A Work Project, presented as part of the requirements for the Award of a Master's degree in Economics / Finance / Management / Business Analytics from the Nova School of Business and Economics.

# THE DEPENDENCE OF SUCCESSFUL SOCIAL CROWDLENDING ON INVESTOR TRUST: RESEARCH ON ENHANCING FACTORS

SOPHIA ISABEL RHODOVI

Work project carried out under the supervision of:

Daniel Abel Monteiro Palhares Traça (Advisor)

Vitorino Alberto Mello Gomes Oliveira (Co-Advisor)

Paulo Sacadura Cabral Portas (Co-Advisor)

17-12-2021

The dependence of successful social crowdlending on investor trust:
Research on enhancing factors

Abstract

This thesis examines the importance of trust creation in crowdfunding. Along the case of GoParity, a social crowdlending platform, measures to strengthen the trust of private investors are assessed. Hence, GoParity's past achievements and current challenges with regards to trust creation are analysed. A survey consisting of 367 respondents, and 14 interviews constitute the research. Accordingly, solutions are developed, evaluated, and translated into recommendations, accompanied by an implementation plan. Subsequently, the focus is narrowed down to greenwashing in impact investment as one potential obstacle towards investor trust creation. In this respect, challenges, as well as improvement potential are explored.

Keywords

Social Impact, SDG, Sustainable Development, Impact Investment, Social Investing, Crowdlending, Sustainable Platform Business Model, Investor Trust

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

# GROUP PART I – Case Study

GoParity: Evaluating the importance of building trust among investors of a social crowdlending platform

## GoParity: Evaluating the importance of building trust among investors of a social crowdlending platform

At the end of September 2021, Nuno Jorge, founder and CEO of GoParity, and Rita Oliveira, head of Marketing, sat together in their Lisbon office to reflect on the company's journey. Both were proud of what they had achieved since the founding in 2017. It was a path of challenges and accomplishments – some entirely solved while others had yet to be overcome. When looking at the company's past development, they agreed on one fact: trust was at the heart of their achievements. Especially as a social crowdlending platform, gaining and maintaining the trust of their investors was the pre-condition for success.

In the past, the team had established different mechanisms to build trust among their private investors. Hereby, GoParity had to assure investors: (1) to offer holistic impact measurement allowing investors to combine financial returns with sustainable impact creation in line with the United Nations' (UN) 'Sustainable Development Goals' (SDGs), (2) to successfully assess the financial viability of projects to mitigate the risks for investors, and (3) to communicate their values and internal assessment procedures in a transparent and integer way.

Looking at their strong growth of investments starting at €0.3Mio in 2020 that exceeded €1.5Mio for Q3 2021, the clear achievement of investor acquisition through trust creation became visible. Nuno and Rita were wondering how they could foster growth and sustain a competitive position by deepening the trust relationships with new and existing investors. To achieve this, a central question arised - what are trust-creating measures that could help GoParity achieve their aim to grow and increase their impact as a social crowdlending platform?

### Crowdlending

Crowdlending describes the transaction of several, oftentimes smaller, private investors, representing 'the crowd', that lend money to funding-seeking entities, commonly represented by

SMEs (small and medium enterprises), Cooperatives or NGOs (non-governmental organization) (Belleflamme, Lambert, and Schwienbacher 2014). More precisely, it provides an instrument to access funding besides traditional tools such as bank loans, thereby democratizing finance (Ferreira, Papaoikonomou, and Terceño 2021). Crowdlending is the most established financing form of the broader concept of crowdfunding (Ziegler et al. 2021) (Exhibit 1) and involves the opportunity of financial return for investors (Strohmaier, Zeng, and Hafeez 2019).

**The Crowdlending Market**

At the beginning of their conversation, Nuno and Rita reviewed the promising development of the crowdlending market. While the global market had grown from $8bn in 2018 to $15bn (excluding China) in 2020, a closer look at the European environment revealed a market size of almost $2bn in 2020 (excluding UK) and a compound annual growth rate of 51% since 2015 (Ziegler et al. 2021) (Exhibit 2). GoParity's home market Portugal was still very nascent with only few players in place (CrowdfundingHub 2021). Its direct crowdlending competitor, Raize, who, unlike GoParity, did not offer impact related investment projects and only offers an automated investment tool, had realized transactions of over €43Mio (CrowdfundingHub 2021). GoParity followed as the next largest player with €6.7Mio. A specific characteristic of the Portuguese market which might have influenced this rather slow-paced development was the strict regulatory environment (Ziegler et al. 2021) as well as the below average income and gross savings compared to other EU countries (eurostat 2021; Statista 2021). Overall, the missing set of common European guidelines and licensing regulations regarding crowdlending complicated success within this specific market (European Commission 2021). Nuno and Rita were excitedly awaiting the Regulation on European Crowdfunding Service Providers (ECSP) for business which would be applied as of November 10th, 2021(European Commission 2021). ESCP introduces uniform guidelines by offering an EU-wide authorization process and will likely fuel the European market growth (Heater 2021; Rotem, Flåten, and Zhao 2020).

**Company: Idea and foundation, business model**

As Nuno and Rita tried to understand what exactly had helped GoParity to create trust amongst investors and how this could be ameliorated, they took a closer look at the company's history.

Idea and Foundation of GoParity

As a former environmental engineer working in the renewable energy sector, Nuno had always been connected to the green energy market. When he moved back to Portugal in 2015, he was disappointed to find no opportunities for green investments in the country. Upon further research, Nuno realized that there was a financing gap for impactful projects of small businesses in the Portuguese market. It was very difficult for them to acquire the necessary capital through traditional methods as banks took a long time to make lending decisions, interest rates were very high, and guarantees were not adapted to the respective project risks. Moreover, the awareness of the SDGs, established by the UN 2030 Agenda in 2015, that require substantial financing, increased in the financial sector (UNCTAD 2014). By founding GoParity, Nuno wanted to address these challenges and enable everyone to combine profit and impact to contribute to the Agenda 2030 goals.

Nuno summarized that GoParity had positioned itself as a first mover and pioneer in the Portuguese social crowdlending market with an initial focus on solar energy projects. Since GoParity's founding in 2017, the team had extended its thematic breadth of projects to the point that 50% of their portfolio addressed other impact dimensions than green energy. This extended scope allowed the company to attract a more diverse set of investors with different interests. Moreover, investors could choose projects in accordance with their preferred level of risk, impact, and return.

For the future, Nuno highlighted GoParity's mission of achieving additional growth by targeting investors from other countries and broadening its product portfolio. He pointed out his vision to transform GoParity more and more into a sustainable bank.

Business Model of GoParity

GoParity's business model involved investors, on the one hand, and project promoters, who sought financing, on the other hand. The investors collectively lent money via the crowdlending platform and entered into individual contracts with the promoters for the amount invested, reaching from €5 up to €24,999. In return, they received a fixed interest. Hereby, investors were given the opportunity to make investment decisions between three projects at a time. If investors did not want to choose by themselves, they could use an automated investment tool. With the investments, promoters were able to raise money through GoParity to fund their sustainable projects. Besides the loan opportunity that a traditional bank would have most probably not granted in most cases, GoParity helped the promoters to create visibility for their projects as the platform informed its entire community of over 16k users about them.

The promoters constituted European profit and non-profit organizations, offering projects around the world that contributed to the SDGs. Due to regulatory restrictions, the start-up could not yet finance projects from non-EU companies.

The investors were retail and institutional investors[1], with institutional investors being in the minority. GoParity's investor base was mainly from Portugal (90%) and the average amount invested was €410 per month. The other 10% of investors came from Spain, Brazil, Italy, France, Germany and the Netherlands, with Spain making up the largest share.

GoParity generated income mainly through the promoters. They were charged an initial setup fee for the funds raised and periodical management fees until the fund reached its maturity. Investors only paid a fee if they sold investments earlier than the maturity of the loan or if they withdrawed from funds early (Exhibit 3).

[1] The case study focuses only on retail investors

As the company's business model was based on a platform model, it was vital to satisfy user needs to attract and retain further investors. "Only if we have enough potential investors on the platform, promoters will be attracted to place their funding campaigns with us.", explained Nuno. GoParity, thus, acted as a service provider for users by connecting them to sustainable investment opportunities while assessing the risk and impact of the various projects for them. Consequentially, trust was one of the key aspects to acquire investors, as they had to rely entirely on the company's competences to evaluate the projects.

Achievements of GoParity

When thinking back about their achievements, the valuable partnerships GoParity had formed throughout the years immediately came to Nuno's mind. In 2017, the company received their Portuguese Securities Market Commission (CMVM) approval, which was needed to set-up operations. "This was a huge success in gaining credibility and trust among investors.", explained Nuno. Another important achievement was the certification as a B Corporation (B Corp) in May 2021. Being a B Corp certified GoParity's compliance with high standards of validated social and environmental performance, public transparency and legal accountability to balance profit and impact (B Lab n.d.).

Rita added that in recent years, GoParity had experienced considerable growth (Exhibit 4). Starting in July 2017 with only 15 funded projects with an investment value of €150,000, the start-up had funded more than 100 campaigns by 2021 with a total investment value of €6.7Mio. In the meantime, more than €1.5Mio had already been paid back to investors from successful past campaigns. In addition, the user base had more than doubled in one year from 6k users in July 2020 to 16k in 2021.

Iara Comunello, Impact Manager of GoParity, referred to the company's impact tracked by five key performance indicators (KPIs) when she thought about achievements. By the end of 2021 had been able to create more than 4,000 jobs and empower over 61,000 people in vulnerable situations through the projects (GoParity 2021d). Furthermore, over 22,000 tons of CO2 could be avoided, 878 hectares of sustainable agriculture developed, and more than 6,000MWh of clean energy, which equals the household consumption of over 2,600 families, created or saved.

**Trust**

To detect potential trust-creating measures that could help GoParity achieve their aim to further grow sustainably and increase the previously mentioned impact, Nuno and Rita realized the need for a more holistic view on the complex concept of trust. Consequentially, they had assigned their co-workers to dig deeper into this topic and provide them with an in-depth view to successfully tackle the future trust creation. After a few days of research, their team had returned to them with an extensive analysis. They explained that it was important to acknowledge that humans were naturally opposed to trusting the unknown (Uslaner 2018). One co-worker added that trust, being towards an individual or an organization, required a certain level of vulnerability and loss of control, which made it unappealing to give to unfamiliar parties (Rousseau et al. 1998). Especially, as financial investments commonly include some form of information asymmetries and handing over control over ones' assets to largely unfamiliar stakeholders, trust within the finance sector is difficult to build and simultaneously the "industry's most valuable asset" (Lagarde 2016 as cited in Chima 2015).

The research team then introduced Rita and Nuno to a holistic trust framework created by the CFA institute. Hearing about this framework on trust creation had sparked Nuno's utmost interest. He was curious on how to adapt this framework to his investor acquisition strategy and asked his co-workers on elaborating further. They explained that the framework was constituted of three key elements crucial for building trust of investors: (1) information, (2) innovation and (3) influence (CFA Institute 2020). Hereby, (1) information essentially represent the enhancement of trust through the supply of extensive information and knowledge achieved through, amongst others, transparency and education. Consequentially, the better educated and informed investors feel regarding their potential investment and the concomitant stakeholders, the more likely they are to trust. (2) Innovation as trust-creating mechanism describes the enhancing effect of proactively utilizing advanced technologies to ensure unbiased and fruitful decision making. As human decision-making is naturally biased, individuals generally are more likely to trust in the goodwill of the capital-receiving side of an investment when decision-making processes are backed with technology. And lastly, (3) the role of influence in trust creation underlines the investors' preference for control and customization opportunities over their invested assets.

Having all this in mind, both Nuno and Rita felt like they were able to grasp the topic of trust more deeply, helping them to tackle the task of reinforcing trust amongst investors.

Trust in crowdlending platforms

After learning more about trust in the financial sector in general, Rita saw the need to focus on trust in the crowdlending market, stating that the significance of trust increased with higher risk (CFA Institute 2020). Especially GoParity's position - a young business in a nascent market – fueled investor's biases of lower credibility and higher risk. Rita added that the public trust in alternative financial platforms was in general lower than in traditional finance institutions, as investors were less familiar with them (Ziegler et al. 2021). Nuno mentioned that on online platforms, information asymmetries between the different parties were particularly prone to exist (Cumming and Zhang 2016; Ahlers et al. 2015). He further elaborated that this was due to the fact that the parties did not enter into direct conversations, but communication took place via the intermediary platform. Therefore, the transparent provision of information of a proven quality could leverage trust.

So how could a crowdlending platform like GoParity build trust among its investors to attract more users? Nuno and Rita agreed that investors needed to trust in crowdlending as an attractive alternative to traditional investment instruments. At the same time, trust in GoParity as an integer, transparent platform capable of selecting suitable impact projects was necessary.

**How is GoParity creating trust?**

During the discussion on how GoParity managed to establish their solid investor base, they identified the inherent approach of project acquisition and selection as the key success driver and starting point to build trust. More precisely, GoParity's ability to identify trustworthy, impactful projects that display low risks of default and high profit potential, created a solid foundation on which investors could build trust. Since their foundation in 2017, GoParity continuously shaped and monitored its selection process from the first touchpoint with the promoter until the final release on the platform to start the crowdlending campaign. This led them to the following process (Exhibit 5):

First, a project is assessed by the commercial department and validated by Manuel Nina (CCO) to see whether it fits with GoParity's business model and values. Afterwards, the impact of the project is evaluated based on SDG compliance, the IRIS+ model and the five dimensions of the Impact Management Project's (IMP) (Exhibit 6). In the third step, the risk is assessed through expert judgement, a statistical credit risk model, and specific policy criteria. In the end, the risk department decides jointly with Luís Couto (CFO) on whether to take on a project, resulting in contractual negotiations with the promoter. Finally, the project will be released on the platform and opened for funding.

Along this process of project acquisition and selection, three main aspects have proven to be substantial for the creation of trust – (1) impact identification, (2) risk mitigation and (3) communication.

**Impact identification**

Nuno and Rita decided to first focus on GoParity's impact identification process to dig deeper into trust creation. Impact identification was crucial for creating trust as investors chose GoParity instead of other investment opportunities because they cared about making impact besides return. Therefore, GoParity had to ensure that impact was generated with the projects funded by their investors. Rita added that there was a general trend that impact creation became a trust-creating measure for investors as ESG compliance would be an increasingly significant investment criterion (CFA Institute 2020).

Nuno thought back to their beginnings of impact measurement when they only offered solar energy projects via the platform. Back then, they did not ask promoters for a pre-defined set of data beyond CO2 emissions. Other impact dimensions besides CO2 were mostly assessed qualitatively and subjectively per project. As the company grew and diversified into different fields of social or environmental value such as fashion, tourism or reforestation, impact identification became increasingly complex. The indicators on clean energy were simply not sufficient anymore. Due to the fact that GoParity was still in an early stage of their business, resources were scarce preventing them from extensive impact measurement practices. Since the company's business model was built around impact assessment and investors entirely relied on the platform to pursue a thorough project selection, impact identification had to be re-thought.

The change started with the decision to make impact measurement an internal priority and to allow a re-allocation of resources towards this process (Comunello Martins 2020). This decision drove the team spirit and attracted more and more people who formerly worked in the social sector to join GoParity. At the same time, the investor community's interest in the projects' grew gradually with the increased focus on impact measurement. Looking at today's impact assessment practices, Nuno and Rita were proud of what the process had developed into by the end of 2021:

GoParity's decisions whether a project was impactful or not, were firstly based on the UN's 2030 Agenda establishing the SDGs, which demanded for protection of the environment as well as for ending poverty and social inequality (United Nations 2015). More precisely, GoParity had decided to focus on seven of the 17 goals: (1) ending poverty, (2) sustainable water and sanitation management, (3) access to green energy, (4) inclusive settlements and cities, (5) fight against climate change, (6) water conservation, and (7) protection of terrestrial ecosystems (Exhibit 7). Nuno described that they had extended their thematic breadth of projects to the point that 50% of their portfolio addressed other impact dimensions than green energy. This was still a challenge in their impact assessment, pressing them into a case-by-case evaluation. "Impact creation can be difficult to measure objectively. There is not one single framework, but many initiatives defined different approaches to measure impact.", explained Rita. Besides the qualitative assessment based on SDGs, GoParity applied the IRIS+ framework by the Global Impact Investing Network (GIIN) as well as the five dimensions of what, who, how much, contribution and risk by the Impact management project (IMP) (Exhibit 6). Moreover, the company decided to call on external expertise to solve the issue of impact assessment across a broad spectrum of topics beyond clean energy. For instance, GoParity partnered with Blue Alliance, who provided expertise in blue economy[2] projects. In this phase, the evaluation team also communicated closely with the promoter and asked for additional information that could prove the truthfulness of the project. Thereby, data confidentiality was ensured. "This is a very important step since the indicators can only be calculated if the necessary data is provided by the promoter or by external experts." explained Iara, Impact Manager of GoParity, when Rita asked her on her opinion. Iara further added: "We try to identify instead of measure impact because measuring is very complex. Impact is often qualitative and difficult to turn into trustful numbers." Ideally,

[2] The blue economy refers to the ocean sector that plays an important role for the Portuguese economy.

the platform would also like to assess what the promoter company was doing outside of the projects, but they did not have the capacity and people to monitor those metrics.

Nuno mentioned that GoParity had developed five KPIs to track the impact created with the projects. The metrics were regularly updated and could be looked up on GoParity's website (Exhibit 8). Rita went on to explain that the impact of most projects did not feed into all five KPIs, but only in some. She remembered, the project on fashionable waste (Exhibit 9), which only contributed to the number of jobs created. Moreover, from time to time, the impact department team faced the situation of how to deal with impact tradeoffs. One recent project which had been assessed was the installation of solar panels on a ham production facility.

The results of the impact assessment could be viewed by investors when screening projects on GoParity's website. More precisely, the information was structured into direct and indirect impact. Additionally, the project's contribution to the SDGs and to GoParity's individual indicators was depicted (Exhibit 9).

By now monitoring had also been addressed partially. This step occurred after the project had been financed to ensure an impactful implementation process. Nuno remembered a solar panel project in a Ugandan village, which enabled lightning during the night and had a positive outcome on the entire community (e.g., night markets were possible or safety at night increased). "Exactly this long-term impact is addressed in the monitoring process. And not only positive but also negative outcomes should be tracked", explained Iara. "However, there is still room for improvement. Unfortunately, monitoring only occurs if it specifically requested by investors or promotors due to lack of capacity.", she added.

As Nuno and Rita reflected on these achievements, they started to wonder how they could improve their impact identification even further in the future.

**Risk mitigation**

Nuno and Rita agreed that to incentivize potential users to invest their resources into projects and to allow them to make informed decisions, the company had to ensure that successful risk mitigation measures were in place. As GoParity functioned as a service provider for investors that connected them with sustainable projects and did the risk assessment for them, a thorough due diligence was inevitable.

When looking back at the foundation of GoParity in 2017, Nuno and Rita observed that the risk assessment process had successfully improved. In 2017, they did not have the necessary human resources to provide a sophisticated risk management. However, driven by growth and funding in the past years, the company could set up a risk management team. To identify improvement potential, especially when scaling the business, Nuno and Rita reviewed the current risk assessment process which evaluated the financial and technical viability of a project in three steps – (1) expert judgement, (2) statistical credit model, and (3) policy criteria. Based on these three steps, the risk team assigned a rating to the project on a scale from A+ (low risk) to D (high risk). No project below C+ would be funded. The investor could review this information on the respective project page (Exhibit 10).

(1) Expert Judgement: The risk team analyzed the financial conditions of the promoter and the project through different financial tools. For this, KPIs as for example the total sales as well as financial ratios such as current or solvency ratio were analyzed. Based on this, a risk rating and an interest rate were determined by an internal credit model. Nuno described that this step was very complex and required experienced analysts. The analysis oftentimes involved intensive communication with the promoter to gain a deeper understanding of their business plan. He remembered that the first projects to be financed were easier to standardize in terms of risk assessment because they were all focused on the transition to renewable energy. However, as

the type of projects became more diversified, expert judgement became more crucial in the risk analysis.

(2) Statistical credit risk model: Along with the expert judgement, the project was assigned with a quantitative grade which defined the promoter's default probability in the following twelve months. This grading step was outsourced to Iberinform, a specific provider for the Iberian market, and an external provider called Wiserfunding. Wiserfunding specialized in assessing the credit risk of SMEs (Wiserfunding Ltd. 2021). Through their online platform, a detailed risk assessment report was created. It comprised the past 5-year trend for the most relevant risk metrics (i.e., one-year probability of default), a benchmarking of other SMEs' risk profiles operating in the same geography and industry as well as all financial ratios and corporate governance variables needed to develop the risk assessment. "Wiserfunding's limitation is that it is more suitable for bigger companies with larger assets and equity.", Rita pointed out, "Therefore, it is difficult to apply the model to smaller companies or start-ups that do not have much data available."

(3) Policy criteria: Additionally, GoParity assessed if the promoter had some outstanding record with tax authorities, social security, and the banking system. For this, the promoter needed to deliver formal financial reports for at least one full year to prove that they were not in default with any financial obligation and had not been involved in legal incidents.

The discussants then dived deeper into the case when a project was riskier than usual. "If we finance riskier projects, we gather more guarantees to improve the safety of the investors", Iara explained. She described that GoParity sometimes asked promoters for a personal guarantee from one of their shareholders or pledged the equipment which had been installed as part of the project. Only in very specific cases, the company requested personal warranties, which differentiated them from typical banks. Nuno further mentioned GoParity's risk sharing principle as risk mitigating measure. This meant that the start-up only funded a project up to a maximum of

80%, while the other 20% were carried by other parties to share the risk. It also included that the promoter must have invested its own funds in the project. Additionally, if they were dealing with projects that seemed riskier, they took a step-by-step approach and performed pilot runs.

Nuno and his team proudly reflected that their successful risk assessment was underlined by the fact that no bankruptcy had happened so far. Nevertheless, they were wondering, how they could guarantee a successful risk assessment in the future while scaling their business.

**Communication**

Lastly, none of the above-stated mechanisms of trust creation would have been fruitful if Go-Parity had not successfully communicated its trustworthiness towards its potential and current investors. To ensure the effective use of communication tools and strategies, the start-up had to achieve three overall goals:

1. Convince investors of the integer, holistic and transparent manner of information sharing regarding all necessary information about the potential projects,
2. Create a trustworthy image of the entire company including its employees and processes, specifically the risk assessment and impact measurement processes, and
3. Catch investors' attention and incentivize them to invest into the platform.

In order to do so, Rita had put in place various strategies and mechanisms.

<u>Segmentation of customer groups</u>

GoParity decided to make use of a well-known segmentation process within the financial industry, called 'Know your Customer' (KYC). In doing so, the company aimed at addressing each segmentation group while taking into account its main concerns and desires, by adapting the communication as well as the customer journey accordingly.

The first group of customers, called *KYC Null*, consisted of users that created an account at GoParity, but did not follow the subsequent steps of the application process. This group was characterized by a high degree of initial curiosity but additionally high laziness and lacking trust. When converting from a *KYC Null* to *KYC light*, the users submitted all their required information except their identity document (ID). This group was especially led by fear, as they were reluctant to grant the platform access to its ID. When deciding to complete the validation by submitting one's ID, users became *KYC regulars*, meaning that they were able to make their first investment but had not yet done so. To incentivize users to take the final step from *KYC regulars* to become actual investors, GoParity had to address the predominant issue of fear by ensuring *KYC regulars* that the platform is worthy of their trust.

Frequent, targeted communication touchpoints

To spark and preserve the investors' curiosity, GoParity's main point of contact with users along the entire KYC journey was via e-mail. Besides, they fostered a community feeling through blog posts, LinkedIn and Instagram. By conducting thorough analyses of customer behavior and spending patterns, the start-up remained in frequent contact and informed its users holistically of relevant information such as new investment opportunities. To preserve an affirmative image, the company attempted to find the right balance of frequent, transparent communication without giving the impression of spamming the users by restricting itself to a maximum of three e-mails per week. "In doing so, GoParity wants to be a company that speaks its mind" said Ines Lopes, head of Communications. This meant that the start-up put high emphasis on communicating in line with its core values of integrity, transparency and purpose

Personal and approachable image creation

To foster their trustworthiness in the eye of investors, Nuno and his team set themselves the mission to create a highly personal and approachable image. More precisely, through regular so-called meetups, aimed at educating users and bringing them closer to the "people behind the platform" (Inês Branco Lopes 2021), GoParity allowed users to gain first-hand insights into the company, its employees and processes. These events have proven to be an effective measure to build long-term relationships based on trust. Especially when located at the actual sites of the promoters' projects, these meetups enabled users to experience the change created through investments at GoParity. This strategy, alongside with other effective measures such as the offered proximity and contact persons (e.g., for answering questions) enabled an "approachable, *behind the curtains* environment that was contrasting to the usual setting within the finance sector and especially banks" (Inês Branco Lopes 2021).

<u>Integrity, transparency and purpose as core values</u>

Underlining all the aforementioned communication strategies were the core values that GoParity wished to convey: integrity, transparency and purpose. To ensure that these values were incorporated at all times, the start-up promised its users complete openness with regards to especially the impact measurement and risk assessment. More precisely, GoParity wished to communicate e.g., the impact of projects only when validated through their own or an independent outside assessment, whilst providing as much information about projects as possible.

**Looking forward**

Nuno and Rita had now learned that the key to their previous achievements in trust creation were stemming from a synergy of (1) holistic impact measurement assuring actual value created by the projects they fund, (2) thorough risk assessment including impartial judgement, and simultaneously (3) integer, transparent communication that was in line with the company's values. Now that the two had analyzed the key elements that helped the company to gain trust amongst investors, some pressing questions arose: How could GoParity sustain a competitive position in the growing impact investment market and manage to foster sustainable growth in the future? Which challenges did they have to overcome along their project acquisition and evaluation process to further increase trust amongst investors? And how could GoParity ensure that trust creation remained truthful when scaling up their business? What were possible pitfalls?

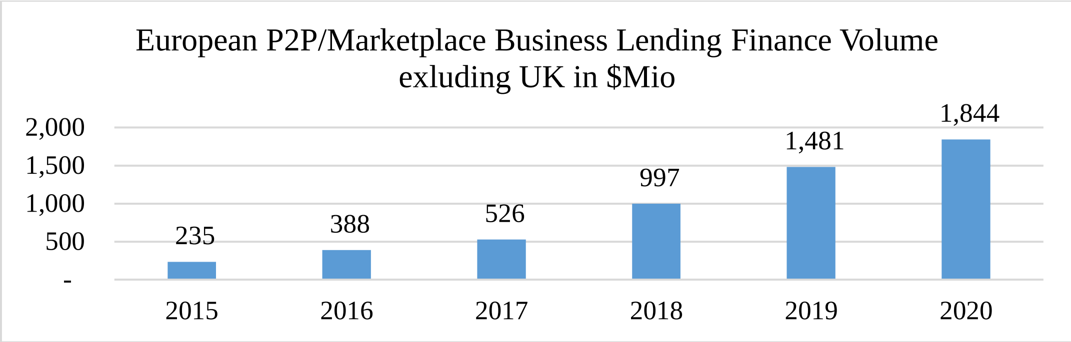
# Appendix

**Exhibit 1** - Definition of crowdfunding forms according to the Cambridge Center for Alternative Finance

| Overall | Category | Business Model | Stakeholders |
|---|---|---|---|
| Debt | P2P/Marketplace Lending | Consumer Lending | Individuals or institutional funders provide a loan to a consumer borrower, commonly ascribed to off-balance sheet lending. |
| | | Business Lending (GoParity) | Individuals or institutional funders provide a loan to a business borrower, commonly ascribed to off-balance sheet lending. |
| | | Property Lending | Individuals or institutional funders provide a loan, secured against a property, to a consumer or business borrower, commonly ascribed to off-balance sheet lending. |
| | Balance Sheet Lending | Consumer Lending | The platform entity provides a loan directly to a consumer borrower, ascribed to on-balance sheet non-bank lending |
| | | Business Lending | The platform entity provides a loan directly to the business borrower, ascribed to on-balance sheet non-bank lending. |
| | | Property Lending | The platform entity provides a loan, secured against a property, directly to a consumer or business borrower, ascribed to on-balance sheet nonbank lending. |
| | Invoice Trading | Invoice Trading | Individuals or institutional funders purchase invoices or receivables from a business at a discount. |
| | Securities | Debt-based Securities | Individuals or institutional funders purchase debt-based securities, typically a bond or debenture, at a fixed interest rate. |
| | | Mini- bonds | Individuals or institutions purchase securities from companies in the form of an unsecured bond which is ‘mini’ because the issue size is much smaller than the minimum issue amount needed for a bond issued in institutional capital markets. |
| | | Consumer Purchase Finance/ BNPL | A buy now/pay later payment facilitator or Store Credit solution, |
| Equity | Equity-based | Equity-based Crowdfunding | Individuals or institutional funders purchase equity issued by a company |
| | | Real Estate Crowdfunding | Individuals or institutional funders provide equity or subordinated debt financing for real estate. |
| | | Revenue/Profit Sharing | Individuals or institutions purchase securities from a company, such as shares or bonds, and share in the profits or royalties of the business. |
| Non-Investment-based | Non-Investment-based | Reward-based Crowdfunding | Backers provide funding to individuals, projects or companies in exchange for non-monetary rewards or products. |
| | | Donation-based Crowdfunding | Donors provide funding to individuals, projects or companies based on philanthropic or civic motivations with no expectation of monetary or material. |
| | | Crowd-led Microfinance | Interests and/or other profits are re-invested (forgoing the interest by donating) or provides microcredit at lower rates. |
| Other | Other | | The research team recorded volumes raised through other alternative finance models, including Community Shares, Pension-led Funding, and other models that fall outside the existing taxonomy. |

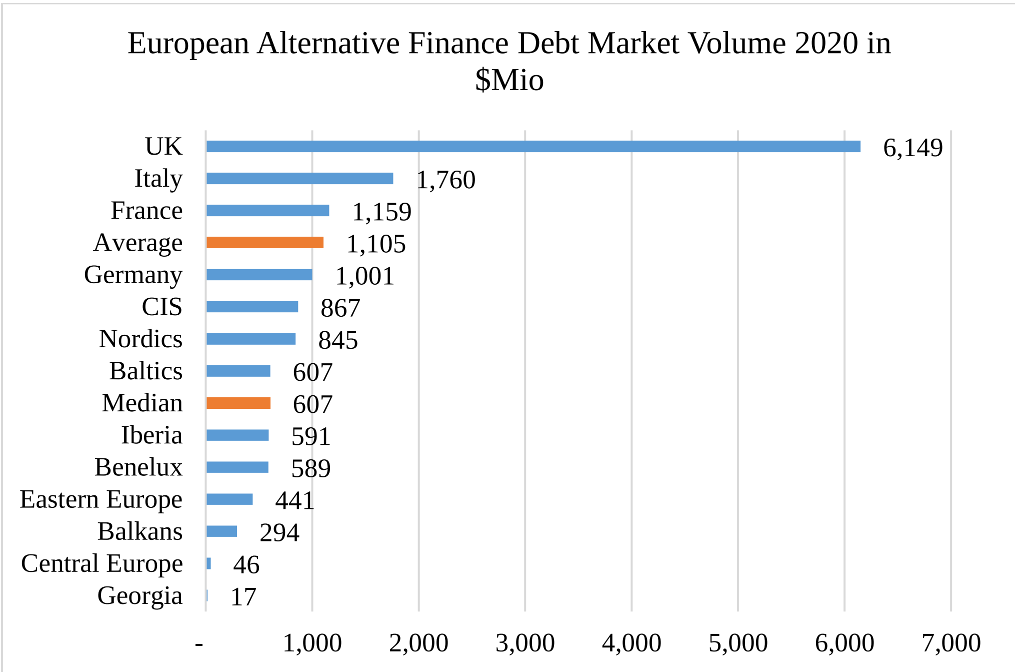
*Source:* (Ziegler et al. 2021)

**Exhibit 2** - The European crowdlending market in million




*Source:* (Ziegler et al. 2021)

The European P2P/Marketplace Business Lending Market (terminology in accordance with Exhibit 1) grew at a CAGR of 51%.




*Source: (Ziegler et al. 2021)*

Comparing the alternative finance market including all debt models (i.e., includes all debt models visible in Exhibit 1) across European regions, the UK leads by more than three times before the next largest market – Italy.. Iberia (including Portugal) is positioned below average with a volume of $591Mio.

CIS: Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine

**Exhibit 3** – Revenue streams of GoParity

Revenue streams from investors (before taxes applied):

| | |
|---|---|
| Opening an account | Free |
| Top up a wallet with funds | Free |
| Granting a loan (investment) | Free |
| Withdrawal of funds from the wallet in the SEPA area after granting a loan | Free |
| Withdrawal of funds from the wallet outside the SEPA area after granting a loan | €2.5 |
| Withdrawal of funds from wallet after a top-up without granting a loan (investing) | 1% |
| Cession of an ongoing loan | 1% of the value of the capital due |
| Acquiring an ongoing loan | Free |

*Source: (GoParity 2021c)*

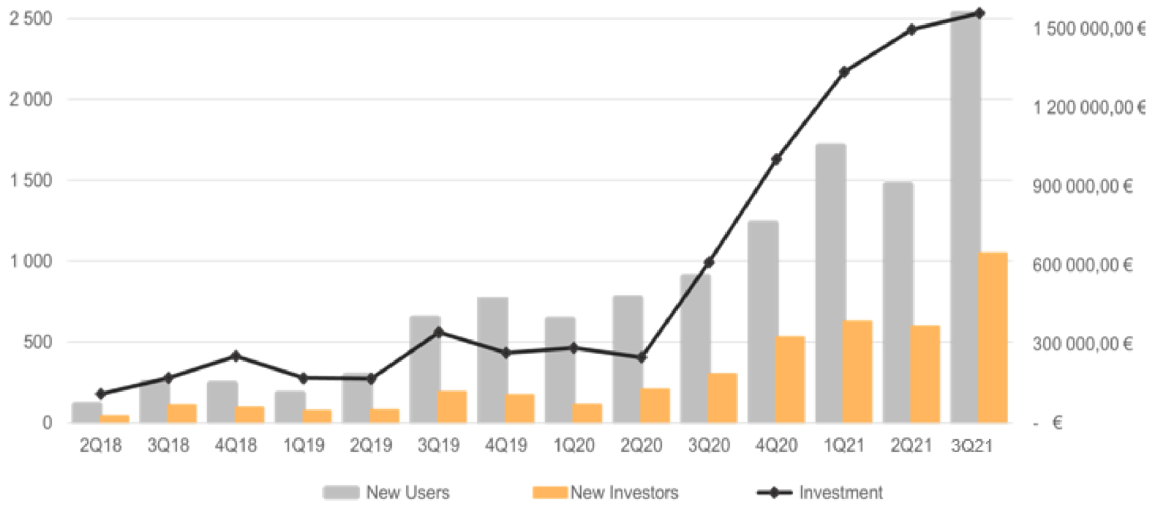
Revenue streams from promoters (before taxes applied)

<table>
<tr><td>Opening an account</td><td>Free</td></tr>
<tr><td>Analysis of the loan</td><td>Free</td></tr>
<tr><td>Transfer of funds (wallet top-ups)</td><td>Free</td></tr>
<tr><td>Processing of the loan</td><td>Equal to or less than 4,5% of the financed capital, with a minimum of 450€, according to the table below. This fee is charged when the funds are released.
<table>
<tr><th>Financed Capital (intervals)</th><th>Fee</th></tr>
<tr><td>< 15 000€</td><td>4,50%</td></tr>
<tr><td>15 000€ - 75 000€</td><td>4,00%</td></tr>
<tr><td>75 000€ - 200 000€</td><td>3,50%</td></tr>
<tr><td>200 000€ - 500 000€</td><td>3,00%</td></tr>
<tr><td>>500 000€</td><td>2,50%</td></tr>
</table></td></tr>
<tr><td>Management of the loan</td><td>Equal to 1% of the value of the outstanding capital (annual rate equivalent). This fee is charged in conjunction with the periodic instalment and concerns the outstanding capital in the respective period.</td></tr>
<tr><td>Services associated with the management of direct debit rejected due to a lack of funds</td><td>20€</td></tr>
<tr><td>Processing of loan restructuring</td><td>Equal to 0,5% of the value of the outstanding capital, with a minimum of 100€</td></tr>
</table>

| | |
|---|---|
| Processing of late payments | 20€ |
| Judicial and extrajudicial reorganisation of a loan in default | Full credit for the reorganisation costs |
| Early amortization of the loan | Free |

*Source: (GoParity 2021c)*

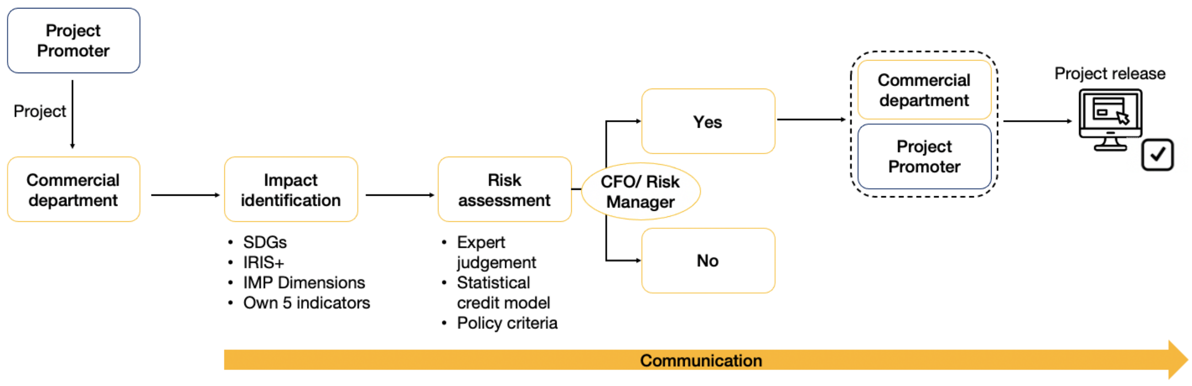
**Exhibit 4** – New users, investors, and investments per quarter




*Source:* (GoParity 2021d)

- Number of new users peaked in September 2021 with 1013 citizens and companies joining the investor community
- For the first time, GoParity surpassed in 3Q21 1,5M€ in investments in one quarter

**Exhibit 5** - Process of project acquisition and selection




*Source: Created by authors based on interviews with GoParity*

**Exhibit 6** – SDGs, IRIS+ Framework and IMP Dimensions

*SDGs*

The SDGs have been laid out in the UN 2030 Agenda for Sustainable Development in 2015 and comprise 17 goals which are further broken down into 169 targets (UN n.d.). The primary purpose of the SDGs is to provide a common language for social and environmental value (Reisman and Olazabal 2020). To track the SDGs, the UN has set up a framework of 231 indicators that measure the progress towards sustainable development (UN 2021). International institutions such as the WHO or the World Bank measure and track the indicators (UN 2021).

*IRIS+*

The IRIS+ model was launched in 2019 by GIIN provides an accounting system to measure and optimize impact (GIIN 2019). It comprises a core metrics set that can be filtered by SDG goal or by sector that is targeted to increase evidence for decision-making and comparability of impact data. Besides, a catalog comprising more than 400 impact performance metrics and implementation guidance support is provided (Gelfand 2012). This catalog has been launched in 2009 already and is updated on a regular basis ever since (Reisman and Olazabal 2020). Entities using the IRIS+ metrics can choose which ones to use (Gelfand 2012). The IRIS+ framework is aligned with the SDGs and partners with other impact investing actors such as the Impact Management Project or B Lab.

*IMP – Impact Management Project' 5 Dimensions*

| Dimension | | Impact category | Definition |
|---|---|---|---|
| What | i | Outcome level in period | The level of outcome experienced by the stakeholder when engaging with the enterprise. The outcome can be positive or negative, intended or unintended. |
| | | Outcome threshold | The level of outcome that the stakeholder considers to be a positive outcome. Anything below this level is considered a negative outcome. The outcome threshold can be a nationally or internationally-agreed standard. |
| | | Importance of the outcome to stakeholder | The stakeholder's view of whether the outcome they experience is important (relevant to other outcomes). Where possible, the people experiencing the outcome provide this data, although third-party research may also be considered. For the environment, scientific research provides this view. |
| | | SDG target or other global goal | The Sustainable Development Goal target or other global goal that the outcome relates to. An outcome might relate to more than one goal. |
| Who | | Stakeholder | The type of stakeholder experiencing the outcome. |
| | | Geographical Boundary | The geographical location where the stakeholder experiences the social and/or environmental outcome |
| | ii | Outcome level at baseline | The level of outcome being experienced by the stakeholder prior to engaging with, or otherwise being affected by, the enterprise |
| | | Stakeholder characteristics | Socio-demographic and/ or behavioural characteristics and/or ecosystem characteristics of the stakeholder to enable segmentation |
| How Much | | Scale | The number of individuals experiencing the outcome. When the planet is the stakeholder, this category is not relevant. |
| | | Depth | The degree of change experienced by the stakeholder. Depth is calculated by analysing the change that has occured between the 'Outcome level at baseline' (Who - ii) and the 'Outcome level in period' (What - i). |
| | | Duration | The time period for which the stakeholder experiences the outcome |
| Contribution | | Depth counterfactual | The estimated degree of change that would have happened anyway - without engaging with, or being affected by, the enterprise. Performance of peer enterprises, industry or local benchmarks, and/or stakeholder feedback are examples of counterfactuals that can be used to estimate the degree of change likely to occur anyway for the stakeholder. |
| | | Duration counterfactual | The estimated time period that the outcome would have lasted for anyway - without engaging with, or being affected by, the enterprise. Performance of peer enterprises, industry or local benchmarks, and/or stakeholder feedback are examples of counterfactuals that can be used to estimate the duration likely to occur anyway for the stakeholder. |
| Risk | | Risk type | The type of risk that may undermine the delivery of the expected impact for people and/or the planet. There are nine types of impact risk. |
| | | Risk level | The level of risk, assessed by combining the likelihood of the risk occuring, and the severity of the consequences for people and/or the planet if it does. |
| Impact classification | | | The impact of an enterprise can be classified as:<br><br>1. Act to avoid harm<br>2. Benefit stakeholders<br>3. Contribute to solutions<br><br>Note that if insufficient data exists for all dimensions for all stakeholders, the enterprise may be causing harm. |

*Source:* (Impact Management Project, n.d.)

**Exhibit 7** – Description of Categories of GoParity's Investments

*"Our vision covers all 17 points. The following are the ones we are most concerned with when approving projects to be financed:*

*#1: End poverty in all its forms everywhere;*

*#6: Ensure availability and sustainable management of water and sanitation for all;*

*#7: Ensure access to affordable, reliable, sustainable and modern energy for all;*

*#11: Make cities and human settlements inclusive, safe, resilient and sustainable;*

*#13: Take urgent action to combat climate change and its impacts;*

*#14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development;*

*#15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss"* (GoParity 2021a)

The seven SDGs on which GoParity focuses, translate into the five impact areas on which they focus. The projects financed via its website are filtered in accordance with those five impact areas (Comunello 2021).


*Source:* (GoParity 2021a)

**Exhibit 8** - Impact Metrics (Date: 11/01/2021)


*Source:* (GoParity 2021d)

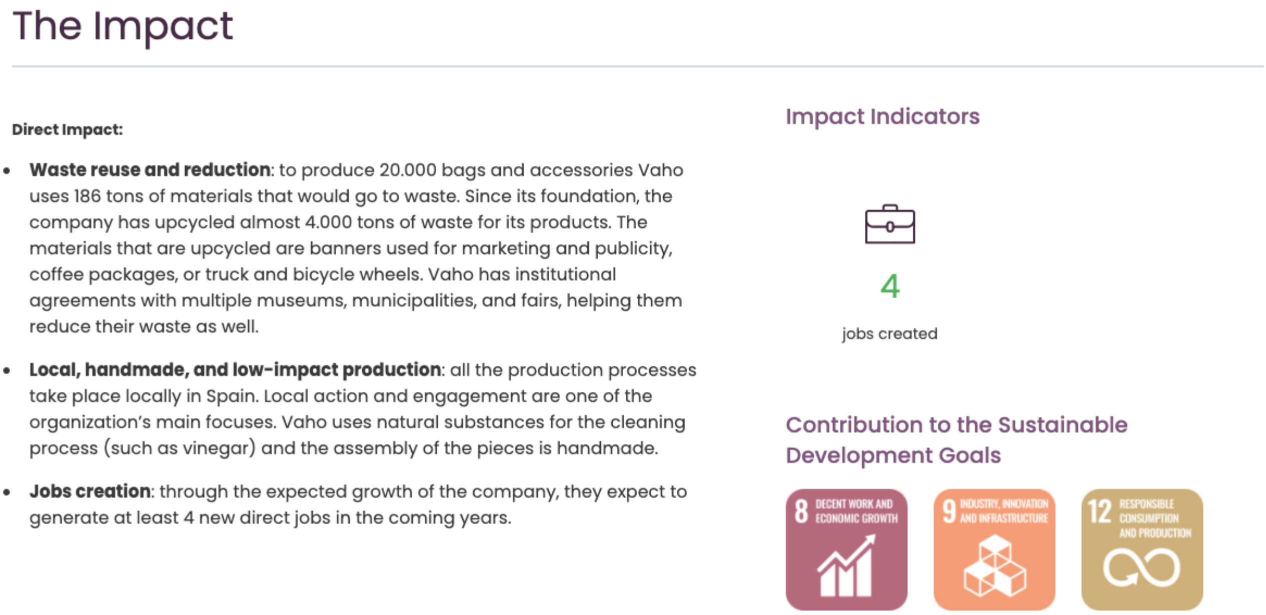
| | **Measurement Method according to the FAQ section on the website** |
|---|---|
| *$CO_2$ avoided* | We currently have two types of projects that have a significant impact on carbon dioxide ($CO_2$) emissions: photovoltaic and energy efficiency projects (e.g. LED systems). The way we measure the annual $CO_2$ emissions of both projects differs slightly:<br>Photovoltaic Projects: based on the fixed value of the first year of operation (marginal user method), we start by estimating the annual production of the installed photovoltaic panels (kWh). We consider this as the energy that is converted into clean energy, once it starts being produced through solar production (as opposed to fossil fuels, which is the national grid's most significant source).<br>Energy Efficiency Projects: we calculate the energy savings that arise from their installation - the energy that is no longer consumed due to the increased efficiency (kWh).<br><br>Once we have done this, we convert the energy into $CO_2$ emissions according to the carbon intensity of the grid (for Portugal this is estimated by the Directorate General for Energy and Geology every year, 258,5g $CO_2$/kWh for 2019).<br>We take into account the annual savings of the project's first year following its implementation. |
| *Clean energy in MWh* | See $CO_2$ avoided |
| *Hectares used for sustainable agriculture* | No information available |
| *Number of people empowered* | People impacted by a project funded through GoParity's platform are mainly the direct beneficiaries of the project to be financed. However, in |

| | |
|---|---|
| | some projects this impact indicator includes people who are indirectly impacted through the funded projects, in case they promote better living conditions, well-being or educational plans concerning more than the ones directly impacted (illustrative examples are the Asbestos-free Solar Nursery project impacting 105 people and the Cocoa do Ecuador II project impacting +2000 people due to improved working conditions/education). |
| *Number of Jobs created* | Information retrieved from projects:<br><br>Project: fashionable waste<br>https://goparity.com/project/fashionable-waste-191<br>Jobs creation: through the expected growth of the company, they expect to generate at least 4 new direct jobs in the coming years.<br><br>Project: culture channel<br>https://goparity.com/project/culture-channel-173<br>Creation of job opportunities: by funding the Culture Channel, three jobs will be created, aiming to retain talent in the areas of journalism, tourism, and management in the Alto Alentejo region. |

*Source:* (GoParity 2021b)

**Exhibit 9** – Project impact illustration on platform

*Project example 1: Fashionable waste*




*Source:* (GoParity 2021b)

*Project example 2: Decarbonization in Colombia*

# The Impact

This campaign is one of several to fund the installation of photovoltaic plants in 17 organizations in Colombia.

**Direct environmental impact**

- **Contribution to the decarbonization in Colombia, avoiding CO2 emission:** The whole operation is estimated to produce 4.650,57 MWh of clean and renewable energy per year, avoiding the emission of 1.934,02 tons of CO2 annually, the equivalent to planting 87.910 trees.
  - **This campaign** will be responsible to fund the production of 232,53 MWh of clean energy per year and avoid the emission of 96.701 tons of CO2 annually. This would be equivalent to planting more than 4396 trees.
- **Cost reduction for the final clients:** the decentralised energy production through renewable sources, close to the consumption site, helps to avoid distribution costs, making this a more competitive option than reverting to the national grid. Furthermore, the decreased dependency of the company on the national grid, makes it less vulnerable to price fluctuations and fiscal charges. It is estimated by Recap that the energy costs are reduced between 5% and 30% for their end-clients in Colombia.
- **Support reduction of energy consumption:** through providing services for improvements in energy efficiency use, Recap allows the companies to operate in a more efficient way, allowing around 50% reduction of energy consumption from the grid.

**Indirect Impact**

- **Promotion of solar decentralized energy:** with its Solar Funds, Recap enables smaller organizations of many different sectors to transition to renewable energy sources. Through decentralized photovoltaic centrals, the organizations are less dependent on the national grid and improve the country's clean energy consumption participation.
- **Support local companies:** Recap partners with Colombian installers, providing them a financial option to clients interested in installing the solar plants. They ensure the companies are aligned with Recap's values and apply screening criteria for the potential clients. Afterwards Recap makes its own financial and credit analysis.

### Impact Indicators

96,7 t
CO2 avoided per year

232,5
MWh clean energy

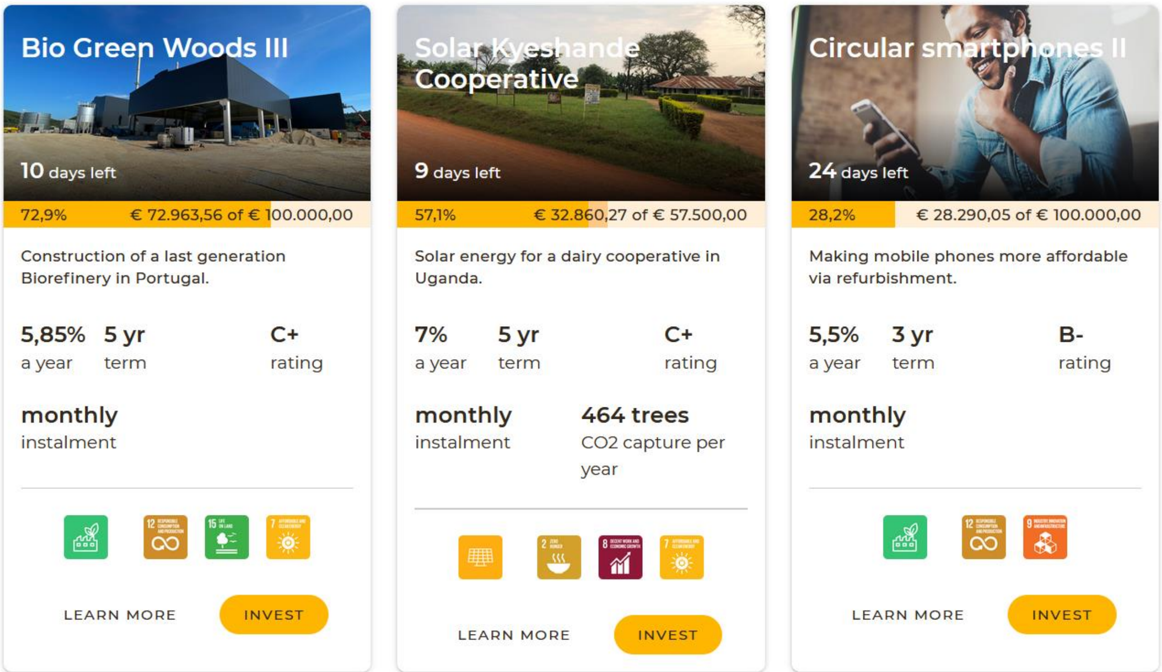
### Contribution to the Sustainable Development Goals

7 AFFORDABLE AND CLEAN ENERGY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

*Source:* (GoParity 2021b)

**Exhibit 10** – Project and risk illustration on platform




*Source:* (GoParity 2021b)

## Bibliography

Ahlers, Gerrit K.C., Douglas Cumming, Christina Günther, and Denis Schweizer. 2015. "Signaling in Equity Crowdfunding:" *Https://Doi.Org/10.1111/Etap.12157* 39 (4): 955–80. https://doi.org/10.1111/ETAP.12157.

B Lab. n.d. "About B Corps." Accessed November 2, 2021. https://bcorporation.net/about-b-corps.

Belleflamme, Paul, Thomas Lambert, and Armin Schwienbacher. 2014. "Crowdfunding: Tapping the Right Crowd." *Journal of Business Venturing* 29 (5): 585–609. https://doi.org/10.1016/J.JBUSVENT.2013.07.003.

CFA Institute. 2020. "Earning Investors' Trust." https://trust.cfainstitute.org/wp-content/uploads/2020/05/CFAI_TrustReport2020_FINAL.pdf.

Chima, Obinna. 2015. "IMF Harps on Behavioural Reforms among Bankers." November 9, 2015. https://www.pressreader.com/nigeria/thisday/20151109/281797102877728.

Comunello, Iara. 2021. "Interview with Iara Comunello (Impact Manager of GoParity) ." Lisbon.

Comunello Martins, Iara. 2020. "Measuring Impact Investments: A Case Study of an Intermediary, GoParity." Lisbon. https://www.repository.utl.pt/bitstream/10400.5/20923/1/DM-ICM-2020.pdf.

CrowdfundingHub. 2021. "Current State of Crowdfunding in Europe." https://www.crowdfundinghub.eu/wp-content/uploads/2021/09/CrowdfundingHub-Current-State-of-Crowdfunding-in-Europe-2021.pdf.

Cumming, Douglas, and Yelin Zhang. 2016. “Alternative Investments in Emerging Markets: A Review and New Trends.” *Emerging Markets Review* 29 (December): 1–23. https://doi.org/10.1016/J.EMEMAR.2016.08.022.

European Commission. 2021. “Regulation on European Crowdfunding Service Providers (ECSP) for Business.” 2021. https://ec.europa.eu/info/business-economy-euro/growth-and-investment/financing-investment/crowdfunding_en.

eurostat. 2021. “Mean and Median Income by Household Type - EU-SILC and ECHP Surveys.” October 27, 2021. https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di04.

Ferreira, Valeria, Eleni Papaoikonomou, and Antonio Terceño. 2021. “Unpeel the Layers of Trust! A Comparative Analysis of Crowdfunding Platforms and What They Do to Generate Trust.” *Business Horizons*, August. https://doi.org/10.1016/J.BUSHOR.2021.08.004.

Gelfand, Sarah. 2012. “Why IRIS?” *Stanford Social Innovation Review*, October. https://ssir.org/articles/entry/why_iris.

GIIN. 2019. “IRIS+ Core Metrics Set.”

GoParity. 2021a. “How Do You Decide Whether a Project Is Impactful or Not? | GoParity.” 2021. https://goparity.com/faqs/24.

———. 2021b. “Invest.” 2021. https://app.goparity.com/en/dashboard/invest#open-projects-tab.

———. 2021c. “Pricing Promoters.”

———. 2021d. “Worldwide Positive Impact Created by Our Promoters.” November 2, 2021. https://goparity.com/about/our-impact.

Heater, Brian. 2021. "Kickstarter's CEO on the Future of Crowdfunding." August 6, 2021. https://techcrunch.com/2021/08/06/kickstarters-ceo-on-the-future-of-crowdfunding/?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAE6wX7sGtG6wSt21HKCdpyrZhnlYyI9ifyUli41D1RloMnzSfMqft-uXjx7oAx2Fe0xfvVn50zJL3hklCyIIGMLqO9mbHychh7zKh6STK_wo1XzAdfA8pC5-VRKBRh8JSnkUrX6Ri9o6y-aF1rGlzzFhhGT9tMfQHGUMRIkUBpjc.

Impact Management Project. n.d. "Impact Management Norms."

Reisman, Jane, and Veronica Olazabal. 2020. "Impact Measurement Norms for Powerful Results." SoPact. https://www.youtube.com/watch?v=9eXQXiqTNuQ&ab_channel=SoPact.

Rotem, Shneor, Bjørn-Tore Flåten, and Liang Zhao. 2020. "The Future of Crowdfunding Research and Practice." In *Advances in Crowdfunding Research and Practice*, 499–500. School of Business and Law, University of Agder, Kristiansand, Norway.

Rousseau, Denise M., Sim B. Sitkin, Ronald S. Burt, and Colin Camerer. 1998. "Not so Different after All: A Cross-Discipline View of Trust." *Academy of Management Review* 23 (3): 393–404. https://doi.org/10.5465/AMR.1998.926617.

Statista. 2021. "Household Gross Savings per Capita in Selected Countries in the European Union in 2020." 2021. https://www-statista-com.eu1.proxy.openathens.net/statistics/1221225/savings-per-capita-in-the-european-union-by-country/.

Strohmaier, D., Jianqiu Zeng, and Muhammad Hafeez. 2019. "Trust, Distrust, and Crowdfunding: A Study on Perceptions of Institutional Mechanisms." *Telematics and Informatics* 43 (October): 101252. https://doi.org/10.1016/J.TELE.2019.101252.

UN. 2021. “IAEG-SDGs: Tier Classification for Global SDG Indicators.” Department of Economic and Social Affairs. 2021. https://unstats.un.org/sdgs/iaeg-sdgs/tier-classification/.

———. n.d. “The 17 Goals.” United Nations: Department of Economic and Social Affairs. Accessed December 9, 2021. https://sdgs.un.org/goals.

UNCTAD. 2014. “World Investment Report 2014.”

United Nations. 2015. “Transforming Our World: The 2030 Agenda for Sustainable Development.” 2015. https://sdgs.un.org/2030agenda.

Uslaner, Eric M. 2018. “The Study of Trust.” *The Oxford Handbook of Social and Political Trust*, March, 3–13. https://doi.org/10.1093/OXFORDHB/9780190274801.013.39.

Wiserfunding Ltd. 2021. “Understand the Credit Risk of SME’s | Wiserfunding.” 2021. https://www.wiserfunding.com/.

Ziegler, Tania, Rotem Shneor, Karsten Wenzlaff, Krishnamurthy Suresh, Felipe Ferri, Camargo Paes, Leyla Mammadova, et al. 2021. “Global Alternative Finance Market Benchmarking The 2nd Global Alternative Finance Market Benchmarking Report.” https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf.

# GROUP PART II – Evaluation Report

GoParity: Evaluating the importance of building trust among investors of a social crowdlending platform

# Evaluation Report GoParity

Table of Contents

## 1. Introduction

In our Master's thesis we investigate the following research question: "How to grow sustainably as a social crowdlending platform - the crucial role of building trust among investors". Having already analysed in the case study how GoParity did create trust until now, the evaluation report focuses on how GoParity can further increase trust among investors.

As social crowdlending platform, GoParity's business model follows the platform logic. This implies that only if enough investors are registered on the platform, promoters will be attracted to place their funding campaigns there. As GoParity mainly generates revenue from promoters by charging certain fees for setting up and managing a funding campaign, growth in the promoter base is a crucial factor for scaling the company. A significant aspect of achieving this growth is attracting more users to register and invest on the platform. As GoParity acts as an intermediary between investors and project promoters by assessing the impact and risks of specific projects, trust in the platform is an indispensable factor for investor growth.

The evaluation report is structured in the following way. To gain a better understanding of GoParity's business model, we give an overview of the crowdlending platform model in the next chapter. Thereafter, we provide an introduction into the crowdlending market with a focus on its market size in Europe and Portugal and highlight important market trends. This should help to get a better understanding of external factors influencing GoParity's business model. Next, we will discuss the importance of trust for GoParity's business model and introduce a general framework on how to enhance trust among investors. Afterwards, we are putting our focus on analysing and mapping trust-related challenges of GoParity. Based on this, we develop recommendations, taking into account our research results and pointing out respective risks and limitations. In the last step, we create an implementation plan for each recommendation.

## 2. Business Model GoParity

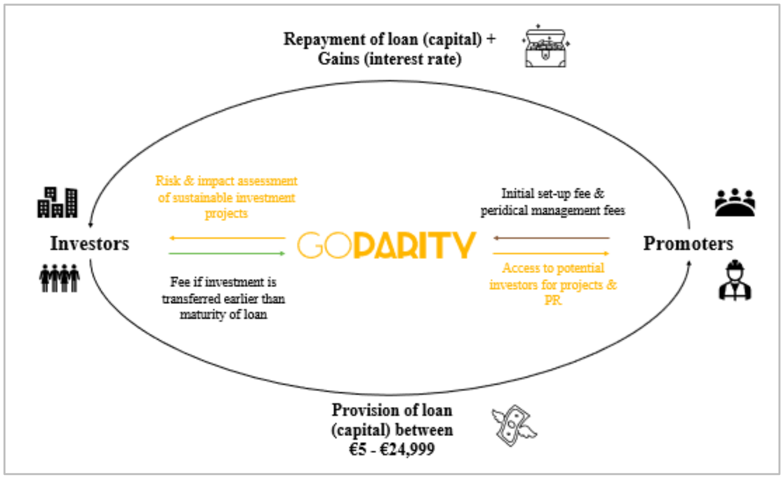



*Figure 1 - Business Model GoParity*

*Source*: Own illustration, based on information provided by (GoParity 2021)

To better understand our analysis and recommendations, it is important to get a holistic overview of the key points of GoParity's business model (*Figure 1)*. GoParity is a crowdlending platform that connects investors and finance seeking project promoters. Investors can provide loans to these promoters and get a fixed interest in return. For legal reasons, project promoters are currently only small to medium European profit and non-profit organizations that offer projects all over the world. Investors are institutional and retail investors with investment amounts between €5 and €24,999. To provide more detailed recommendations, we are only focusing on retail investors in our work project. GoParity generates income mainly through fees charged to promoters. These include an initial set up fee depending on the financed capital and periodical management fees of 1% until the fund reached its maturity. Investors only have to pay a fee if they transfer investments before the end of the loan term or withdraw them from the fund early (*Exhibit 1*) (GoParity 2020). As GoParity's income mainly depends on the funding amount of the projects, they seek to attract promoters with larger funding volumes. In return, GoParity provides promoters access to a community of over 16 thousand potential investors. Moreover, the platform serves as Marketing and PR channel for promoters as it creates visibility for their projects.

The typical retail investor of GoParity is between 25 and 45 years old (70%). 90% of GoParity's investor base is Portuguese. The other nationalities of investors are mainly Spanish, Brazilian, Italian, French, German and Dutch, with Spain representing the largest share and the Netherlands the smallest. The average investment amount per project is 300€, the average monthly amount invested per investor is 410€.

Investors can currently choose between an offering of three projects at a time (*Exhibit 2)* Projects currently are mainly from these categories: Sustainable Energy (50%), Business in Transition (17%), Social Economy (14%), Water & Blue Economy (11%), and Green Use of Land (6%). The duration of the projects is on average three to four years, with an average funding amount per campaign between 100,000€ and 200,000€. The campaigns are displayed on GoParity's website for one month by default but are successfully funded after two to three weeks on average.

## 3. Crowdlending

### 3.1. Crowdlending Definition

Crowdlending, also known as peer-to-peer lending (P2P lending), is a special form of the broader concept of crowdfunding (Ziegler et al. 2021). In crowdfunding, a wide group of individuals or institutions, representing the 'crowd', provide money to funding-seeking entities (e.g., SMEs, entrepreneurs) (Belleflamme, Lambert, and Schwienbacher 2014). In doing so, crowdfunding addresses the underlying issue of financial exclusion to ventures or individuals not entitled to traditional tools of finance such as bank loans, thereby democratizing finance (Ferreira, Papaoikonomou, and Terceño 2021). In this context, the basis of the relationship between the actors can be characterized by debt, equity or non-investment (e.g., donations) (Ziegler et al. 2021).

Crowdlending is a form of debt-financing, where the 'crowd' lends money to funding-seeking entities and is paid back the loan amount and an additional interest after maturity. It is the most established form of crowdfunding (Ziegler et al. 2021). To match supply by the investors (i.e., group of individuals) and demand of funding seekers, online platforms function as accessible marketplaces.

3.2. Market Size

According to the Cambridge Center for Alternative Finance, the European P2P lending market, where investors lend money to businesses (similar to GoParity's business model), has grown to $1.844Mio at a CAGR of 51% since 2015 (*Figure 2*).

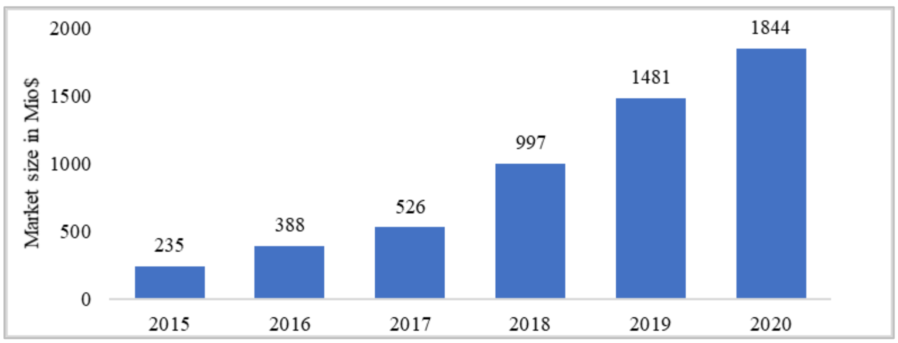



*Figure 2 - European P2P lending market in $Mio*

*Source: Cambridge Center for Alternative Finance 2021, p. 74*

Comparing the crowdlending market across European regions, the UK leads by more than three times before the next largest market - France. In the alternative finance market, Iberia (including Portugal) is positioned below average with a volume of $591Mio (Ziegler, et al. 2021). More precisely, GoParity's home market is still comparably nascent with only few players in place (CrowdfundingHub 2021). Their direct crowdlending competitor platform, Raize, who is focusing on funding impact projects, has realized transactions of over €43Mio (CrowdfundingHub 2021). In comparison, GoParity represents the next largest player with €6.7Mio (Nina 2021).

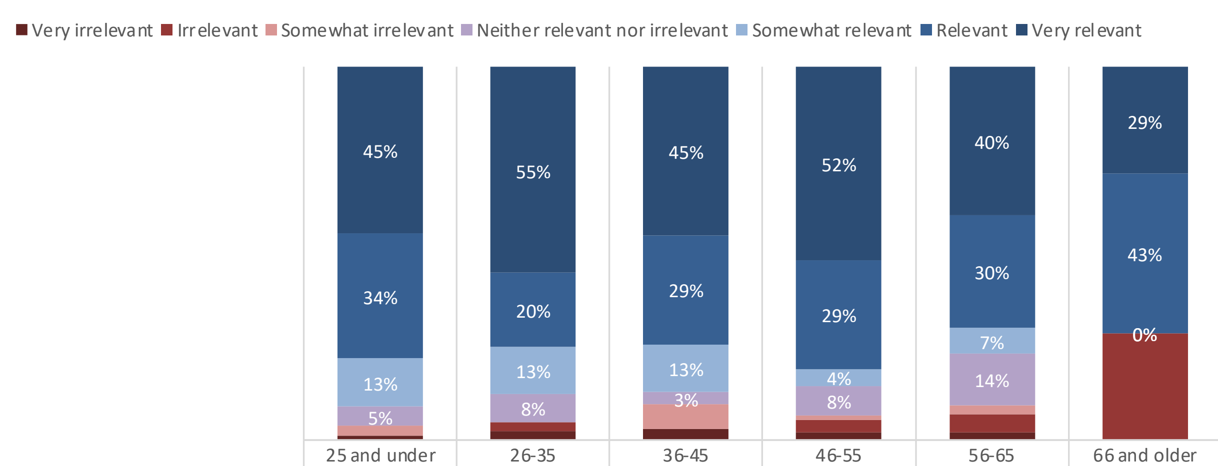
### 3.3. Market Trends

This aforementioned, rather slow market development in Portugal, possibly results from diverse factors. Firstly, the fact that many crowdfunding platforms are still not profitable impedes market entry, “[…] especially in a country with a relatively small perceived market size“ (CrowdfundingHub 2021). A second aspect may be the strict regulatory environment in Portugal. Among European countries, Portugal shows one of the lowest alternative finance volumes in relation to its high perceived regulation adequacy (Ziegler, et al. 2021). This strict regulation creates a competitive disadvantage compared to other countries and may hinder other platforms from entering the market. In November 2021, the European Union responded to the torn European legal crowdfunding landscape and introduced the Regulation on European Crowdfunding Service Providers (European Commission 2021). This regulation provides common principles for crowdfunding by implementing an EU-wide authorization. Moreover, it also responds to the internationalization trend, that funding volume increasingly flows across countries (Ziegler, et al. 2021). Besides market size and regulatory environment, the importance of institutional investors next to private investors in crowdlending has grown significantly as their funding volume increased by more than 50% from 2019 to 2020 globally (Ziegler, et al. 2021). In Iberia, the volume financed by institutional investors increased from 56% to 67%.

## 4. GoParity’s Position in the Trust Cycle

Being the intermediary crowdlending platform, connecting promoters and investors, GoParity is positioned in the center of the trust cycle, as they control the information flow. More precisely, the investors rely on GoParity to assess the risk and the impact of the promoters’ projects appropriately.

In order to grow and attract more investors, trust transfer becomes crucial for the establishment of the crowdlending provider. Our survey confirms this, as we find that a trust-based relationship towards an online investment platform is important for most respondents. Focusing on the age groups 25–35 years and 36-45 years, to which most of GoParity's investors belong, the relevance of a trust-based relationship becomes even stronger (*Figure 3*). Among both age groups, more than 70% of respondents state that a trust-based relationship towards the platform is relevant.




| | 25 and under | 26-35 | 36-45 | 46-55 | 56-65 | 66 and older |
|---|---|---|---|---|---|---|
| Very relevant | 45% | 55% | 45% | 52% | 40% | 29% |
| Relevant | 34% | 20% | 29% | 29% | 30% | 43% |
| Somewhat relevant | 13% | 13% | 13% | 4% | 7% | 0% |
| Neither relevant nor irrelevant | 5% | 8% | 3% | 8% | 14% | 0% |
| Somewhat irrelevant | 3% | 0% | 6% | 1% | 2% | 0% |
| Irrelevant | 0% | 3% | 0% | 3% | 5% | 29% |
| Very irrelevant | 1% | 3% | 3% | 2% | 2% | 0% |

*Figure 3 - Response distribution to the question: how relevant is a trust-based relationship towards an online investment platform for you?*

*Source*: Own survey (*consult Appendix II for more details*)

The importance of trust increases even more due to the risky nature of projects financed. Moreover, the fact that GoParity is a young business in a nascent market fuels investors biases of lower credibility and higher risk. Finally, public trust in alternative financial platforms is in general lower than in traditional finance institutions (Ziegler, et al. 2021).

As the question of how GoParity can grow and scale their business in the long term arises, the importance of increasing the private investor base becomes indispensable. In this regard, the network effect, explaining that a platform's value to a user group depends on the number of users on the other side of the platform, becomes essential (Boudeau and Jeppesen 2014). Following this effect, if enough potential investors are on the platform, promoters will be attracted to place their funding campaigns with GoParity. A crucial lever to achieve the goal of a larger investor base is trust. Therefore, this report will focus on how the crowdlending platform can further deepen the trust relationship with investors.

### 4.1. Theory of Trust

Trust creation amongst investors represents a frequently discussed and highly interesting topic within the scope of the Behavioral Finance literature. In an industry fueled by information asymmetries, self-serving behavior and simultaneously a high degree of vulnerability through the loss of control over one's assets, trust forms an invaluable and indispensable asset (Rousseau, et al. 1998).

Nevertheless, the significance of trust in financial markets is oftentimes underestimated due to its difficulty to be assessed and measured. A lack thereof however can have a significantly harmful effect on financial markets by triggering increased inefficiency and costliness of financial interactions. This can be explained by the fact that the less investors trust in the good intentions of the individuals associated with their investments, the more they demand to be compensated for the risk they are taking (CFA Institute 2020). The detrimental repercussions of missing trust in financial institutions and organizations can clearly be underlined by incidences like the global financial crisis in 2008. This internationally destructive crisis was partly triggered by an erosion of investors' trust through abusive and self-serving behavior of financial institutions leading to a ripple effect of various major bankruptcies (Tomasic and Akinbami 2011).

To avoid such disastrous incidences, the creation of trust is essential for properly functioning capital markets. In order to do so, both, the willingness to trust on the one side of the transaction and the worthiness of trust on the other are crucial. As the general willingness to trust of an individual is highly depending on its characteristics, the subsequent focus will be on the creation of trustworthiness of the capital-receiving side.

To ensure a trust-based foundation with investors, the Chartered Financial Analysts Institute (CFA Institute) has developed a holistic framework. According to this framework, investor trust can be created through three main pillars; (1) information, (2) innovation and lastly (3) influence.

In this context, (1) the pillar of information symbolizes the formation of a trust-based relationship towards investors through an increase in transparency and education of investors. Consequentially, investors who feel well-informed and educated about the specific investment naturally portray greater trust and confidence towards it.

Secondly, (2) the pillar of innovation forms a further approach for trust creation through the use of innovative technologies. Hereby, the reliance on technology specifically with regards to decision-making results in increased trust towards the capital-receiving side of an investment, as human biases can be minimized. As an example, the majority of investors interviewed by the CFA Institute are eager to invest in fund that incorporate artificial intelligence in their investment selection process.

Thirdly, (3) the pillar of influence represents the formation of trust through the possibility of control and customization over one's investments. As a result, investors generally prefer investments that are personalized and tailored to their individual preferences and especially values e.g., with regards to environmental, social and governance (ESG) investments (CFA Institute 2020).

## 5. Status-quo of GoParity

When applying the aforementioned framework by the CFA Institute to GoParity's processes and overall strategy, it becomes apparent that the company is already employing various of the concomitant aspects in their daily routines.

When referring to the pillar of information, GoParity is already employing great efforts to ensure transparency as well as education of investors. More precisely, the company is fostering a continuous flow of information sharing and incorporating transparency and education as key pillars of their communication strategy by offering regular so-called 'meet-ups' with its investors. These meetings enable investors to gain first-hand insights into GoParity as a company, the team behind the platform and various other aspects e.g., the inherent risk assessment process. Additionally, the platform is pledging itself to transparency by only communicating project's impact creation when clearly measurable and justified by GoParity or an independent third party.

With regards to the pillar of innovation, the platform is incorporating multiple standardized and unbiased decision-making processes facilitated through technology to create investor trust. Through a thorough, well-functioning three step due diligence process resulting in no bankruptcies to date, GoParity is ensuring investor confidence towards its investment selection process. In addition to that, the start-up is utilizing a robust statistical credit model based on an independent, outsourced risk grading mechanism by a company called 'Wiserfunding' and the well-reputed, standardized 'IRIS+' framework in impact identification to foster investor confidence in specifically the risk and impact assessment.

Lastly, GoParity is employing the pillar of influence within its business model by incorporating investor feedback and granting a wide range of customization opportunities e.g., with regards to its investments. Hereby, the platform offers investors full power of choice regarding their project investments such as the choice of the project they wish to support or the industry or SDG they prefer. Additionally, by broadening its project scope when shifting focus from clean energy projects to a broader spectrum of impact topics, GoParity is granting its users intensified customization opportunities. Through a frequent change of project offerings with an outlook on future investment opportunities available, the platform is further granting investors' the possibility to tailor their investments to individual preferences. Lastly, by offering a marketplace that enables the liquidation of ongoing funded investments, the platform is enhancing its users' control over their assets.

Nevertheless, the company still portrays great improvement potential along all three pillars in order to further create and deepen trust relationships with investors, which will be analyzed subsequentially.

## 6. Methodology

Besides extensive literature research that provided us with essential knowledge on crowdlending and the importance of trust in the financial industry, data from internal and external interviews as well as from focus groups were gathered. Additional insights were gained from our own survey.

### 6.1. <u>Internal Interviews</u>

To obtain a holistic view on the development, internal processes, and culture of GoParity, seven interviews with five employees from different departments and management levels that lasted approximately one hour were conducted. More precisely, we interviewed (1) Nuno Brito Jorge (Co-founder and CEO), (2) Manuel Nery Nina (Co-founder and CCO), (3) Iara Comunello (Operations and Impact Manager), (4) Inês Branco Lopes (Community and Partnerships' Manager) and (5) Rita Costa (Risk and Compliance Manager). Rita Costa and Inês Branco Lopes were available for more than one interview.

### 6.2. External Interviews

For a deeper understanding on relevant market trends and best practices across the sector, seven external interviews with other financial service providers were conducted. The three experts from more established banks were from BNP's impact department, UBS' wealth management and Caixa Geral de Depósitos' department of financial markets. Moreover, we interviewed relevant key players in the platform sector that are active in the crowdlending or impact investment market. These included Tomorrow, Trine, Wiwin and Raize, as they are comparable to GoParity in operations and size.

Based on the interview data as well as on customer service responses, we conducted a benchmarking against Tomorrow, Trine, Wiwin and Raize. Additionally, Kiva and Trade Republic were screened and included in the benchmarking. While Kiva is a direct competitor of GoParity with a similar business model, Trade Republic is a pioneer in the FinTech sector operating a broker platform with more than 1 million users (Trade Republic 2021).

### 6.3. Survey

To gain data on more precise questions relevant for GoParity and to understand investors' motivations, we conducted a survey with 22 questions including multiple choice, Likert scale, ranking and open-ended question types (*see Appendix II*). In total, we received 564 responses of which 365 were valid and further analyzed.

The analysis of our sample n = 365 was conducted in SPSS to encode the responses in numbers and in Excel to analyze response behavior along age and nationality (*Table 1&2*). To analyze the age distribution per response, we converted age into six categories. Age categories were encoded as depicted in table 1. Moreover, nationality was summarized from six different categories into three, as almost 90% were either German (44%) or Portuguese (46%) and only 4% were Spanish, French or Italian (*Table 1*). The remaining 7% included the following nationalities: Austria, North Korea, United States, Belgian, China, Great Britain, Paraguay, Thailand, the Netherlands, Australia, and India.

| **Age Category** | **Nationality** | **Nationality Category** |
|---|---|---|
| 1 = 25 and under | 1 = German | 1 = German |
| 2 = 26-35 | 2 = Portuguese | 2 = Portuguese |
| 3 = 36-45 | 3 = Spanish | 3 = Other |
| 4 = 46-55 | 4 = French | |
| 5 = 56-65 | 5 = Italian | |
| 6 = 66 and older | 6 = Other | |

*Table 1: Category codes*

| | | **How old are you? (please only type the number)** | **Age Category** | **What is your nationality? - Selected Choice** | **Nationality Category** |
|---|---|---|---|---|---|
| *N* | Valid | 365 | 365 | 365 | 365 |
| | Missing | 181 | 181 | 181 | 181 |
| *Mean* | | 37.1014 | 2.58 | 1.92 | 1.67 |
| *Median* | | 31 | 2 | 2 | 2 |
| *Std. Deviation* | | 14.9926 | 1.589 | 1.305 | 0.66 |
| *Variance* | | 224.778 | 2.525 | 1.704 | 0.436 |
| *Minimum* | | 18 | 1 | 1 | 1 |
| *Maximum* | | 73 | 6 | 6 | 3 |
| *Percentiles* | 25 | 24 | 1 | 1 | 1 |
| | 50 | 31 | 2 | 2 | 2 |
| | 75 | 52 | 4 | 2 | 2 |

*Table 2: Statistics*

A closer look at age frequencies shows most respondents are ‘25 or under’ or ‘46 to 55’ (*consult Exhibit 3 for further details*). Furthermore, data on respondents’ occupancy and gender proved how diverse the sample was. While the majority (55%) of respondents were working, 36% stated they were studying. Additionally, approximately 40% females and 60% males participated, demonstrating a relatively equal gender distribution.

Most respondents were familiar with financial investments in general. However, a fragmented picture regarding familiarity with impact investments was drawn (*Exhibit 4*). Interestingly, the age category of '26-35' belonging to GoParity's main target group demonstrates familiarity with impact investments. Except for the age category of '25 and under', at least 50% has already invested in the financial market.

6.4. Focus Groups

In order to obtain detailed opinions and statements by people not familiar with GoParity, we conducted five different focus group discussions. To exclude biases regarding age, gender and nationality, the focus groups were mixed with regards to nationality, age, gender and familiarity with (impact) investments (*Table 3*). All focus groups were provided with equal information and asked questions about the same topics (*Exhibit 5*). More precisely, the information shared with the focus groups included GoParity's impact identification, risk assessment and communication strategy. Additionally, we asked the attendants to take a look at GoParity's website. During the focus group meetings, the discussion was structured along the following topics: risk, trust, impact identification, projects, communication, and future outlook.

| | | **Focus Group 1** | **Focus Group 2** | **Focus Group 3** | **Focus Group 4** | **Focus Group 5** |
|---|---|---|---|---|---|---|
| *Size* | | 3 | 4 | 5 | 5 | 4 |
| *Gender* | *Male(s)* | 2 | 3 | 3 | 3 | 3 |
| | *Female(s)* | 1 | 1 | 2 | 2 | 1 |
| *Age* | *Minimum* | 22 | 22 | 23 | 22 | 20 |
| | *Maximum* | 24 | 28 | 24 | 30 | 73 |
| *Nationality* | *German* | 1 | 4 | - | - | 4 |
| | *Portuguese* | 2 | - | 5 | 5 | - |

*Table 3: Focus group characteristics*

## 7. Analysis

To come up with thoroughly developed recommendations and implementations, we chose a structured approach to cluster GoParity's challenges along different dimensions (*Figure 4*). In the first step, we listed all the challenges we identified through our conducted research (*for detailed information on research methods view chapter 6)* according to the three pillars of trust creation – Information, Innovation, and Influence. In the second step, we mapped the challenges according to their impact on GoParity's growth and the effort required for GoParity to solve them. In the third step, we developed recommendations for the respective challenges by considering our research results and analyzing possible risks and limitations. To further enhance the organizational fit and relevance of the recommendations and to ensure their specificity to GoParity, we organized an interview with Inês Branco Lopes and Rita Costa. Here we presented the recommendations and included their feedback from an internal point of perspective. In the fourth step, a detailed implementation plan for each recommendation was developed.

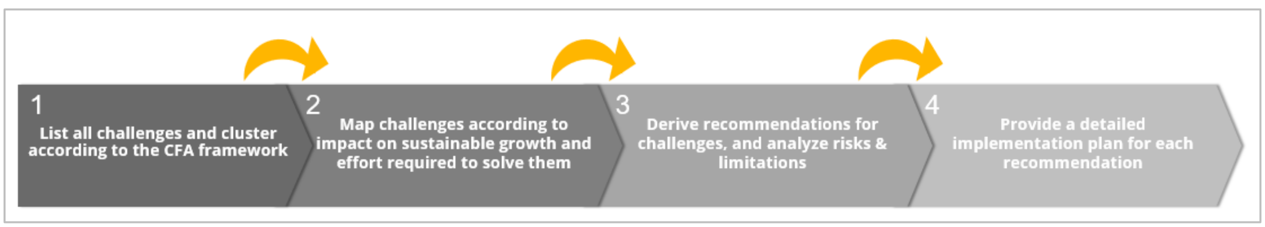



*Figure 4 - Analysis process*

### 7.1. Challenge Derivation

Our analysis process begins with the identification of the challenges GoParity is facing and which might hinder the start-up to sustainably increase the trust of its current and potential investor base. Through our aforementioned research, we identified ten overall challenges. In the following, the challenges are being clustered according to the three pillars of the CFA framework (*for detailed information on the CFA framework view chapter 4.1)*, as each dimension is influencing the creation of investor trust in a specific way. Resultingly, we derived and analyzed the challenges according to this issue.

*Information*

Strengthening brand awareness: GoParity has been founded four years ago and can thus still be categorized as a start-up with a rather small but already somewhat established user base. Due to the aforementioned facts, their brand awareness of being a sustainable, trustworthy crowdlending platform is comparably low. This poses a challenge on the company's growth, since its platform business model is relying on a future increase in the number of investors and promoters.

Expanding impact identification: Whilst assessing the individual projects' impact, GoParity is not conducting a sustainability screening of the entire promoter company behind the project. This could potentially result in supporting companies, which do not comply with the SDGs or are using the capital raised for polishing their brand image.

Monitoring long-term impact: Monitoring is a core dimension of the impact measurement (IFC 2019). GoParity is monitoring and communicating the long-term impact created through projects only in specific cases. This could result in the promoter, having received funding, not working towards the long-term creation of impacts that the project originally envisaged. Furthermore, GoParity is missing out on the potential to communicate future achieved impact to investors.

Communicating impact identification: The general impact assessment process that GoParity carries out for projects offered for funding is not explained on the website. Details about the use of frameworks, measures taken, as well as an underlying reasoning for individual project choice is not published, and can thus result in opacity, misunderstanding and mistrust of investors.

Communicating individual project risk assessment: While the general risk assessment process is depicted on the website, the derivation of the individual projects' risk rating is not elaborated on.

There is no transparent and detailed communication on how the individual risk measurement of single projects takes place. This can lead to investors not trusting the process for specific projects, and resultingly not investing.

*Innovation*

Standardizing risk assessment: Risk is assessed on a project-individual basis, as for such a diverse project and promoter base, it is difficult to standardize the process. However, this 3-step process is very time and capacity intensive, especially for the longer-term. Furthermore, GoParity needs to prove to investors that its risk assessment process is thorough enough to not encounter any defaults.

Standardizing impact identification: The impact identification process is accomplished separately for each project, as it includes very distinct measures, depending on the type of project and expected outcomes. This results in the need to allocate a great amount of time and capacity to the process. It is further heavily reliant on expert judgement, which can be regarded as being too subjective for investors liking.

*Influence*

Increasing project quantity: Usually, GoParity offers three projects for investment on its website at the same time. This number of projects is not sufficient to cover a wide range of impact topics for investors to choose from, thus eliminating the power of choice. Furthermore, it reduces the potential for diversification benefits i.e., spreading of risk between several investments.

Decreasing overall investment duration: The projects displayed on the website are mostly inhering long timeframes (3-7 years). This might discourage investors that do not feel comfortable of having their investment blocked for several years in case they do not make use of the secondary marketplace offered by GoParity.

Increasing project scope: The limited number of projects offered as well as the strong focus on sustainable energy projects (50% of all projects) might lead to a misalignment of projects with investors' preferences. This missing representation can further result in the deterrence of potential investors.

7.2. Mapping

In the following, we will elaborate on step two, in which we mapped the challenges in collaboration with the CEO Nuno Brito Jorge along the dimensions of their impact on GoParity's growth and the effort for GoParity to address the challenges (*Figure 5*).

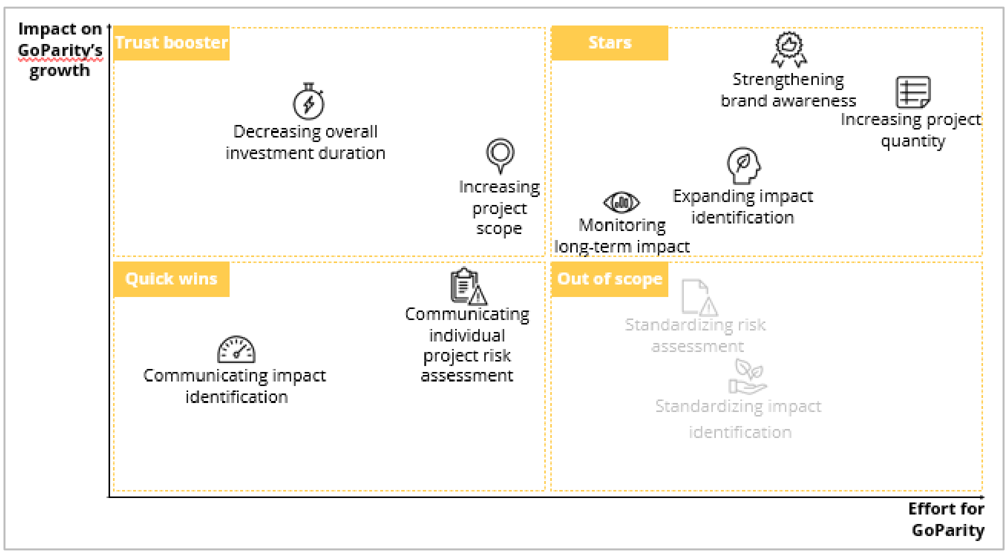



*Figure 5 - Mapping of challenges*

The dimension "Impact on GoParity's growth" is defined as the effect a certain challenge poses on the creation of investor trust, thus, ultimately its impact on GoParity's growth. The dimension "Effort for GoParity" is defined as the effort required to address a certain challenge in terms of pre-requirements, financial resources, time, and human capital. Based on this we derived four quadrants within the map – stars, trust booster, quick-wins, and out-of-scope. By tackling stars, trust can be largely and sustainable increased, however, it requires rather high effort. Trust booster do not require much effort to tackle, however can create a big impact on GoParity's growth. They are thus particularly valuable. Quick wins comprise challenges that are easily and fast addressable and create small to medium impact. Out of scope challenges are less relevant in terms of trust creation and take a high effort to address. They are thus not in the focus of this report, however important to address for the future scalability of GoParity. The positioning of the individual challenges is based on our research (*for a detailed reasoning, please refer to Exhibit 6*).

## 8. Derivation of Recommendations

The following chapter is dedicated to step three of the analysis process, where we derived recommendations to tackle the challenges identified and elaborated on risks and limitations.

**Trust Booster**

### 8.1. Decreasing Overall Investment Duration

#### *8.1.1. Research Results*

*Focus groups*

Three out of five focus groups mentioned the long timeline of projects as major concern when investing in GoParity's projects. In fact, they considered the long duration as obstacle preventing them from investing because maturities of two years or more require high commitment and trust.

*Benchmarking incl. external interviews*

Wiwin offers projects with similar durations (up to 10 years) as GoParity (Wiwin 2021). Their loans are not amortized and cannot be sold before maturity (Customer Support Wiwin 2021). Trine offers projects with similar durations (e.g., 3 or 5 years) and breaks investments down into funding cycles (Trine 2021). Thereby, most loans are amortizing with quarterly interests and capital repayments. The average grace period amounts to six months and there is no option to exit early or sell the loan on the secondary market (Customer Support Trine 2021). A grace period of capital describes the period in which the debtor is only obliged to payback interest (GoParity FAQs 2021). The capital will be paid back as soon as the grace period ends (*for a more detailed explanation see Exhibit 1*).

When looking into long-term investments, selling via secondary markets becomes an important factor (Odorovic, et al. 2021). Mintos, a crowdlending platform with almost 500k users from 62 countries and over 25Mio loans funded, serves as a great benchmark here, as they have a very active marketplace. More precisely, in 2020, the daily average loan worth sold via their market amounted to more than €500k (Mintos 2021). Moreover, investors have the option to sell at a premium or discount. However, Mintos charges a fee of 0.85% of the investment sold to investors (Mintos 2021).

*Internal interviews*

When GoParity introduced short-term loans in 2020, their investments funded increased significantly (Nina 2021). Since then, GoParity tries to offer one short-term (i.e., duration of approximately one year) project once a month and has built a marketplace on their platform where investors can sell portfolio positions (Lopes and Costa 2021). The difficulty, however, is that most projects require a longer implementation phase over several years and cannot pay back loans in the short-term (e.g., after one year) (Lopes and Costa 2021).

#### *8.1.2. Recommendations*

Firstly, we suggest that GoParity can address this challenge by educating investors in a neutral way on long-term loans. They should use their website as primary medium and potentially organize a meetup session on the topic of investment durations. Therefore, they could mention if a project's maturity is below or above the average maturity of all projects financed via GoParity. Moreover, GoParity can inform investors that short-term investments (i.e., mostly working capital) are often riskier than long-term ones (Lopes and Costa 2021). Additionally, the team may put a quote such as "long term investment lasts longer but builds more" next to long-term projects on their website to remind investors that impact often requires a long-term future-oriented approach (Lopes and Costa 2021). Finally, education on the fact a higher grace period brings higher interest payments (*Exhibit 7*) for investors, could lever investor trust in long-term investments.

Secondly, GoParity could attempt to break-down long-term projects into shorter funding cycles if the nature of the projects allows promoters to pay back loans during the implementation phase.

Lastly, the platform should improve the attractiveness of GoParity's existent secondary marketplace and further promote the selling option as a lever to create more flexibility for investors. For instance, they could eliminate or reduce the fee for investors when they sell debt positions. This would address the overall issue regarding the absence of secondary markets in investment-related crowdfunding that prevent investors from liquidating their portfolio (Odorovic, et al. 2021).

#### *8.1.3. Risks and Limitations*

With regards to education, GoParity must respect the rule that they are not allowed to counsel investors (Lopes and Costa 2021). Therefore, they must pay attention that the education is neutral and not biased by showing both, advantages, and disadvantages of long-term durations.

Secondly, as pointed out by Rita Costa (2021), the majority of GoParity's projects need developing capital that is long-term focused and not working capital with a short-term nature, because the projects usually start from scratch and need some time before they are financially able to pay back loans. Therefore, it may be hard to break down the loans into shorter funding cycles.

Additionally, long-term projects usually come with a larger ticket size and are, thus, more profitable for GoParity (Nina 2021). This is because the interest is calculated based on the amount required for funding (*Exhibit 1*).

Lastly, improving the attractiveness of the secondary marketplace is largely dependent on the traffic. GoParity has no direct impact on the traffic but can only focus on functions and incentives for investors.

#### *8.1.4. Implementation Plan*

Together with GoParity we decided that targeted investor education and a higher emphasis on increasing marketplace attractiveness would be the main objective to address this challenge.

*Team*

In order to educate investors on investment durations via online communication channels including website or blogposts and via a meetup, the marketing and communication team will be central. Besides, to get more traffic on the marketplace, a promotion campaign would be led by the communications and marketing team as well. Moreover, the attractiveness of the secondary marketplace can be levered by decreasing the fee for trading which would be decided by the executive board of GoParity.

*Technical Approach*

The education of investors should focus on the interplay between interest calculation, grace periods and the risk behavior according to the duration of investments. This information can be communicated in a meetup format. Therefore, a meetup addressing information around investment duration should be organized. Additionally, the website structure should be reviewed to make the information about investment duration more visible. Currently, the data is hidden in the FAQ section and difficult to find. Furthermore, an informative article about can be shared via their blog or via email.

The promotion campaign to fuel traffic for the secondary marketplace can be communicated via GoParity's primary communication channels (i.e., email, blog posts, LinkedIn and Instagram).

Furthermore, the reduction of the trading fee could be restricted to a certain timeframe to incentivize investors to try out trading on the marketplace. Of course, the platform must then ensure to adequately communicate the fee reduction to their entire investor base.

*Financial Aspects*

The aforementioned measures would require some team capacity and create additional HR costs for salaries of the respective team members. Besides HR costs, the loss of revenue caused by the reduction of the trading fee (currently at 1%) would have to be considered in the financial cash flow forecasts. However, a rise in investment activity on the secondary market might drive revenue in the long run due to a higher trading fee income and to new investors joining the platform.

*Customer Impact*

The relevance of the investment duration for investors has been observed by GoParity and confirmed in the focus group analysis (Nina 2021). By making customers aware of potential advantages of long-term investments in a neutral way their preferences for short-term investments may be affected. Moreover, the trading function increases flexibility and provides investors with more control over their portfolio as they are not bound to fixed durations anymore but can sell positions whenever they want. Therefore, trust increases through the lever of influence and control (CFA Institute 2020).

*Schedule and milestones*

| | |
|---|---|
| Total duration | 6 weeks |
| Starting point | Meeting Marketing and communication department to discuss strategy |
| Week 1 | Website focus: link information on grace period, interest calculations, amortization etc. directly on respective project pages to make it more visible |
| Week 2 | Implement the changes on the website |

| | |
|---|---|
| Week 3 | Gather content for educational meetup informing about advantages and disadvantages of investment strategies; consider inviting an external expert on impact duration to ensure no counseling occurs by GoParity |
| Week 4 | Communicate the planned meetup to investors to ensure high attendance |
| Week 5 | Hold meetup |
| Week 6 | Follow-up email and Instagram story on the meetup topic |
| Milestones | 1. Expected growth of investor base after 3 months<br>2. Measure customer conversion from KYC regulars to investors constantly and track changes |

## 8.2. Increasing Project Scope

### *8.2.1. Research Results*

*Focus Groups*

Four out of five focus groups indicated that they would be more willing to invest on the GoParity platform if the projects aligned with investors' passions. In addition to including projects with different SDG targets, focus groups mentioned the wish for projects from different regions and with different risks and returns. This would allow them to better diversify their portfolio.

*Survey*

In total, 74% of respondents state that it is important for them to have a large variety of impact topics to choose from when investing in impact investments. Especially GoParity's target group, 26-35-year-old, Portuguese investors, value this aspect the most.

Considering the most important areas of sustainable development, 31% of respondents chose education & health care, 28% clean energy, and 17% responsible consumption and production. Moreover, when survey participants were asked about the most attractive investment areas for sustainable development, 49% indicated clean energy, 21% education and health care, and 12% responsible consumption and production (*Figure 6*).

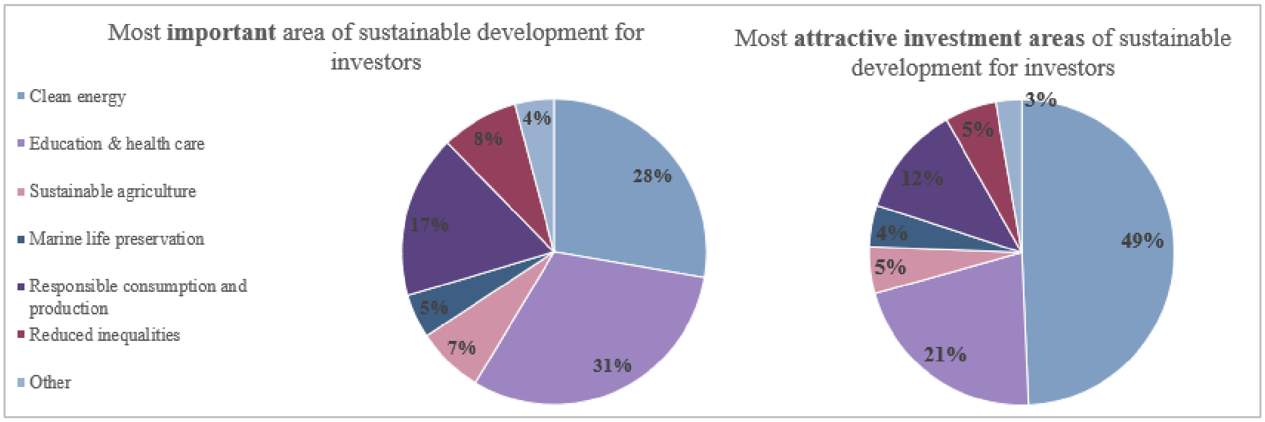



*Figure 6 - Most important area of sustainable development and most attractive investment areas of sustainable development*

*Source*: Own survey (*consult Appendix II for more details*)

*Benchmarking incl. external interviews*

Trine is primarily focused on solar energy projects but is currently looking for new projects to diversify its portfolio (Andersson 2021, Trine 2021). Raize mainly finances non-sustainable projects from small and medium enterprises (SMEs) with a wide variety of project scopes. Since the platform mainly works with an automated investment tool, this aspect becomes less important (Raize 2021, Eça 2021). Wiwin offers sustainable projects from different fields (Wiwin 2021, Becker 2021). According to an interview with an employee at UBS, investors should be presented with a pre-selection of options, as "some choice is always necessary, but too much choice leads to confusion" (Graf 2021).

*Literature review*

In general, there is a great interest and higher willingness to pay for products that correspond to one's passions. Moreover, the opportunity to invest in line with one's own values, especially in impact investing, is supposed to create further trust and customer engagement (CFA Institute 2020). The increased customer engagement leads to a higher customer satisfaction, resulting in an increase in word-of-mouth Marketing and a higher customer lifetime loyalty (Glover 2021). Additionally, it was found that too much choice can only lead to negative consequences when alternatives are differentiated on too many attributes (Greifeneder, Scheibehenne und Kleber 2010).

#### *8.2.2. Recommendations*

Through diversification of the project scope, GoParity could boost the trust of current and attract new investors. We would recommend GoParity to broaden the scope of its projects in terms of SDGs addressed, geography of the projects, risk and return. Based on our survey with 365 respondents from different countries, we suggest GoParity to extend its project offering in the fields of clean energy, education and health care, and sustainable agriculture, as these areas are perceived as the most attractive investment fields. Additionally, we propose to conduct an in-depth consumer study to better understand the most appealing project scope for its users. This can be done through surveys in meetings with investors or an indication in the investor profile when registering (*see Exhibit 8 for potential survey questions*). On this basis, the start-up should acquire new project promoters who, on the one hand, address the demanded SDG goals with their projects and, on the other hand, offer projects in new countries. This can additionally guarantee investors the possibility of geographical diversification. GoParity should present its users a pre-selected, diversified offering of projects to choose from. For this, we recommend a diversification of projects regarding geography and SDGs addressed, but also in terms of risk and return to meet the interests of risk-averse and risk-loving investors (e.g., beginner project with low risk, lower return and shorter duration). Lastly, the start-up needs to adapt its impact and risk-assessment processes as well as monitoring KPIs to projects with new SDG goals or in new geographies.

### *8.2.3. Risks and Limitations*

A sufficient user base and an increase in the number of projects offered is a pre-requirement for addressing this challenge. This is because there is a risk of cannibalization by projects addressing more popular SDG targets, leading to a funding gap for less popular projects. Moreover, there is a trade-off as some impact topics demanded by investors provide lower returns for GoParity, however provide great impact (e.g., social projects). In addition, internal complexity increases as impact and risk assessment processes need to be adapted for projects in new regions addressing new SDG targets. Further, monitoring processes become more complex due to the different nature of projects. Lasty, conducting consumer studies is time-consuming and requires human capital.

### *8.2.4. Implementation Plan*

The overall goal is to optimize the project scope in accordance with investors' preferences.

*Team*

The marketing and communications team should be responsible for conducting and analyzing the consumer surveys and communicating the results to the commercial team. The commercial team is responsible for acquiring new promoters according to investors' preferences (based on the consumer survey), screening the projects in the first place, and overseeing the breath of the projects. The commercial team's function is more strategic and ensures that the projects adopted are in line with the overall vision of the company. In addition, the commercial team should ensure that users have a wide, diversified range of projects to choose from to avoid cannibalization and to consider the interests of all investor groups. The risk and impact team should be updated about the project scopes so that they can adapt the risk- and impact assessment processes accordingly.

*Technical approach*

As already discussed with GoParity's CEO, surveys can be created with existing internal tools and send to investors via e-mail (e.g., include in newsletter e-mail). To adapt the risk- and impact assessment processes, external experts in the respective fields (e.g., sustainable agriculture) can be consulted.

*Financial aspects*

Existing survey tools to design the survey could be used and thus no additional costs would arise. Additional HR costs could be incurred to manage more complex risk and impact assessment processes (e.g., by buying in external knowledge).

*Customer impact*

The survey signals to investors that they have some influence and power by shaping the project offering according to their preferences. This can lead to increased trust and customer engagement (CFA Institute 2020, Glover 2021).

*Schedule and milestones*

| | |
|---|---|
| Total duration | 10 weeks |
| Starting point | 1st survey about SDG passions and investment scope satisfaction (survey duration: 6 weeks) |
| Week 7 | Evaluate survey and derive implications; if clients prefer a broader project scope, seek for projects in the respective passion areas and try to acquire promoters |
| Week 9 and ongoing | Analyse projects in accordance with passion area of majority of investors |
| Milestones | 1. Survey of customer satisfaction with the project scope before expansion and after six and twelve months<br>2. Monitor investor growth and analyse correlation with project scope |

**Stars**

## 8.3. Monitoring Long-Term Impact

### *8.3.1. Research Results*

*Focu***s** Groups

For three out of five focus groups it is very important that GoParity documents and publishes long-term before-and-after comparisons for their finalized projects. If investors can identify which impact their individual investment generated in the long-term, it will enhance their trust into the true impact creation and credibility of GoParity.

*Internal interviews*

According to Lopes and Costa (2021), monitoring impact in the long-term will result in a win-win for GoParity and the promoter company. The measure serves as a motivation for users to (re-)invest and can be used as an impactful PR measure. Further, the trustworthiness of the promoter is highlighted as investors recognize that the company is working towards achieving the SDGs. This will have positive repercussions in terms of new project investments and popularity. Additionally, they emphasized the advantage that the promoter will increasingly attempt to fulfil his anticipated impact as he is aware of the fact that his achievements will be monitored by GoParity and by the investors.

*Benchmarking incl. external interviews*

Wiwin ensures to monitor the implementation progress (e.g., construction of solar panels) of the projects it finances (Becker 2021). Proof of these processes, such as pictures or videos, are accessible on their website. Trine established contractual obligations for its promoters to report on their impact creation on a monthly or quarterly basis (Andersson 2021). As an additional measure, before completing the investment process, they require to receive access to the project reporting tools of the promoter to perform checks. Tomorrow performs continuous scanning of the issuers they invest in, even after the investment to ensure that they are still achieving a positive impact (Feindt 2021).

*Literature review*

In social crowdlending impact creation is the foremost goal next to return (Dorfleitner, Oswald and Zhang 2019). People invest specifically to create positive outcomes. Resultingly, long-term monitoring poses an influence on the investors trust in the truthfulness of a company's actions. The establishment of a long-term relationship with investors is useful to lead them to pursue follow-up investments with the platform.

#### *8.3.2. Recommendations*

We recommend GoParity to request a yearly impact progress report from its promoters after having successfully completed the funding rounds. To minimize the effort, the start-up should provide the promoter with a predefined and standardized report (*see Exhibit 9 for potential standardized reporting requirements*) including clear and measurable KPIs, which they have to send on a yearly basis. The promoter will further be required to send proof of the impact creation, i.e., based on pictures or videos and allow GoParity to examine the sites. Following to this, GoParity will communicate the achievements to the project-specific investors in the form of annual update emails and publish it on the projects' website. The promoter should furthermore be obliged to participate in this investor communication as a first-hand expert, for instance by composing blog articles, which GoParity publishes as a further trust enhancing measure. The promoter participation can be incentivized by highlighting that they profit from 1) additional publicity gains through the spread of his positive impact creation, 2) attraction of investors for follow-up projects, and 3) collaboration with GoParity due to a persisting lack of funding alternatives. These reporting and publicity obligations should be defined in the promoter funding contract before accepting to invest into a project. In the case of not or only partially meeting the anticipated impact, GoParity should identify reasons and derive measures to deal with the situation and avoid it in the future. This can for example comprise a more conservative impact forecast for future projects.

#### *8.3.3. Risks and Limitations*

GoParity performs long-term monitoring for projects only if specifically requested (Comunello 2021). As the company is still a start-up, it is difficult to pursue capacity intensive activities, such as monitoring the long-term impact of each terminized project. Furthermore, they have to trust in the truthfulness of the information provided by the promoter. Moreover, the process could result in negative repercussions, such as potential loss of investor trust, if the anticipated impact target is not met. In this case, GoParity has to develop a strategy to deal with the unmet impact promises. This poses a challenge, as it incorporates both, negative PR for GoParity and the promoter company. Additionally, GoParity does not specify further reporting requirements that go beyond the funding period out of fear to deter potential promoters. As those requirements pose additional effort for the promoter it might either lead to non fulfilment after having received the funding, or not being able to acquire new projects for funding. This may scare off especially more valuable promoters that have the bargaining power to choose between different funding sources.

#### *8.3.4. Implementation Plan*

The main objective is to develop processes which enable a long-term monitoring of terminated projects.

*Team*

The process implementation should be coordinated by a member of the impact department, who is familiar with the established impact measurement approach and knows which existing metrics and frameworks to apply. Consequently, the impact department will be responsible for monitoring and analysing the impact data of the promoters.

*Technical approach*

GoParity should implement standardized impact reporting requirements for promoters (*Exhibit 5*). These will be filled out each year and provided by the promoters via e-mail. Furthermore, GoParity will inform their community about the impact created on their website and send out yearly investment-specific update e-mails to investors.

*Financial aspects*

There will be minor additional costs at the beginning of the process, while the impact department develops the standardized reporting requirements. After implementation, GoParity will encounter costs associated with the verification of the information received. These will mostly consist of wages for the increase in capacity of employees that are involved in the additional screening process.

*Customer impact*

Updating customers about their investments' long-term impact creation will contribute to the establishment of a long-lasting investor relationship. Continuous impact reports will provide them with a feeling of having contributed to and being part of a good cause. This results in an increased future engagement with the platform and spur interest for new investment opportunities (Glover 2021).

*Schedule and milestones*

| | |
|---|---|
| Total Duration | 2 weeks for implementation of reporting requirements (*consult Exhibit 9*)<br>Ongoing process afterwards |

| | |
|---|---|
| Starting point | Develop standardized reporting requirements for promoter. Update contract with promoter to include impact reporting after funding end |
| Going Forward | Use established reporting requirements for next project terms & negotiations |
| Milestones | 1. List of reporting requirements for promoters<br>2. Query investors on their preferences regarding receiving updates of past projects |

### 8.4. Expanding Impact Identification

#### *8.4.1. Research Results*

*Focus Groups*

Four out of five focus groups are expecting GoParity's impact identification and screening process to be thoroughly enough to rule out greenwashing. It is a prerequisite for them to trust and resultingly invest into the platform. If GoParity would be involved in a greenwashing scandal, it would be a major reason for them to switch to a different player.

*Benchmarking incl. external interviews*

The fear of supporting greenwashing projects is of high importance for companies acting in the impact investment sphere. Prior to investing, Wiwin defined self-imposed selection requirements which are applied to the project, as well as to the promoter company. The screening is based on exclusion criteria for the business model and the sector the promoter is operating in (Becker 2021, Wiwin 2021). Tomorrow acts according to a strict impact investment process that includes a list of negative criteria and ESG valuation that are applied to the bond and the issuer (Feindt 2021, Tomorrow 2021). Additionally, the company established an impact council composed of four specialists in different fields of sustainability, which is thoroughly assessing the players involved in the investment from different angles before the final investment decision. UBS outsources its impact screening process to an external agency (Graf 2021). However, it is important to mention that impactful investments do not constitute their main business model.

*Literature review*

According to Azzouz & Merle 2021, unknowingly financing non-sustainable projects is the biggest concern for 44% of impact investors. The findings are based on a survey conducted by Quilter Investors in May 2021. If sustainable capital is not accurately allocated, impact investments lose its function and reduce investors' trust in the company. Moreover, it can result in a reputation loss for the whole sector. Being associated with greenwashing can severely damage the reputation of brands, lead to negative word-of-mouth and result in long-term deterrence of current and potential investors. 65% of respondents would not return to a company if it had been involved in a greenwashing scandal (Akturan 2018).

#### *8.4.2. Recommendations*

We would recommend GoParity to screen the entire promoter company additionally to the incorporated assessment of the project, before funding it. This should be accomplished to ensure that the promoter is not acting in contrast to GoParity's values. Therefore, GoParity should develop internal negative criteria regarding the promoters' ESG compliance (*see Exhibit 10 for potential criteria*), which preliminary rule out companies based on their industry or other factors. In order to make it comparable and time-efficient, there should be a standardized checklist for specific aspects of promoter to screen (*see Exhibit 11 for potential screening aspects*). Additionally, third-party verifications and labels, such as B-Corp, ESG reports or ISO SDG certification, should be evaluated before starting the screening process to possibly trim it. There is the possibility to set up an external 'impact council', according to the example that Tomorrow set, consisting of different industry and impact experts, which will have a final say on whether to invest into a specific project.

In the case of receiving controversial information or having remaining doubts about a company, GoParity should take the safe side and not proceed with the funding process. This detailed and encompassing screening process should further be communicated to the community, for example by displaying it on the impact section of the website.

### *8.4.3. Risks and Limitations*

Expanding the process of impact identification by including the entire promoter screening is time intensive and takes up capacity in terms of people, time and money. It includes an extensive need for research and analysis of the specific operations of the promoter. GoParity is dealing with sensible information, which on the one hand might not be provided, and on the other hand might be disguised. A further risk might be the possibility to deter promoters due to the mandatory full company screening before funding.

### *8.4.4. Implementation Plan*

The underlying goal is to expand the current impact identification process with a thorough screening of the promoter behind the projects to avoid supporting greenwashing companies.

*Team*

The project lead is taken by the head of the impact department as the decision necessary to conduct the screening are of high importance. The impact department team is primarily involved in conducting the newly implemented company screening procedures, as they are the experts regarding impact identification. The ultimate decision will lie in the hands of the 'impact council' which is appointed to assess the overall contribution of the promoter towards the SDGs.

*Technical approach*

To apply an efficient and comparable process, GoParity will implement standardized criteria by which to screen promoter companies. Additionally, a standardized negative criteria list, will be used to rule out promoters. Before implementation, these criteria lists should be aligned with external partners that have expertise in specific fields and industries. Furthermore, the website is adapted to describe the new process.

*Financial aspects*

An increase of costs in the impact department will occur as the extended screening process requires capacity of the team. It might be necessary to hire one additional employee (e.g., an Intern to keep associated costs low).

*Customer Impact*

The impact can be regarded as high since GoParity ensures that they are only funding projects from sustainably oriented companies. The effort which is put into the thorough process will be highlighted on the website, which will increase investors trust. However, it is important to communicate transparently that despite all efforts, greenwashing can never fully be eliminated.

*Schedule and milestones*

| | |
|---|---|
| Total Duration | 3 weeks for implementation<br>Ongoing process afterwards |
| Starting Point | Analyze criteria that are required and useful for promoter screening (*take into account past projects and Exhibits 10&11*) |
| Week 3 | Develop standardized criteria list |
| Going Forward | Use established criteria list for the following promoter assessments |
| Milestones | 1. Developed list of negative criteria and areas to screen regarding promoter<br>2. Identify consumer satisfaction with updated screening process through surveys and/or meetups |

## 8.5. Strengthening Brand Awareness

### *8.5.1. Research Results*

*Focus groups*

During the conduction of focus groups, all groups stated that their trust and likeliness to invest in GoParity would significantly increase with its' overall brand awareness, the number of users of the platform and the amount and size of previous investments made. Resultingly, there is a clearly visible relation between brand awareness as well as user base and the overall trust of especially new investors.

*Survey*

In total, 65% of respondents characterized the number of users as a relevant trust building factor. This results in the fact that fostered brand awareness and thus a larger user base through increased Marketing efforts will likely significantly increase trust. Interestingly, specifically when looking at GoParirty's primary target group, hereby represented by the age range of 26-35 years old, the number of users provides a significantly relevant trust-building factor.

*Benchmarking incl. external interviews*

When conducting the benchmarking for this specific challenge, various relevant players, including UBS's wealth management and Caixa Geral de Depósitos, identified brand awareness as highly crucial aspect of trust creation. Additionally, throughout the interview with BNP Paribas, the interesting approach of using different communication strategies for different project topics (e.g., equalities, clean energy) to target varying sets of investors was raised. Lastly, GoParity's relevant competitor Raize interestingly is following the strategy of focusing on a lower communication frequency (namely quarterly) and primarily social media presence whilst stating a significantly high impact of traditional media appearances (e.g., TV).

*Internal interviews*

For this specific recommendation, also the insights gained from internal interviews proved highly insightful. As mentioned by Inês Branco Lopes, the current Marketing strategy is defined by modest spending, even though past Marketing efforts, e.g., TV presence, resulted in a 7% growth of the company. GoParity is further already including some form of gamification through referral codes.

#### *8.5.2. Recommendations*

Based on the aforementioned research findings, we would thus recommend GoParity to redirect its Marketing spending towards the most efficient channels. The start-up should further foster especially awareness creating strategies whilst potentially increasing the overall Marketing spending throughout the next months.

More precisely, we would recommend the platform to redirect their spending to strengthen brand awareness by increasing especially their social media and traditional media presence (e.g., TV appearance) with a focus on Instagram and LinkedIn. Additionally, we recommend the use of other awareness creating strategies such as ‚competitions‘ to attract initial attention (e.g., a one-month competition for all users that have referred a friend successfully with a winning prize of around 500€ worth of investment money). Specifically in the long-run, the approach deployed by, amongst others BNP, that involves to foster a tailored Marketing and communications strategy targeted at investors of different sustainability topics (e.g., equalities, clean energy) to be able to attract varying sets of investors, portrays a meaningful tool that we recommend to incorporate in future efforts.

In order to be able to cope with the aforementioned efforts whilst remaining within the limited budget, we additionally recommend increasing the human capital focused on brand awareness in a resource effective way, e.g., through hiring a Marketing intern. Overall, it is highly crucial to simultaneously ensure to remain truthful to the overall company values (e.g., the approachable image GoParity wants to convey) and be capable of handling the potential incoming increase of investments appropriately. To specifically uphold the approachable and personal image of the platform, we recommend to especially focus on addressing (potential) investors' emotions through success stories of past projects.

#### *8.5.3. Risks and Limitations*

When following the previous recommendations, naturally, some risks and limitations occur. Hereby, one relevant risk that must be considered is the fact that a potential conflict of the personal and approachable image the platform wants to convey exists with a more aggressive Marketing strategy. Additionally, one potential limitation that likely arises when significantly increasing the number of users through attention creating measures, are the upcoming difficulties in remaining the personal contact and relationships to users that have previously characterized GoParity. This is due to a lack of human capital and the increasing complexity. Lastly, especially with regards to larger scale advertisement efforts, e.g., on social media, severe monetary investments are needed that provide a potential limitation for a start-up with limited budgets.

#### *8.5.4. Implementation Plan*

The overall goal of this recommendation is to create a strong and sustainable brand awareness for GoParity that positions the start-up as a trustworthy and appealing crowdlending platform in consumers' minds.

*Team*

In order to implement this recommendation, mainly the Marketing and communications team is involved. As already mentioned, this team should be further enlarged, potentially through hiring a

Marketing intern. Additionally, within the team, focus should be put to the creation of brand awareness and the suggested measures on how to achieve this goal.

*Technical approach*

In order to successfully identify the relevant channels of communication that will yield the highest desired return, a customer conversion rate analysis with regards to existing as well as potential new channels should be conducted. Additionally, the proposed gamification strategies, e.g., the competitions must be prepared and rolled out. Afterwards, an analysis of each of the measures' effectiveness is crucial for future development.

*Financial aspects*

The implementation plan would have some financial costs, namely more resources needed to be allocated towards brand awareness creation and retention of company values. Hereby, especially wider reaching Marketing measures on social media or traditional media will likely result in severe capital requirements. In addition to that, the hiring of a cost-effective employee such as a Marketing Intern, is necessary to ensure sufficient human capital to implement the proposed solutions. This will result in additional costs.

*Customer impact*

With the proper implementation and the right dedication, it is expected that GoParity will start to observe a deepening of customer relations and trust creation through increased and effective communication.

*Schedule and milestones*

| | |
|---|---|
| Starting point | Analyze most efficient communication channels, potentially introduce search for human capital and investigate opportunities for traditional media / conferences |

| | |
|---|---|
| Week 2 | Setting in motion of prepared measures including revised social media media content, human capital search and PR presence |
| Week 6 | Act out the planned strategies, e.g, competitions, hiring new employee |
| Milestones | 1. Increase of user base of 20% in approximately 6 months<br>2. Measuring of success and conversion of individual measures to adapt strategy |

## 8.6. Increasing Project Quantity

### *8.6.1. Research Results*

*Focus groups*

All focus groups pointed out that there should be more projects to choose from, as there are currently no comprehensive comparison and diversification possibilities. Ranges of five to ten projects were preferred for this purpose. The focus groups indicated that increasing the number of projects on offer would enable the creation of trust, as this would provide a sense of security that the platform is performing well.

*Benchmarking incl. external interviews*

Through benchmarking with Trine, Raize and WiWin, we have found that all companies strive to offer their users a greater number of projects to choose from than GoParity does. Trine currently offers its users three projects to choose from but would like to increase this number if they manage to acquire more projects from promoters (Andersson 2021, Trine 2021). As Raize only offers an automated investment tool, users do not have the opportunity to choose by themselves. For Raize, power of choice for investors is not important as “they will just choose companies with a better story or interest rate” and thus “would not be able to create diversified portfolios” (Eça 2021, Raize 2021). On the contrary, WiWin offers its users around ten different projects to choose from (Becker 2021, Wiwin 2021).

*Literature review*

The feeling of having influence, control, and a power of choice enables investors' trust. Further, 87% of surveyed retail investors stated that they are comfortable with their ability to make good investment decisions[1]. For those with a financial advisor, 92% are confident with their decisions (CFA Institute 2020). Too much choice can only lead to negative consequences when alternatives are differentiated on too many attributes, which is not the case for GoParity (Greifeneder, Scheibehenne und Kleber 2010). According to Reutskaja and Hogarth (2009), a higher customer satisfaction can be achieved, when users can choose from medium-sized sets with ten to fifteen different options. Satisfaction here can be defined from ultimate choice ("outcome satisfaction") and process of choosing ("process satisfaction"). It can further be understood as the difference between the noted benefits and costs of choice. Benefits of more options are a greater perceived decision freedom, a feeling of autonomy and self-control, as well as an intrinsic motivation. Costs of more options include anxiety about uncertain preferences, a lack of expertise, incorrect decisions, and a trade-off. The user satisfaction varies across set sizes, as benefits and costs increase with the set size, however, benefits increase at slower rate (*see inverted U-Shape as depicted in Exhibit 12*), which is why there is a lower outcome and process satisfaction from small (5) and large (30) sets (Reutskaja und Hogarth 2009).

*8.6.2.* *Recommendations*

Based on our research, we recommend GoParity to increase the number of projects investors can choose from to five projects and continuously increase it up to ten projects when the user base grows. Increasing flexibility and diversification potential for users increases the overall

[1] Survey of CFA institute; Survey respondents: 3,525 retail investors from 15 geographic markets, 921 institutional investors

attractiveness of the platform. Additionally, being less dependent on individual projects and collaborating with more promoters diversifies risk for the start-up. To avoid a cannibalization of the projects, GoParity must ensure sufficient differentiation of the projects (*see 8.2.2 for recommendations on project scope*). We further recommend conducting specific Marketing promotions for less popular projects (e.g., for social projects with low return but high impact). These promotions could include, for example, the provision of a voucher (e.g., a 5€ investment voucher) for investing in the project or for the next investment if the less popular project has been invested in. Additionally, we propose GoParity to further develop their automated investment tool as an alternative for users who do not want to choose between projects. These developments could include the evaluation of investors' risk profile or the possibility to choose in which impact topics users like to invest. Finally, it is important to highlight that an increase in project quantity can either be used as a lever to increase the user base (as we propose it) or as a consequence of growth in the user base.

#### *8.6.3. Risks and Limitations*

There is a risk of an insufficient user base for the number of projects offered, which can result in less popular projects not being funded. As GoParity aims to attain bigger promoters with larger funding volumes, there is a higher risk that the campaign time must be extended to achieve successful funding. This would contradict their strategy of offering quick funding for promoters. In addition, internal capacity constraints can be a limitation, due to increased risk and impact assessment of projects.

#### *8.6.4. Implementation Plan*

The main objective is to increase the number of projects offered for investment to give the investor more choice.

*Team*

To implement this recommendation, the project should be led by a commercial team member. The collaboration with other teams that contribute to project acquisition and selection (e.g., risk team) as well as the presentation of the campaigns (e.g., marketing team) is required.

*Technical approach*

Specific marketing campaigns need to be created and implemented to support less popular projects and mitigate the cannibalization. IT specialists or software solutions are needed to further develop the automated investment tool.

*Financial aspects*

As the number of projects will increase, more resources will be needed to ensure a thorough risk and impact assessment. In addition, the workload of the commercial team will increase as more promoters will need to be managed and negotiated with. There might also be costs to improve the automated investment tool and to promote less popular projects (e.g., €5 investment voucher).

*Customer Impact*

By increasing the number of projects, investors can choose from a wider range. This increased decision-making power can lead to an increase in customer engagement and trust towards GoParity (CFA Institute 2020, Glover 2021).

*Schedule and milestones*

| | |
|---|---|
| Total duration | 7 weeks |
| Starting point | Determine the maximum amount of projects that could be offered with the current capacity and user base in a meeting in week 1 |
| Week 2 | Test phase - Offer additional projects (e.g., increase to five projects offered during the same time as a test) |

| | |
|---|---|
| Week 6 | Evaluate negative and positive effects of increase of number of projects after funding period (e.g., increase in user base, cannibalization effects) |
| Week 7 | React accordingly and adjust number of projects |
| Milestones | 1. Increase to 5 projects within one year (if positive effects of the increase in the number of projects have been determined)<br>2. Possible increase to a maximum of 10 projects. The prerequisite for this is that the number of projects that can be offered with the current capacity and user base is continuously evaluated and the project quantity is adjusted accordingly.<br>3. Track the time it takes to finance projects successfully as cannibalization indicator |

**Quick Wins**

8.7. Communicating Individual Project Risk Assessment

*8.7.1. Research Results*

When presenting GoParity's website to the individual focus groups, all focus groups mentioned the wish for deeper insights into the projects' individual risk assessment. While currently, the general risk assessment process is visible on the website, there is no possibility to understand the outcome of this assessment for each of the individual projects. Combined with the fact that approximately 80% of our survey respondents have characterized risk as a relevant decision-making factor, the need for further clarification on individual project risk arises.

*8.7.2. Recommendations*

Our recommendation to address the above-stated need is to provide users with the opportunity to gain a better understanding of the for individual project risk by communicating standardized ratings for the most relevant assessment categories (e.g., financial viability, maturity). This approach allows for enhanced transparency and comparability for investors whilst keeping the additional efforts for GoParity fairly low. We recommend utilizing simplified ratings (e.g., A-D rating) to highlight the company's individual performance in several categories to justify the calculated risk ratings and interest rates.

### *8.7.3. Risks and Limitations*

A potential risk the platform might face when incorporating the given recommendation will be the potential shift of investors' focus towards the riskiness of investments. The more prominent the factor of risk is when assessing the website of GoParity, the more likely skepticism will arise amongst investors. This risk should therefore be compensated through the prominent communication of success stories and statistics, underlining the company's reliability. An additional limitation especially for a resource-restricted start-up is the increased effort in information gathering that will arise. Further there is the potential problem of some information being confidential or undesirable to publish for promoters. Hereby, the standardized rating is supposed to keep efforts manageable.

## 8.8. Communicating impact identification

### *8.8.1. Research results*

When conducting the focus groups, all groups raised the need for insights into the impact identification process, as this process is currently not visible on website and impact creation portrays a vital part of GoParity's business model. When provided with a clear explanation of the impact identification process during the course of the focus groups, all participants viewed the process as generally trustworthy. This fact further underlines the beneficial repercussions of communicating the process to investors.

### *8.8.2. Recommendations*

Consequentially, we recommend GoParity to portray their impact identification process easily accessible and understandable on the website to increase transparency and foster trust in actual impact creation through their projects. In doing so, we recommend utilizing visualization through graphics representing the flow of the process to ease understandability. Lastly, we recommend to position the process logically on their website under the section 'About' and the sub-section 'Our impact'.

#### *8.8.3. Risks and Limitations*

One risk that GoParity may face when opting for the suggested recommendation is the fact that publicly stating the impact identification process will likely bind the platform to follow through with it coherently and consistently, decreasing internal flexibility. In addition to that, naturally, the risk remains that some (potential) investors may dislike the process or additional questions will arise that have to be dealt with.

## 9. Conclusion

*Key findings*

To summarize, throughout this report, the crucial meaning for trust-based relationships with new and existing investors for GoParity's future growth has been established. Being a start-up performing as an intermediary platform within the scope of the impact investment industry, GoParity is facing the challenging task of generating a large user base. This is needed to both, be attractive for promoters and simultaneously increase trust through success stories, brand awareness and increased confidence amongst investors through an already established user base in the future.

Through various internal interviews as well as a holistic external research methodology including expert interviews, focus groups, a customer survey and literature review, ten challenges concerning the topic of trust creation by GoParity were identified. After clustering these challenges alongside the three pillars of the CFA Institute framework on trust creation amongst investors and mapping them according to their impact on GoParity's growth as well as the efforts needed to tackle, the challenges were categorized in four categories: trust boosters, stars, quick wins and out of scope. Hereby, two challenges categorized as out of scope were disregarded in the further analysis and two challenges identified as quick wins were de-prioritized and analyzed more superficially.

Left are six focus challenges that portray crucial importance for the company's development: 'Decreasing overall investment duration', 'Increasing project scope', 'Monitoring long-term impact', 'Expanding impact identification', 'Strengthening brand awareness' and 'Increasing project quantity'. For all focus challenges, holistic recommendations were formed aiding GoParity in tackling them in the future. Hereby, concrete frameworks and approaches as well as an implementation plan were provided.

*Risks & Limitations*

Next to the previously mentioned risks and limitations associated with each individual recommendation, the approach following throughout this report naturally comes with general limitations as well. First, specifically as GoParity is a start-up in the growth phase, situated within the fast-paced social impact investment industry, the inherent settings and overall environment is evolving quickly. As a consequence, faced challenges may change or become redundant while new obstacles will likely arise. Specifically changes in the regulatory environment as well as changes in consumer preferences and acceptance in this rather nascent market of sustainable crowdlending will significantly impact the future development of the platform. With regards to regulatory challenges, especially the upcoming EU-wide uniform guidelines for crowdlending services introduced by the ESCP will have a significant impact on the start-up's growth.

In addition to that, being a start-up further entails restricted resources available that can be allocated to tackle the introduced challenges. Specifically, the formulated recommendations that require a larger effort will herewith be at risk to be deprioritized despite their crucial importance. In this context, especially human capital, time, and financial resources provide the limiting factors for GoParity.

An additional limitation that must be regarded when evaluating the proposed recommendations is the need for deeper insights into both, the internal capabilities available at GoParity and the customer preferences of specifically GoParity’s existing investor base. While our research approach already incorporates various insights gained through internal interviews, implementing such holistic changes triggers the need for in-depth internal expertise.

*Next steps*

In order to take into consideration the above-stated risks and limitations whilst implementing the proposed recommendations, we advised GoParity to assess and evaluate the proposed solutions carefully and allocate resources accordingly. More precisely, we recommend assigning sufficient human capital towards developing a roadmap that includes a prioritization of the individual challenges with clear deadlines on when and how to tackle them and the amount of resources the company is able to contribute. Herewith, we advise GoParity to conduct additional research especially within the scope of their inherent investor base to further adapt the proposed recommendations towards its’ individual settings. Lastly, we recommend the platform to really take the time to consider, assess and adapt the developed solutions, as this can easily get lost within the turbulent daily routines of a start-up.

## 10. Appendix I: Overview and Exhibits

### 10.1. List of Figures



### 10.2. List of Tables

## 10.3. List of Abbreviations

| | |
|---|---|
| BNP | Banque Nationale de Paris |
| CAGR | Compound Annual Growth Rate |
| CCO | Chief Customer Officer |
| CEO | Chief Executive Officer |
| CFA Institute | Chartered Financial Analysts Institute |
| CFO | Chief Financial Officer |
| e.g., | For example (latin: exempli gratia) |
| ESCP | Regulation on European Crowdfunding Service Providers |
| ESG | Environmental, Social and Governance |
| EU | European Union |
| i.e., | That is (latin: id est) |
| Mio | Million |
| P2P | Peer to Peer |
| PR | Public Relations |
| SDG | Sustainable Development Goals |
| SMEs | Small and Medium Enterprises |
| UBS | Union Bank of Switzerland |

## 10.4. Exhibits

**Exhibit 1** – Revenue streams of GoParity

Revenue streams from investors (before taxes applied):

| | |
|---|---|
| Opening an account | Free |
| Top up a wallet with funds | Free |
| Granting a loan (investment) | Free |
| Withdrawal of funds from the wallet in the SEPA area after granting a loan | Free |
| Withdrawal of funds from the wallet outside the SEPA area after granting a loan | €2.5 |
| Withdrawal of funds from wallet after a top-up without granting a loan (investing) | 1% |
| Cession of an ongoing loan | 1% of the value of the capital due |
| Acquisition of an ongoing loan | Free |

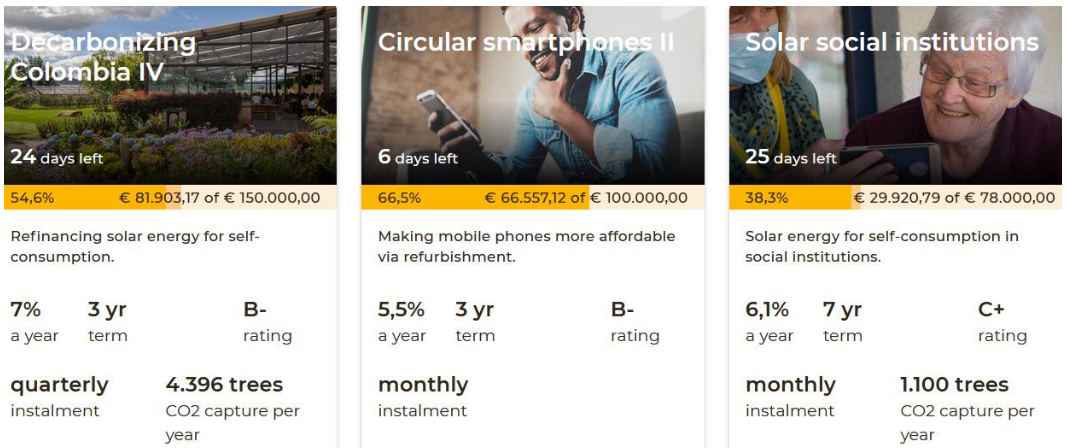
Revenue streams from promoters (before taxes applied)

<table>
<tr><td>Opening an account</td><td>Free</td></tr>
<tr><td>Analysis of the loan</td><td>Free</td></tr>
<tr><td>Transfer of funds (wallet top-ups)</td><td>Free</td></tr>
<tr><td>Processing of the loan</td><td>Equal to or less than 4,5% of the financed capital, with a minimum of 450€, according to the table below. This fee is charged when the funds are released.
<table>
<tr><th>Financed Capital (intervals)</th><th>Fee</th></tr>
<tr><td>< 15 000€</td><td>4,50%</td></tr>
<tr><td>15 000€ - 75 000€</td><td>4,00%</td></tr>
<tr><td>75 000€ - 200 000€</td><td>3,50%</td></tr>
<tr><td>200 000€ - 500 000€</td><td>3,00%</td></tr>
<tr><td>>500 000€</td><td>2,50%</td></tr>
</table>
</td></tr>
<tr><td>Management of the loan</td><td>Equal to 1% of the value of the outstanding capital (annual rate equivalent). This fee is charged in conjunction with the periodic instalment and concerns the outstanding capital in the respective period.</td></tr>
<tr><td>Services associated with the management of direct debit rejected due to a lack of funds</td><td>20€</td></tr>
</table>

| | |
|---|---|
| Processing of loan restructuring | Equal to 0,5% of the value of the outstanding capital, with a minimum of 100€ |
| Processing of late payments | 20€ |
| Judicial and extrajudicial reorganisation of a loan in default | Full credit for the reorganisation costs |
| Early amortization of the loan | Free |

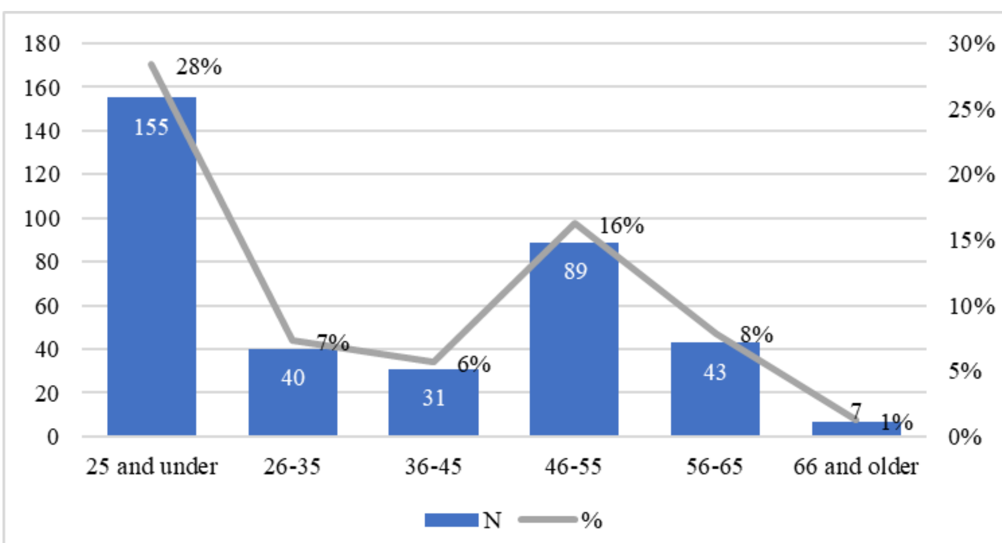
*Source:* (GoParity 2020)

**Exhibit 2** – GoParity's projects (exemplatory)



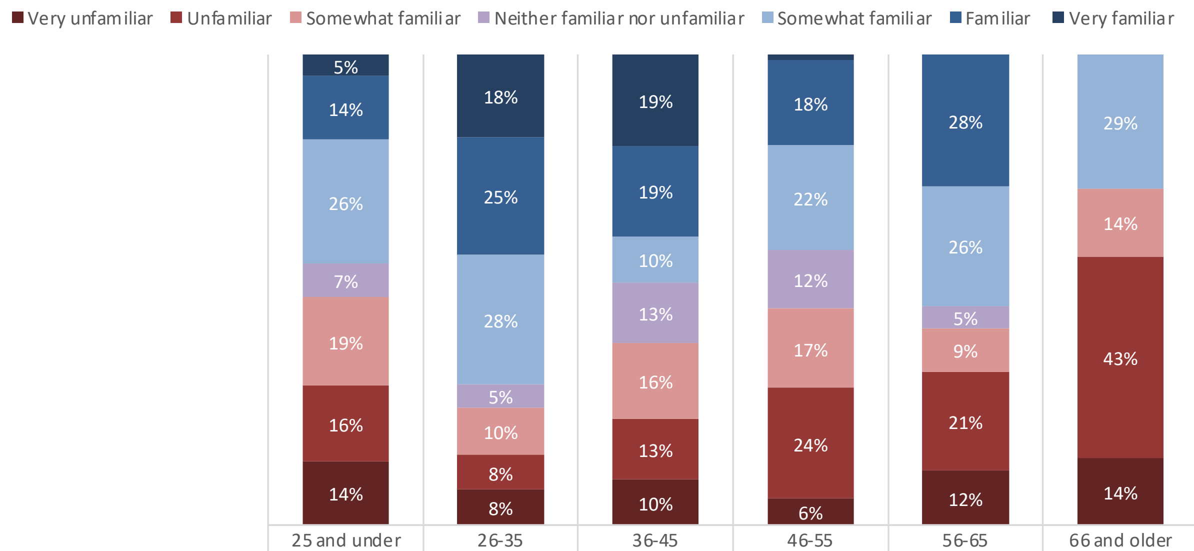

*Source:* GoParity 2021

Exhibit 3 – Age characteristics of sample




*Source*: Own survey (*consult Appendix II for more details*)

**Exhibit 4** – Familiarity of respondents with the topic of impact investments




| | 25 and under | 26-35 | 36-45 | 46-55 | 56-65 | 66 and older |
|---|---|---|---|---|---|---|
| Very familiar | 5% | 18% | 19% | 1% | 0% | 0% |
| Familiar | 14% | 25% | 19% | 18% | 28% | 0% |
| Somewhat familiar | 26% | 28% | 10% | 22% | 26% | 29% |
| Neither familiar nor unfamiliar | 7% | 5% | 13% | 12% | 5% | 0% |
| Somewhat familiar | 19% | 10% | 16% | 17% | 9% | 14% |
| Unfamiliar | 16% | 8% | 13% | 24% | 21% | 43% |
| Very unfamiliar | 14% | 8% | 10% | 6% | 12% | 14% |

*Source*: Own survey (*consult Appendix II for more details*)

**Exhibit 5** – Focus group guiding questions

1. What would be the key factors that convince you to trust in the platform and invest in one of their projects?
2. What are important aspects GoParity should consider in their risk assessment process?

   *Explain the risk process of GoParity*

3. What do you think about the risk process?
4. Is there anything you would change or add that would convince you to trust more in this process?
5. What are important aspects GoParity should consider in their impact identification process?

   *Explain the impact identification process of GoParity*

6. What do you think about this process?
7. Is there anything you would change or add that would convince you to trust more in this process?

8. What would convince you to trust in a real impact creation instead of supporting a greenwashing project?
9. How relevant is a large number of projects for you? Why?
10. How relevant is a broad project scope for you? Why?
11. Would you be more likely to invest if GoParity would offer more projects / projects that specifically tailor your passions?
12. What are important aspects GoParity should consider in their communication strategy with investors?

*Explain the communication strategy of GoParity*

13. Is there anything you would change or add that would convince you to trust more in this process?
14. How often do you like to be contacted? What would you like to be informed about?
15. What would be your biggest concerns when investing in one of GoParity's projects? How could GoParity manage to mitigate these concerns?
16. When looking at GoParity's platform would you invest in one of the projects? Why or why not?
17. How do you think could GoParity attract more users?

**Exhibit 6** – Reasoning for positioning of challenges, based on our research results and aligned with

<u>GoParity</u>

| **Quadrant** | **Challenge** | **Reasoning** | |
|---|---|---|---|
| Stars | Strengthening brand awareness | Impact on growth | • Owning a strong brand is a leverage for future growth and serves as a trust building mechanism (Hoeffler und Keller 2003).<br>• A brand as such increases the bargaining power towards multiple stakeholders (e.g., investors and promoters). |
| | | Effort to implement | • GoParity's business model, being a platform model, incorporates the network effect, which is mutually depending on user growth and trust building.<br>• Building a strong brand requires an extensive need for primarily monetary resources, such as Marketing spending and human capital, that need to be directed to the most promising Marketing measures.<br>• GoParity needs to implement a holistic Marketing and communication strategy. These measures take time, which strongly contributes to the effort-intensiveness (Petromilli, Morrison and Million 2002). |
| Stars | Increasing project quantity | Impact on growth | • Broadening flexibility and diversification potential for users increases the overall attractiveness of the platform. |

| | | | |
|---|---|---|---|
| | | | • Being less dependent on individual projects and collaborating with more promoters diversifies risk for GoParity. |
| | | Effort to implement | • In order to increase the project quantity, additional human resources and capacity are needed for the project assessment processes.<br>• The prerequisite of having a sufficiently big user base to ensure a successful funding of projects can is dependent on a long timeframe.<br>• Having too few investors in relation to projects offered results in unmet funding goals and projects cannibalizing itself. |
| Stars | Expanding impact identification | Impact on growth | • It has an effect on deepening the trust relationship with users.<br>• Additionally screening the promoter company results in an increase of the overall company credibility, as it will prevent harmful repercussions that can arise due to an insufficient company analysis. |
| | | Effort to implement | • Tackling the challenge requires an extensive need for research and analysis of the specific operations of the promoters. This is time- and capacity-intensive.<br>• GoParity needs to establish company-wide standards to determine which companies to not invest in. |
| Stars | Monitoring long-term impact | Impact on growth | • It deepens the trust relationship and overall credibility of GoParity.<br>• It serves as another motivation for users to invest and can be used as an impactful PR measure. |
| | | Effort to implement | • The development of a strategy on how to tackle potential negative outcomes of projects takes time and is project specific.<br>• GoParity has to develop a standardized reporting framework for its promoter companies and a lot of capacity is spent on executing the monitoring for an increasing number of finished projects. |
| Trust booster | Decreasing overall investment duration | Impact on growth | • The platform can always report a growth in investments when offering short term loans (Nina 2021).<br>• Three out of five focus groups confirmed that a shorter duration would be a reason for them to invest. |
| | | Effort to implement | • GoParity is already offering short-term loans monthly (Lopes and Costa 2021). Thus, it is already an established process and does not require tremendous effort to implement. |

| | | | |
|---|---|---|---|
| Trust booster | Increasing project scope | Impact on growth | • Our survey and focus group research has shown that investment topics aligned with diverse investor preferences enable user growth and a sustainable trust building process. Thus, responding to investor's impact preferences would boost trust.<br>• By diversifying project scope into different topics, GoParity attracts more first-time investors. |
| | | Effort to implement | • The acquisition of new promoters and projects requires more capacity.<br>• However, GoParity already has a surplus of project funding requests and can choose which to proceed (Nina 2021).<br>• Understanding of investors passions as prerequisite (e.g., consumer study on impact investment topics) |
| Quick wins | Communicating impact identification | Impact on growth | • As depicted in our survey, transparency creates trust.<br>• Communicating impact identification represents a measure to increase transparency.<br>• Still, this challenge addresses a very specific part of GoParity's content that could communicated and, therefore, only impacts trust creation a little. |
| | | Effort to implement | • We consider ways to inform investors about their impact identification process of little effort for GoParity because it can be easily implemented via the website (Lopes and Costa 2021). |
| Quick wins | Communicating individual project-risk assessment | Impact on growth | • Informing investors on individual project risk assessment allows for them to understand how the risk score for a project is derived. Therefore, they can make more sophisticated decisions in accordance with their own risk appetite.<br>• This is a way to increase transparency in this specific regard and to create a little more trust through elevated transparency. |
| | | Effort to implement | • Since GoParity, assesses the risk for projects anyways already, the content would not have to be created from scratch but only be communicated in an understandable manner. Thus, it would take little effort to address this challenge. |
| Out of scope | Standardizing risk assessment | Impact on growth | • A process as such increases investor trust as the assessment is less dependent on a biased expert judgement.<br>• For the long-term it can significantly decrease the needed resources of the risk assessment process.<br>• However, the direct impact on users is limited as the process itself is undertaken in the background and thus not highly visible to investors. |

| | | | |
|---|---|---|---|
| | | Effort to implement | • In order to implement a standardized solution, an extensive need for human capital and monetary resources is prevalent.<br>• It is very difficult to standardize a risk measurement for a wide variety of diverse and oftentimes small promoters. |
| Out of scope | Standardizing impact identification | Impact on growth | • The challenge significantly influences the impact identification process of GoParity, as it results in a decrease of the resources needed (i.e., human capital, money, time).<br>• However, as it is the case for the risk process, it is not visible to investors and thus only poses a minor impact for investor trust creation. |
| | | Effort to implement | • Standardizing the process requires a high amount of human capital and monetary resources, as it is very difficult to implement for a wide variety of impact outcomes and metrics.<br>• The lack of standardized impact measurement frameworks contributes to the effort intensiveness. |

**Exhibit 7** – Recommendation: Decreasing overall investment duration

### How are the interest rate and monthly payments calculated?

- We use the same method used by other financial institutions to calculate the fixed monthly payments. The periodic payments are determined so that, for a given interest rate, the future monthly payments are equivalent to receiving back the investment today. GoParity uses the 30/360 day-count method.
- In order to determine your monthly payment, we use the following formula:

$$Monthly\ payment = \frac{Value\ of\ investment \times \left(\frac{r}{n}\right)}{1-\left(1+\frac{r}{n}\right)^{(-n\times t)}}$$

- Value of investment: amount invested stipulated on the mutual agreement at the time of issuance.
  r: the project's interest rate.
  n : the number of payments per year.
  t : the project's term, in years.
- As all our loans are amortized, this means that the capital is repaid throughout the project, and that the value of interest payments diminishes as the capital is amortized.

### What is a grace period of capital?

**Break down long-term projects into shorter funding cycles**

- A grace period of capital is a period of time at the beginning of a loan during which the debtor only has to make limited paybacks.
- For the investor this means that at the end of the loan period he/she will earn a greater amount of interest on his/her loans, as the interest rate will be calculated over the whole amount invested.
- When the grace period of capital is over, the investor will be paid interest rate and capital amortizations (repayment of capital owed by promoter) - in this moment the interest rate is calculated over the capital invested, that has not been paid yet (so, it will be lower as the loan time goes by).
- Also, this period supports the promoters and limit their obligations at the start of the project, as they are not required to payback the capital owed, except for the interest. For this reason, during this period, investors will only be paid the agreed interest.
- Once this period ends, the normal payments will start, which will consist of both capital and interest, as previously said.

**Example**

- Imagine you are a private investor, and that you invest € 1,000 on a project with an 8 year term, 6.15% interest rate and monthly repayments. In addition to this, the project has a 12 months grace period.

$$Monthly\ payment\ during\ the\ grace\ period = 1000 \times \frac{6.15\%}{12} = €\ 5.13/month$$

$$Monthly\ payment\ following\ the\ grace\ period = \frac{1000 \times \frac{6.15\%}{12}}{1-\left(1+\frac{6.15\%}{12}\right)^{(-12\times 7)}} = €\ 14{,}68/month$$

$$Sum\ of\ payments\ to\ be\ received\ during\ the\ loan = 5.12 \times 12\ months + 14.68 \times 84\ months = €\ 1{,}294.67$$

$$Sum\ of\ gross\ interest = 1{,}294.67 - 1{,}000 = €\ 294.67$$

$$Sum\ of\ tax\ withheld = 294.67 \times 28\ \% = €\ 82.51$$

**Exhibit 8** – Potential survey questions

1. Have you **ever invested** in one of GoParity's projects? (yes/no)
2. Are you **more passionate** about **certain SGDs**? (yes/no)
3. Does your **passion** for an SDG **influence** your **investment decision**? (yes/no)
4. Would you like to **invest in SDGs** you are **more passionate about**? (yes/no)
5. Please rank the following areas of sustainable development **according to their importance** to you (with position one representing the highest relevance)
6. Please rank the following areas of sustainable development **according to their investment attractiveness** to you (with position one representing the highest relevance)

→ P*rovide short description of respective SDG targets for questions 5) and 6)*

**Exhibit 9** – Standardized reporting requirements with clear & measurable KPIs for terminated projects

| **Impact areas** | **Reporting requirements** |
|---|---|
| Possible for all | • Support of local companies/economy (e.g., cost reduction)<br>• X jobs saved/generated<br>• Reduction of waste<br>• Contribution to environmental protection<br>• Better working conditions<br>• Gender equality<br>• Other positive, project-specific effect |
| Water & blue economy | • Water quality<br>• Impact on ecosystem |
| Green use of land | • X hectares for biodiversity<br>• Reduction of harmful material<br>• Promotion of sustainable production |
| Social economy | • X people impacted |

| | |
|---|---|
| | • Reduction of poverty<br>• Increase in productivity<br>• Promotion of responsible production |
| Sustainable energy | • X tons of $CO_2$ avoided per year<br>• X MWh of clean energy created<br>• Improvement in energy efficiency |
| Business in transition | • Promotion of sustainable production<br>• Reduction of harmful material |

**Exhibit 10** – Negative criteria for promoters: ESG compliance

| **ESG** | **Negative criteria** |
|---|---|
| Environment | • Fossil resources<br>• Coal mining<br>• Nuclear energy<br>• Factory farming & animal testing |
| Social | • Weapons & armour<br>• Drugs, alcohol, tabaco, gambling<br>• Violation of human rights<br>• Child labour |
| Governance | • Tax avoidance<br>• Corruption<br>• Discrimination<br>• Conflict promotion |

*Source:* (Wiwin 2021, Tomorrow 2021)

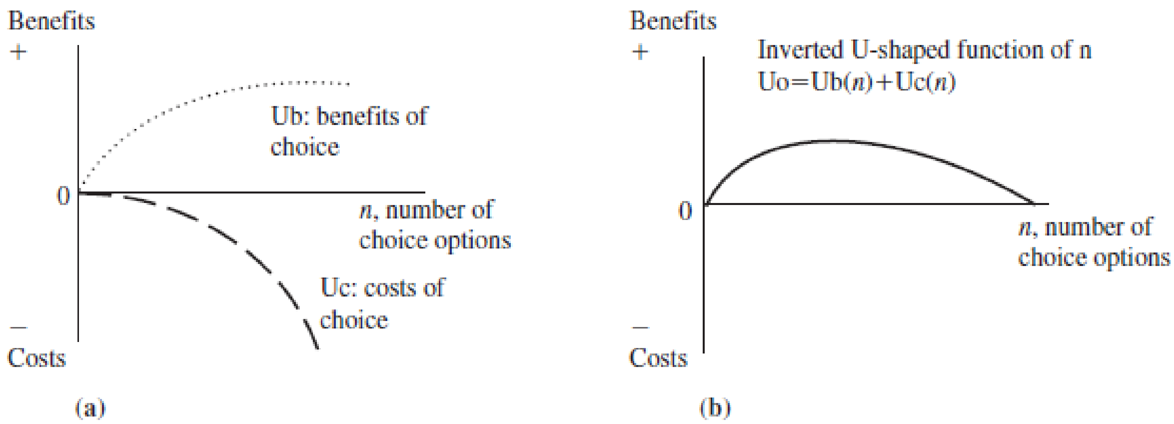
**Exhibit 11** – Standardized checklist for promoter screening

Conduct screening of following areas and resulting impact of promoter's value chain:

- Climate impact
- Supply chain impacts
- Products/services impacts
- Transportation
- Land use
- Energy use

- Diversity in personnel
- Wage levels, labour rights

**Exhibit 12** – Satisfaction as a function of the number of alternatives




*Source:* (Reutskaja und Hogarth 2009)

# 11. Appendix II: Survey Results

## 11.1. Survey Introduction

| |
|---|
| **Block: Default Question Block (1 Question)**<br>**Standard: Block 2 (19 Questions)**<br>**Standard: Block 1 (4 Questions)** |

**Start of Block: Default Question Block**

Q1 **Field Lab of Partnerships for Sustainable Development**

Dear participant,

The following survey is part of our Master's Thesis at Nova School of Business and Economics, under the Field Lab of Partnerships for Sustainable Development. Our focus is on online impact investment platforms.

The objective of the study is to investigate which measures would increase your willingness and trust to invest on such a platform.

The survey is entirely anonymous and takes about 7 minutes to complete. Please read the instructions carefully and answer the questions honestly. You can only take the survey once.

Thank you for your participation!

**End of Block: Default Question Block**

**Start of Block: Block 2**

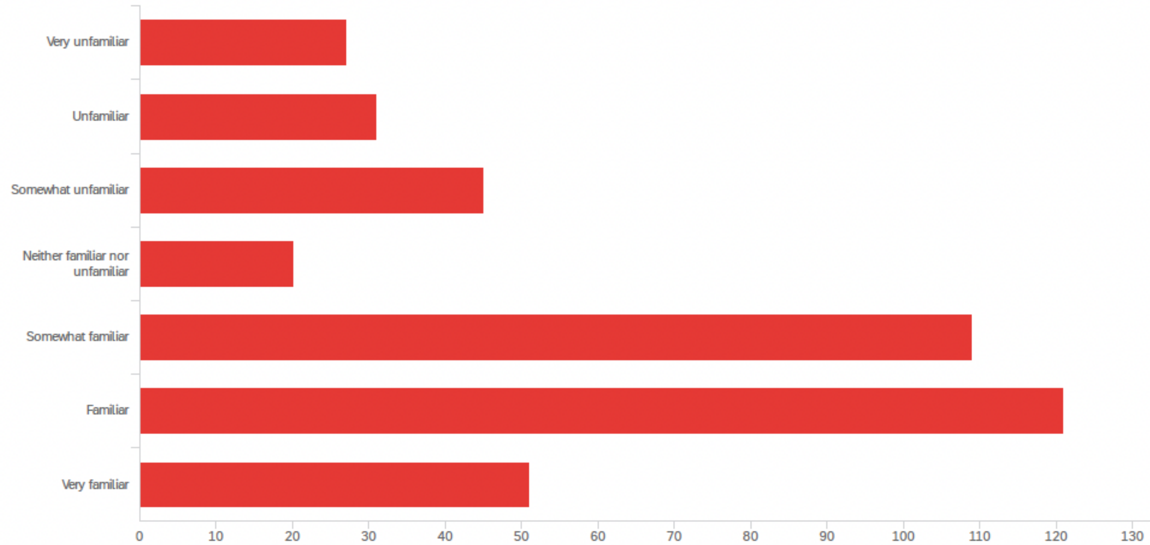
Q2 **Impact Investment**

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

Impact investing challenges the long-held view that social and environmental issues should be addressed only by philanthropic donations, and that market investments should focus exclusively on achieving financial returns. Consequentially, impact investment in its various, diverse forms enables investors to combine return and impact generation.

## 11.2. Survey Flow and Results

Q3: How familiar would you perceive yourself to be with the topic of financialinvestments in general?



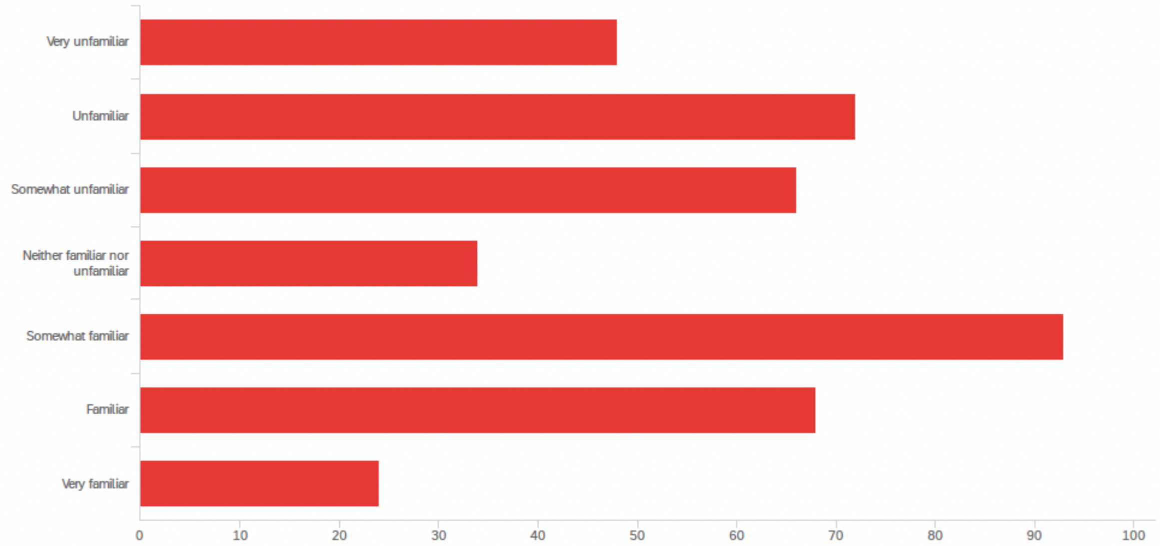

| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | How familiar would you perceive yourself to be with the topic of financial investments in general? | 1.00 | 7.00 | 4.78 | 1.74 | 3.01 | 404 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Very unfamiliar | 6.68% | 27 |
| 2 | Unfamiliar | 7.67% | 31 |
| 3 | Somewhat unfamiliar | 11.14% | 45 |
| 4 | Neither familiar nor unfamiliar | 4.95% | 20 |
| 5 | Somewhat familiar | 26.98% | 109 |
| 6 | Familiar | 29.95% | 121 |
| 7 | Very familiar | 12.62% | 51 |

| # | Field | Choice Count |
|---|---|---|
| | | 404 |

Showing rows 1 - 8 of 8

Q4 - How familiar would you perceive yourself to be with the topic of impact investments (prior to this survey)?



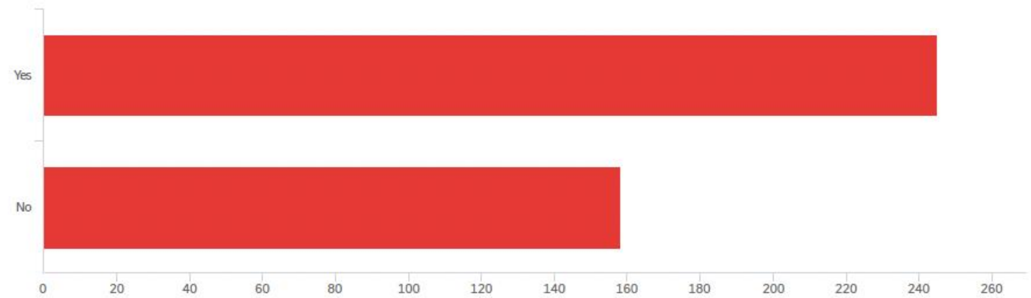

| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | How familiar would you perceive yourself to be with the topic of impact investments (prior to this survey)? | 1.00 | 7.00 | 3.87 | 1.83 | 3.36 | 405 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Very unfamiliar | 11.85% | 48 |
| 2 | Unfamiliar | 17.78% | 72 |
| 3 | Somewhat unfamiliar | 16.30% | 66 |
| 4 | Neither familiar nor unfamiliar | 8.40% | 34 |
| 5 | Somewhat familiar | 22.96% | 93 |
| 6 | Familiar | 16.79% | 68 |
| 7 | Very familiar | 5.93% | 24 |
| | | | 405 |

Showing rows 1 - 8 of 8

Q5 - Have you ever invested in the financial market?

*Skip To: Q9 If Have you ever invested in the financial market? = No*



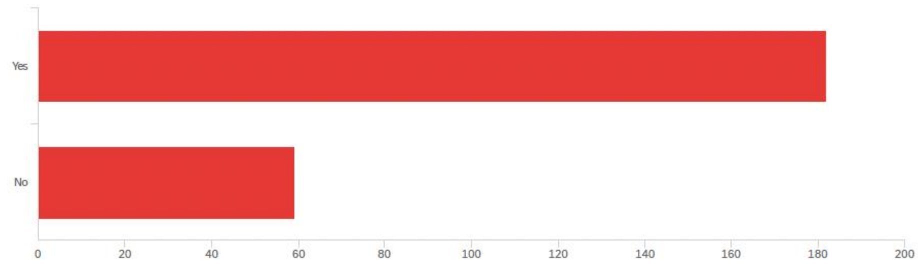

| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | Have you ever invested in the financial market? | 1.00 | 2.00 | 1.39 | 0.49 | 0.24 | 403 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Yes | 60.79% | 245 |
| 2 | No | 39.21% | 158 |
| | | | 403 |

Showing rows 1 - 3 of 3

Q6 - Have you ever invested in the financial market through an online platform?

Skip To: Q8 If Have you ever invested in the financial market through an online platform? = No

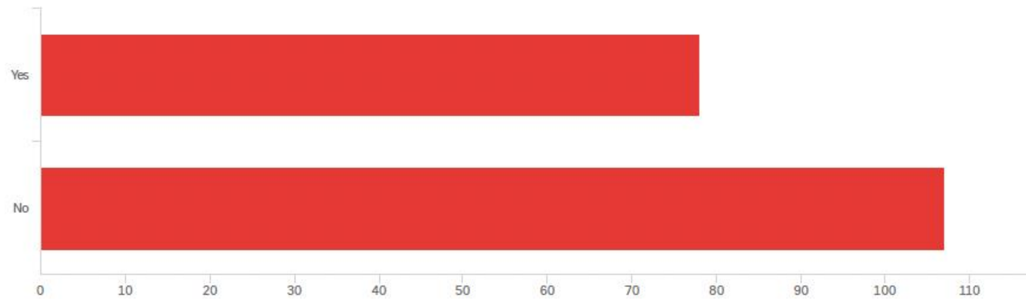



| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | Have you ever invested in the financial market through an online platform? | 1.00 | 2.00 | 1.24 | 0.43 | 0.18 | 241 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Yes | 75.52% | 182 |
| 2 | No | 24.48% | 59 |
| | | | 241 |

Showing rows 1 - 3 of 3

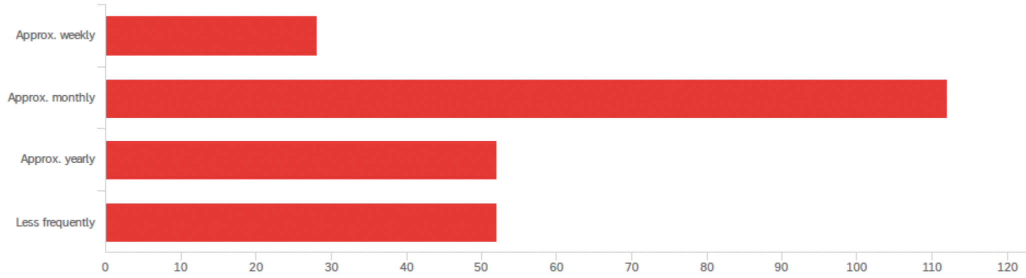
Q7 - Have you ever done an impactful investment through an online platform?




| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | Have you ever done an impactful investment through an online platform? | 1.00 | 2.00 | 1.58 | 0.49 | 0.24 | 185 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Yes | 42.16% | 78 |
| 2 | No | 57.84% | 107 |
| | | | 185 |

Q8 - How often do you invest into financial assets, e.g., stocks, derivatives, bonds?

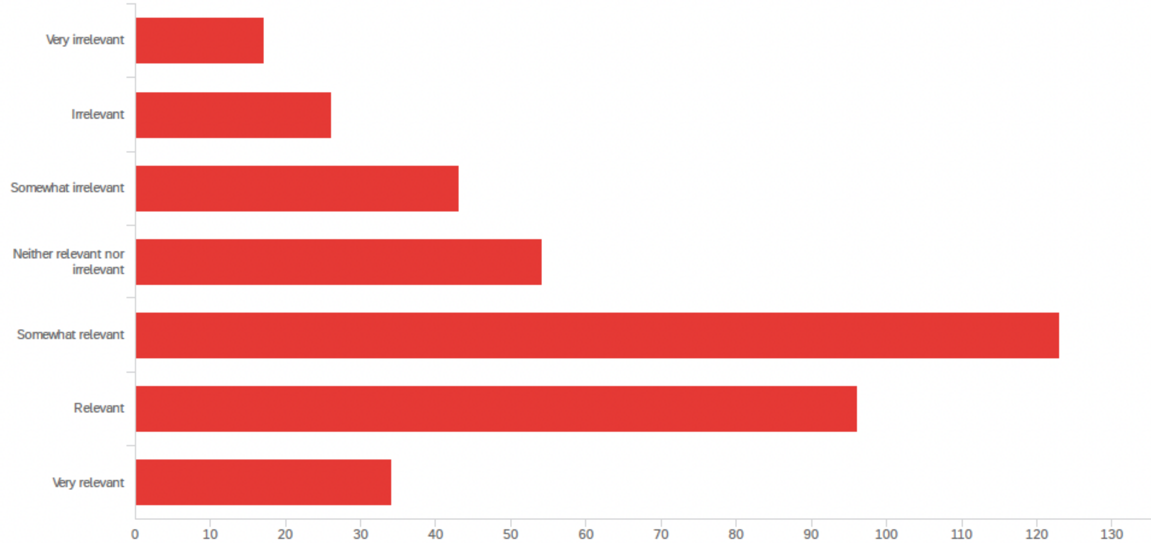



| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | How often do you invest into financial assets, e.g., stocks, derivatives, bonds? | 1.00 | 4.00 | 2.52 | 0.95 | 0.91 | 244 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Approx. weekly | 11.48% | 28 |
| 2 | Approx. monthly | 45.90% | 112 |
| 3 | Approx. yearly | 21.31% | 52 |
| 4 | Less frequently | 21.31% | 52 |
| | | | 244 |

Showing rows 1 - 5 of 5

Q9 - How relevant is generating impact (social, environmental etc.) for you when making an investment decision?

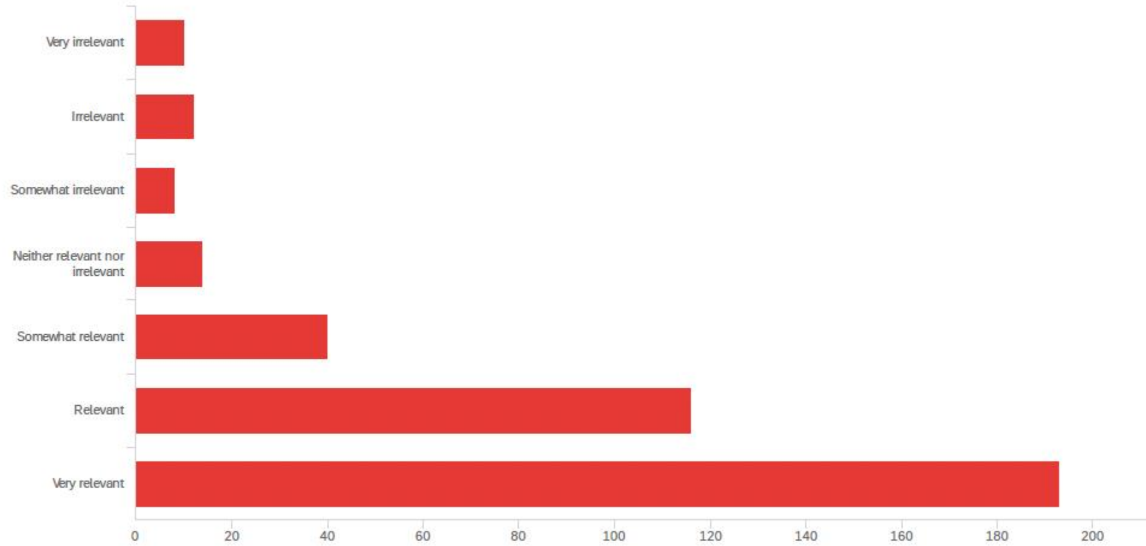



| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | How relevant is generating impact (social, environmental etc.) for you when making an investment decision? | 1.00 | 7.00 | 4.69 | 1.54 | 2.36 | 393 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Very irrelevant | 4.33% | 17 |
| 2 | Irrelevant | 6.62% | 26 |
| 3 | Somewhat irrelevant | 10.94% | 43 |
| 4 | Neither relevant nor irrelevant | 13.74% | 54 |
| 5 | Somewhat relevant | 31.30% | 123 |
| 6 | Relevant | 24.43% | 96 |
| 7 | Very relevant | 8.65% | 34 |
| | | | 393 |

Showing rows 1 - 8 of 8

Q10 - How relevant is generating return for you when making an investment decision?

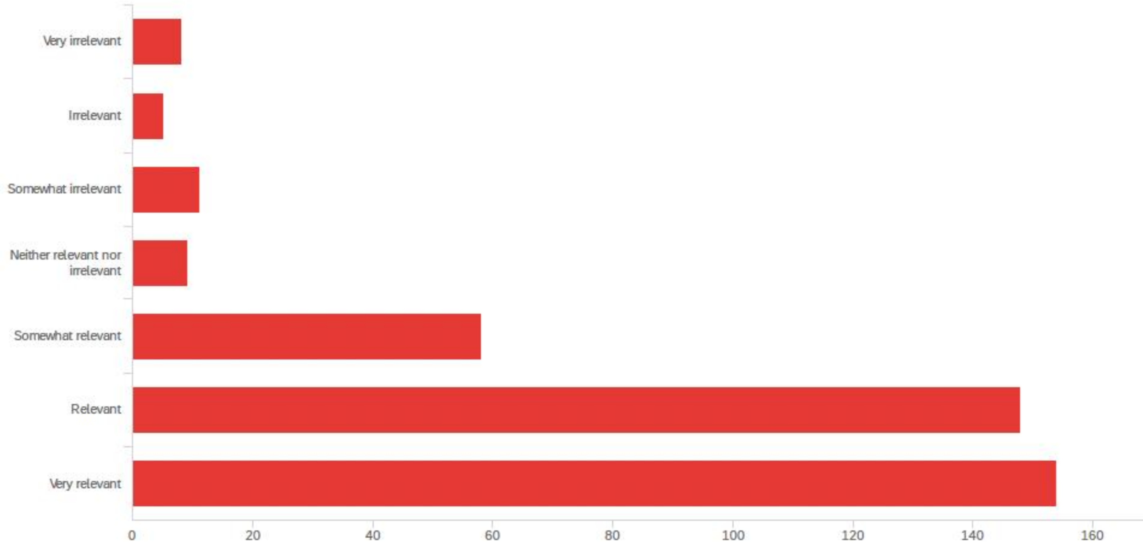



| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | How relevant is generating return for you when making an investment decision? | 1.00 | 7.00 | 6.01 | 1.43 | 2.04 | 393 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Very irrelevant | 2.54% | 10 |
| 2 | Irrelevant | 3.05% | 12 |
| 3 | Somewhat irrelevant | 2.04% | 8 |
| 4 | Neither relevant nor irrelevant | 3.56% | 14 |
| 5 | Somewhat relevant | 10.18% | 40 |
| 6 | Relevant | 29.52% | 116 |
| 7 | Very relevant | 49.11% | 193 |
| | | | 393 |

Showing rows 1 - 8 of 8

Q11 - How relevant is the associated risk of an investment for you when making an investment decision?



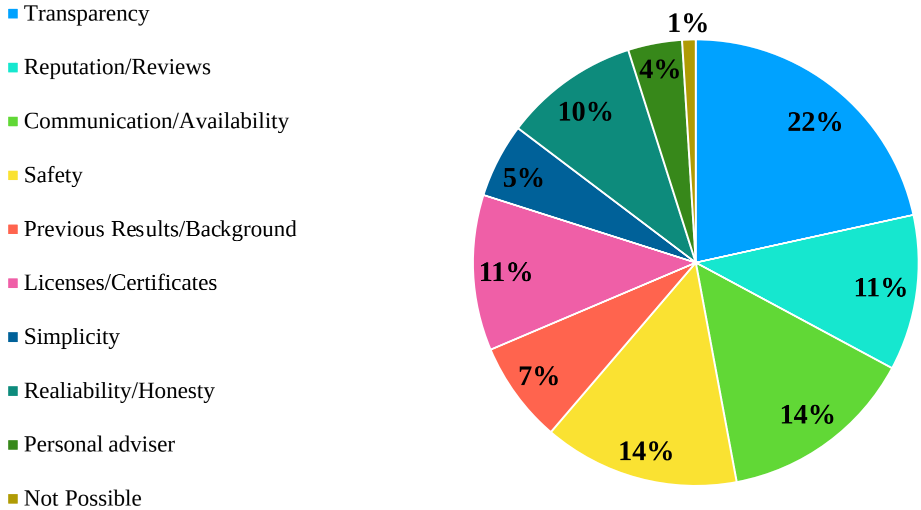

| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | How relevant is the associated risk of an investment for you when making an investment decision? | 1.00 | 7.00 | 5.96 | 1.26 | 1.59 | 393 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Very irrelevant | 2.04% | 8 |
| 2 | Irrelevant | 1.27% | 5 |
| 3 | Somewhat irrelevant | 2.80% | 11 |
| 4 | Neither relevant nor irrelevant | 2.29% | 9 |
| 5 | Somewhat relevant | 14.76% | 58 |
| 6 | Relevant | 37.66% | 148 |
| 7 | Very relevant | 39.19% | 154 |
| | | | 393 |

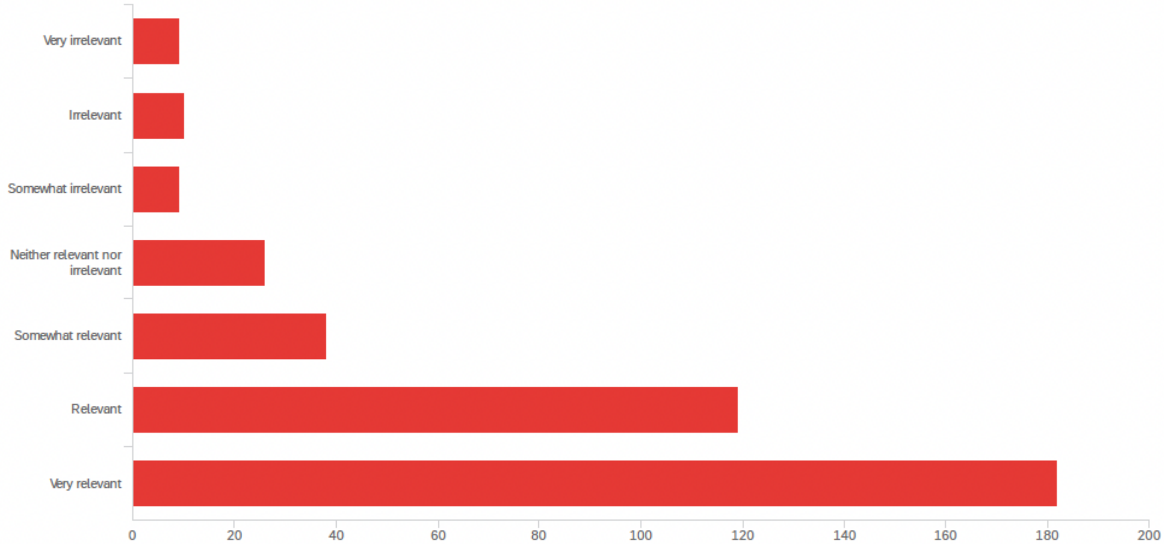
Showing rows 1 - 8 of 8

Q12 Which measures should a platform exert to create/increase your trust?

| Measures named | Number of responses | % Distribution |
|---|---|---|
| Transparency | 44 | 22% |
| Reputation/Reviews | 23 | 11% |
| Communication/Availability | 29 | 14% |
| Safety | 29 | 14% |
| Previous Results/Background | 15 | 7% |
| Licenses/Certificates | 23 | 11% |
| Simplicity | 11 | 5% |
| Realiability/Honesty | 20 | 10% |
| Personal adviser | 8 | 4% |
| Not Possible | 2 | 1% |
| | 204 | 100% |



Q13 - How relevant is a trust-based relationship towards an online investment platform for you to invest your money on the platform?

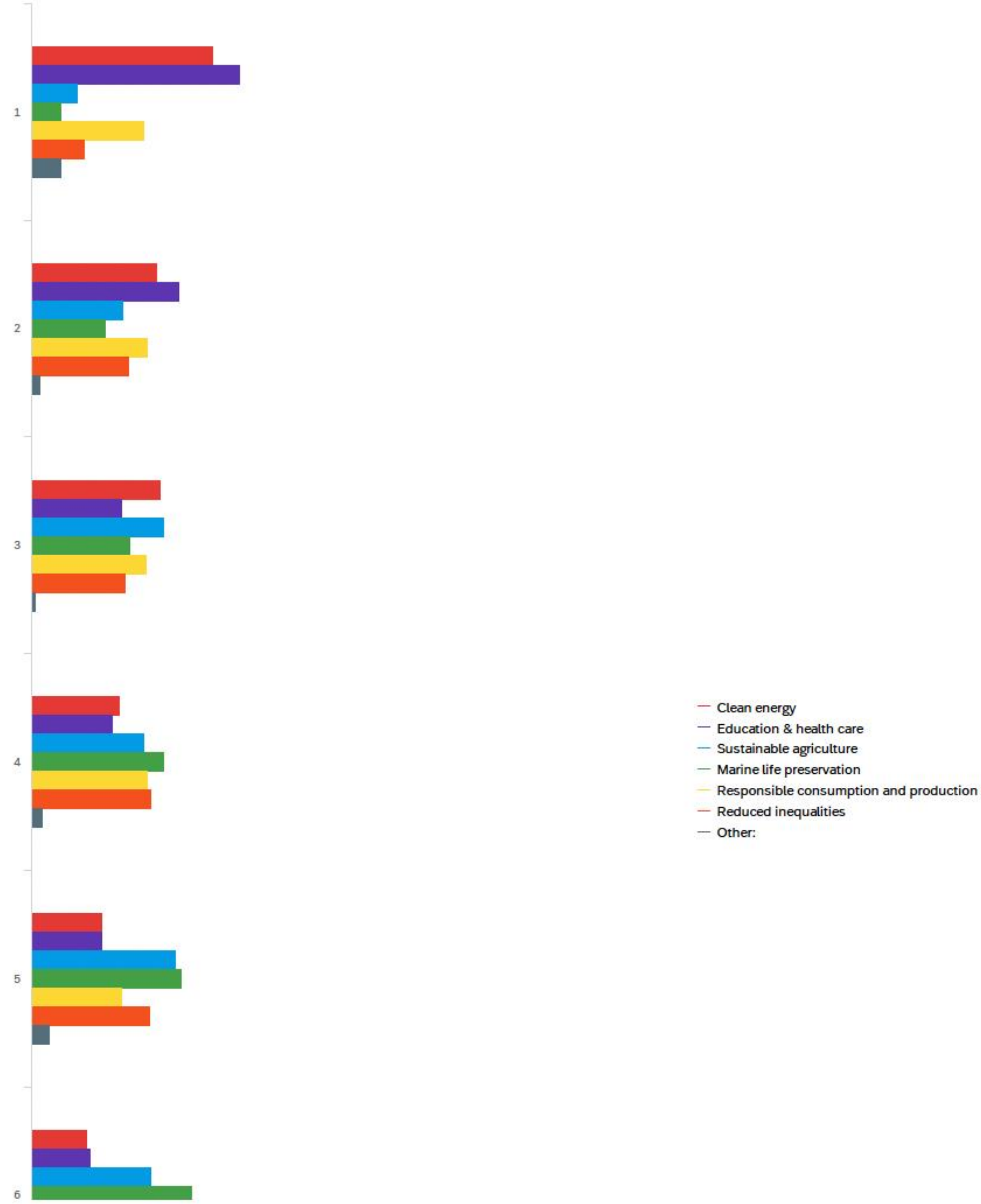


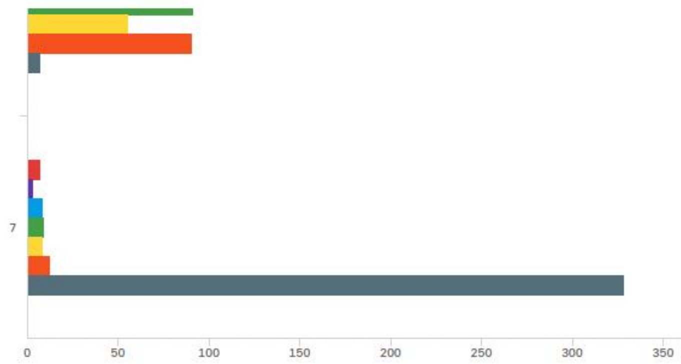

| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | How relevant is a trust-based relationship towards an online investment platform for you to invest your money on the platform? | 1.00 | 7.00 | 5.95 | 1.42 | 2.01 | 393 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Very irrelevant | 2.29% | 9 |
| 2 | Irrelevant | 2.54% | 10 |
| 3 | Somewhat irrelevant | 2.29% | 9 |
| 4 | Neither relevant nor irrelevant | 6.62% | 26 |
| 5 | Somewhat relevant | 9.67% | 38 |
| 6 | Relevant | 30.28% | 119 |
| 7 | Very relevant | 46.31% | 182 |
| | | | 393 |

Showing rows 1 - 8 of 8

Q14 - Please rank the following areas of sustainable development according to their importance to you (with position one representing the highest relevance) by moving them around:



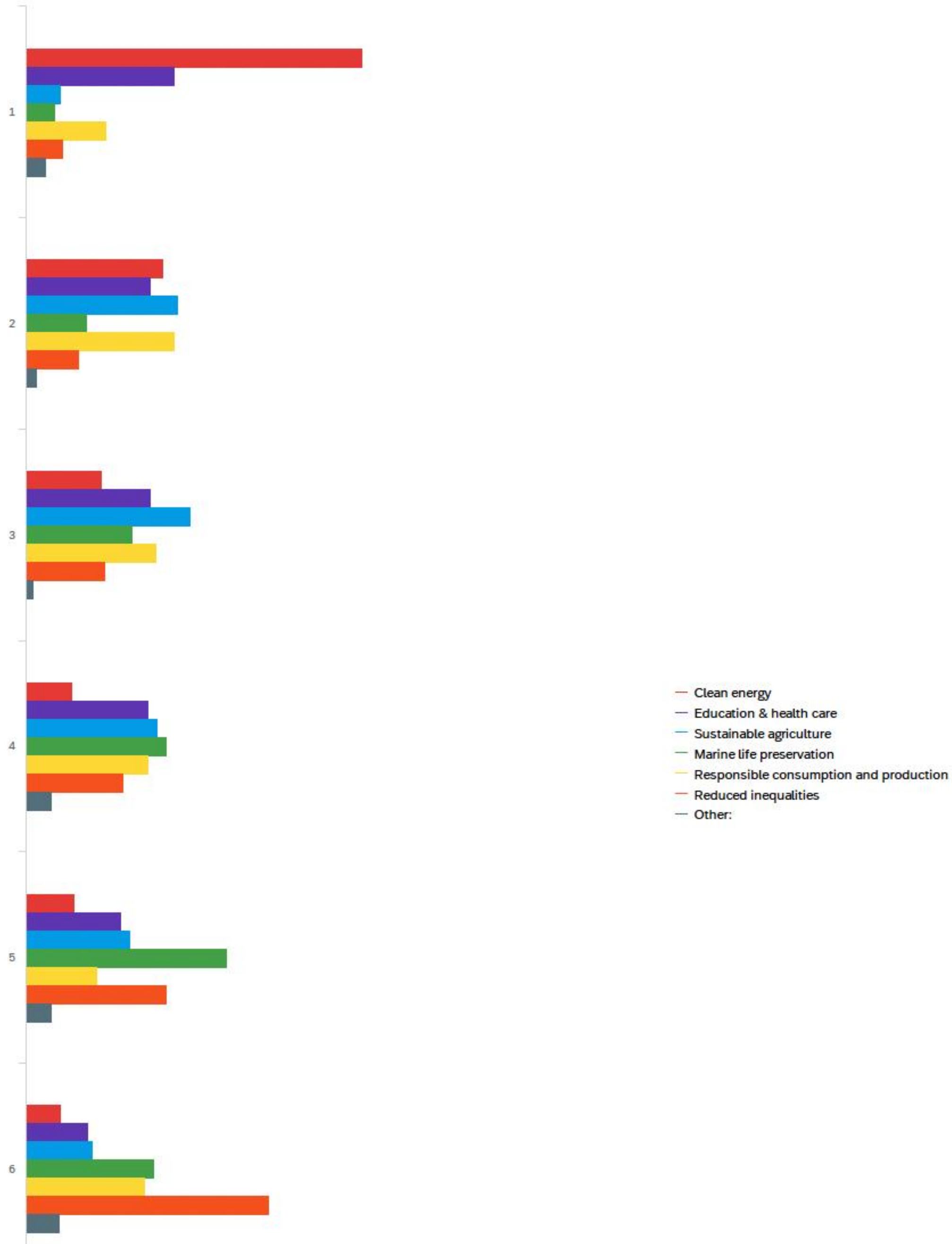


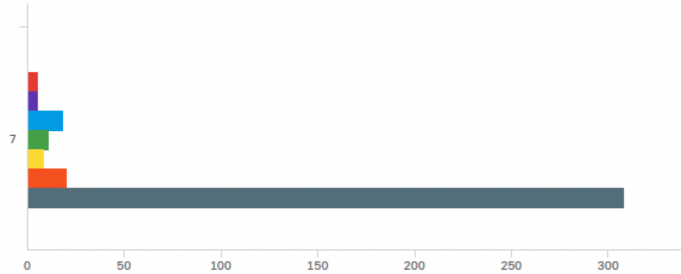

| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | Clean energy | 1.00 | 7.00 | 2.93 | 1.70 | 2.89 | 375 |
| 2 | Education & health care | 1.00 | 7.00 | 2.78 | 1.70 | 2.90 | 375 |
| 3 | Sustainable agriculture | 1.00 | 7.00 | 3.96 | 1.59 | 2.51 | 375 |
| 4 | Marine life preservation | 1.00 | 7.00 | 4.27 | 1.53 | 2.34 | 375 |
| 5 | Responsible consumption and production | 1.00 | 7.00 | 3.46 | 1.74 | 3.03 | 375 |
| 6 | Reduced inequalities | 1.00 | 7.00 | 4.08 | 1.69 | 2.87 | 375 |
| 7 | Other: | 1.00 | 7.00 | 6.52 | 1.45 | 2.09 | 375 |

| # | Field | 1 | | 2 | | 3 | | 4 | | 5 | | 6 | | 7 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Clean energy | 27.47% | 103 | 18.93% | 71 | 19.47% | 73 | 13.33% | 50 | 10.67% | 40 | 8.27% | 31 | 1.87% | 7 |
| 2 | Education & health care | 31.47% | 118 | 22.40% | 84 | 13.60% | 51 | 12.27% | 46 | 10.67% | 40 | 8.80% | 33 | 0.80% | 3 |
| 3 | Sustainable agriculture | 6.93% | 26 | 13.87% | 52 | 20.00% | 75 | 17.07% | 64 | 21.87% | 82 | 18.13% | 68 | 2.13% | 8 |
| 4 | Marine life preservation | 4.53% | 17 | 11.20% | 42 | 14.93% | 56 | 20.00% | 75 | 22.67% | 85 | 24.27% | 91 | 2.40% | 9 |
| 5 | Responsible consumption and production | 17.07% | 64 | 17.60% | 66 | 17.33% | 65 | 17.60% | 66 | 13.60% | 51 | 14.67% | 55 | 2.13% | 8 |
| 6 | Reduced inequalities | 8.00% | 30 | 14.67% | 55 | 14.13% | 53 | 18.13% | 68 | 17.87% | 67 | 24.00% | 90 | 3.20% | 12 |
| 7 | Other: | 4.53% | 17 | 1.33% | 5 | 0.53% | 2 | 1.60% | 6 | 2.67% | 10 | 1.87% | 7 | 87.47% | 328 |

Showing rows 1 - 7 of 7

Q15 - Please rank the following areas of sustainable development according to their investment attractiveness to you (with position one representing the highest relevance):



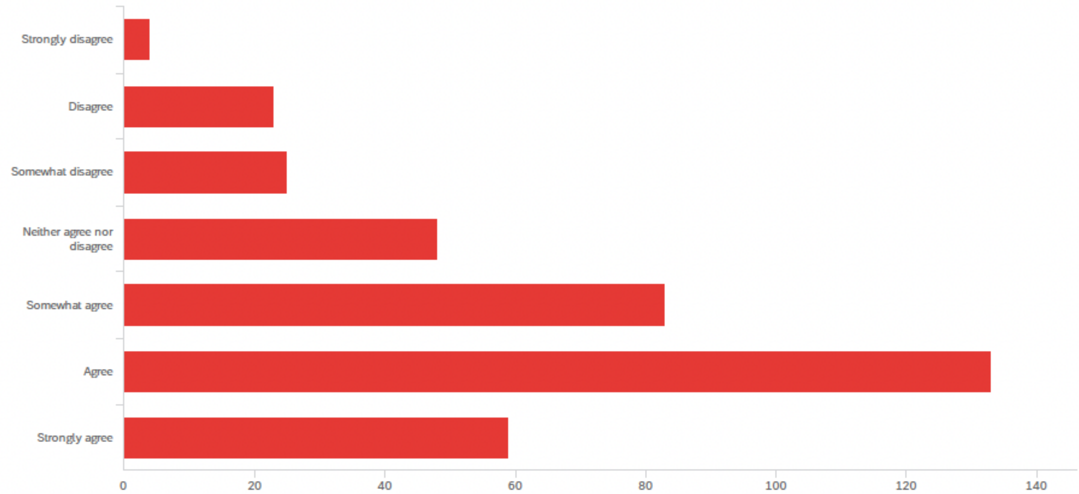



| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | Clean energy | 1.00 | 7.00 | 2.23 | 1.61 | 2.58 | 375 |
| 2 | Education & health care | 1.00 | 7.00 | 3.17 | 1.67 | 2.78 | 375 |
| 3 | Sustainable agriculture | 1.00 | 7.00 | 3.65 | 1.56 | 2.43 | 375 |
| 4 | Marine life preservation | 1.00 | 7.00 | 4.30 | 1.45 | 2.11 | 375 |
| 5 | Responsible consumption and production | 1.00 | 7.00 | 3.54 | 1.70 | 2.89 | 375 |
| 6 | Reduced inequalities | 1.00 | 7.00 | 4.65 | 1.61 | 2.59 | 375 |
| 7 | Other: | 1.00 | 7.00 | 6.47 | 1.37 | 1.88 | 375 |

| # | Field | 1 | | 2 | | 3 | | 4 | | 5 | | 6 | | 7 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Clean energy | 49.07% | 184 | 20.00% | 75 | 10.93% | 41 | 6.67% | 25 | 6.93% | 26 | 5.07% | 19 | 1.33% | 5 |
| 2 | Education & health care | 21.60% | 81 | 18.13% | 68 | 18.13% | 68 | 17.87% | 67 | 13.87% | 52 | 9.07% | 34 | 1.33% | 5 |
| 3 | Sustainable agriculture | 5.07% | 19 | 22.13% | 83 | 24.00% | 90 | 19.20% | 72 | 15.20% | 57 | 9.60% | 36 | 4.80% | 18 |
| 4 | Marine life preservation | 4.27% | 16 | 8.80% | 33 | 15.47% | 58 | 20.53% | 77 | 29.33% | 110 | 18.67% | 70 | 2.93% | 11 |
| 5 | Responsible consumption and production | 11.73% | 44 | 21.60% | 81 | 18.93% | 71 | 17.87% | 67 | 10.40% | 39 | 17.33% | 65 | 2.13% | 8 |
| 6 | Reduced inequalities | 5.33% | 20 | 7.73% | 29 | 11.47% | 43 | 14.13% | 53 | 20.53% | 77 | 35.47% | 133 | 5.33% | 20 |
| 7 | Other: | 2.93% | 11 | 1.60% | 6 | 1.07% | 4 | 3.73% | 14 | 3.73% | 14 | 4.80% | 18 | 82.13% | 308 |

Showing rows 1 - 7 of 7

Q16 - How much do you agree with the following statement: ‘It is very important to me to have a large variety of impact topics (e.g., education, marine life, deforestation, poverty) to choose from when investing in impact investments.’

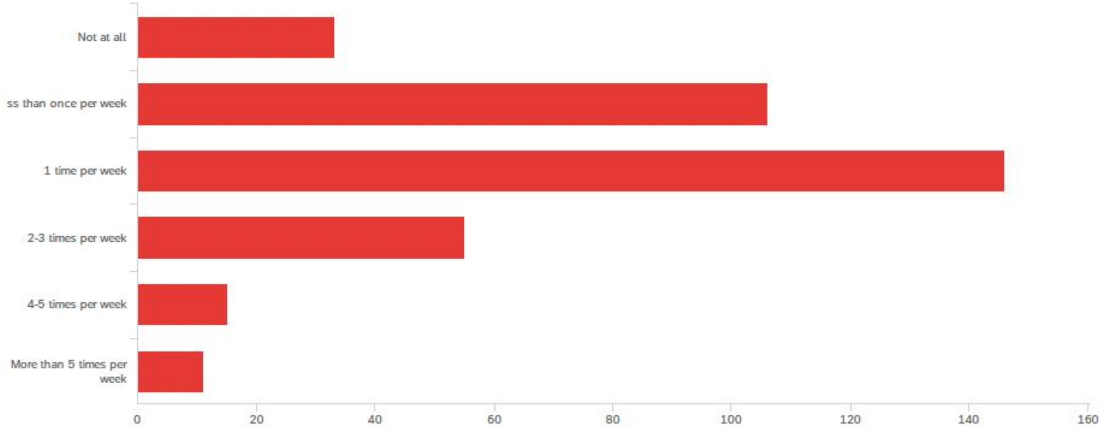



| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | How much do you agree with the following statement: ‘It is very important to me to have a large variety of impact topics (e.g., education, marine life, deforestation, poverty) to choose from when investing in impact investments.’ | 1.00 | 7.00 | 5.18 | 1.44 | 2.07 | 375 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Strongly disagree | 1.07% | 4 |
| 2 | Disagree | 6.13% | 23 |
| 3 | Somewhat disagree | 6.67% | 25 |
| 4 | Neither agree nor disagree | 12.80% | 48 |
| 5 | Somewhat agree | 22.13% | 83 |
| 6 | Agree | 35.47% | 133 |
| 7 | Strongly agree | 15.73% | 59 |
| | | | 375 |

Showing rows 1 - 8 of 8

Q17 - Many online investment platforms use email communication to keep their users informed on the performance of their investments, on potential investment opportunities and relevant industry insights. If you decide to invest in such an investment platform, how often would you like to be contacted?

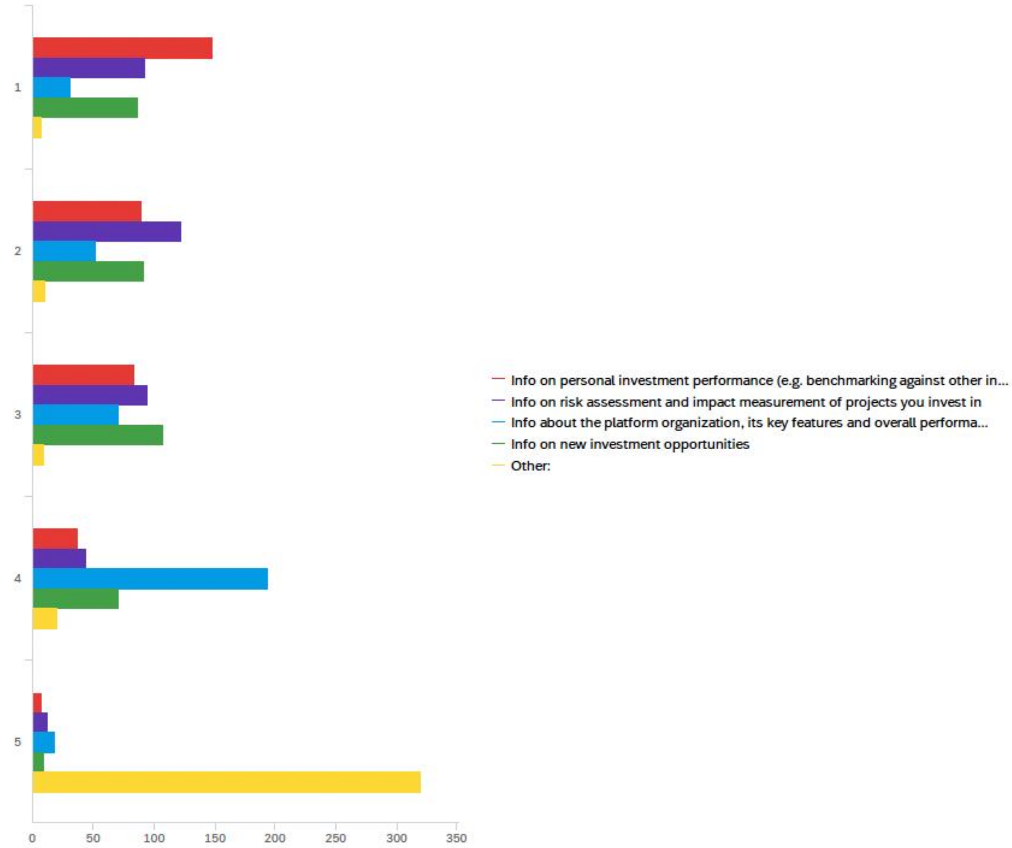



| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | Many online investment platforms use email communication to keep their users informed on the performance of their investments, on potential investment opportunities and relevant industry insights. If you decide to invest in such an investment platform, how often would you like to be contacted? | 1.00 | 6.00 | 2.85 | 1.10 | 1.21 | 366 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Not at all | 9.02% | 33 |
| 2 | Less than once per week | 28.96% | 106 |
| 3 | 1 time per week | 39.89% | 146 |
| 4 | 2-3 times per week | 15.03% | 55 |
| 5 | 4-5 times per week | 4.10% | 15 |
| 6 | More than 5 times per week | 3.01% | 11 |
| | | | 366 |

Showing rows 1 - 7 of 7

Q18 - When receiving information from the online investment platform you are/ were to be investing in, what type of content would you be most interested in? (Please rank according to relevance with position one representing the highest relevance)

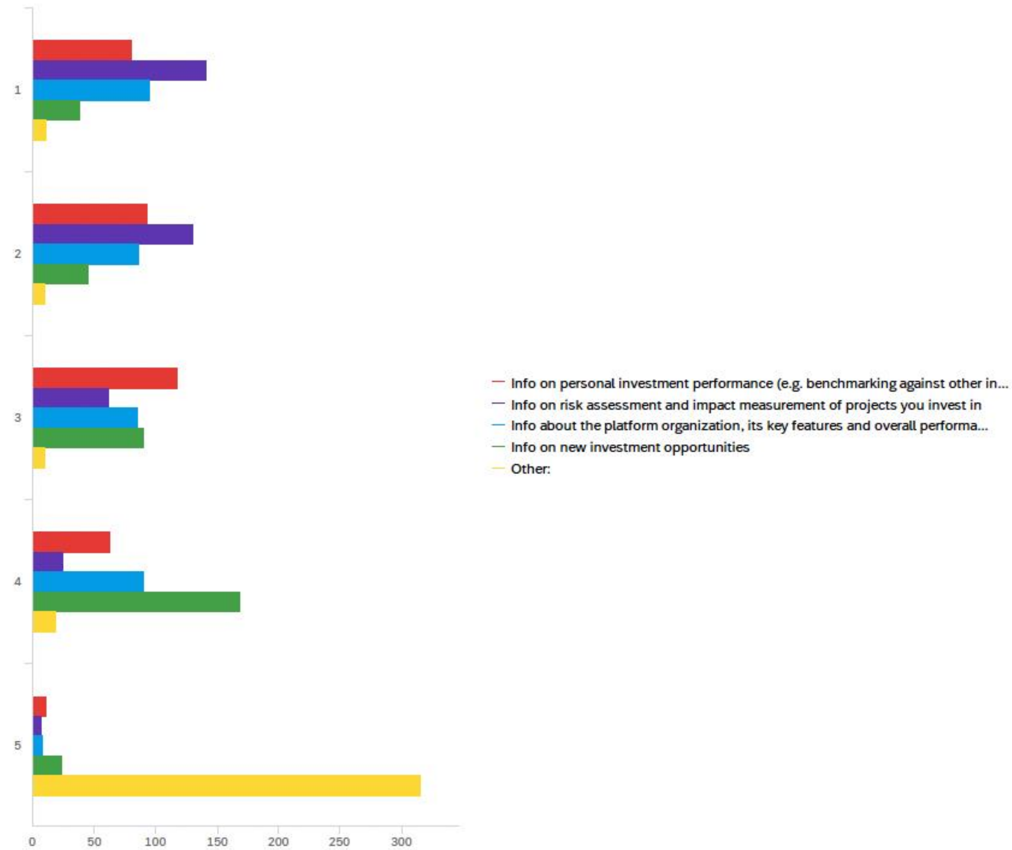



| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | Info on personal investment performance (e.g. benchmarking against other investment opportunities) | 1.00 | 5.00 | 2.08 | 1.10 | 1.20 | 366 |
| 2 | Info on risk assessment and impact measurement of projects you invest in | 1.00 | 5.00 | 2.34 | 1.08 | 1.17 | 366 |
| 3 | Info about the platform organization, its key features and overall performance | 1.00 | 5.00 | 3.32 | 1.05 | 1.11 | 366 |
| 4 | Info on new investment opportunities | 1.00 | 5.00 | 2.52 | 1.12 | 1.26 | 366 |
| 5 | Other: | 1.00 | 5.00 | 4.74 | 0.80 | 0.64 | 366 |

| # | Field | 1 | | 2 | | 3 | | 4 | | 5 | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Info on personal investment performance (e.g. benchmarking against other investment opportunities) | 40.44% | 148 | 24.59% | 90 | 22.95% | 84 | 10.11% | 37 | 1.91% | 7 | 366 |
| 2 | Info on risk assessment and impact measurement of projects you invest in | 25.41% | 93 | 33.33% | 122 | 25.96% | 95 | 12.02% | 44 | 3.28% | 12 | 366 |
| 3 | Info about the platform organization, its key features and overall performance | 8.47% | 31 | 14.21% | 52 | 19.40% | 71 | 53.01% | 194 | 4.92% | 18 | 366 |
| 4 | Info on new investment opportunities | 23.77% | 87 | 25.14% | 92 | 29.23% | 107 | 19.40% | 71 | 2.46% | 9 | 366 |
| 5 | Other: | 1.91% | 7 | 2.73% | 10 | 2.46% | 9 | 5.46% | 20 | 87.43% | 320 | 366 |

Showing rows 1 - 5 of 5

Q19 - When receiving information from the online investment platform you were to invest in, what type of content would increase your trust towards the platform the most? (Please rank according to relevance with position one representing the highest relevance)

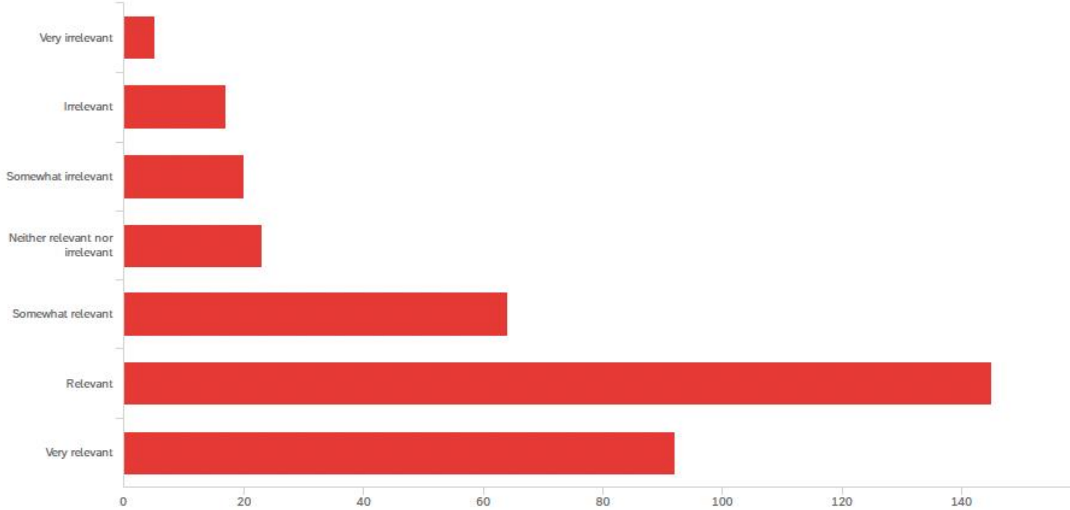


| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | Info on personal investment performance (e.g. benchmarking against other investment opportunities) | 1.00 | 5.00 | 2.54 | 1.10 | 1.22 | 366 |
| 2 | Info on risk assessment and impact measurement of projects you invest in | 1.00 | 5.00 | 1.98 | 1.00 | 1.00 | 366 |
| 3 | Info about the platform organization, its key features and overall performance | 1.00 | 5.00 | 2.53 | 1.18 | 1.39 | 366 |
| 4 | Info on new investment opportunities | 1.00 | 5.00 | 3.26 | 1.09 | 1.19 | 366 |
| 5 | Other: | 1.00 | 5.00 | 4.69 | 0.89 | 0.79 | 366 |

| # | Field | 1 | | 2 | | 3 | | 4 | | 5 | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Info on personal investment performance (e.g. benchmarking against other investment opportunities) | 22.13% | 81 | 25.41% | 93 | 32.24% | 118 | 17.21% | 63 | 3.01% | 11 | 366 |
| 2 | Info on risk assessment and impact measurement of projects you invest in | 38.52% | 141 | 35.79% | 131 | 16.94% | 62 | 6.83% | 25 | 1.91% | 7 | 366 |
| 3 | Info about the platform organization, its key features and overall performance | 25.96% | 95 | 23.77% | 87 | 23.50% | 86 | 24.59% | 90 | 2.19% | 8 | 366 |
| 4 | Info on new investment opportunities | 10.38% | 38 | 12.30% | 45 | 24.59% | 90 | 46.17% | 169 | 6.56% | 24 | 366 |
| 5 | Other: | 3.01% | 11 | 2.73% | 10 | 2.73% | 10 | 5.19% | 19 | 86.34% | 316 | 366 |

Showing rows 1 - 5 of 5

Q20 - When joining an online impact investment platform, how relevant is the number of users that are currently investing in this platform for you to build trust in the platform?



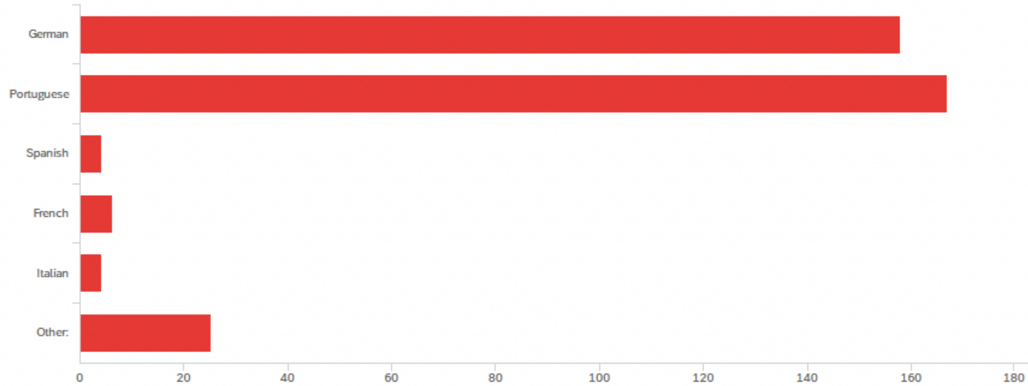

| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | When joining an online impact investment platform, how relevant is the number of users that are currently investing in this platform for you to build trust in the platform? | 1.00 | 7.00 | 5.53 | 1.43 | 2.04 | 366 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Very irrelevant | 1.37% | 5 |
| 2 | Irrelevant | 4.64% | 17 |
| 3 | Somewhat irrelevant | 5.46% | 20 |
| 4 | Neither relevant nor irrelevant | 6.28% | 23 |
| 5 | Somewhat relevant | 17.49% | 64 |
| 6 | Relevant | 39.62% | 145 |
| 7 | Very relevant | 25.14% | 92 |
| | | | 366 |

Showing rows 1 - 8 of 8

## 11.3. Sample Characteristics

### Q21 - What is your nationality?




| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | What is your nationality? - Selected Choice | 1.00 | 6.00 | 1.92 | 1.30 | 1.70 | 364 |

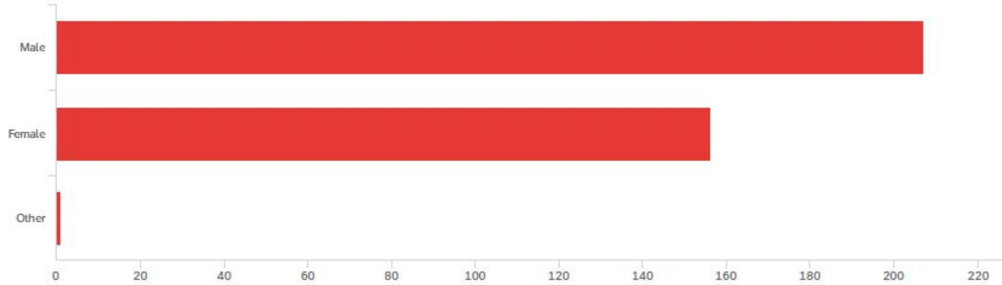
| # | Field | Choice Count | |
|---|---|---|---|
| 1 | German | 43.41% | 158 |
| 2 | Portuguese | 45.88% | 167 |
| 3 | Spanish | 1.10% | 4 |
| 4 | French | 1.65% | 6 |
| 5 | Italian | 1.10% | 4 |
| 6 | Other: | 6.87% | 25 |
| | | | 364 |

Showing rows 1 - 7 of 7

### Q22 - How old are you? (please only type the number)

| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | How old are you? (please only type the number) | 18.00 | 73.00 | 37.14 | 14.98 | 224.31 | 364 |

Q23 - What is your gender?

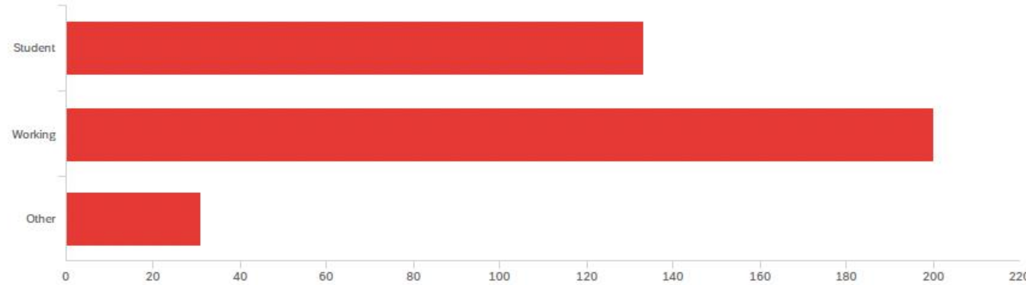



| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | What is your gender? | 1.00 | 3.00 | 1.43 | 0.50 | 0.25 | 364 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Male | 56.87% | 207 |
| 2 | Female | 42.86% | 156 |
| 3 | Other | 0.27% | 1 |
| | | | 364 |

Showing rows 1 - 4 of 4

Q24 - What is your current occupancy?




| # | Field | Minimum | Maximum | Mean | Std Deviation | Variance | Count |
|---|---|---|---|---|---|---|---|
| 1 | What is your current occupancy? | 1.00 | 3.00 | 1.72 | 0.61 | 0.37 | 364 |

| # | Field | Choice Count | |
|---|---|---|---|
| 1 | Student | 36.54% | 133 |
| 2 | Working | 54.95% | 200 |
| 3 | Other | 8.52% | 31 |
| | | | 364 |

Showing rows 1 - 4 of 4

## 12. Bibliography

Akturan, Ulun. 2018. "How does greenwashing affect green branding equity and purchase intention? An empirical research." *Market Intelligence & Planning.* https://www.emerald.com/insight/content/doi/10.1108/MIP-12-2017-0339/full/html.

Andersson, Emma, interview by Ann-Christin Stiehl. 2021. *Information on Trine's business model* (November 17).

Azzouz, Myriam, and Cédric Merle. 2021. "Green-washing allegations are jolting the financial industry: heightened needs for cautiousness, integrity and guidance." *Natixis Corporate & Investment Banking.* 09 30. Accessed 11 16, 2021. https://gsh.cib.natixis.com/our-center-of-expertise/articles/green-washing-allegations-are-jolting-the-financial-industry-heightened-needs-for-cautiousness-integrity-and-guidance.

Becker, Jonas, interview by Sophia Rhodovi. 2021. *Information on Wiwin's business model* (November 5).

Boudeau, Kevin J., and Lars B. Jeppesen. 2014. "Unpaid crowd complementors: the platform network effect mirage." *Strategic Management Journal* 1761–1777.

CFA Institute. 2020. *Earning Investors' Trust: How the Desire for Information, Innovation, and Influence Is Shaping Client Relationships.* CFA Institute. Accessed November 2021. https://trust.cfainstitute.org/report/.

Center of Alternative Finance.—. 2021. Project List. Accessed December 8, 2021.

Comunello, Iara, interview by Ann-Christin Stiehl. 2021. *Information on GoParity with Impact Department* (October 12).

CrowdfundingHub. 2021. *Current State of Crowdfunding in Europe.* CrowdfundingHub.

Customer Support Trine. 2021. November 16.

Customer Support Wiwin. 2021. November 17.

Dorfleitner, Gregor, Maria Oswald, and Rongxin Zhang. 2019. "From Credit Risk to Social Impact: On the Funding Determinants in Interest-Free Peer-to-Peer Lending." *Journal of Business Ethics.* https://link.springer.com/article/10.1007/s10551-019-04311-8.

Eça, Afonso Fuzeta, interview by Sophia Rhodovi. 2021. *Information on Raize's business model* (October 27).

European Commission. 2021. "Regulation on European Crowdfunding Service Providers (ECSP) for business." *European Commission website.* Accessed December 4, 2021. https://ec.europa.eu/info/business-economy-euro/growth-and-investment/financing-investment/crowdfunding_en.

Feindt, Andreas, interview by Jennifer Halser. 2021. *Information about Tomorrow's business model* (November 10).

Glover, Michael. 2021. *Big Commerce.* Accessed November 14, 2021. https://www.bigcommerce.com/blog/word-of-mouth-marketing/#what-is-word-of-mouth-marketing.

GoParity FAQs. 2021. "What is a grace period of capital?" Accessed December 6, 2021. https://goparity.com/faqs/what-is-a-grace-period-of-capital%3F-77.

GoParity. 2020. "GoParity - Pricing." October 9. Accessed November 13, 2021. https://app.goparity.com/storage/app/uploads/public/60f/04f/7b4/60f04f7b4c608132546111.pdf.

GoParity 2021. Project List. Accessed December 8, 2021. https://app.goparity.com/en/dashboard/invest#open-projects-tab.

Graf, Tobias, interview by Jennifer Halser. 2021. *Information on UBS investment processes in the Wealth Management team* (November 6).

Greifeneder, Rainer, Benjamin Scheibehenne, and Nina Kleber. 2010. "Less may be more when choosing is difficult: Choice complexity and too much choice." *Acta Psychologica* 133 (1): 45-50.

Hoeffler, Steve, and Kevin Lane Keller. 2003. "The marketing advantages of strong brands." *Brand Management.* http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.476.9172&rep=rep1&type=pdf.

IFC. 2019. *Creating Impact: The Promise of Impact Investing.* Washington: International Finance Corporation - World Bank Group.

Lopes, Inês Branco, and Rita Costa. 2021. *Information on GoParity with Head of Communications* (16 November).

Mintos. 2021. Accessed December 6, 2021. https://www.mintos.com/en/how-it-works/liquidity-selling-investments/.

Nina, Manuel, interview by Jennifer Halser. 2021. *Information on GoParity by CCO* (October 5).

Odorovic, Ana, Apolline Mertz, Brian Kessler, Karim Karaki, Karsten Wenzlaff, Lucas Novelle Araújo, and Ronald Kleverlaan. 2021. *Unlocking the crowdfunding potential for the European Structural and Investment Funds.* European Commission: Directorate-General for Regional and Urban Policy.

Paes, Leyla Mammadova, Charles Wanga, et al. 2021. *Global Alternative Finance Market Benchmarking The 2nd Global Alternative Finance Market Benchmarking Report.* Cambridge

Petromilli, Michael, Dan Morrison, and Michael Million. 2002. “Brand architecture: Building brand portfolio value.” *Strategy & Leadership.*

https://web.archive.org/web/20060508191502id_/http://www.prophet.com/knowledge/articles/downloads/Brand%20Architecture_StrategyLeadership.pdf.

Raize. 2021. *Raize.* Accessed November 06, 2021. https://www.raize.pt/?gclid=Cj0KCQiAnaeNBhCUARIsABEee8UQ0vpDNp3249PTbUarQpq8yirJdXZ5pVXD3RnSg3ZuoE42kYMhwbwaAuo3EALw_wcB.

Reutskaja, Elena, and Robin M. Hogarth. 2009. "Satisfaction in Choice as a Function of the Number of Alternatives: When Goods Satiate." *Psychology & Marketing* 197-203.

Rousseau, Denise M., Sim B. Sitkin, Ronald S. Burt, and Colin Camerer. 1998. “Not So Different After All: A Cross-Discipline View Of Trust.” *Academy of Management Review.* https://journals.aom.org/doi/10.5465/amr.1998.926617.

Tomasic, Roman, and Folarin Akinbami. 2011. “The Role of Trust in Maintaining the Resilience of Financial Markets.” *Journal of Corporate Law Studies.* https://www.researchgate.net/publication/256063489_The_Role_of_Trust_in_Maintaining_the_Resilience_of_Financial_Markets.

Tomorrow. 2021. *Tomorrow.* Accessed 11 16, 2021. https://www.tomorrow.one/en-EU/.

Trade Republic. 2021. *Trade Republic.* Accessed December 8, 2021. https://traderepublic.com/en-de.

Trine. 2021. *Trine.* Accessed November 17, 2021. https://trine.com/about.

Wiwin. 2021. *Wiwin.* Accessed November 10, 2021. https://wiwin.de/#.

Ziegler, Tania, Rotem Shneor, Karsten Wenzlaff, Krishnamurthy Suresh, Felipe Ferri de Camargo

# INDIVIDUAL PART

Teaching Note GoParity: Greenwashing in the impact investment sector

# Teaching Note GoParity

## Part 1: Case Overview and Teaching Background

### Synopsis

The case opens by highlighting the importance of investor trust for sustaining GoParity's competitive position and impact creation potential. It is set in 2021 at which point in time Nuno Jorge (Founder) and Rita Oliveira (Head of Marketing), guide through the companies' developments of being a social crowdlending platform in the nascent Portuguese impact investment market. Hereby, the decisions necessary to gain and maintain the trust of its investors were the precondition for enhancing the userbase, thus influencing future growth.

During the course of the case, it is outlined how GoParity establishes different processes to build this trust: identifying impact in line with the Sustainable Development Goals (SDGs), assessing the financial viability of projects to mitigate investment risk, and communicating the values and internal assessment procedures in a transparent and integer way.

The case closes by raising future challenges GoParity faces which could harm investor trust building and ultimately to sustain its position in the growing social crowdlending market.

### Case Use and Teaching Objectives

The case can be used in study programs with a focus on Impact Entrepreneurship and Sustainability. It is especially suited for courses that cover topics on impact investment, social entrepreneurship, or performance and progress. A useful prerequisite for an effective solving of the case is basic prior knowledge about the SDGs, impact investment and impact measurement.

After analyzing and discussing the case, students will be able to:

- Examine the importance of an encompassing and thorough impact measurement process for the impact investment sector

- Demonstrate and apply techniques to reduce the risk of greenwashing and foster investor trust in sustainable investment opportunities
- Assess and contrast profound reasonings about controversial decision impact investment firms face
- Explain and evaluate the challenges of creating and deepening investor trust in impact investment with a focus on social crowdlending platforms

**Part 2: Teaching Plan**

This teaching note is based on the GoParity case. It does not constitute an encompassing analysis of the developments described in the case study but sets a focus on the issue of greenwashing in the impact investment sector. Its purpose is to guide instructors through the class whilst offering various potential questions, concepts, and current impulses. It will enable a detailed analysis of the case study under the pretext of greenwashing and lead to an extensive class discussion that will go beyond what has already been covered in the case. The teaching note begins with a few questions that provide students with the knowledge necessary for the further course of the class. Thereafter, the learnings will be applied to the GoParity case study and set in the broader context of investor trust creation.

Case Introduction

The class can be introduced by observing the expansion of impact investment over the past decade (*Appendix 1*). Several reasons for this can be highlighted, such as the growing desire of investors to pursue impactful and sustainable investments, and the fact that these types of investments offer risk-adjusted, market rate returns (GIIN 2020). Subsequently, the instructor can direct the class towards different characteristics of impact investment, elaborating on selected ones (*Appendix 2*).

Class Discussion

After having started the class with a short introduction and recap of the overall topic 'impact investment', the instructor should direct the students towards the focus of the class. A potential opening question is:

1. What does greenwashing refer to in the case of impact investment?

The term 'greenwashing' describes the attempt to convey the wrong impression that a company, its products, and/or the way it operates are environmentally friendly. In the case of impact investment, the term refers to exaggerated claims about an investments positive social or environmental impact (CFI 2021). Usually, these misleading claims are undertaken for publicity reasons, to market investment products as sustainable and to convince customers of the positive impact their money generates (Clim8Invest 2021).

The potential for greenwashing occurs due to the prevalence of information asymmetries in the impact investment sector (Bebczuk 2003). The impact intended by the investment is difficult to distinguish beforehand by the investor. Applying the theory as developed by (Stiglitz 2000) and many others to this case, it constitutes a principal agent problem.

The following sub-question places the evolving discussion around greenwashing in today's context, thus highlighting its relevance for the impact investing sector.

- Why has there been a rise of this issue in recent years?

Private investors are increasingly interested in investing their capital towards green and social outputs, next to achieving return. In the last few years, inflows in impact investment were strongly increasing and the green investing sector hit €715bn in 2020 (*Appendix 1*) (GIIN 2020). By 2025, over a third of projected assets under management are expected to be Environmental, Social and Government (ESG) linked (Diab and Adams 2021). The rising demand among investors for sustainable investment opportunities creates an incentive for firms to offer a high amount of ESG-related investments. Hereby, many companies recognize that they can benefit economically from greenwashing practices. Tariq Fancy, the former chief investment officer of sustainable investing at BlackRock, describes the main reason for the rise in greenwashing as being an opportunity for companies to make "money of a popular trend" (Adamczyk 2021).

A major promoting factor for firms to greenwash is the fact that they can exploit the regulative freedom of the impact investment market. Due to the industry's rather recent considerable growth, a limited amount of regulation has been introduced so far (IFC 2019). Additionally, a lack of standards is prevalent in this sector (Saltuk, Leijonhufvud and O'Donohoe 2021), resulting in varying interpretation of outcomes. This impedes the accurate verification of the investments' sustainability because the parties involved have to rely on the truthfulness of the outcome that is provided to them. This asymmetric distribution of information complicates it for investors to make informed choices. Rating frameworks, which act as tools to measure impact, vary across different providers, leading to inconsistent rating methodologies in existing ESG measurements, and limited possibilities for comparison (SMU 2021).

In general, it can be detected, that the rise of greenwashing is correlated with the increase in sustainable investing potential (Ning 2021). The instructor should then direct the discussions in class towards the different challenges that greenwashing poses, by asking the question:

2. <u>Please identify and elaborate on problems arising through greenwashing.</u>

*Impact on investors and environment:* The central danger greenwashing poses is that it misleads people into acting unsustainably, even though they specifically intended not to. In the cause of impact investment, this implies that investors, who direct their money towards impactful outcomes, are deceived to unknowingly finance non-sustainable projects or support non-sustainable companies. This removes capital from purposeful projects which are actually creating a positive impact in accordance with the SDGs. A study conducted by Influence Map revealed, that 71% of climate-themed investment portfolios do not adhere to the Paris Agreement's global climate targets (Influence Map 2021). Furthermore, one-third of low-carbon funds in the UK are currently investing in oil and gas stocks (Clim8Invest 2021).

*Impact on impact investment firms and related industry:* Unknowingly financing non-sustainable projects is the biggest concern for 44% of impact investors (Azzouz and Merle 2021). Being associated with greenwashing, can severely damage the reputation and credibility of brands and shake investors' trust in the company. It can lead to negative word-of-mouth and result in long-term deterrence of current and potential investors. 65% of respondents would not return to a company if it had been involved in a greenwashing scandal (Akturan 2018). The mismatch between a companies' public intentions and genuine actions can further result in a reputation loss for the whole sector. Global Impact Investing Network (GIIN) research director Abhilash Mudaliar perceives 'integrity' as one of the most essential assets the impact investment industry owns (Mudaliar 2019). If sustainable capital (i.e., money distributed to sustainable causes) is not accurately allocated, impact investments lose their function.

*Impact on financial return:* Greenwashing can furthermore affect the investments' financials. Research from the Singapore Management University proves that funds which publicly advocated the SDGs, however held inadequate portfolios, underperformed true impact investing firms in terms of financial returns (SMU 2021).

As a possibility to engage the students after the question has been solved, the instructor can advise them to sort the answers according to the participant they are impacting (*Appendix 3*). The following advancing question should encourage students to develop their own solutions:

3. <u>Please name and explain possible measures that reduce the prevalent risk of greenwashing. Begin by analyzing the players that are active in the impact investment market landscape.</u>

The impact investment market consists of different participants (*see illustration in Appendix 4*). Their operations are thus partly shaped by external factors, which has to be considered when assessing how they can counteract the risks of greenwashing.

*Impact investment firms:* The individual companies act as intermediaries in the market. They have to assess the asset they are placing the investments into, to make an informed choice in the interest of the investors. In this regard, a thorough impact measurement process is of vital importance, as it enables to discern the difference between greenwashing companies and those that act faithfully (Szapiro 2020). It should be initiated before investing, and also after the money has been disbursed. Additionally, the issuing company should be screened according to its compliance to the SDGs, by e.g., applying impact measurement frameworks. Moreover, the intermediaries must introduce measures to obtain prove of the impact created. It is not sufficient to solely rely on the truthfulness of the information which has been provided. If material ESG-related disclosures are not available, defined reporting standards act as a basis (OECD 2020).

*Investors:* Impact investors constitute the supply-side in the market. They entrust their money to intermediaries with the aim of creating a positive social and/or environmental outcome. They should thus be enabled to make informed choices to be able to distinguish between trustworthy impact investing practices and greenwashing. Rating providers' inconsistencies and incomparabilities lead to a confusion of investors (Milken Institute 2020). A transparent and educational disclosure of information will pave the way towards an information equilibrium.

*Firms:* The demand-side consists of firms that are pursuing impactful projects. Those that exert false claims are the main cause and driver for the prevalence of greenwashing, and thus must act truthful according to their public claims and be transparent in their operations.

*Policymakers:* Governments and public organizations enable the regulative environment based on which the impact investment market functions. According to a survey of the GIIN, for 80%

of respondents, increased transparency and comparability can hugely reduce the risk of greenwashing in this field (GIIN 2018). Resultingly, policymakers have been establishing obligatory reporting standards, and standardized metrics, terminologies and disclosures. The 'Sustainable Finance Disclosure Regulation' for example, which has been initiated by the EU in 2019, reduces the risk of ESG misstatements and works towards holding participants accountable (European Commission 2019). Impact measurement frameworks, such as IRIS+ or the Impact Management Principles (*Exhibit 6*), assemble shared principles to be used in the impact investing process.

The further part of the class will focus on the case of GoParity. After having learned about greenwashing, students should combine this knowledge with the information provided in the case. In order to lay the foundation for an active participation, students should gain an initial understanding of GoParity's background.

4. Briefly explain the business model of GoParity.

As one specific form of impact investing, the case explores the business model of crowdlending. GoParity acts as an intermediary platform, that combines individuals (crowd) with funding-seeking entities (e.g., SMEs, start-ups) which would otherwise not receive financing. It provides an alternative to access funding besides traditional tools (e.g., bank loans). The mobilized capital is lent collectively to projects contributing to the SDGs. In return, investors receive financial repayment and a fixed interest. GoParity generates income mainly through fees charged to the promoters.

The instructor can then lead over to the following question, advancing the discussion:

5. In your point of view, does greenwashing pose a significant threat for GoParity? Specifically place trust in the focus of your answer.

The answers may diverge; however, students should conclude that greenwashing poses a major problem for GoParity. If students' arguments differ, they should be sufficiently justified.

Greenwashing poses a major threat for GoParity, as it can significantly harm investor's trust in the company. Leveraging this trust is vital for the growth of its still rather small and unknown business model. In general, it is unappealing for investors to hand over control over one's assets and to trust unfamiliar parties (Rousseau 1998). Christine Lagarde, the current president of the European Central Bank, refers to trust as being the "financials' industry most valuable asset" (Chima 2015). For alternative financing platforms, trust is in general lower than in traditional finance institutions because they are not as established, and investors are less familiar with the concept (Ziegler, et al. 2021). The crowdlending business model is even stronger influenced by this, as the significance of trust increases with higher risk (CFA Institute 2020). Furthermore, being an online platform, information asymmetries are more likely to appear (Cumming and Zhang 2016). As investors of social crowdlending are utmost interested in creating impact through their investments, they need to be convinced that the platform is trustworthy and is contributing to sustainable development (Dorfleitner, Oswald and Zhang 2019). Resultingly, GoParity needs to ensure, that it is not investing into greenwashed projects.

Building up on the prior answer, the instructor can lead over to the next advancing question:

6. How does GoParity currently avoid to support greenwashing companies?

This question targets the impact identification process of GoParity. A thorough assessment of the project and its intended impact is of high importance to ensure value creation and to build investor trust. GoParity established a three-step process:

Before accepting a project, the impact department analyzes the projects' impact by valuing it against the SDGs (*Exhibit 7*), applying the IRIS+ model (*Exhibit 6*), and taking into account judgement from external and internal experts. The promoter company itself is also being assessed, however not extensively. When the project has been accepted and received funding, the promoter is requested to deliver project documentation as proof for SDG compliance. After successful funding, GoParity measures the immediate impact created (*Exhibit 8*), and monitors the long-term impact if specifically asked for.

A potential sub-question, which is aiming at gathering individual ideas of the students, and in which they should apply the previous learnings to a real-world example, is:

➢ <u>If you were Nuno, which measures would you introduce to improve GoParity's impact identification process? Explain your rationale,</u>

Possible answers include:

- *In-debt screening of promoter:* conduct a detailed analysis of the promoters' business operations and assess their contribution to the SDGs
- *Long-term impact monitoring:* monitor long-term impact creation of projects
- *Reporting requirements:* request promoters to report standardized and pre-defined criteria
- *Rigorous negative ESG criteria:* compile internal negative criteria to rule out companies which do not adhere to pre-defined standards and values (e.g., armour, child labour)

The following question explores the students' ability to develop suitable ideas.

7. <u>How should GoParity react if the company has been involved in a greenwashing scandal?</u>

In case it is discovered that GoParity unknowingly funded a greenwashed project, the company has to respond quickly, to restore the trust of its investors and avoid further negative consequences. In the first place, it should apologize to those investors that have been involved with the project. This strategy can be performed e.g., via e-mail or letter. Secondly, GoParity should refund the money invested, or offer to invest it into a different project. In a third step, the company needs to analyze which step of the impact identification process contributed to a non-sufficient assessment of the project, evaluate alternative procedures, and eventually enhance its efficacy. Furthermore, GoParity should approach the promoter company and identify contractual obligations and compensation. Lastly, the measures should be communicated to investors in order to increase trust, transparency, and retention possibilities.

After having examined and evaluated the tensions greenwashing poses for the impact investment industry and more specifically, for GoParity, the following controversial question enriches the class discussion and encourages students to think out of the box.

8. Solar panels on a ham factory – Should GoParity fund controversial projects that create progress towards some SDGs and hinder progress amongst others?

This question is based on a situation described in the case study. The instructor should direct students towards the impact dilemma GoParity faced at that point in time. Both, supportive and contrary answers are accepted if they are based on sound arguments.

*Pro:* By funding projects that are creating a positive impact, GoParity supports a positive cause. If the promoter is not acting in accordance with the SDGs, non-investing would have an influence on this. However, by investing, GoParity can impose rules and requirements and resultingly contribute to the optimization of the promoters' actions. It serves as a starting point for the change of the company. Furthermore, having too tight standards with regards to project choice, could result in not supporting sustainable projects at all. This would thus not lead to a rise in sustainable outcomes in general, and less growth potential for GoParity. Being a start-up, the company firstly has to reach a level at which it can eventually reject projects based on negative criteria. Moreover, crowdlending offers the power of choice to investors to decide specifically which project they want to support.

*Con:* If GoParity funds controversial projects, on the one hand, the company is essentially partly supporting the creation of negative output. This will hinder positive outcomes on the other hand,

and in the worst-case lead to an undermining of the impact investment sector. SDGs cannot be outweighed against each other; it is thus not an option for GoParity to proceed with these types of projects. Furthermore, it will provide revenue and/or cost reductions for the underlying, non-sustainable company, even aggravating the problem.

The instructor can conclude by stating that this is a very important consideration for GoParity, as it highlights the tradeoff of growth versus sustainability. Subsequently, he can provide students insights about how GoParity deals with this situation in reality (*Appendix 5*). Hereby, it is also interesting to mention that it is a regular decision the company faces.

Case Summary

To conclude the class discussion about the GoParity case, the instructor can summarize around the key lessons that the students have drawn with regards to the focus topic. He can close the class by stating that, as students have learned, there is still improvement potential for GoParity and throughout the impact investment sector, to effectively counterfight greenwashing.

**Part 3: Supporting Material**

Additional teaching material

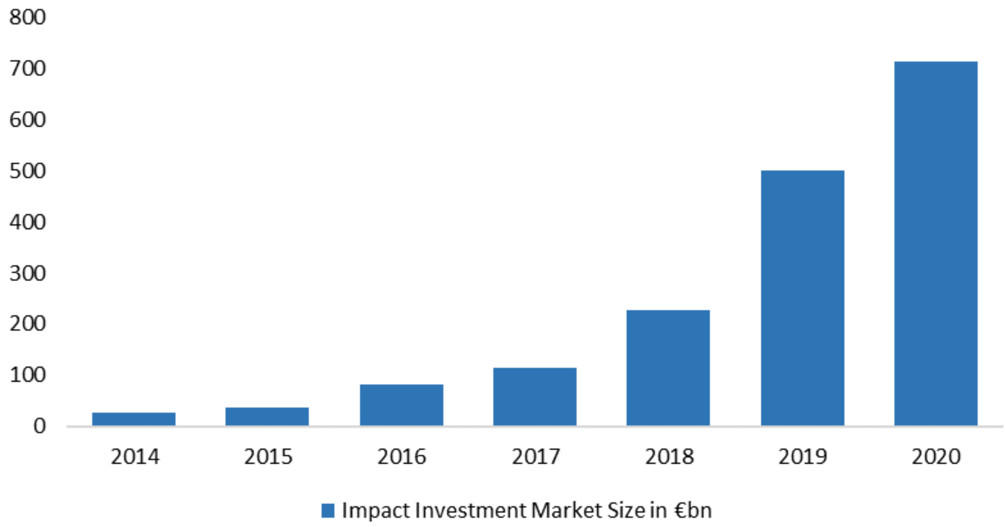
The appendix enables a more detailed explanation on topics which have not been elaborated on in detail throughout the teaching note. The exhibits referred to are attached in the appendix of the case study, which has been handed out to the students prior to the class.

Methodology

The case study is based on information that has been drawn from seven internal interviews with various employees of GoParity, and an extensive literature review on impact investment, investor trust and the associated topic of greenwashing. Internal company information did not need to be disguised, and all facts represent the actual situation of the company in Q4 2021.

## Appendix

**Appendix 1** – Evolution of the impact investment market from 2014 to 2020




*Source:* Own illustration, based on information provided by (GIIN 2020)

**Appendix 2** – Investors and types of assets, defined according to the three distinctive attributes of impact investment, based on values of 2015

| ASSET POOL | AUM US$, billions (2018) | MARKET(S) OF OPERATION | DEFINING ATTRIBUTES OF IMPACT INVESTMENT: INTENT for social or environmental impact | DEFINING ATTRIBUTES OF IMPACT INVESTMENT: Credibly established CONTRIBUTION to the achievement of impact | DEFINING ATTRIBUTES OF IMPACT INVESTMENT: MEASUREMENT of improvements in social or environmental outcomes |
|---|---|---|---|---|---|
| Outstanding Private Sector Operations Portfolio of 25 HIPSO Signatory DFIs | $742 | Private | YES, the investor has an explicit mandate to promote social and economic impact | YES, insofar as the investor can: (a) change the investee's cost of capital, (b) transfer knowledge or technology to investees, or (c) exert influence that induces investees to improve relevant outputs or processes | YES, the investor uses indicators to assess whether the investment contributes to improvement |
| Non-Treasury Assets of 81 Development Banks | $3,083 | | | | |
| Private Investment Funds with Intent for and Measurement of Impact | $71 | | | | |
| Green and Social Bonds Outstanding | $456 | Public and Private | POSSIBLY, one might purchase the product with intent to create social or environmental value. The manager's marketing materials may emphasize "sustainable" or "responsible" investment, rather than "impact". Alternatively, one might purchase the product with a desire to gain (or reduce) exposure to ESG risk factors | | POSSIBLY, to the extent indicators are reported by investees |
| ESG integration strategies* | $10,369 | | | NO, particularly in public portfolios, strategies are unlikely to (a) change investee's cost of capital in the presence of other investors indifferent to social or environmental impact. Further, limited direct relationship with investees precludes managers from (b) transferring knowledge or (c) exerting influence | |
| Negative screening of securities (e.g., "sin" or "dirty" stocks)* | $15,023 | | | NO, securities negatively screened may end up being held by those who would prefer to produce less social value | |
| Corporate engagement and shareholder action* | $8,365 | | | UNCERTAIN, given board members' fiduciary duty of obedience to shareholders who are indifferent to social value | YES, through reporting on whether engagements and actions are successful |

*Source:* (IFC 2019)

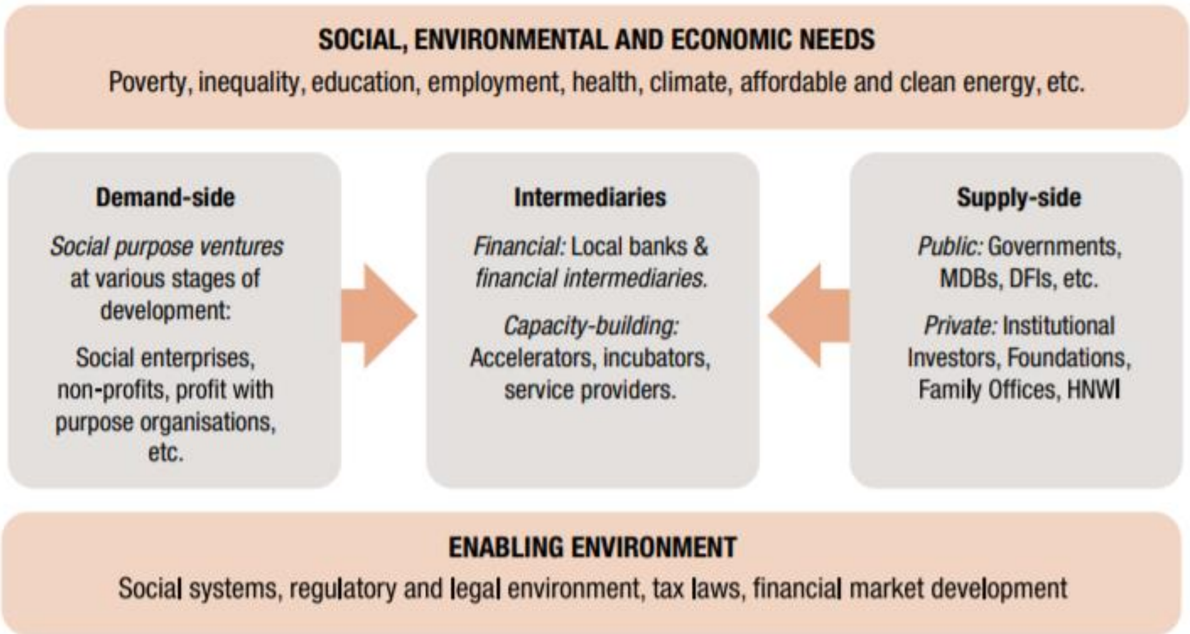
**Appendix 3** – Sorting of answers according to market participant impacted

Instructor: "As we have explored in the question, there are several potential problems arising through greenwashing. Please sort the one's we have talked about, according to the different players of the impact investment market they are influencing."

| Participant impacted | Greenwashing problem |
|---|---|
| Investors | • Investors are deceived |

| | |
|---|---|
| | • Potentially fewer financial return |
| Environment | • Less capital for purposeful and positive impact creating projects<br>• Supporting of "harmful" projects |
| Impact investment firms | • Loss of reputation and credibility<br>• Loss of investors' trust<br>• Deterrence of investors<br>• Potentially fewer financial return |
| Impact investment market | • Loss of reputation<br>• Undermining of sector |

**Appendix 4** – The Social Impact Investment Market Framework




*Source:* (OECD 2019)

**Appendix 5** – Impact tradeoff: GoParity's actions & solutions

One example is the installation of solar panels on a ham factory. And another one was the installation of solar panels on an industry for animal feed – this project didn't move forward. Both projects, during the impact assessment, triggered a reflection on the weight of the potentially negative indirect impact vs. the concrete positive direct impact. In one of them, the ham project, we decided the positive impact overcame the negative influence we could have had with the project. But in both, the complexity of impact measurement was present and made us think twice.

As stated by Iara Comunello, impact expert at GoParity (Comunello 2021).

**List of Abbreviations**

| | |
|---|---|
| bn | Billion |
| e.g. | For example (latin: exempli gratia) |
| ESG | Environmental, Social and Government |
| EU | European Union |
| GIIN | Global Impact Investment Network |
| i.e. | That is (latin: id est) |
| SDG | Sustainable Development Goal |
| SME | Small- or Medium Enterprise |
| UK | United Kingdom |

## Bibliography


Adamczyk, Alicia. 2021. *Why 'greenwashing' is an issue for sustainable investments - and how to avoid it.* 23 de 04. Acedido em 14 de 12 de 2021. https://www.cnbc.com/2021/04/23/what-to-know-about-greenwashing-in-sustainable-investments.html.

Akturan, Ulun. 2018. "How does greenwashing affect green branding equity and purchase intention? An empirical research." *Market Intelligence & Planning.* https://www.emerald.com/insight/content/doi/10.1108/MIP-12-2017-0339/full/html.

Azzouz, Myriam, and Cédric Merle. 2021. "Green-washing allegations are jolting the financial industry: heightened needs for cautiousness, integrity and guidance." *Natixis Corporate & Investment Banking.* 30 09. Accessed 11 16, 2021. https://gsh.cib.natixis.com/our-center-of-expertise/articles/green-washing-allegations-are-jolting-the-financial-industry-heightened-needs-for-cautiousness-integrity-and-guidance.

Bebczuk, Ricardo N. 2003. *Asymmetric Information in Financial Markets: Introduction and Applications.* Cambridge University Press. https://assets.cambridge.org/97805217/93421/sample/9780521793421ws.pdf.

CFA Institute. 2020. *Earning Investors' Trust.* Chartered Financial Analysts Institute. https://trust.cfainstitute.org/wp-content/uploads/2020/05/CFAI_TrustReport2020_FINAL.pdf.

CFI. 2021. *Greenwashing.* Corporate Finance Institute. Acedido em November de 2021. https://corporatefinanceinstitute.com/resources/knowledge/other/greenwashing/.

Chima, Obinna. 2015. *IMF Harps on Behavioural Reforms among Bankers.* 09 de 11. Acedido em 22 de 10 de 2021. https://www.pressreader.com/nigeria/thisday/20151109/281797102877728.

Clim8Invest. 2021. *Investments and Greenwashing: avoiding pitfalls to make an impact.* 23 de 04. Acedido em 14 de 12 de 2021. https://clim8invest.com/sustainable-investing/investments-and-greenwashing-avoiding-pitfalls-to-make-an-impact/.

Comunello, Iara, entrevista de Sophia Rhodovi. 2021. *Information about GoParity's business model* (24 de 10).

Cumming, Douglas, and Yelin Zhang. 2016. "Alternative Investments in Emerging Markets: A Review and New Trends." *Emerging Markets Review.* https://doi.org/10.1016/J.EMEMAR.2016.08.022.

Diab, Adeline, and Gina Martins Adams. 2021. *ESG assets may hit $53 trillion by 2025, a third of global AUM.* Bloomberg Intelligence. https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/.

Dorfleitner, Gregor, Maria Oswald, and Rongxin Zhang. 2019. "From Credit Risk to Social Impact: On the Funding Determinants in Interest-Free Peer-to-Peer Lending." *Journal of Business Ethics* 375-400. https://link.springer.com/article/10.1007/s10551-019-04311-8.

European Commission. 2019. "Capital Markets Union: Commission welcomes agreement on sustainable investment disclosure rules." *European Union.* 07 de 03. Acedido em 14 de 12 de 2021. https://ec.europa.eu/commission/presscorner/detail/en/IP_19_1571.

GIIN. 2018. *Annual Impact Investor Survey 2018.* Global Impact Investing Network. https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf.

GIIN. 2020. *Annual Impact Investor Survey 2020.* Global Impact Investing Network. https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf.

IFC. 2019. *Creating Impact - The Promise of Impact Investing.* International Finance Corporation. https://www.ifc.org/wps/wcm/connect/66e30dce-0cdd-4490-93e4-d5f895c5e3fc/The-Promise-of-Impact-Investing.pdf?MOD=AJPERES&CVID=mHZTSds.

Influence Map. 2021. *Climate Funds: Are They Paris Aligned?* Influence Map. https://influencemap.org/report/Climate-Funds-Are-They-Paris-Aligned-3eb83347267949847084306dae01c7b0.

Milken Institute. 2020. "ESG Ratings: The Road Ahead." https://milkeninstitute.org/sites/default/files/reports-pdf/ESG_Ratings_0.pdf.

Mudaliar, Abhilash. 2019. *Sizing the Impact Investing Market.* Global Impact Investing Network. https://thegiin.org/assets/Sizing%20the%20Impact%20Investing%20Market_webfile.pdf.

Ning, Teh Shi. 2021. *Greenwashing threat grows with rise of sustainable investing.* 24 de 10. Acedido em 14 de 12 de 2021. https://www.straitstimes.com/business/invest/greenwashing-threat-grows-with-rise-of-sustainable-investing.

OECD. 2020. "ESG Investing: Practices, Progress and Challanges." https://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.pdf.

OECD. 2019. *Social Impact Investment: The Impact Imperative for Sustainable Development.* Organisation for Economic Co-operation and Development. https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/Social-Impact-Investment-2019.pdf.

Rousseau, Denise M., Sitkin, Sim B., Burt, Ronald S., Camerer, Colin. 1998. "Not so Different after All: A Cross-Discipline VIew of Trust." *Academy of Management Review.* https://doi.org/10.5465/AMR.1998.926617.

Saltuk, Yasemin Lamy, Christina Leijonhufvud, and Nick O'Donohoe. 2021. *The Next 10 Years of Impact Investment.* Stanford Social Innovation Review. https://ssir.org/articles/entry/the_next_10_years_of_impact_investment.

SMU. 2021. *How to Avoid Greenwashing in Impact Investing.* Singapore Management University. https://cityperspectives.smu.edu.sg/node/746?utm_term=SMU%20City%20Perspectives&utm_campaign=cp-special-feature&utm_content=oct-2021&utm_source=Act-On+Software&utm_medium=email&cm_mmc=Act-On%20Software-_-email-_-SMU%20City%20Perspectives%20%5Cu2013%20Spec.

Stiglitz, Joesph E. 2000. "The Contributions of the Economics of Information to Twentieth Century Economics." *Oxford Journals - Oxford University Press* 1441-1478.

Szapiro, Aron. 2020. *Sharpening the Tools of the ESG Investor: Morningstar's View.* 06 de 07. Acedido em 14 de 12 de 2021. https://www.morningstar.com/articles/990232/sharpening-the-tools-of-the-esg-investor-morningstars-view.

Ziegler, Tania, Shneor Rotem, Karsten Wenzlaff, Suresh Krishnamurthy, Felipe Ferri, Paes Camargo, Mammadova, and Leyla. 2021. “Global Alternative Finance Market - Benchmarking the 2nd Global Alternative Finance Market.” https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf.