance Corporation (IFC), impact funds such as Acumen Fund, asset managers like Blackrock, and investment banks such as Goldman Sachs (SIIT, 2014; OECD, 2019).



#### 4.3. *Intermediaries*

There are specialized actors in the impact investment market who connect the investors to impact-driven organizations. They are either financial intermediaries consisting of social banks, community development finance institutions, impact investment fund managers and intermediaries, and crowdfunding platforms; or capacity-building organizations which include accelerators and incubators, advisory firms, and networking and knowledge platforms (SIIT, 2014; OECD, 2019). Since an inefficient intermediation between fragmented demand and supply results in high transaction costs, the OECD (2019) regards as essential the existence of strong specialist intermediaries to create a well-functioning social impact investment ecosystem. The intermediaries may facilitate payment mechanisms, create liquidity, and provide advices (OECD, 2019). Crowd-based organizations, specially, stand out for improving legitimacy and democratic processes, since the crowd elects and decides on the direction of resources (Lehner and Nicholls, 2014). Some examples of these organizations can be Maze and Casa do Impacto acting as accelerators and incubators, or funds like the European Fund for Strategic Investments, and crowdlending solutions such as GoParity (OECD, 2019; Casa do Impacto, 2020; Maze, 2020; GoParity, 2020).

#### 4.4. *Types of Impact Investing Instruments*

Investment is the provision of capital in the form of debt or equity, with guarantees or risk insurance, facilitating the provision of debt by a third party (IFC, 2019). Various instruments are needed for different investment requirements, and the most employed by investors are, according to the 2020 GIIN survey, private debt, public equity and private equity which together account for more than half of the total assets under management (AUM) of the respondents. Next are real assets, followed by public debt. Less important to the respondents were equity-like debt, deposits, and cash equivalents, guarantees and pay-for-success instruments (GIIN, 2020). See Annex B for a more detailed explanation to each instrument for impact investing. Instruments with a pay-for-success logic are considered innovative since they unite different agents and create a logic in which the financing is conditioned upon the delivery of concrete results. With the conjunction of public and private actors' strengths, these instruments are capable to increase the financing volumes and impact for sustainable development and materialize in



mechanisms such as the social impact bonds (SIBs) and development impact bonds (DIBs) (OECD, 2019). See Annex C for a more detailed explanation and discussion of these instruments.

#### 4.5. *A Critical Reflection on Impact Investing*

Even though a large majority of respondents to the GIIN (2020) investor survey - 94% - saw at least some progress in “common understanding of definition and segmentation of impact investing market” (p. 8), still almost a third of respondents see this as a significant challenge, and other 46% as moderate, to the growth of the impact investing industry. These definitional challenges are widely present in the industry (GIIN, 2019). As a result, there are limitations to the measurement of the market’s size that relate to the nature of surveys, which are a product of respondents’ choice to answer and of their subjective view on the meaning of impact (IFC, 2019). It implies that the subjectivity of each investor’s approach causes uncertainty on the contribution of the assets under management to impact, and their commitment to an “intent for impact and a system of impact measurement” (IFC, 2019, p. 14). Another main challenge, cited by 86% of respondents, is the “limited “sophistication of impact measurement and management practice” (GIIN, 2020). Yet, more than a third of respondents observed significant progress on that matter (GIIN, 2020).

These challenges together create the threat of “impact washing” in the industry. The term refers to the possibility “for investors to claim that they have contributed to impact, while not having intended it or measured it at all” (IFC, 2019, p. 14), without independent verification of their investment process. The danger of impact washing increases with the attraction of mainstream commercial finance to social impact investment and with inconsistent impact measurement practices (OECD, 2019; So and Staskevicius, 2015). On the perspective of market regulation policy, the OECD (2019) suggests that public authorities have the responsibility to condition public funding to the respect of the constituent characteristics of SII. Thus, they will be able to ensure that impact does not remain a marketing brand by setting the bar for integrity standards. Still, “while there is an increasing amount of talk about “impact”, the actual practices of measuring impact remain underdeveloped” (OECD, 2019, p. 236).

Regarding the challenge of impact measurement, one critical aspect is the existence of many and heterogeneous approaches<sup>7</sup>. A 2008 study catalogued 25 approaches to measuring impact, and since 2014 over 220 tools were gathered in a database of impact measurement and management resources as an effort towards aggregation and comparability (Olsen and Galimidi, 2008; Global Value, 2020). Nevertheless, the numerous existing systems and tools to measure impact hinder standardization, which would lessen the friction inhibiting capital formation and scale, and standards for measuring social impact remain underdeveloped (Olsen and Galimidi, 2008; Rawhouser et al, 2017). This scenario is aggravated by a conflict of core concepts and perspectives on how and when to measure (Reeder and Colantonio, 2013).

The gap between the growth of the impact investing market and its measurement practices can be traced to factors of risk and barriers commonly perceived throughout the industry<sup>8</sup>. They are: a) diverse definitions of positive impact among stakeholders; b) complexity of impact measurement due to its multidimensionality; c) mismatch of measurement methods with early-stage business models; d) the value added by impact measurement is not clearly and consistently understood; e) investors struggle visualizing how the impact they seek aligns in the larger landscape (e.g. SDGs); and f) unclear intentionality of impact goals, causing a weak connection between them and what is measured (Reisman and Olazabal, 2016). For more details about these factors, see Annex D.

One important consequence from these challenges to impact measurement is directly related to the multidimensional nature of impact (Reisman and Olazabal, 2016). When aiming for impact, social issues with complex cause-effect relations are present, making it more difficult to isolate causality relations and, in consequence, to measure the impact in the system. Complicating aspects are the presence of multiple actors and environmental factors, and when the outcomes occur outside of organizational boundaries (Ebrahim et al, 2014). For this reason, the measurement practices to assess impact continue largely focused on the output level - in opposition to outcomes and impact – and an even greater challenge becomes to standardize impact measurement (Reisman and Olazabal, 2016).

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<sup>7</sup> Approach means a “named, documented process that is used to assess either the actual social and/or environmental impact of a private organization’s activities or leading indicators of that impact” (Olsen and Galimidi, 2008, p. 8). In this work, “approach” and “framework” are used interchangeably.

<sup>8</sup> These factors were identified through consultation with impact investors (Reisman and Olazabal, 2016)

Nonetheless, three approaches can be used to imply causal connections: quantitative analysis of impact, regarding statistical reasoning; theory of change, implying logical chains of argument; and qualitative analysis in the form of anecdotes (Reeder and Colantonio, 2013).

The multiplicity and multidimensionality of factors present in and around an intervention produce the need to set approaches to measure impact that can respond to the dynamicity of market systems. Therefore, Reisman and Olazabal (2016) advocate for a systems approach to measure real change. In effect, societal impacts are more likely to be achieved by different actors working collectively towards similar goals. And once the actors supplying resources - such as foundations, impact investors, and governmental aid agencies - support many diverse nonprofits and social enterprises, they are positioned strategically to observe possible synergies. Therefore, when the funders assess their own performance, “systemic impacts – long-term sustained changes in society” (Ebrahim and Rangan, 2014, p. 133) – can be observed. It is, then, a responsibility of such funders to support organizations in their portfolio to the joint achievement of broader societal impacts (Ebrahim and Rangan, 2014).

Similarly, a multi-stakeholder approach, which brings together investors, intermediaries, beneficiaries as well as policy makers, might be a framework to tackle “complex social and economic problems that arise from exclusion, inequality and segregation” (Alijani and Karyotis, 2019, p. 4). That way, ensuring an integrative financial system closely related to innovation would foster improved ways to collaboration among impact investors. Moreover, if impact investments were connected to institutional arrangements - which enable standards, compliance rules and coordination mechanisms in the financial markets – the social and environmental gains could be maximized (Alijani and Karyotis, 2019).

Furthermore, the literature provides a more critical perspective on the state of impact measurement. Informal, inconsistent, and weak impact measurement approaches might add to the dilution of the term impact investment, besides constraining the sector’s prospects to create real social change (So and Staskevicius, 2015). In fact, the social and environmental performance becomes secondary in the measurement framework as a result of the market logics underlying the relations and processes in the impact industry. That causes the achievement of high volumes and large scale to become the center of the

business model, once the profit margins related to solutions for the poor are smaller (Reisman and Olazabal, 2016). For instance, Starr (2012) shares that in his experience leading a philanthropy and impact investing foundation, no investor interrupts funding because it lacks impact.

At the same time, even though the market limitations may be acknowledged, the nature of the solutions to social challenges proposed within the impact investment context, are based on and further market rationales – whose consequences are often the roots of the problems to begin with. There is a belief that entrepreneurial strategies and practices of competition for businesses can also apply to social aid programs and delivery on the assumption that they will be more effective than policies supported by corrupt or incapable governments (Mitchell, 2016). That intends to reaffirm the legitimacy of the private sector in offering solutions for societal problems (Barman, 2015).

Furthermore, metrics consist of a key component to the assessment of the return on investment (Mitchell, 2016). However, once they are not standardized, nor are there systemic structures that enable legitimation or a pluralist construction of metrics – despite the investors' proposal of empowerment – impact investors are able to set them according to their own interests (Golka, 2019). That way, as a process disassociated from the state, the logic of metrics gains legitimacy with the ideals of neutrality and transparency, which are entrenchments of the liberal discourse opposing the inefficient governmental bureaucracies. Similarly, strategies based on metrics evidence have influence over contemporary policy-making and public systems reforms, which end up being legitimized by evolving forms of liberal governance consisting of a multitude of stakeholders - of which the state is only one of many (Mitchell, 2016). Finally, to the extent that the metrics penetrate governments and public organizations, their lack of pluralist access and legitimation has an effect of undermining democratic legitimation (Golka, 2019).

Overall, impact investing represents the pursuit of public goods through private means (Barman, 2015). Therefore, there is a literature which perceives as critical the strong connection of private and financial actors with the social sector, looking at its main consequences. For instance, the definition and governance of “social impact” play a key role in how the different agents interact (Golka, 2019). Social impact, from Golka's (2019) perspective, is a contested set of rules defined by investors, granting them a large level of freedom. The investors define what counts and what does not count as social

impact, while there are no sanctioning mechanisms to limit and evaluate it. Equally important, the beneficiaries of social interventions, investees and governments are not represented at the definition of social impact, which places mainly the beneficiaries as receptors of solutions to problems they also did not have a say in defining (Golka, 2019).

Similarly, Dowling (2017) observes a subordination of the social purpose under the profit motivation of financial investors, affecting social processes in “privatizing gains and socializing risks and costs” (p. 28). The perception that the provision of public services is a burden to government’s budgets requires solutions that diminish the need for those services, enabling the market-driven approach. This often overlooks the economic inequalities as causes for social problems, and in consequence, interventions that tackle them – such as taxes, regulations or fair wages – are not proposed, partly because they do not allow financial earnings (Golka, 2019). Starr (2012) affirms that the most impactful solutions, such as basic services to farmers, water access and reduction of diseases are not capable to deliver financial returns that a for-profit organization would expect, because such challenges represent deep market and government failures.

Furthermore, impact investments have an opportunity to thrive in a scenario in which the governments are put under pressure to tackle social and environmental challenges while under growing fiscal constraints. While impact investment can be a tool for governments to fulfill social needs more effectively and allocate resources more efficiently, on the other hand, those fiscal restraints represent the turning point for the rise in the financialization of the welfare state (SIIT, 2014; Golka, 2019). It originated in the 2008 financial crisis, when along with the straining of public funds arose fiscal austerity, enabling the argument regarding impactful capital to be expanded to public funds as well (Golka, 2019). The social problems found by the investors were aligned with the public sector policies’ goals at the time, therefore, the interventions proposed by impact investors would result in resources savings for the government and would attain public service goals. It appears to be closely linked with the reduction of public spending – sometimes specific to geographical areas –, what would generate the necessity and justification for local private initiatives to emerge to provide the public services the government does not support anymore (Golka, 2019).

Thus, by appropriating existing or lacking social services as a new form of financial accumulation, social impact investment might further entrench financial logics in social

services (Rosenman, 2017). Such an interaction creates redistributive effects, that might differ between the different social impact dynamics. The type of SII that occurs in companies in existing markets has the potential to reduce economic inequalities because it introduces success metrics that are non-financial on firms existing in financialized market logics (Golka, 2019). Instead, the after-effects that the second type of social impact investment – which focuses on not-for-profit and public organizations – might provoke in the political economy are severe. The financial flows previously went directly from public to not-for-profit organizations, whereas now, are channeled through intermediaries, whose financial returns reach around the double of their investment sum (Golka, 2019).

A further consequence for social organizations is the incentive to create scalable social impact and financial returns. While the scaling up provides social organizations with more financing resources, on the other hand, by taking on investments, social providers are demanded rapid growth rates once this is equated with a greater reach of the impactful products or interventions. In that sense, social impact is equated to finance-driven organizational growth (SIIT, 2014; Golka, 2019). Also, while aiming to expand, the financial perspective on interventions commonly causes social entrepreneurs to span out of the initial target populations of the solutions (i.e., the most in need), towards groups who can pay more to deliver the financial return. That way, in practice, there is a trade-off for organizations – it is either impact or profit. This exemplifies how the accountability to investors might cause organizations to drift away from their mission (Starr, 2012). In a conjunctural perspective about the impact investments, the creation, rise and expansion of a financial solution to social challenges with the appraisal of governments would hardly be surprising: “it may be interpreted as the continuation of a liberalization trajectory in a highly liberal market economy” (Golka, 2019, p. 17).

This perspective opens the debate over how the impact investing organizations seek legitimization to provide the solutions for the social and environmental needs, and how they are accountable before funders and stakeholders, including governments and society. As seen throughout the previous chapters, practices of impact measurement intend to fulfill this task, by proving the achievement of the intended impact (Lall, 2019). However, there are still challenges surrounding the practices of impact measurement and monitoring, associated with the threat of impact washing in the industry, that are present

in the processes and decisions of organizations. Thus, the next chapter will focus on these issues in a case study of a Portuguese financial start-up working in the impact investing industry.

## 5. THE CASE STUDY OF GOPARITY (PORTUGAL)

Impact measurement plays a central role in the market of impact investment for different actors – investors, investees, and intermediaries – and their stakeholders – beneficiaries, government, society and more. However, it is noticeable how diverse the state of implementation and degree of complexity of impact measurement systems throughout the industry is. For that reason, the fifth chapter of this dissertation will focus on studying the case of the Portuguese impact investment start-up based in Lisbon: GoParity.

A case study is a strategy of research, and in this work, it is an only-case descriptive study (Yin, 2001). It will focus solely on GoParity and intends to describe the phenomenon of impact measurement inside the context of the organization (Yin, 2001). The case study brings the possibility to explore the dimensions of an impact investing actor's perception of the practice of impact measurement, the reasons they pursue it and how it is accomplished. It will resort to six semi-structured interviews with GoParity's employees and founders to understand their perspective (see interview guide in Annex E), internal documents to improve comprehension of processes and decisions, and my personal experience in the organization which will concede an external view but as a participant researcher, since I have been active as an intern at GoParity for six months in 2020 (Yin, 2001).

### 5.1. *GoParity – Impact Investing through crowdlending*

GoParity was created in 2017 as a peer-to-peer lending<sup>9</sup> platform in which the public can lend money to organizations looking to fund their sustainable projects. It was founded by Nuno Brito Jorge, an environmental engineer with entrepreneurial background on energy and innovation, and Luís Couto, experienced in the banking and finance sectors.

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<sup>9</sup> “Peer-to-peer lending” consists of individuals obtaining loans directly from other individuals, without the presence of a financial institution as intermediary. It is a synonym of “social lending” or “crowdlending” (Kagan, 2020)



They combined skills and knowledge to create the start-up that began focusing on the Portuguese market and on the sustainable energy sector. Soon they expanded to other areas and amplified their impact vision – aligning the financed projects to the United Nation’s Sustainable Development Goals (SDGs). As of September 2020, the platform had more than 7,800 users who helped fund almost 2.8 million Euros to over fifty projects. Also, they expanded operations to outside of Europe, and have now financed sustainability projects in Brazil, Colombia, and Peru in South America and Eswatini and Uganda in Africa (GoParity, 2018; 2020a; Jorge, 2020).

The main players at GoParity are the crowd acting as the investors for impact and profit, and sustainable project promoters seeking investment – the investees. The investors lending money through GoParity have mainly two motivations – profit and impact – being usually represented by impact-first or profit-first investors. The ones looking mainly for profit, use GoParity as one type of investment in their portfolio, together with traditional investments. However, the impact-first investors come to GoParity because they value the social and environmental changes occurring through the projects and see it as a way “to do good in the world” (Nina, 2020; Oliveira, 2020; Couto, 2020; Jorge, 2020).

Just as varied are the organizations which seek to finance their projects through GoParity’s crowd of investors. Initially, there were only companies, usually small and medium-sized enterprises (SMEs), wishing to turn their energy consumption into a more sustainable one, installing solar panels and/or changing to more economic illumination systems. For them, the relationship with GoParity is about business – they wish to receive financing for the project and the environmental benefits are a consequence. The other main type of investees are organizations that are impact businesses “by design” and have sustainability goals in their core. They are initiatives, start-ups and other companies which might prefer to associate to organizations such as GoParity, instead of traditional banking system, because of market positioning and communication purposes. Both project promoters’ types face poor access to the traditional banking system, mainly because it lacks resources for riskier credit takers (Nina, 2020; Oliveira, 2020; Couto, 2020; Jorge, 2020).



### 5.1.1. *How does GoParity's platform work?*

As an online platform for impact investments and savings, GoParity was conceived to connect two different demands in the finance sector – the younger generations' intent to invest responsibly and sustainably, with the gap in financing options for SMEs and non-profit organizations (Deloitte, 2019; Couto, 2020). That way, individuals and companies have an alternative to invest in projects for profit while aligned to the SDGs, whereas companies and organizations have access to secured loans for the improvement of their environmental and social performance, resources to which they have limited access in the traditional banking (GoParity, 2018).

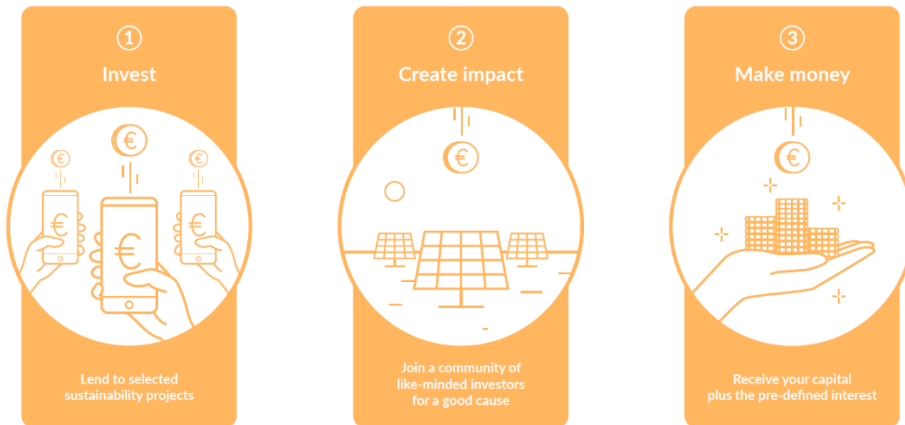
In the platform, projects are made available for investment and are displayed in terms of its impact, financial and operational conditions. The project website page contains the value of the loan available for investment by the crowd, information about the organization's core activities and risk profile, loan conditions – such as interest rate, grace period, maturity time – and guarantees taken. Regarding the impact, the page presents alongside a description of impact goals, the SDGs pursued with the project and a metric for the mitigation of carbon dioxide (CO<sub>2</sub>) emissions. About operations, the page describes the activities to be funded with the loan and a classification of the project into categories<sup>10</sup> (GoParity, 2020b; 2020a; Oliveira, 2020).

The users can choose from the available open projects on the platform comparing return interest rate, risk profiles and impact created, and invest any amount of money starting from twenty Euros. Then, after the amount of the loan to the promoter is completely financed by the investors, payments occur through the platform in the conditions preassigned (either monthly or quarterly, and with or without a grace period). The investors receive the money in their digital wallets inserted in the platform, where they can choose to direct the funds to invest in other projects or transfer to other bank accounts (Ribeiro, 2020). See Figure 7 with an illustration of the operations.

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<sup>10</sup> Currently on the website the categories are Sustainable Energy, Rural Development, Blue Economy, Social Entrepreneurship and Smart Sustainable Cities (GoParity, 2020b).

Figure 7 - GoParity's Platform Operations from the Investor's Perspective



Source: GoParity, 2020a.

GoParity's business model consists of setup and management fees for the project promoters to the funds raised and to the standing debt during the loan. And to investors, fees apply only when they want to transfer their investments before the loan maturity to other investors through the feature of the "Marketplace" inside the platform (GoParity, 2020b). The start-up is currently scaling-up its operations, which includes testing and implementation of new features for the users and expansion towards other geographies and sectors (GoParity, 2018).

Equally important, GoParity's main impact proposition is the democratization of finance with purpose, while its impact model is arranged into the perspectives of investors and funded organizations. To investors, the online platform promotes the creation of savings plans and financial health and literacy once it can be used as a digital wallet and the process of investing is simplified. On the other side, identifying as alternative finance – in relation to traditional banks and financial institutions –, GoParity offers SMEs and non-profit organizations funding opportunities at potentially lower costs for the realization of sustainable projects (GoParity, 2018; Jorge, 2020). Also, with its existence GoParity promotes awareness about impact investments and about the creation of positive impact (Oliveira, 2020).

In addition, the organization considers its indirect impact the achievement of environmental and social goals through its financed projects – whose funding without GoParity's crowd could be a challenge. Thus, the impact achieved through the projects

have the potential to cover the broad framework of the seventeen SDGs (GoParity, 2018; Jorge, 2020).

### *5.1.2. GoParity in the Impact Investments framework*

Drawing from the definition of impact investments present in the first section of this dissertation, GoParity selects, evaluates, and offers projects in its online platform allowing a crowd to invest for financial returns alongside a positive social and environmental impact. The start-up is not the investor – they do not use their own money – nor investees – they do not receive money from investors for an intervention. GoParity performs the role of a financial intermediary which connects investors and investees for positive social and environmental impact, fitting into the impact investment framework (Jorge, 2020). For its position as an intermediary, GoParity reveals itself to be an interesting case study since it has relations and a level of accountability with both main actors in the impact investing market – investors and investees.

GoParity enables financing to projects in different sectors, and their service facilitates the insertion of social and environmental metrics to organizations' operations through the financing of a project aiming a positive impact. Thus, the investments on GoParity fit the first type of investors as of Golka (2019), which concentrate on companies in existing markets and have a potential of reducing inequalities because they introduce non-financial metrics into organizations operating in financialized markets. But also, GoParity has been growing its participation in the funding of social associations and cooperatives mainly in Portugal, which encounter obstacles to obtain funding at the traditional banking system to conduct sustainable projects (Couto, 2020). Also observed at GoParity are the three main dimensions of impact investing taken into consideration: risk, return and impact. The start-up analyses risk levels, and takes guarantees alongside the loans, to measure the credit capacity of the organizations seeking funding and the consequent interest rate (GoParity, 2018; Couto, 2020). And because crowdlending excludes financial institutions – such as banks – from the investment and loan transactions, the risks are generally higher, what causes the level of returns to investors to also rise (Kagan, 2020). At last, how the start-up evaluates their impact is the object of the following section in more detail.

## 5.2. *Managing impact at GoParity*

This section presents information regarding the impact measurement practice at GoParity, the evolution in time as well as in the collaborators' perception of the impact measurement's relevance. It will be addressed through interviews with GoParity's collaborators, its internal documents, and its website, alongside my personal experience in the organization, the records of my work and resulting documents. In summary, an impact measurement practice aims to evaluate the social and environmental consequences of an investment and/or intervention (Barman, 2015; Reeder and Colantonio, 2013). GoParity, for its position as an intermediary, has measured the impact of their projects mostly to demonstrate to investors the beneficial consequences of their investments – proactively reporting impact to key stakeholders. But also, measuring the impact of the organization itself is relevant to track and improve performance and to communicate it. For some interviewees, reporting to stakeholders functions as a mechanism of accountability. In that perspective, GoParity plays the role of an impact auditor, between the organization implementing the project and the investors. Thus, measuring impact builds trust and delivers compliance to stakeholders (Ribeiro, 2020; Oliveira, 2020; Nina, 2020; Onofre, 2020).

Impact investments also must guarantee the achievement of measurable social and environmental goals alongside the financial returns (Barman, 2015; IFC, 2019). Each project proposed for investment in GoParity's platform entails a financial return proposition connected to the creation of certain positive impacts. Before being financed, different projects are screened through a financial and technical due diligence on the project promoter's financial situation, operations, and need for the loan (GoParity, 2018; Nina, 2020). It follows a well-defined process with clear outputs – the amount to be financed, interest rates and other loan conditions.

The impact assessment perspective on due diligence should too be built on an impact thesis, and anchored in evidence, relating indicators and metrics to provide data on impact performance. It should then be used to assess and monitor impact, before, during and after the investment, to connect the impact thesis with the implementation and to ensure the progress being made (IFC, 2019). However, at GoParity, the assessment of the projects' impact followed no precise process and definite set of information to be gathered with the project promoter, beyond the CO<sub>2</sub> emissions information. There was an initial evaluation

of the potential impact of the project at the due diligence moment, and afterwards, before bringing the project to the crowdfunding campaign, the impact was assessed again deeper but mostly in descriptive terms (Ribeiro, 2020; Nina, 2020; Jorge, 2020).

This process has its origins on the founders' background and know-how in the sustainable energy sector, what oriented the initial projects to be in that subject. Therefore, the start-up centered its impact measurement practices on environmental impact and most indicators and metrics technically concerned CO<sub>2</sub> emissions, which were translated into the number of trees equivalent to absorb that amount of CO<sub>2</sub> and the number of airplane or car trips between capital cities in Europe. In addition, the impact assessment entailed a description of the impacts of the projects in a subjective manner, being specific and personalized to each project (Nina, 2020; Ribeiro, 2020; GoParity, 2020a).

As evidence for the impact with these metrics, the gathering of information is straightforward, and the project promoters easily convey this information since it exists as the technical details of the project. However, with time the company evolved and attracted projects in other sectors – fashion, tourism, and reforestation – which entailed a broader social and environmental impact. For these more complex projects, the clean energy indicators were not sufficient anymore to assess and monitor a broader impact (Ribeiro, 2020; Nina, 2020; Couto, 2020; Onofre, 2020; Jorge, 2020).

This process implied in a few consequences. First, because the impact assessment was specific to each project's subject, they would gather deep knowledge about each subject to be able to understand its impact, sometimes recurring to specialist opinions, and the communication would be mostly through qualitative descriptions of impact. Also, in the context of a start-up in its initial growth stages, such a challenging process meant directing scarce resources to impact measurement – which was not prioritized in face of other growth and income-related operations. This represents a mentioned factor of barrier to impact assessment practices in the industry, the mismatch of measurement methods with early-stage business models, and represented the most mentioned cause for an insufficient impact measurement system from GoParity's employees (Reisman and Olazabal, 2016; Nina, 2020; Couto, 2020; Ribeiro, 2020; Jorge, 2020).

Secondly, it generated a myriad of projects of many sectors with different levels of impact assessment, and metrics that have not always reflected the most relevant impact

achieved with the project. That mirrored insufficient technical know-how in the organization about impact itself, and as a result the impact measurement was incomplete, not complying with the monitoring perspective of the impact after funding the project. This has contributed, according to two interviewees, to a feeling that they could be falling on the threat of impact washing. In addition, even though GoParity had key indicators for its organizational performance in operational terms, there were no key performance results related to impact. That points out that impact assessment had little priority inside the enterprise's operations (Ribeiro, 2020; Oliveira, 2020). The dilution of the term "impact" follows informal and inconsistent impact measurement approaches and constrains the potential of creating social change. This process is associated to the secondary position that impact performance assessment assumes, in favor of business growth in operational and financial terms (So and Staskevicius, 2015; Reisman and Olazabal, 2016).

Other challenging consequences mentioned were a low comparability among projects in terms of impact, what restrained the capacity of gathering internal expertise about types of projects and expected levels of impact. In effect, this constrains the ability to attract projects of different areas. Furthermore, the assessment and communication of impact were difficulted in quantitative form, having to rely strongly on qualitative descriptions and potentially missing out on relevant impact perspectives of the projects – positive or negative (Oliveira, 2020; Nina, 2020).

Finally, because of the relationship of compliance with the stakeholders, the value created by the impact measurement efforts must be perceived by the stakeholders, to enable the translation of that impact value into profit value for GoParity. And the creation and transmission of value is essential to commit to a deeper level of impact measurement (Ribeiro, 2020; Nina, 2020). That resonates with another identified barrier to the impact measurement practices, regarding the addition of value that is not clearly and consistently understood (Reisman and Olazabal, 2016).

### *5.3. Rethinking impact measurement at GoParity*

A system for impact management exists to align activities to strategic goals in an end-to-end process. But still, the specific approaches and tools to measure impact should be chosen by the organization according to its resources, objectives, portfolio, and

stakeholders, because there is not a unique method to measure and manage impact (IFC, 2019). The necessity for a stronger impact assessment system at GoParity was already identified, however, it was not prioritized because of scarce resources (Couto, 2020). According to the interviewees, several factors lead to a general rethinking of the impact measurement approach at GoParity in 2020. First, the number of projects to be funded grew, and with that, the variety of projects' types and sectors. The start-up developed partnerships with specialist associations about the different subjects and reinforced the relationship to the project promoters regarding measurement of the intended impact with the projects. Following that, a calculator tool was internally developed to facilitate the translation of different types of energy-related projects to the same metric in CO<sub>2</sub> emissions. That facilitated the quantitative gathering of information and represented the first tool GoParity had to serve the purpose of impact measurement and monitoring (Ribeiro, 2020; Nina, 2020; Couto, 2020; Jorge, 2020).

Afterwards, a change in internal perception and dynamics regarding impact was observed. The shared feeling about the insufficient impact assessment gained momentum when people strongly related to the social sector joined the team, alongside the start of the period for which I was an intern at GoParity with the goal of developing a framework for the measurement and monitoring of impact (Onofre, 2020; Jorge, 2020; Ribeiro, 2020; Couto, 2020; Nina, 2020; Oliveira, 2020). This process was accompanied by the evolution in the investors community, which grew alongside the projects and was gradually more interested in information regarding the impact of their investments with GoParity. Not only the individual investor, but also the corporate investor – which GoParity intends to attract more – required more varied and concrete impact indicators. Because of the start-up's responsibility before investors and stakeholders, it was clear they must reinforce the capacity to assess impact as much as they analyzed risk. Consequently, the reinforcement of impact measurement and due diligence was made an internal priority, not only regarding the projects while they last, but also the financed promoter organization itself. In addition, the start-up created internal performance indicators related to the impact creation and measurement, alongside a stronger defined theory of change (Couto, 2020; Oliveira, 2020; Ribeiro, 2020; Onofre, 2020).

As an intern at GoParity my goals were to choose a methodological approach and develop a structure for measurement and monitoring of impact, comprising indicators and

metrics broad enough to fit every kind of potential project for GoParity – standardizing the information to be gathered, yet specific to the start-up’s vision and goals for impact. The result structure follows the approach of the IRIS+ system combined with the Impact Management Project (IMP) Five Dimensions and is inserted in the broader framework of the UN Sustainable Development Goals (SDGs). Because it is part of a framework, the system can be detailed in any direction if needed – to more sectors, more specification of the indicators and metrics, and more depth in the analysis. The structure entails a set of indicators and metrics in conformity with IRIS+, which are, then, consolidated according to each SDG – to reflect GoParity’s preferences. Their capacity in terms of resources for the process was also taken into consideration, and the tool is already in use by one employee.

According to the employees, the existence of a reliable tool backed by legitimized frameworks conveys confidence in the measurement they realize and confirmation of an impact they could only estimate before. It serves as a trust builder with investors and attracts individuals interested in creating impact with their investments and better understanding such impact. The system also supports the communication of projects’ impact, what has the potential to attract more diverse projects to GoParity’s platform. Another important consequence of the framework is the ability, from this moment on, to build a history in terms of the impact intended and achieved with the projects, so that it serves a comparability function and a threshold for future projects (Ribeiro, 2020; Oliveira, 2020; Nina, 2020; Jorge, 2020).

#### 5.4. *Recommendations*

Even though an important step has been taken with the development of an impact measurement framework for GoParity, there are still elements to be improved to ensure a complete impact management. First, the due diligence process prior to the investment needs to be enriched with a deeper understanding of the project’s impact, through standardized impact information. In accordance with each project, select indicators to drive the gathering of information from the project promoter in a standardized manner. This allows the articulation of the argument chain that sustains the impact proposition with each project and promotes better decision-making in evaluating different projects (IFC, 2019).



Second, an impact monitoring process, following the completion of investment and throughout the loan period, needs to be implemented raising standardized impact information. Impact monitoring is needed to, in combination with the ex-ante assessment, link the impact thesis with the execution, generating evidence data, and allows eventual adjustments to ensure impact delivery. The evidence data also allows improvement of the indicators consistency and boosts the reliability of the history in construction for comparability. Furthermore, a consistent and reliable impact measurement and management process has the potential to attract capital at a larger scale, creating credibility before investors and asset owners (IFC, 2019). Finally, IFC (2019) and OECD (2019) recommend the focus of impactful solutions to be at where it is most needed and the gap to achieve the Sustainable Development Goals is the largest – targeting populations in underserved or developing areas. This is a goal that can also be embraced by GoParity, to continue pursuing a maximization of their impact.

## 6. CONCLUSION

The ascension of the impact investment industry turned impact in a modern buzzword (Kingler-Vidra, 2019). A combination of factors explains the rise of a sector with the goal to alter the logic of the financial market and find guidance in its “invisible heart” (SIIT, 2014). This dissertation intended to study the impact investments industry to comprehend why it is different from traditional investments. With the literature review, it has attempted to identify the defining features of an impact investment and the main actors in the sector – investors, investees, and intermediaries. And with a study case about GoParity, a Portuguese impact start-up, this work assessed the reality of an impact-driven organization acting as an intermediary in the diverse and at times inconsistent industry of impact investing.

A defining attribute for impact investment is the creation of measurable social and environmental impact along financial returns. And for this reason, impact measurement practices are key to critically analyze the industry. That is because the proactive creation of positive social and environmental impact – through investments in impact-driven organizations – is the differentiation element from a traditional investment in businesses whose only success metrics are financial (GIIN, 2019). Hence, it is essential to measure

this impact to uphold the social and environmental values of the investment before the financial logic (Barman, 2015).

First, a systemic perspective, in which different actors collectively work towards similar goals, has the potential to achieve real change. GoParity's position as an intermediary in the market of impact investments is strategic to recognize possible synergies among private and corporate investors, governmental agencies, non-profits, and other social enterprises. This multi-stakeholder approach promotes an integrative financial system in synergy with innovation and institutional arrangements – maximizing social and environmental benefits. Thus, when GoParity measures its performance, it has the potential to promote systemic impacts (Ebrahim and Rangan, 2014; Alijani and Karyotis, 2019).

Then, through an organizational lens, the measurement of impact at GoParity achieves accountability before investors and other stakeholders. Therefore, impact assessment is perceived as important as risk and credit analysis, because together they consist of reliability factors of the start-up with the investors, project promoters, and community. Next, it was imperative to evaluate the existing approaches to measure the social and environmental impact, with a focus on understanding the reasons to perform impact measurement and how to do it. On this dissertation, the main approaches and frameworks were discussed to collect the common denominators and attributes of impact measurement. Among a myriad of approaches and frameworks currently available, an actor must balance an approach consistent with capacity, resources, objectives, portfolio, and stakeholders, with its specific internal needs for impact measurement (IFC, 2019).

Following the literature review about the main aspects and challenges of impact investing and impact measurement, the case study with GoParity evidenced the lack of a complete and consistent measurement system for diverse impact creation across the social and environmental sectors. However, there were favorable internal dynamics for improvement, and impact performance results were prioritized along other operational and growth indicators, enabling the development of a personalized impact measurement system. After a process involving internal decision-making, resources, and capacities consideration, GoParity implemented a measurement system to monitor its own impact as an organization, and the impact of the projects funded through the platform. Still, a broader implementation of impact measurement standardization is due in other processes

of the start-up, such as ex-ante assessment and ex-post monitoring. Nevertheless, GoParity has taken the first steps towards a robust impact management system and away from the “impact washing” threat.

As noted throughout the dissertation, the commonly cited challenges for organizations operating in the impact investing market, mainly concerning impact measurement practices are exemplified in the case of GoParity. For instance, insufficient knowledge about impact and its assessment, complexity of measurement because of impact’s multidimensionality, a mismatch of measurement approaches with early-stage business capacity, and a difficulty to understand the value added by impact measurement (Reisman and Olazabal, 2016). Therefore, it is important that GoParity, and other actors of the impact investment market, focus on consistent, strong, and reliable impact management systems to enhance the commitment to impact, avoid the dilution of the term and maintain the value of impact creation at the same level of importance as financial and operational goals (So and Staskevicius, 2015; Reisman and Olazabal, 2016).

Similarly, it is relevant to address the insufficient representation of the beneficiaries of impact investments, either in defining the social and environmental issues to be tackled, or in developing solutions and in describing the results of interventions (Golka, 2019). That is a challenge to be addressed by the whole industry to guarantee the integrity of its purposes. Likewise, public entities have the responsibility to set standards for impact investing practices and ensure delivery of value, through regulation and sanctioning mechanisms to evaluate it (OECD, 2019; Golka, 2019). If the impact investments industry addresses these main risk factors that contribute to a deviation from the initial intentions, there is potential for social impact investments to support the construction of a better world (Golka, 2019).

Finally, this dissertation has limitations on the scope of the research. They regard the generalization restrictions to an only-case study, the nature of interviews and my role as a participant researcher – referring to my internship at the studied organization. Furthermore, this research has not analyzed the aspects of impact investment that relate directly to the public sector, such as social and development impact bonds, and their criticized effects of directing public resources to private actors, through financial intermediation (Golka, 2019). Such a topic would be relevant for future research, specifically how the relations of social enterprises and intermediaries such as GoParity,

that operate mainly in inserting non-financial success metrics in financialized organizations, can cooperate with public actors to efficiently tackle social and environmental issues.

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## ANNEXES

*Annex A. Main distinctions between both types of impact investors*

Table 1 - Relational Distinction Between SII Sub-Types

	SII type 1	SII type 2
Investees	Firms in producing and service markets	Social and public service providers
Investee relations	Similar to “mainstream” investors	Venture-capital-type involvement in management
Main actors	Global investment banks and asset managers	Smaller funds and intermediaries
Main products	Debt, mezzanine capital and equity	Equity and equity-like; social impact bonds
Redistribution	Potentially less pronounced than in “mainstream” financial markets	Novel channels of extraction from not-for-profit and public organizations
Country of origin	United States	United Kingdom

Source: Golka, 2019, p. 20.

*Annex B. Types of impact investment instruments commonly used in the industry.*

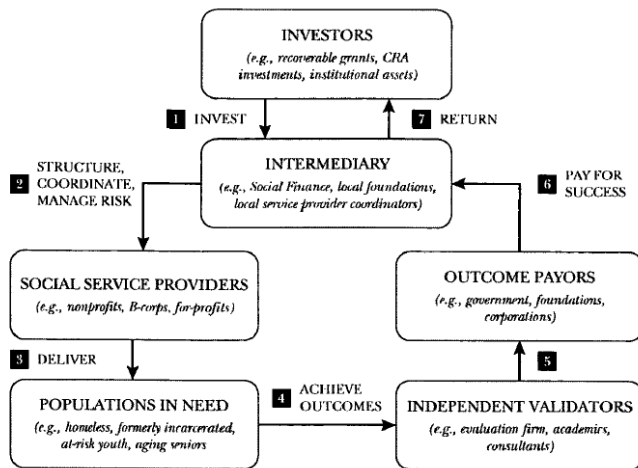
1. Secured and unsecured Loans: loan is a form of credit in which money is lent to another party and entails repayment, usually with interest rates. Loans can be secured by collateral, being usually the asset for which the loan is taken (for example a car in a car loan). And loans are unsecured if they are not backed by collateral, which usually entails higher interest rates (Investopedia, 2020);
2. Charity bonds: Bonds are loans from investors to entities for a defined period and at a variable or fixed interest rate (IMP, 2020). A charity bond occurs when charities take this form of long-term debt to expand their work (Cheng, 2011);
3. Quasi equity and equity: Equity is the net value of an asset, and when it means shareholder equity it represents what a shareholder owns in a corporation. There can be public and private equity, while the first means the trade of share or stock of a company through public market, the latter is composed of funds and investors that directly invest in private companies, not noted on a public exchange. Then, quasi-equity is a form of company debt that has some traits of equity that is owned by other organizations (IMP, 2020);
4. Grants: a grant is directly associated with philanthropy, since it is a contribution, gift or subsidy donated by a grantor to a grantee for specified purposes, and the resources do not have to be repaid (IMP, 2020);

5. Real assets: are physical assets that entail an intrinsic worth due to their properties, such as commodities, precious metals, real estate, land, and equipment (Investopedia, 2020).

### Annex C. The Case of SIBs and DIBs

The earliest social impact bonds (SIBs) were issued in the UK in 2010 and in the US in 2012, and both focused on funding social services to prevent, rather than remedy, a social problem. The basic structure of a SIB consists of five main agents: a government authority to contract based in pay-for-success, a social provider to tackle the social problem, private investors to provide capital, an intermediary and an independent evaluator (Burand, 2013) (see Figure 8).

Figure 8 - Basic Structure of a Social Impact Bond



Source: Burand (2013, p. 454)

Regarding the development impact bonds (DIBs), investors also provide funds to social interventions, the service providers deliver outcomes, but in this case, the outcomes funders are primarily public sector agencies<sup>11</sup> who provide the outcome payment (DIB Working Group, 2013; SIIT, 2014). The DIBs are a tool considered to improve the effectiveness of public service delivery in developing countries and the efficiency of donor spending. In that sense, DIBs represent a paradigm shift in how social programs are funded, transforming neglected social problems into investible opportunities,

<sup>11</sup> Commonly bilateral aid agencies, foreign aid ministries, multilateral institutions, and philanthropists (SIIT, 2014)

introducing market rigor to the achievement of social outcomes, and creating incentives for funds to be available for longer periods of time (DIB Working Group, 2013).

*Annex D. Details about the risk and barriers in the industry of impact investments.*

Table 2 - Risk and Barriers Commonly Perceived Throughout the Industry

CATEGORY	DESCRIPTION
Defining positive impact	Diverse stakeholders hold diverse definitions of positive impact; some definitions may be competing or conflicting.
Examining complexity of impact measurement	Impact is multidimensional, making standardization of measurement a challenge.
Recognizing mismatch of methods with early-stage business models	Early-stage business models may not lend themselves to measurement, while the fluid and evolving nature of enterprise may necessitate the adoption of numerous and different business models throughout the lifetime of the enterprise.
Perceived value vis-a-vis alignment with investor priorities	Incentives for impact measurement can sometimes be unclear. The value of impact measurement is not consistently understood, including how it can support operations.
Navigating how impact investing fits into the larger landscape	Investors struggle to see how their vision for impact might align with larger existing efforts, such as SDG measures. Current measurement systems exclude B corporations and corporate social responsibility writ large and other classes of companies.
Facing lack of specificity about intentionality	Investors struggle with intentionality of their impact goals, resulting in a weak link between goals and what is measured.
Articulating the value proposition	The value of impact measurement has not yet been clearly articulated and communicated.

Source: Reisman and Olazabal, 2016, p. 9

#### *Annex E. General Interview Guide*

1. What are your core activities/main role at GoParity?
2. What is Impact investing for you?
3. What do you think is GoParity's role in the impact investing market?
4. How would you describe the people who invest through GoParity?
5. How would you describe organizations who demand investment through GoParity?
6. What do you see as GoParity's main impact?
7. How important do you think it is to measure the created impact through GoParity's business?
8. How was the initial impact measurement method designed?
9. In what moment in the process did the measurement occur?
10. What were the main challenges to measure the impact from the beginning?
11. What were the indicators and metrics used initially?
12. What changes regarding impact measurement have you seen occur inside GoParity?
13. Where did the greatest pressure for improving the measurement approach come from? Inside GoParity - collaborators, or outside – external stakeholders?