Politecnico di Torino

Master of Science in Engineering and Management (MEng)
Academic Year 2020 – 2021
Graduation Session 10/2021

Master Thesis

SUSTAINABILITY, IMPACT INVESTING AND EXIT STRATEGIES: AN ANALYSIS OF THE SOCIAL-RETURN INVESTMENTS.

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My dissertation is dedicated to my parents that supported me in this incredible journey.

My dissertation is dedicated to my family that has always been there for me.

My dissertation is dedicated to my girlfriend that walked along with me in this fantastic period.

My dissertation is dedicated to my friends that have been part of the unforgettable moments.

My dissertation is dedicated to the professors, tutors, and academic staff from the Politecnico di Torino to the ESCP Business school who have helped me mature fundamental knowledge for my future.

My dissertation is dedicated to all the colleagues that I have encountered in my professional life up to know; your advice, your insights, and your mentorship have been the cherry on top of the cake.

To all of you, I would like to say thank you sincerely for everything.

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Executive Summary

The primary intent of this dissertation is to shed light on impact investing's panorama by examining investments differences between impact investing and standard funds. In particular, the thesis aims to examine the exit strategies undergone by the organization when funded in an impact-backed funding round. Over 45 years, the study looked at investment data from almost 683 PE and VC impact-oriented funds (1975- 2019), representing the sample's 4.7 percentage points of the total PE and VC investors. According to the findings, impact investing funds contribute less than non-impact funds by 13.5 percentage points on average and significantly less in the number of investments performed. From an exit perspective, an impact-backed organization has 3.5% more to execute a successful exit than the businesses not been funded by an impact investor. The conclusion was reached after comparing 1095[1] impact funds to 20,146 traditional funds and was supported by probit (non-linear) regression with a 95% confidence level.

The thesis intended to establish the effect of specific characteristics, such as investment type, investor type, investor count, raised amount (in USD), organization total raised amount, and organization total funding rounds, on the number of successful exits executed. As it is possible to see from the regression result, all of these variables influence the performance of an exit.

[1] Total number of impact investor identified: 1,322, Total number of impact investors with complete information on investor type: 1,095.

Chapter 1: Venture Capital.

1.1 The Venture Capital (VC): General Introduction

Venture Capital's business (VC) consists of the investment made in Share Capital (or Capital Stock) in the early stages of the start-up and development of innovative companies with high prospects for future growth and valuation (A. & F., 2006).

Investee companies (start-ups) are companies with high uncertainty about their ability to generate stable income streams over time in the future and are therefore unable to access more traditional financing channels (e.g., the banking channel).

Therefore, the VC operator is the qualified investor that supports start-ups in the company's early stages: the expectation of generating high returns from the investment over a medium-term time horizon mitigates the substantial risk associated with the initial life stage of the company.

VC Funds can be differentiated depending on the source of the liquidity used for the investments. It is possible to identify the following classification:

- Independent (IVC) is an organization founded by General Partners (GPs) that administer the fund and raise investment capital from third parties, subsidized according to a predefined strategy.
- Corporate (CVC) represents a firm's fund to spend a given amount of capital to achieve financial and, above all, strategic gains for the company (Shibata, 2020).
- Government (GVC) is a public-sponsored firm instituted to overcome deficiencies in private capital funding markets (Luukkonen, Deschryvere, & Bertoni, 2013)
- Banking is a more complex VC structure in which banks cover the role of capital providers.

The growth path of a start-up usually requires more investment over time from VC operators. The different investments made, increasing in size all

the more the start-up moves towards a complete and significant validation of its business model, they take the name of "Financing Rounds" and stand out from each other by:

- Types of VC operators involved.
- Purpose of the investment.
- Amount of investment.

In general, rounds' classifications is (Product Team, 2020):

1. Angel / Seed: Investments made by angel investors (typically private investors or HNWI[2]), incubators/accelerators[3], early-stage VC operators. They are all intended to finance the first phase of development of the start-up that consists of validating the idea, acquiring the first critical human resources, acquisition of the first essential metrics. These operations are organized in a standardized period (usually no longer than six months) that follows well-defined steps in a maturing calendar. This period is commonly called the acceleration phase (or baking). It offers the possibility of skim the massive amount of ideas proposed to select only the most valid and promising ones. In the U.S., the average amount invested in Angel/Seed rounds is around US $750k-1 mln, while in Europe, it is around $100-500k.
2. Series A: Investments made by VC operators with a more significant capital allocation, aimed at financing the first phase of expansion of the start-up. At this stage, the start-up already has a defined monetization strategy. In the United States, the average amount invested in Series A rounds is about US $3-7 mln, while in Europe, it is approximately $2-5 mln.

[2] High Net Worth Individuals: People with a high personal net worth.
[3] Incubators and Accelerators support the potential company's origin and initial growth by providing physical spaces as workspaces, mentoring to define a well-rounded business plan, and networking. In exchange for these services, the previous organizations require a small quota in the firm's equity.

3. Series B: Investments performed by large VC operators to further support growth, ensure sustained revenue generation, make strategic investments in human capital, put pressure on competitors with more aggressive marketing strategies and distribution methods. In the United States, the average amount invested in Series B rounds is about US $7-10 mln, while in Europe, it is approximately $5-10 mln.
4. Series C and later: At this stage, the company generates revenues regularly while maintaining high growth rates thanks to its solid business model. VC funding funds could also accelerate international growth through external lines, such as acquiring other promising companies or start-ups. The next step could, at this point, be an exit: it refers to situations such as an acquisition by a larger company or a group (M&A[4]) or the listing on the stock market (IPO[5]). The average amount invested in this type of round can vary significantly, from a few tens to several hundred million U.S. dollars. The Case is different in Europe, where there is still some difficulty in obtaining such significant investments.

Venture capital fund tries as much as possible to reduce the agency costs involved with the production and sale of innovative and unproven technologies by novice managers. Through the VC's active participation in its companies' portfolio (as an active investor) by providing operating, networking, and strategic expertise, Value-added investing represents the

[4] Merger and Acquisition
[5] Initial Public Offering

solution for a higher return while achieving a consistent reduction of risk (Pratch, 2005)[6].

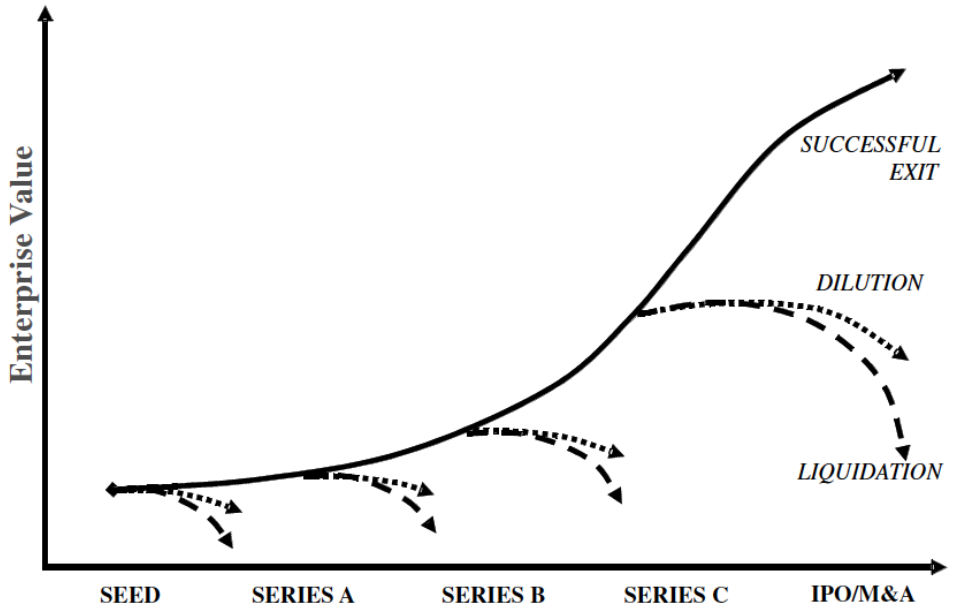


Figure 1: Evolution of a VC-Financed Company

1.2 Venture Capital Cycle

Venture capital funds operate as financial intermediaries between various entities and entrepreneurs: they raise a certain amount of money, reinvesting it through the acquisition of stakes in new companies (Smith, Smith, & Bliss, 2011). The different stages of their work are:

1. **Fundraising**: Based on a scheme by the European Private Equity and Venture Capital Association (EVCA) (AIFI, 2020), the collection process can be divided into seven phases:

[6] Into the mentioned journal, it is possible to identify a framework to create value and reduce risk by a VC fund (already developed and applied by Vesbridge Partners) thanks to 6 value-levers. These value-levers are 1) Strategy, 2) Team, 3) Customers, 4) Syndication, 5) Industry Category, and 6) Exit.

a. Target market identification: In the identification phase of the target market, before contacting potential investors, the operator identifies which markets are strategically most attractive for its collection.
b. Pre-marketing: The choice of the first investors to turn to, in fact, is realized above all to attract others of larger size and thus give rise to a virtuous circle. There are also particular subjects, the so-called gatekeepers, which for small, closed funds are often the only way to access specific markets geographically far from their own. These individuals are advisors, fund portfolio managers, and large institutions' managers representing many possible capital providers. The excellent reputation of the gatekeepers in valuating technologies and innovations gives other potential investors an investment stimulus. This guarantee is given, in part, by the experience gained by these and, in part, by the rigorous and standardized due diligence procedures that they, given their size, can put in place.
c. Structuring of the fund: whether or not a network of advisors is used, preparation for fundraising is necessary for the promoter to structure his fund in the smallest detail, from a technical, legal, and tax perspective.
d. Preparation and distribution of marketing material: Once the fund has been structured according to all guidelines, a presentation document (the placement memorandum) must be prepared, which, as a kind of business plan, constitutes the operator's business card. In many cases, the memorandum proves the first and the last opportunity to attract new investors: a wrong marketing plan can lead investors to overlook a good investment project, but poorly presented (and

therefore not understood). In the document, the fund's management must summarize the previous investments' achievements, its performance, how it plans to act to maintain or improve these results, and its competitive advantage over other parties.

e. Meetings with potential investors: All the previous steps aim at meeting with investors, during which the latter consider whether to continue the contacts or to interrupt them if they are not satisfied with the offering or do not fully understand it.
f. Preparation of legal documentation: the legal documentation must be prepared, exemplified by all the acts and contracts necessary for the investment's conclusion when the investor's choice is definitive, signaling the fundraising conclusion.
g. Closure

2. **Investment**: Once the agreement on the price and size of the participation to be taken (likewise other aspects regulated by the final contract), the transaction takes place by the transfer of the shares, the payment of the price, the release of guarantees, the possible replacement of the directors, and the signing of any ancillary contracts. From this moment on, investors and entrepreneurs are members of the same initiative and must start working together to maximize value creation. The institutional investor provides capital based on a financial "package", composed according to the various control and profitability needs. The acquisition of newly issued or sold shares by existing shareholders is the most frequent technical investment method. Alternatively, "intermediate" forms of financing between debt and equity can be used with a mix of the various forms. The most used financing methods are:

a. Equity: represents the company's equity, paid through the subscription of shares. Its remuneration depends on the initiative's success, both in terms of dividends - product profit distributed to shareholders - and the increase in the shares' value.
b. Preferred stock (Korsmo, 2013): This type of stock is common in developed markets (such as the American) because it has specific characteristics that allow venture capitalist to protect themselves from opportunistic behavior. Preferred stocks protect investors from management deviant behavior with:
    - Liquidation preference over ordinary shares, giving the shareholder precedence in the principal's repayment. This priority allows Venture Capital to liquidate its stake at any time.
    - The face value, which usually coincides with the initial price paid, and, as a result, the VC can liquidate its share by receiving back at least the amount paid for the purchase.

    There are several types of preferred shares. Specifically, the ones that Venture Capital typically uses to conclude the investment are three (Hunkar, 2019):

        a) Straight preferred: Non-equity convertible securities, whose intrinsic value is given by face value plus possible dividends and often used in combination with ordinary shares;

        b) Convertible preferred: securities whose intrinsic value is represented by face value. Additionally, if the value of the company is greater than the initial implied value, the investor has the convenience to exercise the conversion option;

c) Participatory convertible preferred: a financial instrument that contains characteristics of both straight preferred (when the company is not listed) and convertibles (when the company is listed). In the case of a public offering, the title's conversion is automatic (Bloomenthal, 2020).

3. **Management and valorization of the investee (Value-Added Investing)**: As mentioned above, companies that require funding in Venture Capital are usually young companies, which have very few tangible assets and operate mostly in highly uncertain sectors. Venture Capitalist is a specialized investor who typically has both the skills and the incentive to grow these companies to get a high return from investing. So, in addition to capital, VC meddles in the company's management to increase performances through activities of:
    a. Monitoring: to assess the performance of the company through governance mechanisms and reporting
    b. Coaching: professionalization activities to fill the competence gap of entrepreneurs
    c. Signaling: reporting the quality of the company to other potential investors
    d. Networking: contacts with other financiers, industrial and technology partners for potential future partnerships.

4. **Exit**: The phase of maturity coincides with the final part of the investment process sequence; at this stage, it is possible to achieve capital gains (the ultimate goal of the institutional investor in venture capital). This VC operator does not, by its nature, remain tied too long to the financed companies (if not, venture capital firm would turn into

a holding company) since it proposes itself as a temporary partner with the ultimate goal to achieve a capital gain in medium to long term. Divestment methods[7] can be distinguished as follows (Schwienbacher, 2009):

a. The sale of shares on the stock market (IPO- Initial Public Offering)
b. The sale of the stake to an industrial partner (trade sale)
c. The sale of the stake to another private equity or venture capital operator (replacement and secondary buy out)
d. The buyback of the shareholding by the original shareholder (buy back)
e. The write-off of the participation (write off) is zeroed out.

1.3 Overview of VC Investments for Macro-Region.

The value of venture capital in regional and national economic development represents a core economic growth driver based on global evidence of its role in promoting innovation through financing the rise and growth of emerging technology-based businesses.

The Money Tree Report (PWC, 2019) provides insights to observe the Venture Capital phenomenon's impact and development in the world economy in concrete terms.

Globally, VC investments have perceived since 2013 an increase (evaluated with CAGR) in the total funding of about 10%, from an initial value of $154 Billion to $258 Billion, with significant growth in the Asian VC market thanks to the government regulations and R&D spending aimed to boost to innovation. However, China faces obstacles in promoting technological development and needs to keep up with developing countries, particularly in core technologies like AI or 5G. With increased R&D spending

[7] A deep analysis of the divestment methods is present in the additional document available.

and the number of patents, China's creative companies have gained some strategic advantages through their innovative products.

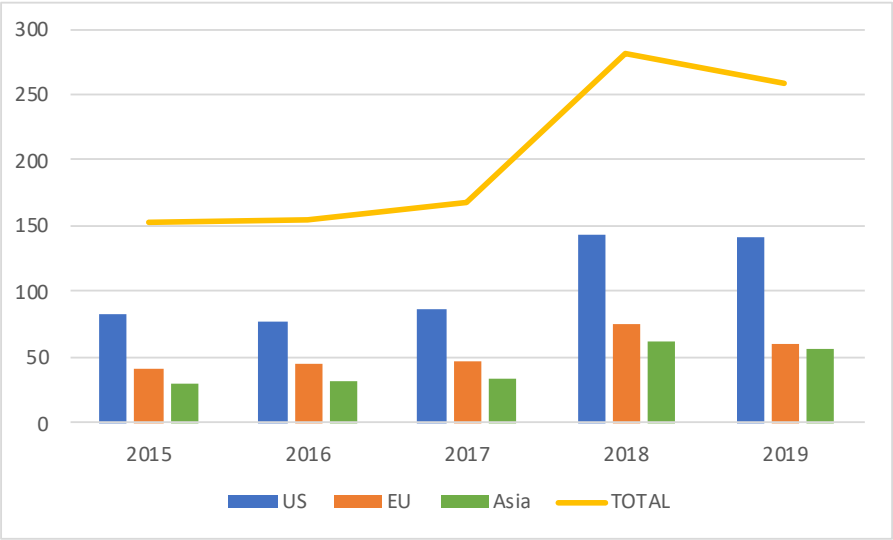


Figure 2: Key figures from 2015 to 2019 per macro-regions

During the 2019, fundings to early-stage companies played a significant role with a total of 3803 deals and a total amount of $46,1 Billion in investments. This boost to innovation was the US with its commitment of $24,2B and 1432 deals; Asia followed with 1381 transactions. However, the value of the latter is significantly lower than the Western one. Indeed, the amount per deal in Eastern society is approximately $9,8 Million, 42% lower than an average deal in North America. Finally, Europe represents 23% of all the VC transaction (in terms of value).

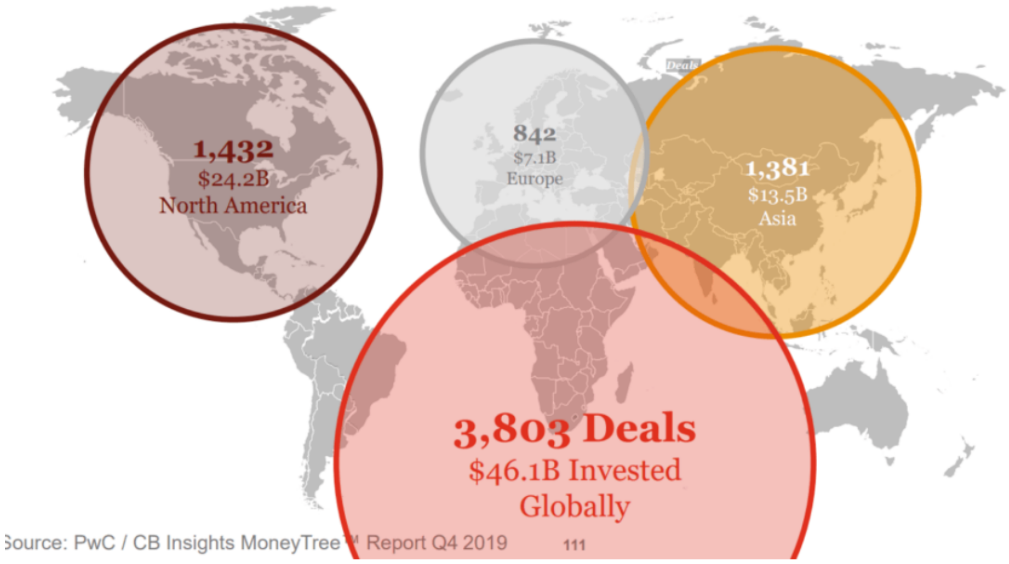


Figure 3: Global deal activity in the last quarter of 2019

1.4 VC's Structure and Generation of Financial Return.

A VC's General Partners (GPs) are the fund's founders who target specific investors to bring the Limited Partners (LPs) capital as the primary source of liquidity for the investments. The latter may be high net-worth people, family offices, trusts, significant companies, endowment funds, pension funds, or fund accounts (Takatkah, 2019). It is essential to point out that GPs not only represent the management firm's venture capital partner.

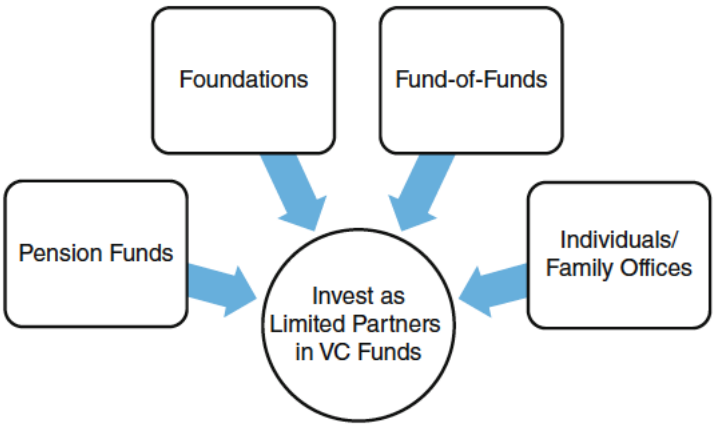


Figure 4: Limited Partners in a venture funds

Since they have a fiduciary duty to their LPs, GPs collect and administer venture capital, set up and make investment decisions, and support their portfolio companies' exit. The previously mentioned portfolio companies – usually startups or early-stage companies – receive funding in exchange for shares of preferred stock from the investment fund. If a liquidity event occurs (such as M&A, Share Repurchases, or IPOs), the fund realizes a profit by transforming its shares into cash (Sun, 2015).

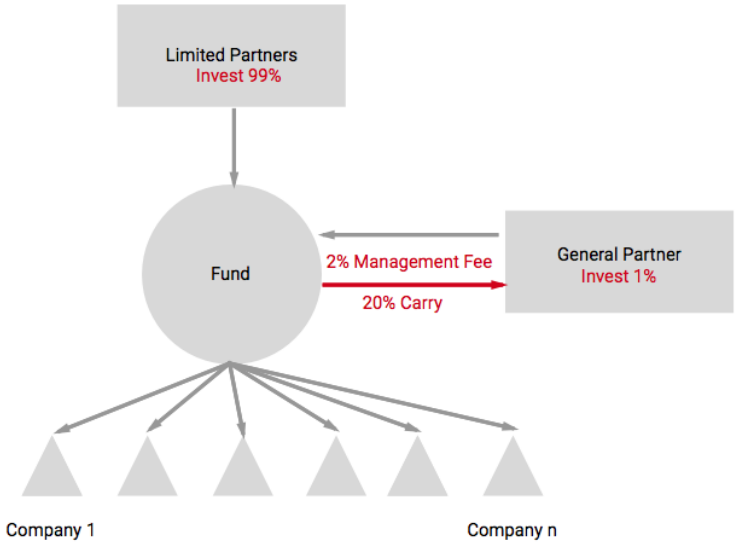


Figure 5: General structure of a VC fund

The investment's return, calculated by the Internal Return Rate (IRR), depends on two factors: time and money. The sooner a portfolio firm is sold, the better the IRR. At this point, it is also where stuff can get messy. Selling a startup requires a speedy departure, which may interfere with the reality of business dynamics and lofty entrepreneurial aspirations (Mahendra, 2014).

However, the VC's business possesses some particular attributes that influence the financial return:

1. A startup investment is significantly risky; an estimation counts that approximately 80% of all investments fail mostly due to the unproven technology, uncertain market, or unprepared CEOs. Therefore,

evaluating the risk and possible points of failure is essential to understand the required return that the company desires from an exit.

2. Time is a critical factor to consider in the evaluation; this is intrinsic in VCs' primary metric, the IRR, which drops rapidly over time.
3. Portfolio management is not only limited to the acquisition of stakes in early-stage companies; indeed, as previously mentioned, VC cover the role of active investors for the investee, reducing the risk of the company's unsuccess and increasing the possibility and the value of a return.
4. VCs make money after their LP makes money: a venture capitalist earns money in two ways: a regular wage and a share of the income (called 'carry' or 'carried interest'). Currently, funds make up 20% of the gains generated at each exit. The creation of a profit is essential to the survival of the fund.

Chapter 2: Impact Finance.

2.1 Introduction and Market

One of the most powerful motors of transition is the recession of conventional finance, which in the last 25-30 years has underlined the intense sprint for short-term financial return, irrespective of the implications and unsustainability of its instruments' economic and social factors. Indeed, the well-known global issues, such as the growth of the developing countries, the issue of climate change and sustainability, and the more recent challenges to welfare, have intensified.

In 2007, the concept 'Impact Finance' was first coined as part of a meeting at the Rockefeller Foundation, where a small group of investors addressed the need to create an emerging sector that would perceive an impact from the investment. The Global Impact (GI), officially founded a year later as an autonomous entity, was formulated. According to the GIIN (Global Impact Investing Network) interpretation, impact investments are investments "made in businesses, organizations, and funds to generate social and environmental impact alongside a financial return. This is taking place all over the world, and across all asset classes" (GIIN, 2021). According to GIIN and the VC, the impact investing can convey substantial amounts of private capital to supplement public resources and philanthropic foundations engaged in the global challenges previously mentioned.

Impact investments are part of an evolving asset class and are still a niche concept in the complex financial industry. There is, however, evidence supporting support for the growth potential of this market, indicating a real possibility for the sector to grow.

Impact investments are part of an evolving asset class and are still a niche concept in the complex. Nevertheless, evidence supporting enthusiasm for

this industry's growth prospects indicates a real likelihood of the sector's evolution.

According to a report conducted by J.P. Morgan and GIIN (GIIN & Morgan, Eyes On The Horizon: The Impact Investor Survey , 2015), out of five sub-sectors (housing, provision of water in rural areas, maternal health, primary education, and Financial Services) for the share of the global population earning less than $3,000 a year will perceive a demand growth potentially hovers between $400 and $1,000 billion in terms of capital spent, with a benefit range between $183 billion and $667 billion.
In other words, the industry's progress is supported by strong signals and represents the usual transition from a conceptual stage to a growth period.

2.2 Key Barriers & Ecosystems

Although impact financing is quickly developing, investors also must face various hurdles.

One of the investors' critical problems is that the worldwide investment market is only at an early expansion stage. Writers also describe this market as a "niche" market (Antony Bugg-Levine, 2009). Because of their fiduciary responsibility to make wise investment decisions in their customers' best interests, the embryonic stage of the market raises risk and may encourage institutional investors to be cautious of investment prospects.

The small number of investment-ready transactions, where investors can position large sums of money, is one of the principal challenges to developing the investment impact market (Force, 2020). Researchers conclude that very few social ventures or impact-oriented ventures are currently mature enough to merit investment; impact investors face the task

of raising their investments with a well-established track record due to a shortage of high-quality investment opportunities.

The challenge of leaving their investment is a shared obstacle for many impact investors. According to the JP Morgan report, this challenge was the third most significant obstacle to hindering the investment impact market's development. Moreover, provided that the collateral class used by certain impact transactions is private equity or private debt, the fund is found to be illiquid and presents a significant obstacle to exit.

The investment impact market does not have a widely accepted range of criteria to quantify social and environmental impacts: even though any metric system is available, such as the Monitoring and Investment Standard and the GIR (Global Impact Investing Ranking System), it does not entirely meet all the relevant metrics.

However, developing an impact investment sector is challenging, and there are still significant obstacles to its expansion, barriers that policymakers are actively taking into account. Again, evolving the impact industry involves creating a new financial model involving a multiplicity of large-scale players connected mainly by pursuing a non-financial purpose.

2.3 The Impact Finance Main Activities

Impact (or Social) (or Sustainable) Finance is a catch-all word for various investment strategies beyond financial risk and returns by contributing to protecting and restoring biological systems and enhancing cultural variety and social well-being.

In particular, sustainable finance refers to any financial service that incorporates environmental, social, and governance (ESG) aspects into company or investment choices for the long-term benefit of both clients and society as a whole (What is Sustainable Finance , 2020).

The following are some of the main categories that fall under the umbrella of sustainable finance:

1. Green and Social Bonds
2. Impact Investing
3. Microfinance
4. Active Ownership

2.3.1 Green and Social Bonds

Green bonds are relatively new financial instruments, but they have experienced an extraordinary growth rate since 2007. They are bonds like any other, whose issuance is linked to projects that positively impact the environment, such as energy efficiency, clean energy production, and sustainable land use. In addition, Green Bonds allow the financing of various types of projects with environmentally sustainable characteristics, such as renewable energy sources.

Green Bonds make it possible to finance various types of projects with environmentally sustainable characteristics, such as water and waste treatment, initiatives linked to pollution prevention and control, transport infrastructure, including railways, wind farms, and, more generally, initiatives linked to the sustainable use of water or eco-friendly construction, to name but a few examples.

The European Commission recently emphasized the potential and functioning of the Green Bond market by presenting a package of measures

entitled "Clean Energy for All Europeans", according to which an additional 177 billion euros per year will be needed from 2021 to achieve the 2030 climate and energy targets for which these new financing and investment mechanisms could play an essential role (Borsa Italiana: Green Bond Definizione , 2021).

Green bonds offer a way to enhance the amount of cash available to transition to a more sustainable economy while also lowering the cost of financing for projects that have a beneficial environmental impact.

Globally, the green bond market is booming: according to Bloomberg New Energy Finance data, new green bonds worth US$95 billion were issued in 2019, representing a 100 percent increase over the previous year's US$48 billion in new issuance (Bloomberg, 2019).

Social bonds are a type of bond used to fund projects that have a beneficial social impact. Access to health and housing services, financial inclusion, food security, and employment are some of the sectors that can receive the funds. Some authors classify so-called grant-based bonds as social bonds because a portion of the proceeds is allocated to non-profits; however, these are charitable and do not fall within the definition of "impact investing".

There is currently no global standard for certifying a bond as green or social, but the International Capital Market Association (ICMA) has produced four principles (ICMA, 2020):

1) Use of Income: The securities' issuer must clearly state the destination of the proceeds, giving a general overview of the project.
2) Evaluation and Selection of Projects: It must adhere to specific procedures in evaluating and selecting projects, which must be consistent with the overall strategy.

3) Revenue Management: The bond issuer must communicate the management of the proceeds in the most transparent manner possible.
4) Reporting: Reports must be made available to keep investors informed about the development of the sponsored initiatives.

2.3.2 Impact Investing

Impact Investing refers to a wide range of investments based on the assumption that private capital can intentionally help create positive social impacts and, at the same time, economic returns. The proactive intentionality with which the investor pursues the social purpose, and the economic return distinguishes this new generation of investments.
The active players in impact investing can be companies, organizations, and funds intending to generate a measurable social impact that is compatible with an economic return.

The elements that characterize impact investing are:

1. The investor's intention to generate a social impact.
2. The expectation of an economic return that motivates the investor.
3. The flexibility of the expected rate of return, which may be below the average market level or in line with market returns.
4. The variety of financial instruments used and the forms of intervention ranging from debt to pure equity.
5. The measurability of the impact, which is essential to ensure transparency and accountability.

Social impact investments can foster (Social Impact Agenda: Mission, 2020):

- The strengthening and development of social entrepreneurship through a new flow of capital invested according to the impact logic,

improving transparency standards, financial and social, and developing new skills.

- The improvement of the efficiency and effectiveness of public spending on welfare services, particularly for preventive measures (pay-for-success instruments, for example).
- The allocation of new resources towards investments in areas such as uncomfortable housing, job placement, prisoner rehabilitation, childcare and care of the elderly, school drop-out, access to, and enhancement of culture.

This topic will be discussed in more detail in the next chapter.

2.3.3 Microfinance

The engines of economic progress are small businesses and entrepreneurs. However, unfortunately, more than 1.7 billion adults worldwide do not have a bank account and cannot obtain credit. This lack of capital makes it difficult to start a firm, which negatively impacts the entire economy.

Microfinance refers to all financial services and instruments (credit, savings, insurance, leasing) specifically designed for the so-called "unbankable", i.e. those excluded from traditional financial services due to their socio-economic status (Investire Responsabilmente: Glossario , 2016).

The main reasons why banks and traditional markets do not offer this type of transaction are essentially twofold: first, the average costs of managing services for minimal transactions are often very high compared to the size of the transaction, so it is not worthwhile to carry them out; second, the clients, as mentioned above, are risky because they do not have any guarantee and therefore the lender faces the risk of not obtaining repayment. The riskiness is objective when the probability of failure is high due to the very nature of the operation; it is, instead, subjective when it becomes challenging to find information on the trustworthiness of the

subject. It is subjective when it is difficult to find information on the reliability of the subject in question (Boccella, 2010).

Microfinance is an important area of intervention for Impact Finance, thanks to its ability to generate both returns and positive social impact.

Microfinance encompasses a range of services such as:

1. Microcredit, loans of small amounts and granted even without collateral.
2. Micro-insurance, insurance with reduced premiums aimed at low-income people for illness, disability, natural disasters, theft, or volatile commodity prices.
3. Micro-leasing, leasing operations that allow the use of an asset at low rents and running costs.
4. Housing microfinance, small loans for the purchase or renovation of housing.

2.3.4 Active Ownership

Principle 2 encourages PRI signatories to be active owners, incorporating ESG problems into their own rules and practices, such as interaction with companies and voting rights. Several PRI signatories have developed practices that serve as models. These efforts can be carried out in-house, through investment managers/service providers, or a hybrid of internal and external techniques.

Active ownership represents one of the most effective strategies for reducing risks, maximizing returns, and having a good impact on society and the environment for both passive and active investors. Divestment alone, on the other hand, gives investors no voice and no ability to influence responsible corporate behaviour. Moreover, recent academic research

demonstrates the value of active ownership: when done correctly, proxy voting and participation activities result in higher financial returns, increased communication, improved knowledge, stronger internal relationships, and more integrated plans. Impoverished quality discourse and ill-informed proxy voting methods, on the other hand, can be destructive to target companies and lead to scepticism. Research, prioritization, defining objectives, tracking results, integration with investment decision-making, tenacity, consistency, and listening skills are all required for good active ownership (A Practical Guide To Aactive Ownership In Listed Equity, 2020).

2.4 Sustainable Investments: Measurement System & Reference Framework.

An overview of extant techniques is offered, concentrating on crucial stages of the measuring process, and categorizing them into four broad groups based on the strategy used:

1. Process Methods.
2. Impact Methods.
3. Monetization Methods.
4. ESG Standards.

2.4.1 Process Methods.

Process methods keep track of how efficient and cost-effective continuing operations are. As a result, they cannot be used to calculate an absolute measure of social returns. On the other hand, Outputs can be assessed based on how well they connect with or cause desirable societal consequences. Finally, impact methods measure operational outputs and their impact, resulting in a different outcome that is greater than what would have occurred if the organization did not exist.

Some process methods are:

- GRI: Global Reporting Initiatives.
- IRIS: Impact Reporting and Investment Standards.
- GIIRS: Global Impact Investing Rating System.

2.4.1.1 Global Reporting Initiatives (GRI)

The Global Reporting Initiative is a not-for-profit organization established to provide practical support for sustainable performance reporting to organizers of activities, companies, and institutions of all sizes anywhere in the world.

Founded in Boston in 1997, it was initially a division of CERES (Coalition for environmentally responsible economies) created to develop a sustainable accounting system that would allow companies to keep track of their environmental impact. In addition, this Branch would make it easier for them to pursue objectives within a broader social responsibility. The GRI department was then recognized as an independent body in 2002 when UNEP (United Nations Environment Programme) shared its principles for member nations to follow.

GRI Standards have an interconnected and modular structure so that they are easily updatable without creating interdependencies between them that can be subverted when the organization establishes the necessity to add or remove new rules.

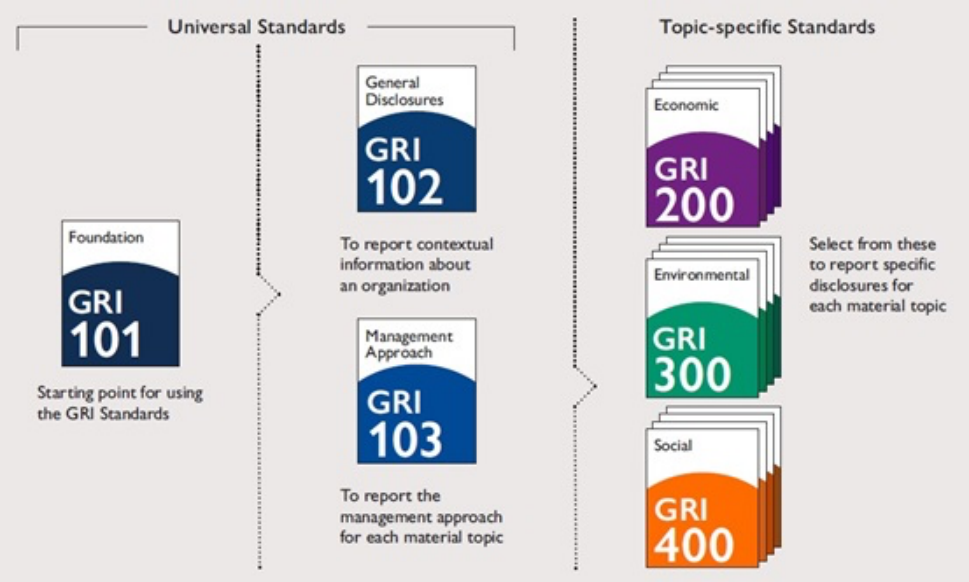
The starting point for initiating GRI reporting is the 101 GRI Foundation. This document, which is available online, explains to decision-makers how to write a report and outlines the main principles that determine to report, including inclusion, stakeholder engagement, sustainability context, relevance, and completeness, as well as its quality, which depends on

accuracy, balance, clarity, comparability, reliability, and timeliness (Reporting, 2016).

In this way, it is possible to compile a relevant and meaningful report, as well as fitting, which will pave the way for subsequent documents: GRI 102 General Disclosure and GRI 103 Management Approach.

There are three sets of thematic standards covering respectively:

- Economy (GRI 200)
- Environment (GRI 300)
- Social (GRI 400)



The GRI-4 standard is organized by specific guidelines that make up the basic principles of reporting, and then by a general and specific area, accounted for using specific quantitative indicators of an economic nature (EC indicators), environmental indicators (EN), and social indicators (LA, HR, SO and PR indicators).

The GRI Standards provide a standard vocabulary for businesses of all sizes – public and private – to disclose their sustainability impacts consistently and credibly. These official rules improve worldwide uniformity and allow businesses to be more transparent and accountable. In addition, the measures assist organizations in understanding and disclosing their impacts in a way that is beneficial to a wide range of stakeholders. The Standards are essential to many other organizations, including investors, legislators, capital markets, civil society, and reporting companies (GSSB, 2020).

2.4.1.2 Impact Reporting and Investment Standards (IRIS)

IRIS is a popular system among companies and organizations to measure, manage and optimize environmental and social environmental and social impact. The GIIN developed it in 2008 to create a common yardstick for measuring and reporting the impact generated to compare different organizations quickly and easily. It was born the as IRIS Catalog of Metrics, a list of parameters for measuring social and environmental factors, and then transformed into the current IRIS+, a platform collecting data from around 5000 organizations (Venturi P., 2017) and allows for an accurate analysis of performance in economic, social, and environmental terms. IRIS+ can be used by both investors positive and negative effects of the companies or funds in which they invest and, at the same time, the and negative effects of the companies or funds in which they invest and, at the same time, by the companies themselves, who can identify, measure and manage their impact through standardized metrics. Their impact through standard metrics aligned with the Global Reporting Initiative Standards.

It is developed by GRI, an international organization specializing in managing the 26 reporting on sustainable impacts and was created to disseminate a common reporting typology at an international level.
The IRIS system follows several principles that have helped make it one of the most widely used:

- Transparency: All information in IRIS is available to any user who wishes to access it.
- Consistency with other tools: The use of common international standards allows greater alignment with other standards allows for greater alignment with other types of measurement that follow the same standards.
- Collaboration with stakeholders: The development of IRIS is done in collaboration with each stakeholder to understand ad develop a tool that is as comprehensive as possible.
- Common language: Common standards are indispensable, but using the same language helps communication and comparison of different tools.

The IRIS model uses almost 500 types of measurement metrics classified according to different criteria:

- Area of impact, i.e., in which area the investor wants to produce the effects of his or her (e.g., biodiversity, pollution, energy, climate, employment, education, and many others).
- Sustainable Development Goal that the investor intends to pursue with his capital investment.
- Type of impact, whether environmental, social, or governance.
- Whether the intent is to make a qualitative or quantitative measurement.

For each metric, the reasons for using it are indicated, which areas of impact it measures, which SDGs and targets it addresses, and together with the most appropriate metrics.
A further tool used by IRIS is the Core Metrics Sets, a list of key impact performance indicators (Carey, 2020). This term refers to a set of metrics that consider the same objective or investment theme to achieve the most comprehensive measurement possible.

The metrics and key indicators within IRIS look at five dimensions of impact: WHAT, what kind of outcome the company wants to generate and its importance, WHO, what type of stakeholder will benefit from the outcome produced, HOW MUCH, the measure of the dimension of the outcome in terms of quantity, duration and degree of change, CONTRIBUTION, i.e., how much the company's activity contributed to the change and, RISK, which represents how the outcome produced deviations from expectations. Each metric can refer to a single dimension or several dimensions simultaneously, while a key indicator will try to develop a dimension to give a comprehensive measurement and analysis (GIIN I. M., 2019)

2.4.1.3 Global Impact Investing Rating System (GIRS)

To facilitate comparability, which is tricky with IRIS metrics, the Global Impact Investing Network facilitated the Global Impact Investing Rating System (GIIRS). This rating tool assigns values to organizations and funds in terms of impact, like Morningstar's ratings. GIIRS was created by B Lab, an independent non-profit that developed a customizable platform, B Analytics, for measuring, benchmarking, and reporting on impact. All organizations and funds using this platform can choose to be certified by B Corporation or get a GIIRS rating.

The use of GIIRS has been designated for for-profit organizations, although some foundations have used it to assess their PRI (program-related investment).

The aspects are social and environmental impacts and not financial performance. However, the score is assigned << based on governance, treatment of workers, impact on the environment and role in the community [...] elements [which, despite their intrinsic importance,] are well below the minimum needs of social impact measurement and at best can help SRI on listed companies>> (Bengo I., 2014). In this regard, Salamon (2014) points out that the limits of current measurement systems, such as IRIS and GIIRS, lie precisely in their orientation. Instead of being centered on the beneficiaries of the impacts, they are designed on the investor, and <<this leaves the field of social impact investing vulnerable to false claims of social impact and the potential for significant mission creep as standard financial performance measures come to trump more uncertain and costly non-financial ones>> (M., 2014).

2.4.2 Impact Methods.

Impact Methods represent the strategies for identifying and measuring both the intervention's operating results (output) and the consequent social benefit (outcome). As a result, measurement using these methodologies leads to the identification of an initiative's impacts. In addition, these methods are critical for capturing a project's or investment's social or environmental rewards, which are difficult to quantify using economic indicators.

Some impact methods are:

- Measuring Impact Framework
- Theory of change

2.4.2.1 Measuring Impact Framework.

Several profit-oriented businesses have embraced the Measuring Impact Framework, an impact measurement methodology developed by the World Business Council for Sustainable Development (Measuring Impact Framework Methodology, 2017) in 2008 to assist businesses in understanding the scope of their social contributions.

There are four stages to the methodology:

1. Establishing the scope of the investigation
2. Quantification of direct and indirect effects
3. Assessment of the real contribution
4. Execution of response and mitigation measures

Because the framework is a reference model rather than a standard assessment, businesses are encouraged to make the valuation as participative as possible by consulting internal and external partners to tailor the technique to the company's specific business.

2.4.2.2 Theory of Change.

The design of a model that specifies (typically visually) the logic, hypotheses, influences, causal relationships, and intended consequences of a development program or project takes the name of "program theory." This model can be compared to the actual process observed and outcomes gained by the intervention through the gathering and assessment of performance data.

This activity includes questioning the theory of change: Is the program theory correct, appropriate, and relevant? Is change taking place in the ways that the intervention's proponents predicted?

This strategy, which is known for its adaptability, proves to be a versatile instrument that can be used for various reasons and is simple to learn. Foundations and non-profit investment funds primarily use to clarify respective social objectives, determine the most appropriate metrics to use when selecting investments, highlight the results achieved during the

reporting phase, and, finally, allows investors to identify the underlying impact assumptions for any review, as well as overlapping the dimensions deemed essential for the objective endings.

2.4.3 Monetization Methods.

The Monetization Methods are the strategies that envision a final phase of monetization of the impacts generated, in which the benefits generated are given a monetary value. The main reason for these methods is their ease of use in commercial and financial situations. These approaches assess social benefits and link them to economic indicators like operating costs and capital expenditures. While the advantage of these methods is the excellent comparability of the research results with other traditional financial indicators, selecting financial proxies, which give an approximate financial value of a good or service that does not have a monetary value, is a very complex task.

The two main Monetization Method are:

- Cost Benefit Analysis (CBA).
- Social Return on Investment (SROI).

2.4.3.1 Cost Benefit Analysis.

A cost-benefit analysis is a sort of economic analysis in which the costs and effects of investment are stated in monetary terms and evaluated using one or more of the following three criteria:

- Cost-Benefit Ratio: the discounted value of revenues and impacts divided by the discounted value of negative costs and impacts for the same accounting period • net present value: the total value of all costs, revenues, and social impacts discounted to represent the same accounting period

- Internal Rate of Return: calculated as an annual percentage return on the entire cost investment using the net value of revenues plus impacts.

The widely adopted and well-known tool is also used in the impact assessment of major public projects to address a socially relevant problem; however, the scope can be in a broad range of impact investments to estimate returns in favor of specific stakeholders who benefit from the investments.

2.4.3.2 Social Return on Investment.

The SROI (Social Return on Investment) is a principles-based strategy for assessing and managing a company's effect.

In a nutshell, it directs the process by which an entity identifies various stakeholders, obtains their perceptions of essential outcomes, develops indicators for those outcomes, adjusts the outcomes for an assessment of what would have happened if the organization's work had not occurred, and values the impact to gain a better understanding of the organization's impact. The goal of SROI is to account for an organization's outputs' social, environmental, and economic value (GIIN, What is the relationship between IRIS and SROI?, 2019).

The key identifiable phases to calculate the SROI are:

1. Establish the field of analysis and identify the main stakeholders
2. Mapping the outcomes
3. Demonstrate outcomes and attribute value to them
4. Define impact
5. Calculate SROI
6. Reporting, use, and integration

2.4.4 The ESG Standard.

The aspect of social responsibility is increasingly becoming a determining factor, especially in investments. This concern means, first and foremost, a move away from certain securities, such as those relating to arms and alcohol manufacturers, and a greater preference for and active engagement with issues such as the environment, society, and corporate governance.

This increased focus on ESG issues can be seen on the corporate side, where commitment to ESG is growing, and on the investor side.

The acronym ESG stands for:

- E: Environmental.
- S: Social.
- G: Governmental.

These terms refer to three distinct universes of social sustainability.

The word environmental refers to the environment, climate change, CO2 emissions, air and water pollution, waste, and deforestation.

These are increasingly topical issues that the whole world refers to, not just from a purely economic point of view. For example, at the 2015 Paris Climate Conference (COP21), several targets were set to reduce CO2 emissions. These include keeping the temperature increase below two degrees.

Thanks to applying this concept to the economy, companies are trying to reduce emissions and become greener, with a view to satisfying investors, who are increasingly sensitive to these issues.

Social refers to aspects such as gender equality, human rights (of workers, but not only), working conditions, and companies' relationship with the civil community.

Finally, governance refers to the corporate governance aspects of the company, i.e., the composition of the board of directors and control policies on the behaviour of top management, regarding compliance with both the

law and ethics. The issue of governance has become critical following the 2008 crisis and has undergone significant changes at the corporate level through the Solvency II Directive.
Because of these parameters, investors select investments concerning the long-term gains that they can make and a view to positive social impacts.

For example, Snam has developed a best practice to strengthen its commitment to sustainability by creating the ESG scorecard, a sort of passport where to keep track of the leading performance indicators relating to parameters that are relevant to the achievement of objectives relating to the environment, social variables, and governance.
The parameters of the scorecard are represented by 22 quantitative and measurable objectives regarding 13 relevant areas, covering the Environment, Social, and Governance aspects, to provide stakeholders with an overview of the commitment and growing sensitivity in the ESG area, enabling them to monitor the results. In this way, Snam consolidates its business model to achieve the sustainable development objectives of the 2030 Agenda. The ESG scorecard confirms the company's commitment led by Marco Alverà to integrating ESG issues into its business strategy, setting precise and quantitative targets, and reporting on them periodically, sharing the progress made. The objectives are three-year targets, and the scorecard will be monitored and reviewed annually,
Snam already monitors more than 140 ESG KPIs through its sustainability model, many supported by multi-year targets. In its new paper ESG Scorecard, Snam will focus on certain specific KPIs and annual targets. For the environmental sphere, these will be natural gas emissions, energy savings, green innovation, protection of soil and biodiversity, for the social sphere, welfare, employee engagement, safety, gender diversity, responsible and sustainable supply chain, local communities, and for

governance, the governance structure and its functioning, infrastructure reliability and anti-corruption.

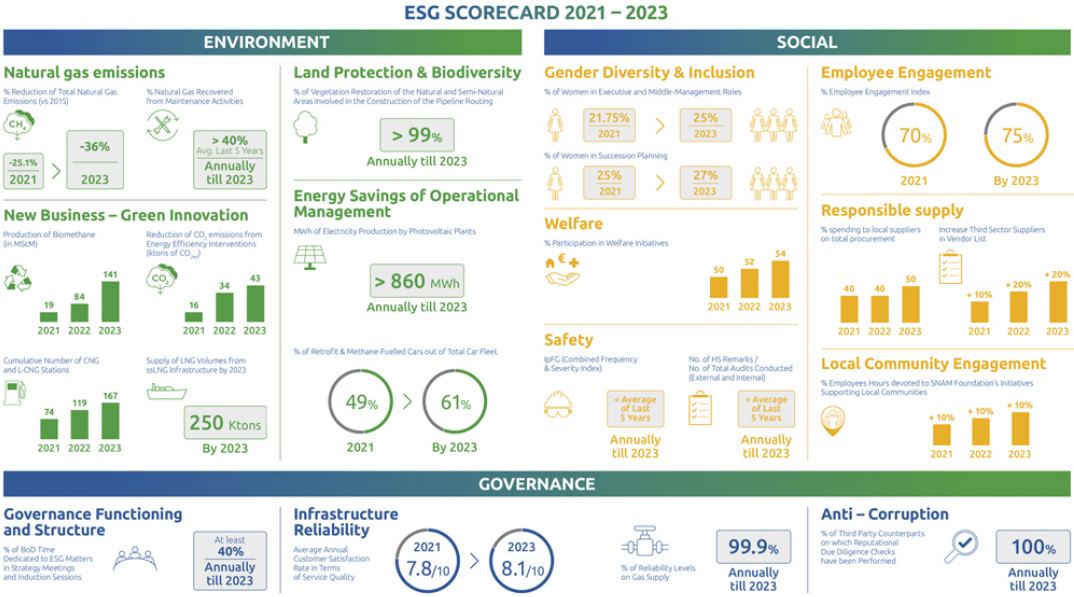


Figure 6: SNAM ESG Scorecard 2021 – 2023

Chapter 3: Impact Investing.

3.1 Overview of Impact Investing.

Following the 2010 publication of a J.P. Morgan report underlining its significant growth potential, Impact Investing became a hot topic among investors. Impact investing was classified as a nascent asset class by the study, which anticipated a global scope of over USD 1,000 billion in invested capital and up to USD 667 billion in profit over the next ten years.

While impact investing became popular around the turn of the decade, investments with social objectives in addition to a financial return had existed for decades. Program-driven investing – often known as "impact investing" – may be traced back to the 1970s and 1980s, when the forerunners to today's impact investors began to emerge in large numbers (Trelstad, 2016). Grameen Bank (1976) and Accion (1961), two microfinance companies in emerging markets that provide financing to women and small enterprises, are examples.

Effect investing can be defined as transforming a diverse universe of investments into a more homogeneous class with a more considerable emphasis on impact assessment as a common denominator (Reeder & Colantonio, 2013). Because uncoordinated innovation in various industries and places has converged to establish a new global industry, a new word, Impact Investing, has developed to characterize this loose group of investing activities. The term was first coined in Italy in 2007 as part of the Rockefeller Foundation's Impact Investing Initiative.

Figure 7: Different terminologies used to refer to investments with a social purpose

Through impact investing, the investor seeks to achieve a financial return alongside a defined and measurable social and environmental impact. Therefore, impact investing differs from the broader concept of sustainable finance in two ways (Laplane & Mazzucato, 2020):

- The investor invests in companies with social and environmental development objectives set out in its mission, focusing on the voluntariness of the positive impact.
- It aspires to a measurement of the social and environmental impact generated.

Impact investing aims to improve local communities through social and environmental effects through economically viable initiatives, which sets it apart from philanthropy. Impact investing is at the heart of the new notion of Blended Value, which evaluates non-profit organizations, enterprises, and investments based on their capacity to provide a mix of social, environmental, and economic value (Sheila Bonini, 2015).

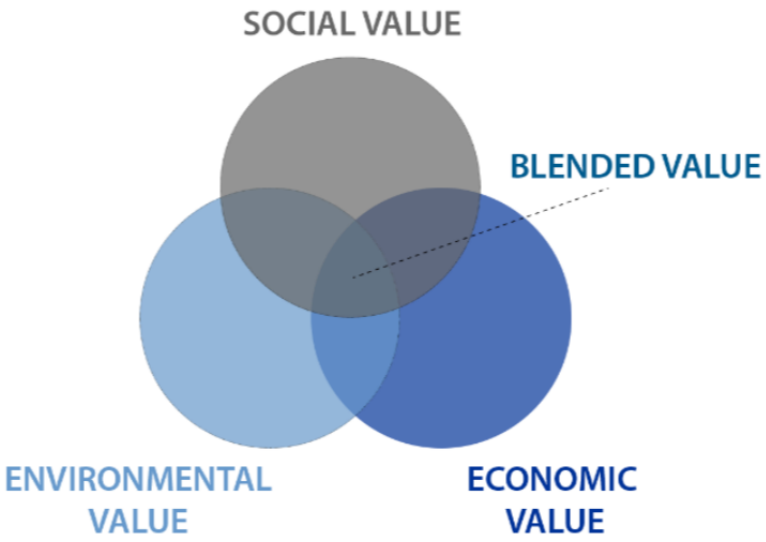


Figure 8: Definition of Blended Value

Depending on the investing activity, the emphasis may change toward generating social-environmental benefit or financial return. Impact investing is typically classified as "social companies with lower returns" and "inclusive businesses" in the Spectrum of Business (Laina Greene, 2017).

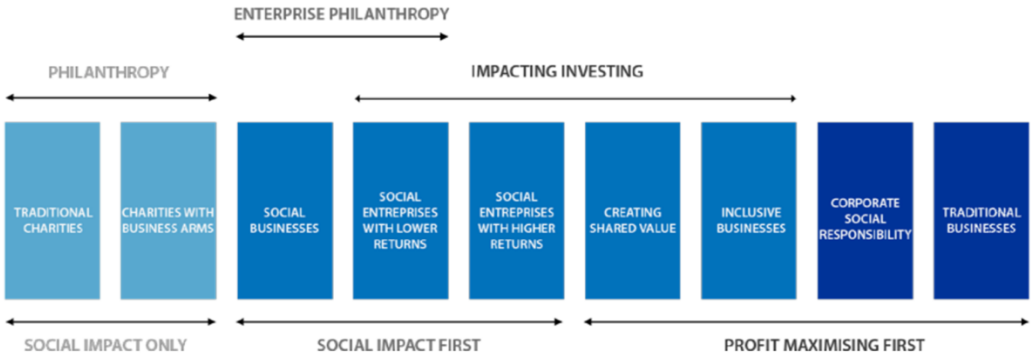


Figure 9: Spectrum of Business

The social impact investment sector has become increasingly important over the last ten years. Nowadays, it cannot yet be considered a mature sector, but in some countries, including the USA and the UK, there is an

increasing number of best practices, and the field is beginning to take on a well-defined structure and to emerge from an initial confusing phase that characterizes a sector that is not yet ready. The variables that may determine the sector's performance are many. Some argue that the key to success is the demand for investment in the country, expressed by third-sector entities such as social enterprises and social cooperatives. Others consider that the positive outcome of the sector's development can come from the amount of supply of investments with social impact that can be generated. As regards the geographical context of reference, currently, the vast majority of social impact investments come from Europe (mainly developed in the United Kingdom), North America (especially the United States and Canada), and Asia (mostly in China) and are directed not only to projects on the ground but also to poorer countries in Africa and Latin America (IFC, 2019). Thus, particularly currently developing countries seem to represent an excellent opportunity for the impact investing market. However, investors face several heavily weigh barriers: political instability and corruption, lack of a communication network, and complexity in regulation. Although many factors limit the proliferation of social impact investments, emerging market areas offer the best opportunities to generate social and environmental impact (Scheck & Hoscstadter, 2014).

Additionally, the world's population is increasing and becoming concentrated in large urban agglomerations. Together with other factors such as the progressive increase in the average age of the population, this phenomenon leads to the primary needs of an increasingly large segment of the population being left unfulfilled. Social impact investments could therefore find increasing space on the political and economic agenda of countries. To reinforce the thesis that emerging countries offer the best development opportunities for impact investing, the result of a survey carried out by GIIN (Global Impact Investing Network), presented in the JP

Morgan report of 2015, showed a difference in the expected return from social impact investments between emerging and developed countries.
From an analysis of the survey's results, over half of the sample (55%) principally targets "competitive, market-rate returns", with the remaining of the sample split between "below market rate returns: closer to market rate" (27%) and "below market rate returns: closer to capital preservation" (18%) (Saltuk, Idrissi, Bouri, Mudaliar, & Schiff, 2015).

Despite not being the top performer in this sector, the European impact investing sector is growing strongly: a 2016 European SRI Study (Eurosif, 2016) estimate recorded a CAGR increase in the European market of over 120% (Growth 385%) in just two years, from €20.27 billion in 2013 to €98.33 billion in 2015. Impact investing entered the European agenda precisely in 2013 with the establishment, under the British presidency of the G8 (now G7), of the Social Impact Investment Task Force (SIIT), coordinated by Sir Ronald Cohen (GSG, 2017). The Task Force had the task of promoting the development of impact investing in the G8 countries by including it in the impact agenda of the various countries. The result of the Task Force's work flowed into a series of national reports, one for each participating country, in which a real impact agenda proposed a series of proposals and interventions to implement soon to encourage the expansion of the impact market (Taskforce, 2014). Since July 2015, the Task Force has transformed into the Global Steering Committee on Impact Investment to broaden its horizons and promote the growth of impact investment globally (GSG, GSGII: About Us , 2015).

Furthermore, some estimates of the size of the impact investing market show even a brighter future. In 2015, impact investing was estimated as a market worth approximately $135 billion (Markets, 2017), with an expected CAGR of 17.86% to reach $307 billion by 2020. In April 2020, the actual

size of the impact investing market stood at $715 billion industry, with enormous growth potential over the next five years (Norton, 2020).

The different studies on impact investing market are not only justified by a trend: indeed, it can play an essential role in the world economy starting in the next few years, given the speed of growth and the estimates of the potential of the sector and the size it can reach by 2030.

Maximilian Martin, the founder of Impact Economy and a leading expert in the field, has identified four megatrends emerging from the recently evolving social impact finance market. The first trend highlights a great demand coming from the "base of the pyramid", i.e. from the more than four billion people living in the most deprived and still developing countries. This need, to date estimated at around 5 trillion dollars, has remained unfulfilled for many years and can be an immense opportunity for investors to reach with their offer a large slice of unfulfilled demand for social finance and help the most disadvantaged individuals to become part of the market favoring the restart of the domestic economy. The second megatrend is the growth of the "green economy". Since the world population is increasing (estimation shows that world population will count nine billion people by 2050), man's total needs are growing, and natural resources are being exploited almost to the limit, a massive shift in investment is needed to use resources efficiently. Therefore, the green economy gains a great deal of importance through investments in energy efficiency and, more generally, all those investments that allow for an improvement in the exploitation of resources in a more long-term vision. The third trend identified is the immediate need to restructure the welfare state: part of public spending is currently structurally higher than revenues, and it is necessary to implement a radical renewal if we think, for example, that in 2020 20% of the world's population will be over 65 years old. The latest trend is the emergence of the LOHAS

(Lifestyles of Health And Sustainability) segment, represented by all those consumers who in their daily lives purchase products and services following their values in order to try and achieve a positive impact on the community thanks to their actions characterized by a lifestyle based on health and sustainability. The social impact finance sector can count on this class to increase its size by offering new types of investments since members of the LOHAS segment have a greater propensity and willingness to pay a premium for products and services that are increasingly sustainable from an environmental and social point of view (Martin, 2013).

3.2 Main Actors: Demand & Offers Side.

As indicated by established financial institutions tapping into the novel investment class, the impact investing sector shifts from niche to mainstream. Many mainstream investors have already entered the impact investing market. To give just one example, World Vision, one of the world's largest non-profit organizations, is currently raising two impact investing funds through its microfinancing arm, Vision Fund, at the time of writing. Credit Suisse is another example. The Swiss banking behemoth established a unit dedicated to Impact Investing to attract new young investors who want to invest with a purpose. Other well-known investors, including Bain Capital, BlackRock, Goldman Sachs, and JPMorgan Chase, have lately added impact investments to their portfolios.

Despite the innovative efforts, the ecosystem is still in its infancy, fragmented, and dominated by niche companies (Klosters, 2013). The following figure summarizes the impact investing industry's participants. Capital suppliers, financial vehicles - CDFIs and funds – and investment targets are the three categories.

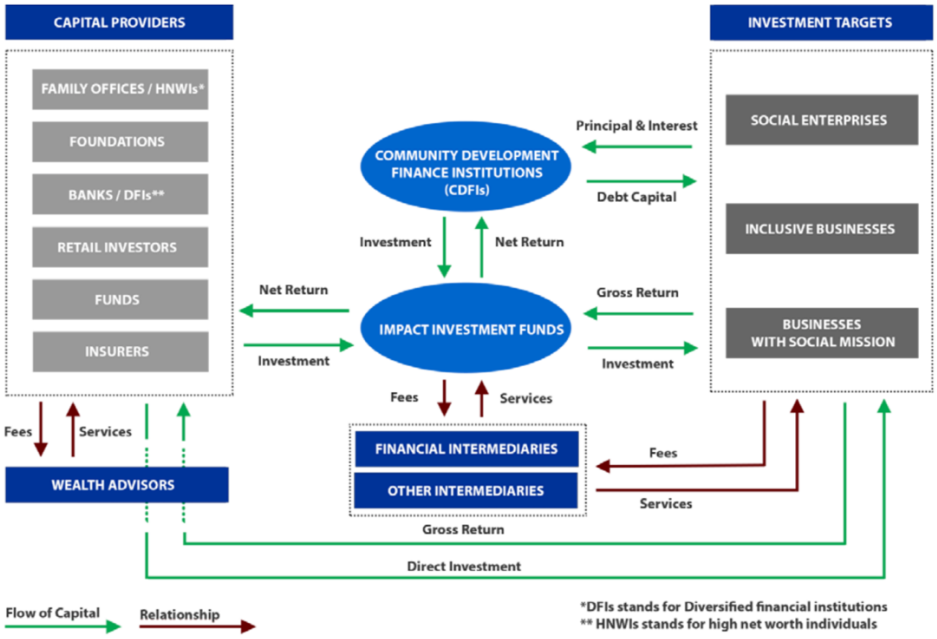


Figure 10: Impact Investing Ecosystem

3.2.1 Demand.

In line with expectations, the demand side of capital is predominantly composed of companies that offer services rather than tangible products (Yasuda, Morse, & Barber, 2021). Charities, for-profit and nonprofit social enterprises, cooperatives, and hybrid public/private organizations form the demand-side market. These demand-side organizations seek investment capital to start or grow their social activities (Philips & Johnson, 2019). Therefore, these demand-side actors for capital are mostly start-ups or businesses in the immediate next stage of life, i.e., that are making investments for growth and consolidation in the marketplace. Most of the entities that make up the capital demand side of social finance are small or medium-sized companies and have only been in existence for a few years.

According to research, precisely the so-called "early stage" investments, i.e., those in companies in the initial phase of their life cycle, seem to face market failure situations the most. The main reasons are the lack of tangible assets, the information asymmetry created between the financed and the financer, and the high failure rate of start-ups, all elements due to which new start-ups struggle to attract capital (Patel). Another reason why the entire demand side of the social impact investing sector is still little more than in an embryonic state is the regulatory scenario that limits social enterprises and social cooperatives, especially in their access to capital in the form of equity. Regulatory limitations are mainly of two types: financial constraints for social enterprises and governance constraints for social cooperatives. Social enterprises cannot yet distribute dividends, which has not allowed them to attract equity capital. Cooperatives, on the other hand, can distribute dividends, albeit with solid limitations (limit of 2.5% above the rate of interest-bearing postal bonds), but they too are hindered in attracting equity capital since no member can have a share of more than €100,000 or 2% of the capital for cooperatives with more than 500 members (Clifton, 2017).

The modes of financing available to social sector actors are numerous and range from debt to pure equity. The most commonly used forms are explained in detail below (Maduro, Pasi, & Misuraca, 2018):

- Grants / Donations: represent a traditional form of funding for social enterprises. However, only particular types of projects can get these fundings. They are usually short-term and involve high fundraising costs.
- Equity: This is the type of financing that presents the highest risk for the investor, who, in exchange for a sum of money, assumes a share in the company's ownership and can thus benefit from a percentage of the profits. In addition, the investor obtains specific control and voting rights, depending on the legal form of the company.

- Debt: ensures a stable and predictable cash flow for the coming years against an annual interest payment. Usually, debt capital represents an obligation for 5-7 years, so it is temporary but medium to long-term financing.
- Mezzanine Capital: incorporates debt and equity properties. For this type of capital, there is generally a link between interest payments and profits generated by the business. After a certain period, the capital is repaid or converted into equity. The advantage of this form of financing is, therefore, flexibility.
- Hybrid capital: This last type of instrument contains grants, debt capital, and equity. There are no interest costs, and they generally have an average duration of between 3 and 7 years. This category includes Recoverable Grants (loans that must only be repaid if the project achieves specific predefined goals, otherwise the loan converts to a donation), Forgivable Loans (these are non-repayable loans that are converted to a donation if the funded project is successful), and Convertible Grants (these are another form of hybrid capital. Again, the investor donates the social enterprise that is converted to equity if successful.

Thus, investments are made with a continuum of financing arrangements ranging from those that seek almost exclusively the creation of social value without regard to financial outcomes to instruments that take little account of social value and place more importance on the outcome achieved in economic terms (Buffett & Eimicke, 2018).

3.2.2 Offers

Previous research shows that globally "there is much more investable capital than potential investment objects (deals)." The supply side of the impact investing market appears to be more developed and already more delineated in terms of capital sources and opportunities. Instead, capital

providers' difficulty finding a promising deal, often due to geographic remoteness, determines a drag on market growth. The next step in getting the sector off the ground is to understand what the actual investment objects are and to be able to spin off a market populated with deals so that capital offered by social finance investors can more easily find employment (Finance, 2019). The landscape of investors and intermediaries is constantly expanding, although, to date, smaller organizations have found more space in the sector: prominent players such as pension funds and insurance companies are still reluctant to take the first step due to the lack of available tools and metrics to evaluate whether to start investing in the sector. This gap is a vicious circle; without a market, Liquidity issues can severely limit these tools (Lehner & Brandstetter, 2015).

3.2.2.1 Private Equity and Venture Capital.

Private Equity and Venture Capital funds represent a significant funding opportunity for the social impact finance sector. These types of institutional investors use mostly equity capital; only a few of them use debt capital. The main investors in Private Equity funds turn out to be institutional investors such as banks and pension funds, while they are not very suitable for retail investors, with more limited assets. It is a fact that companies participated in by an institutional investor, benefiting from his experience in this entrepreneurial reality, obtain better performance than the average. This type of venture capital investment contributes to launching on the market of companies that manage to develop rapidly with the capital made available by the Venture Capitalist and at the same time to the consolidation of the economy as a whole.

Private Equity and Venture Capital funds are financial instruments characterized by a high return, which is a consequence of both a high-risk profile and low liquidity compared to other types of investments.

This type of investment is made in the medium to long term, in which the funds acquire a particular stake in a target company, finance it with capital and make their know-how available with the ultimate aim of increasing its value on the market.

For the activity carried out by Private Equity funds (Yang, Akhtar, Dessard, & Seemann, 2019), it seems that they may have great potential to channel a large amount of capital from the supply side towards new European companies that need funds to launch themselves on the market. In particular, Venture Capital funds, a specific branch of Private Equity activities specialized in acquiring start-ups and companies in the early stages of their life cycle: the so-called Venture Financing and Seed Financing could become necessary for social impact finance. Most of the subjects that constitute the demand for capital are, in fact, companies, cooperatives, and start-ups recently created and with an immediate need for capital to start their business and become self-sufficient.

However, there are also harmful elements that hinder the matching of capital offered by Venture Capital and Private Equity funds with the demand side of the capital in impact investing. First of all, the size of the usual investments by funds is far greater than the investment opportunities offered by companies operating in the social sector. Therefore, funds find it unprofitable to put money into such small investments because transaction and due diligence costs would significantly impact the final return on investment. Furthermore, to benefit the investing sector, almost all European private equity funds belong to local funds: funds with assets between 50 million euros and 500 million euros. Therefore, the lack of compatibility with impact investing due to the investment's size could arise, but in a more mitigated manner. A further significant obstacle is the low liquidity of the market for social impact investments, making it difficult to exit an investment, even for patient capital such as that of these funds.

One segment of funds that is much more inclined to make social impact investments is Social Venture Capital (Sorenson & Stuart, 2001), which differs from traditional venture capital funds in that their mission is to invest in companies that produce innovation and social impact. Thus, social Venture Capital could help social enterprises and all those who make up the demand for capital in the impact investing sector to gain a greater awareness of the management and investment logic of the for-profit world. The accusation leveled at social enterprises and, more generally, at those belonging to the social sector is the lack of good management skills and that many bodies are incapable of developing an entrepreneurial approach to developing a social idea.

3.2.2.2 Foundations.

There are different types of foundations (business foundations, banking foundations, community foundations, university foundations, etc.)[8].

It is possible to distinguish two types of foundations according to their mode of operation (Saltuk, Bouri, & Leung, Insight Into the Impact Investment Market , 2011):

- Grant-making foundations: they use the fruits of their assets to disburse resources in favor of projects managed by third parties.
- Operating foundations: they organize the factors of production themselves by providing services of public utility.

Many foundations, especially among corporate foundations, since they carry out a plurality of activities such as allocating grants and producing valuable services to society, are configured as "mixed," i.e., not exclusively grant-making or operational type.

[8] There are currently about 150 business foundations in Italy, while foundations of banking origin are only 88. Both types of foundations are much more numerous in the central and northern regions.

There are three ways in which a grant-making foundation can generate social impact (Investment Impact Index: Blog: Impact Investors And Extending The Impact Of Philanthropy and Grantmaking, 2020):

- By supporting existing institutions: in this way, the foundation does not directly meet social needs but contributes to the better functioning of entities and institutions operating in the social sector by improving the quality of the services offered.

By promoting quality initiatives: foundations thus generate an impact through the funding of new projects and the creation of institutions to make them successful initiatives and make them models that can serve as examples for others.

- By experimenting with innovative solutions: foundations can "create knowledge about which solution works and which does not." The difference from the previous mode lies in the willingness to develop new approaches. Foundations, having limited resources, do not set out to completely solve the problem they face but experiment with innovative solutions in response to social problems.

The modes are not mutually exclusive, indeed implementing more than one can serve as foundations as a form of risk diversification.

In this sense, especially considering the third modality outlined above, foundations in the future are excellent candidates to be the main partners of the public sector, especially regarding the promotion and research of social impact measurement methods, thanks to their independence and ability to promote new experimental approaches.

Foundations are beginning to consider it increasingly necessary to generate social impact through the return on invested capital and more appropriate use of the same assets. In this sense, impact investing is an exciting possibility for foundations whose need remains to preserve their assets.

3.2.2.3 Credit Institutions.

Banks with a greater propensity to invest in the social sector often go by the name of ethical bank and often also operate in the area of microcredit. Ethical banks offer loans to clients at rates that are on average lower than the average for the banking sector. In this way, they manage to access credit to a set of disadvantaged and non-bankable categories, to whom the traditional banking system refuses to grant a loan, in most cases due to the lack of guarantees (Guezennec & Malochet, 2013).

The lack of a connection between the instruments of social impact finance and the retail investor market is one of the major obstacles to the development of impact investing at a national level.

3.2.2.4 Microcredit Companies.

Microfinance refers to the provision of financial products and services to clients who have difficulty accessing the traditional financial sector.

Microcredit can be divided into three main categories (Tchuigoua, 2018):

- Productive microcredit: it is characterized by loans not exceeding 25,000 euros in favor of partnerships and cooperatives and aims to support new productive activities. With this type of microcredit, not only money is offered but also support for the financed activity, in the form of accounting, financial management and strategic support.
- Social microcredit: consists of loans not exceeding 10,000 Euros in favor of individuals without the need for collateral. The interest rates of these loans are lower than market rates and are intended to assist the most disadvantaged classes and encourage their inclusion in society (social inclusion).
- Student microcredit: These are loans, with a duration of no more than ten years, to students, with the aim of financing the payment of training courses and helping beneficiaries to enter the world of work.

Microfinance is the area of impact investing that has created the highest number of precedents and successes to date. Microfinance is a tool that, if

flanked by other types of interventions, can be very effective in providing liquidity to the Base of the Pyramid (BOP) (Casselman & Sama, 2013).

3.2.2.5 Crowdfunding Platforms.

Crowdfunding platforms, which have been proliferating globally for about three years, represent the primary methodology through which retail investors can contribute and get in touch with the impact investing sector.
There are different types of platforms through which investors can contribute to projects and initiatives of innovative companies or start-ups engaged in the social sector (Staff, 2019):

- Lending Crowdfunding: consists of a system of loans, often with an interest rate lower than the market rate or even non-existent, through which the proposed projects are financed by private entities.
- Equity-based Crowdfunding: in this case, investors buy a share of the company that collects financial resources from the public. The reward is then the set of patrimonial and administrative rights that derive from the participation purchased.
- Donation-based Crowdfunding: the investor chooses among the proposed projects the one that he considers most deserving and responding to his ideals and can decide to finance it through a non-repayable contribution.
- Reward-based Crowdfunding: this type of collection provides a reward for the investor, based on the size of the contribution made to the cause.

Crowdfunding has good potential and seems to have the right characteristics to adhere to the cause of impact investing, especially with regard to the size of investments: the main subjects financed through these initiatives are innovative start-ups, therefore of modest size and still in the launch phase. Therefore, these subjects need an initial investment of medium-small size that goes well with donations from individuals. Start-ups otherwise struggle to find funders because most of them are institutional

investors such as Private Equity and Venture Capital funds, which often do not consider investments below a certain size.

3.2.2.6 Incubators and Accelerator.

Social incubators are born as physical structures located on the territory, operating as accumulators of projects and acting as starting points for the realization of local projects. They aim to promote the collective dimension of entrepreneurial innovation and social impact as an indicator of success, for sustainable development and growth in the well-being of society. Incubators are a support structure for the start-up phase of new entrepreneurial initiatives, but they do not support new initiatives only with financial support but also through the transfer of specific skills, promoting good practices, with training courses, seminars and consultancy (Billions, 2016). Moreover, the company that turns to a social incubator often sells a share of its equity capital to the incubator, which becomes a full partner.

Social incubators support embryonic business ideas that have yet to be launched on the market, while accelerators intervene in the very next phase of the business life cycle. Often a business accelerator makes more than one investment simultaneously, unlike business angels who concentrate all available capital in one start-up. Accelerators also differ from business angels because they are characterized by a more organized and systematic investment methodology, although they are not part of the category of institutional investors such as venture capital funds.

Business accelerators, by becoming partners in the accelerated companies, obtain a profit mainly from the sale on the stock market of the company that has undergone the acceleration program and thus increased its value (Guide, 2019).

Data from the National Business Incubator Association shows that as many as 87% of incubated firms survive their first three years, compared to less

than 44% of firms that have not been incubated (Lewis, Harper-Anderson, & Molnar, 2011).

Given the main characteristics and typical activities of business incubators and business accelerators, it is believed that both classes of entities play a useful role in impact investing in that they make a valuable contribution to matching capital supply and demand. In addition, start-ups and companies that have taken part in an incubation program gain great visibility and are put in contact with numerous potential investors thanks to the incubator's vast network of acquaintances.

The most effective incubators in carrying out their role turn out to be the thematic ones because, being focused on a single sector, they know the reference market better and are able to create more synergies among the incubated start-ups (Finance S. , 2021).

3.2.2.7 Business Angels.

Business angel investments are driven by a high risk accompanied by a high expected return. For this reason, they are particularly suitable as financiers of innovative start-ups. In addition, this risk profile is because business angels invest their capital and do not manage third-party funds as intermediaries; therefore, they are not subject to particular liability constraints.

As far as impact investing is concerned, it is believed that business angels are more aligned with the demand for capital because, unlike formal investors such as private equity funds, they focus on smaller investments in line with small and medium-sized enterprises and start-ups that require financing and often cannot access the traditional credit channel because they do not have sufficient collateral (Antretter, Siren, Grichnik, & Wincent, 2020).

3.2.2.8 Family Offices.

A family office is a service company that takes on administering the assets of one or more families with large amounts of capital and assets. The primary and most common services offered by a family office include the financial and administrative management of the client family's assets and capital. The use of a family office by wealthy families is already commonplace in the United States, while in Europe, it is a phenomenon that is not yet fully established. According to a 2013 Financial Times survey, family offices that are already active in the impact investing sector cite intergenerational wealth transfer, contribution to the community and sustainable economy, client family values, and risk management as the main reasons for investing in the sector. Family offices allocate an average of about 17% of total capital under management to the impact investing sector. Since each family office has as a client a family with different characteristics, preferences, and capital needs, there does not seem to be a common approach for all family offices to invest in the social impact finance sector. On the other hand, they represent a class of operators with good prospects for involvement in the impact investing sector because they do not have a formal commission to choose which investments to undertake, but these decisions are in the hands of a few family members. They therefore have more flexibility and freedom in deciding their investment portfolio (Industries, 2013).

3.2.2.9 Large Corporations.

In for-profit companies, sustainability is taking on an increasingly central role, to the point that being sustainable is no longer limited to "traditional" Corporate Social Responsibility. The method with the greatest potential through which large companies approach impact investing is Corporate Impact Venturing. Many start-ups encounter problems during the first part of their life cycle due to the cost of the market launch phase. By partnering with large corporations through Corporate Impact Venturing, they can take

advantage of immediate and not insignificant benefits, thanks to the offer of consultancy, value-added services, and network knowledge by large companies. One feature of Corporate Impact Venturing that should be emphasized is the fact that on average smaller investments are made through it. But impact investing also shares this peculiarity. For this reason, it is believed that linking the two sectors could be an unexplored opportunity that would allow for a better match between supply and demand of capital (Maximilian, 2014).

3.2.2.10 Insurance companies.

Awareness of the role of insurance companies in the transition to a sustainable economy is becoming increasingly widespread in an international context. The insurance business sector has also intervened in natural disasters with the proposal of an insurance scheme to manage natural disasters with positive effects on land management. In this way, it is possible to contain public spending following natural disasters and redistribute the available resources more fairly.

Insurance can offer complimentary social protection instruments, thus reducing the pressure on the public health system. In addition, insurance can help prevent the risk assumed by individuals and businesses by promoting virtuous behavior and incentivizing a more sustainable use of available resources (Wood, Thornley, & Grace, 2013).

A widespread tool oriented to sustainable finance is microinsurance: it consists of protecting low-income population groups against specific risks in exchange for a regular payment of premiums proportionate to the probability and cost of the risk. The main difference from standard insurance is the premium's size and the consequently limited risk coverage (Spiess-Knafl & Scheck, 2017). Thus, microinsurance intercepts the needs of low-income population groups, often not covered by traditional insurance: it is, therefore, a valuable tool for financial inclusion.

3.2.2.11 HNWI.

Another category of operators active in the social impact finance market is the so-called High Net Worth Individuals (HNWI). This class includes people who have a global net personal wealth (excluding real estate) above one million dollars.

HNWIs represent a class of individuals who hold a very high proportion of capital. Therefore, their involvement in the sector of social impact finance would move a large amount of capital. However, especially in recent years, due to the crisis, their investment choices have been oriented towards capital maintenance and investments that allow good liquidity (Spiess-Knafl & Scheck, 2017). This would suggest that currently, the impact investing sector is not among the choices best suited to the needs and investment characteristics of HNWIs. In the future, HNWIs could commit a larger share of their capital to social sector investments if it evolves and becomes a more established sector with investment opportunities with a more liquid and active secondary market. There is confidence in a considerable future contribution of HNWIs to the impact investing sector because they do not have to answer to many stakeholders but manage their capital and therefore have a high level of autonomy in choosing which investments to make.

3.3 Market Size.

J.P. Morgan revised its statistics in 2020, building on its 2010 effort to assess the extent of international investment and its future potential. Globally impact investors managed USD 404 billion (+673% in respect to 2014) in impact investing assets in 2019, according to a survey performed in collaboration with GIIN, with the median investor managing USD 89 million. However, there are no historical resources available to determine a figure accurately because the industry is still in its infancy. One major issue

is a lack of agreement on what constitutes a shared understanding of definition – taxonomy – and segmentation – financial return philosophy (TONIIC, 2016). In addition, the highly dispersed effect universe poses another hurdle to market sizing. Indeed, attempts to map and evaluate an effect enterprise's worth encounter insurmountable challenges because many impact enterprises operate in impoverished areas of the world where financial knowledge is still missing.

GIIN, on the other hand, performs an annual survey to assess the industry's state. The GIIN study is currently the most comprehensive data collection on impact investing. The 2020 survey received responses from nearly 300 impact investing organizations, the most ever, and revealed a growing pool of impact investing assets, with over USD 404 billion in Assets Under Administration (AUM). As a result, the "floor" for the size of the impact investing market is commonly referred to as this data point (GIIN Research Team: Dean, Hannah, Sophia, & Noshin, 2020).

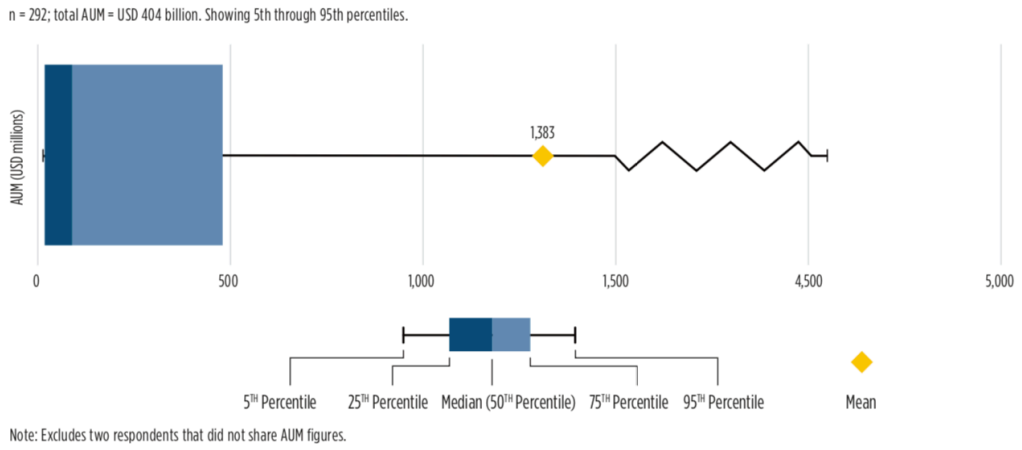


Figure 11: Distribution of respondents and investments

3.3.1 Impact Investor Categories.

As of 2020, Figure 12 shows the AUM of impact investing by organization type. Asset managers (for-profit) are the most active investors with slightly

above 50 percent of the share, followed by fund managers (non-for-profit) and foundations with a 14 percent each. The groups mentioned above account for almost 78 percent of the global investment market. This situation reflects a significant change in respect to the study performed in 2017, comprising as the primary capital providers impact investing funds, pension funds/insurers, and community development finance institutions.

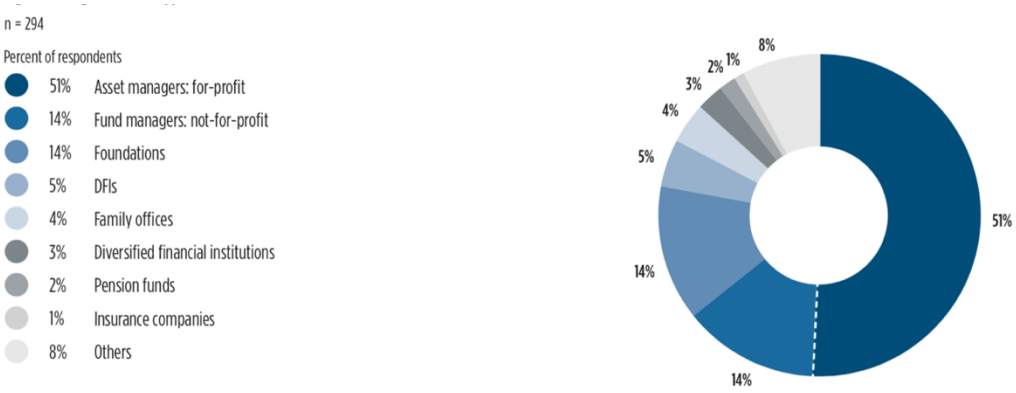


Figure 12: Impact investors by type

3.3.2 Investment Return Targets.

Impact investing is distinct in that it focuses on a specific range of financial returns, from concessionary rates to market-like returns. According to GIIN's annual survey 2020, most respondents (85%) said they were aiming for a risk-adjusted market-rate or near-to-market-rate return, with the former accounting for 67 percent and the latter for 18 percent of total respondents.

Only 15% of the remaining funds sought for below-market returns that were more focused on capital preservation.

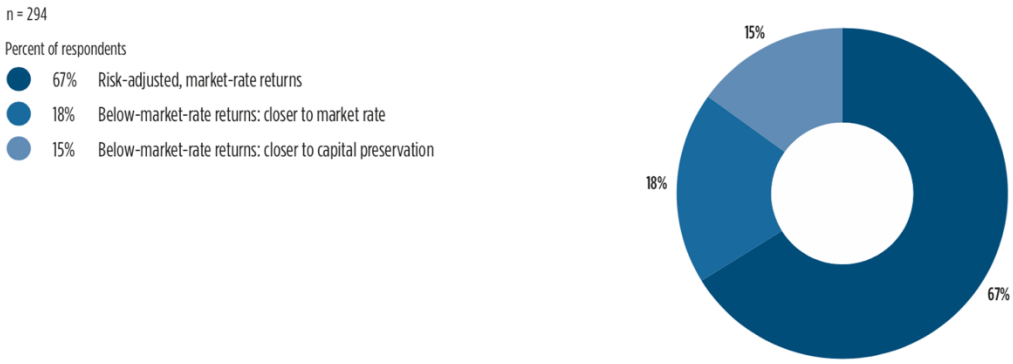


Figure 13: Target financial returns primarily sought

3.3.3 Investment Instruments.

From fixed-income instruments to venture capital and equity-like investments, impact investing encompasses a wide range of investment types. However, private debt, public equity, real assets (physical and tangible assets), private equity and publicly traded debt are the most often used funding instruments, accounting for 90% of total allocated assets. The significant change from 2017 to 2019 signals a profound change in the market, expressing more maturity from the investors and more concern in impact investing. Indeed, the previously concentrated use of financial tools muted in a homogeneous percentage variety of asset classes used.

It is worth noting that impact investors in Developed Markets (DMs) put a more significant percentage of their assets (about 42%) into public markets - public debt and public equity - than impact investors in Emerging Markets

(EMs), who put only 25 percent of their assets into that category and prefer the private category (private debt and equity count as 61%).

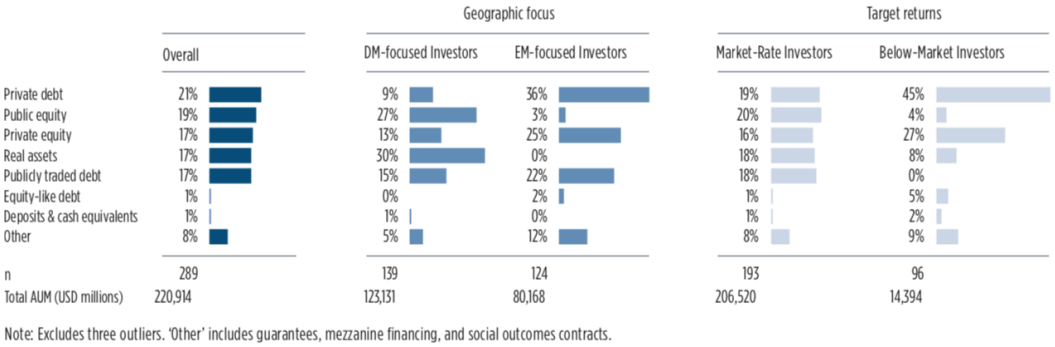


Figure 14: Asset Class Allocation, split for geographical focus and target returns.

3.3.4 Investment Stage.

Impact investors usually invest in companies at different phases of growth. Although a large portion of respondents had excellent holdings in early-stage firms – seed, venture-stage, and growth-stage companies – the majority of AUM is allocated to later-stage companies, as evidenced by the substantially more considerable investment amount of later-stage investments, according to GIIN's survey. Later stage companies, such as mature publicly traded companies, mature private companies, and growth stage accounted for 28%, 34%, and 31% of total assets under management.

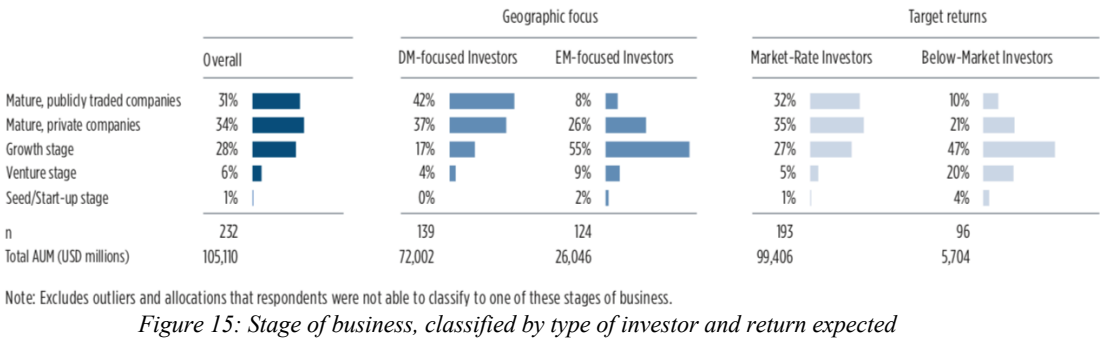


Figure 15: Stage of business, classified by type of investor and return expected

3.3.5 Investment Location.

Impact investing began in North America and Western Europe, but it quickly grew beyond these geographical boundaries to become a worldwide movement. Impact investors invest across the world, according to the findings of the GIIN survey; this can take two classes: national investment (investments are performed internally to the state of the investor) or cross-border investment (destination country is different from investor country). Despite this, impact investments continue to be highly biased towards the areas where impact investing first gained traction; Except for outlier responders, established markets account for 55 percent of AUM, while developing markets account for 40 percent. The United States and Canada is the main investment destination, contributing 30 percent of total AUM, followed by Western Europe[9] (15 percent). However, the situation radically changed in the past three years, showing a more balanced situation, comprising Latin America and the Caribbean[10] accounting for 12 percent and Sub-Saharan Africa[11] for about 11 percent.

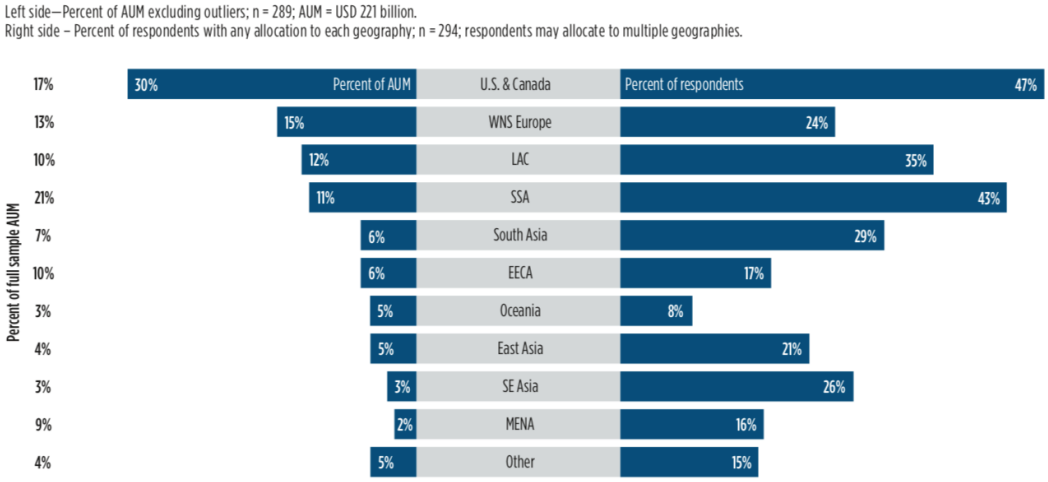


Figure 16: Asset investments distribution based on geographical location

[9] WNS: Western Norther South Europe
[10] LAC: Latin America and the Caribbean
[11] SSA: Sub-Saharan Africa

3.3.5 Main Markets of Destination for the Investments.

The sectors into which impact investors put their money are incredibly diversified, as individuated in Figure 11. Impact investment comprehends to a wide range of businesses. energy (16 percent) is the sector with the most impact capital, followed by financial services (12 percent), forestry (10 percent), and food & agriculture (9 percent). However, it is relevant to notice that the situation changes when looking at the subgroups. Developed markets prioritize forestry as the leading destination for capital (17 percent), while emerging ones focus on financial services & microfinance, accounting for 41 percent. Like the latter, private debt-focused investors concentrate most of their investments in the complete range of financial services; private equity-focused investors, instead, have a broader and more balanced distribution for their investments.

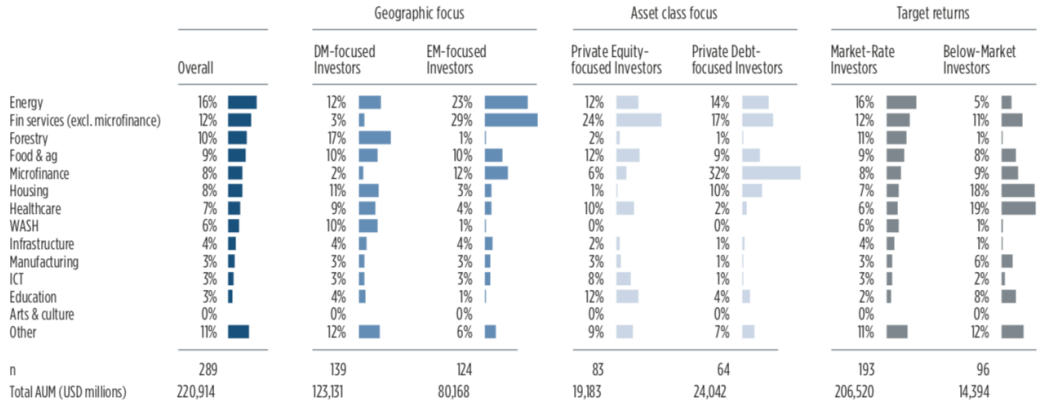


Figure 17: Impact investing by sector

3.4 Market Risks and Future Challenges.

The extent to which impact investing is taking on raises the issues that investors and intermediaries face year after year. In this regard, it is beneficial to examine how these individuals evaluate the market and its maturity level.

According to the GIIN report (GIIN, Annual Impact Investor survey, 2020), the main challenges were:

- Lack of capital investors interested in the spectrum of risk/return values of impact investing
- Lack of investment opportunities with relevant historical data
- The difficulty of obtaining a good exit
- The difficulty of conducting a qualitatively effective screening among the investments due to a lack of capital investors interested in the spectrum of risk/return values of impact investing.

Furthermore, the GIIN survey looks at the risks that were encountered or perceived during the reference period. Thus, the report's research goes beyond the typical financial risk that investors choose to assume when investing money: the hazards considered are, in a sense, offspring of the nature of impact investing.

The most recent data reflects what the comparative study of the three years reveals: the most significant risks are the execution of the business model, the risk of local currency fluctuation, and the difficulty related to the investment's liquidity, and thus the exit. Moreover, investors invest in something more than a corporation created to generate income: they participate in a company that generates value quantifiable with instruments other than traditional ones; as a result, the objectives, particularly those in the short term, may differ from those generally found in a company.

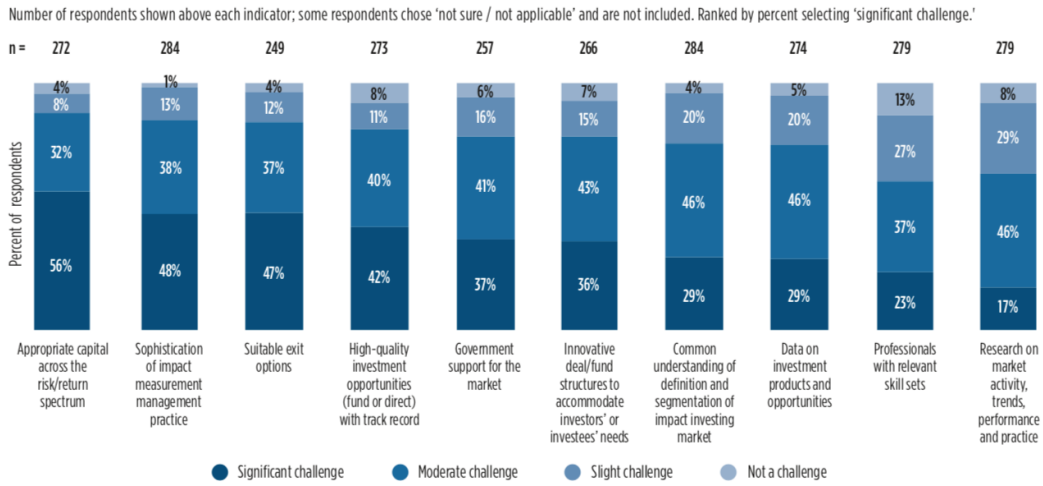


Figure 18: Challenges for the Impact Investing Market

3.5 Impact results & Measurement of the Impact.

The fundamental fulcrum of impact investing relies in the social and environmental performance in addition to financial performance. This performance can be measured in a variety of ways, depending on the sector and the investor: many investors rely on the IRIS system (GIIN, Annual Impact Investor survey, 2020), which has the advantage of facilitating comparisons between companies that use it, while others have developed internal tools to assist them in measurements with the advantage of collecting more precise data modeled on their needs; A third option is to utilize a combination of internal tools and standardized systems like IRIS: this allows for easier comparisons due to uniformity and the usage of internal tools, but the data collecting and analysis period requires more time.

The impact site of the investment is measured differently depending on investment type and goal; data should analyze the trends before, during, and after the investment. Through appropriate polls, it is possible to compare and demonstrate the target achievement and in what size. The utilization of measures is the fulcrum and distinguishing feature of impact investing, as expected. These measures are performed for various reasons,

including obligations to investors, the requirement to analyze data to fix any inaccuracies, and the utilization of data to construct historical series for use in investment proposals.

The majority of respondents believe that measuring and managing impact is critical for achieving their socio-environmental goals:
Eighty-three percent believe it is critical to understand the impact of investments and make them more efficient.
Seventy-eight percent believe it is helpful to report that data in a report for stakeholders, and, most importantly.
Sixty-three percent believe there is business value in measuring and managing impact.

IRIS measures (described in the previous chapter), the Sustainable Development Goals (SDG), and B Analytics are the most commonly utilized tools; it is worth noting that individuals who invest in emerging economies use more IRIS and SDGs who invest in established markets.

3.5.1 B-Analytics.

B-Analytics is a tool used to assess companies' social and environmental impact in an investment portfolio or in a supply chain to evaluate the impact on society. Another free application allows businesses to answer surveys about personnel, the environment, and internal procedures.

On the other hand, the user can access all the answers in the fields of interest he has chosen through the platform and compare other companies in the same field. Furthermore, all data is automatically collected and shared in the customer's cloud, where different forms of priority choices, order, and update frequency can be entered.

The simple comparison of different businesses aids in the creation of the industry, regional area, or other common qualities benchmark scores that can be used right away after logging in.

The inclusion of best practices allows for feedback and suggestions to be sent to organizations that reply to surveys, allowing them to improve their impact and set new quality standards. The system also integrates with the IRIS catalog, allowing for the generation of comprehensive and detailed metrics to track.

3.5.2 Sustainable Development Goals.

The United Nations has set 17 goals for the world to transform by 2030 (GIIN, Achieving the Sustainable development goals: The role of impact Investing, 2020): 15 macro-goals that morph into a slew of interconnected goals that considerably broaden the scope of the targeted changes' impact. The actual achievement of the target values is measured by comparing data connected to each goal year after year. UN goals are adopted by more than 40% of impact investors to measure the impact of economic activities, making them the second most used instrument after the IRIS catalogue.

1. End poverty in all its manifestations (severe poverty defined as living on less than 1.9 dollars per day).
2. Ending hunger, ensuring food security, and supporting sustainable agriculture
3. Promote a healthy lifestyle for people of all ages: related goals include lowering maternal mortality and adopting drug and tobacco use prevention.
4. Ensuring educational quality: The primary goal is to ensure that men and women have equal access to the educational system.
5. Achieve global gender equality and respect for all women.

6. Ensure that everyone has access to safe drinking water: to improve water quality by reducing chemical pollution.
7. Increasing the amount of renewable energy in the whole energy mix: The goal is to increase the share of renewable energy in the total energy mix.
8. Encourage long-term economic growth, as well as more employment and favorable working conditions.
9. Encourage industrial innovation and create infrastructure: Improve existing infrastructure to make it more durable and reliable for new industries.
10. Reducing inter-national inequality by enacting economic and social policies that discourage cross-national migration.
11. Improving the cultural heritage of the world's cities and monitoring and improving the quality of life in cities to make cities more inclusive, safe, and sustainable.
12. Achieve sustainable production and consumption systems by making more efficient use of natural resources and recycling waste.
13. Take immediate action to address climate change and its consequences.
14. Preserve terrestrial biodiversity by conserving forests, combating desertification, and against desertification.
15. Ocean and sea resource sustainability: reduce acidification of the seas while maintaining the marine ecology.
16. Assist in the promotion of justice and peace.
17. Reinvigorate global alliances for long-term development.

Figure 19: Sustainable Development Goals by UN

Chapter 4: Exit Strategies.

Because private equity investments are illiquid, exits are essential to realizing a profit. For all parties engaged in private equity financing, the exit phase is a critical transaction feature. Private equity firms need timely and lucrative exits to repay their investors and themselves and develop and preserve their reputations, which allows them to attract capital for future funds from their existing and new limited partners. On the other hand, Limited partners rely on exits to realize gains on capital commitments committed to a fund. The exit of a portfolio firm is particularly significant since it signifies the start of a new phase in which the company may rely on public market financing, function under the administration of a new strategic or financial owner,or be managed as a business unit bought by a giant corporation (Didier Folus, 2015).

The importance of exits is emphasized because a robust private equity business would not exist without effective divestments. In other words,

working exit markets are a *'conditio-sine-qua-non*' for private equity investment.

According to a study by Cumming and Macintosh (Douglas Cumming, 2006), the visibility of prospective exit options has a significant impact on whether private equity funds decide to participate in the first place.

The key step of each exit strategies can be identified in the chart below (Josh Lerner, 2002):

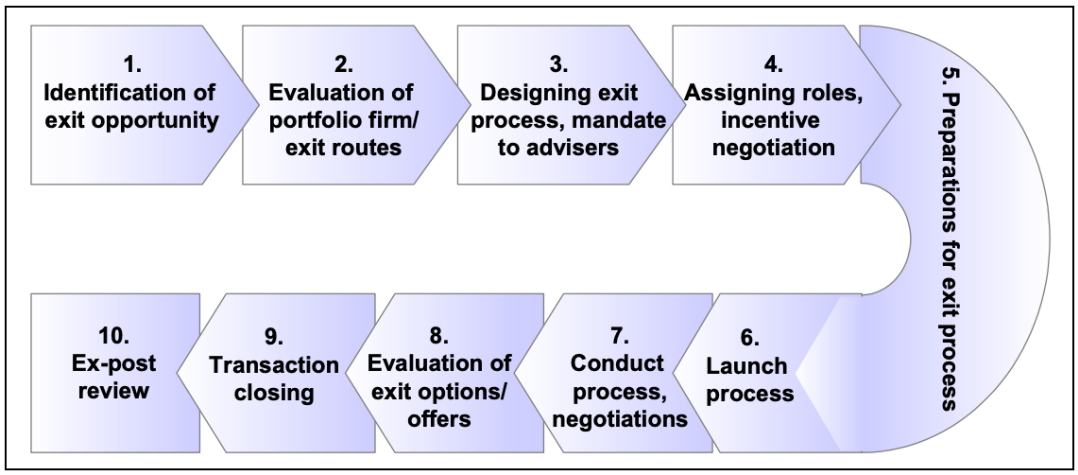


Figure 20: Exit Process Steps

4.1 Merger & Acquisition.

The most common method of effecting divestments of buyout investments has been to sell a portfolio firm to either a strategic buyer, such as competitors or business partners or to financial investors. Several tactics for handling an M&A selling process might take into consideration when

seeking to sell a company via such a transaction, which can be summed up in figure 21.

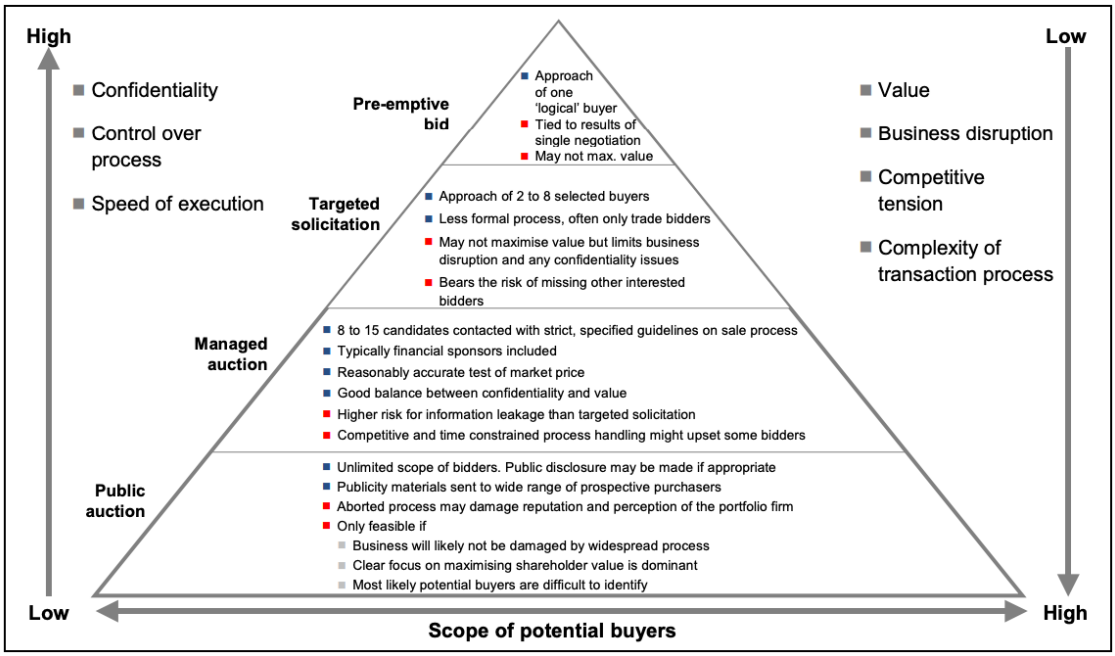


Figure 21: M&A Different Processes

A sale of a portfolio firm might take one of the following forms:

- Share Deal: The buyer becomes the selling buyout investor's universal legal successor when a share deal is completed. The buyer receives all the rights and responsibilities of the outgoing private equity firm, including warts and liabilities. There is no need to re-allocate the firm's assets or liabilities when the ownership structure changes. The possibility of facing lawsuits in connection to a portfolio company following a full divestment is often restricted due to the all-encompassing character of the legal succession. Private equity companies choose a share deal because it results in a clear conclusion to the relationship with a portfolio company and eliminates the need for continued monitoring of its operations.
- Asset Deal: The main difference between a stock purchase and an asset purchase is that the latter allows the buyer to select specific

rights and assets while leaving behind duties and liabilities. A company seller will sell elements of a business that are appealing to a buyer while keeping the obligations related to the assets sold. Asset agreements are unlikely to be pursued in private equity divestments; however, this structuring method is frequently connected with corporate, divisional spin-offs, or restructurings. However, private equity firms may consider selling assets if a company's "going concerned" worth is less than the value of individual assets less related obligations. The problem of double taxation is another reason why asset deals in the private equity setting are uncommon. Gains are taxed when assets are sold at the level of the operating legal entity that makes the transaction, and the proceeds must be taxed when distributed to the fund's shareholders.

- Merger with Strategic Acquirer: In addition to stock and asset transactions, mergers are now referred to as a structural instrument for completing an M&A in today's financial markets. From the seller's standpoint, these transactions will have a lot in common with stock or asset sales. The main distinction is that the company will be directly integrated with another company, possibly to gain synergy benefits. The demand for warranties and indemnities may differ from other structures due to the expected integration in a merger. Contract

due diligence, human resource considerations, and antitrust concerns should be considered from the buyer's standpoint.

Advantages of M&A exits	Disadvantages of M&A exits
a) Immediate, full cash exit and certainty M&A exits are usually the only exit route that achieve an immediate divestment of a private equity firm's investment. A consideration in cash is the most likely method of payment. A 100% cash exit provides the exiting investor with the highest level of certainty about achieving a successful divestment. However, granted warranties, indemnities and potentially agreed deferred considerations can still affect the outcome of such an exit after transaction completion.	**a) Often opposed by management** Management frequently oppose M&A processes, fearing the loss of independence following an acquisition by another company (WALL and SMITH 1997, p. 9). Not only do executives usually retain more managerial freedom and flexibility with a well diversified shareholder base rather than with a large majority owner, an IPO can also enhance the image profile and status perception of a company and its management particularly vis-à-vis stakeholders such as customers and suppliers.
b) Potential for high valuation Successful M&A exit transactions might even achieve better valuations than IPO exits: 1. Strategic buyers might be willing to pay a premium for companies, due to the expectation of synergies, to expand market share or to get access to a new market. 2. Strategic buyers do normally have strong insights into the company's business, requiring a lower risk premium than the capital market (CUMMING and MACINTOSH 2003a, pp. 520-522). 3. Strategic buyers acquiring the majority stake in a business are often prepared to pay a '*control premium*' of often more than 20% of the firm's value (KRAFT 2001, p. 267). 4. Financial buyers might be in a position to pay high valuations, benefiting from a considerable leverage effect, which depends, however, on the state of the debt capital markets.	**b) Less attractive for employees** Not only from the viewpoint of a company's management, but also from employees' perspective an M&A exit can seem less attractive than a public floating. While in case of IPOs, employees are frequently offered to participate in share- and stock-option compensation schemes, acquisition exits do not facilitate such incentives (LESCHKE 2003, p. 251). Furthermore, trade sales can lead to a de-motivation of staff due to uncertainty about individual careers within a business that is sold and potentially integrated into a larger group.
c) Faster and simpler execution process Compared to IPO processes, M&A exits are said to require less preparation than IPO exits and to demand less of managements' time (LESCHKE 2003, p. 251). While certainly less time for the drafting of marketing materials and for the formal due diligence performed by advisers is needed, a successful M&A process still requires substantial planning and preparation. WALL and SMITH (1997, p. 18) highlight: "*…trade sales should often be regarded as equal or preferable to IPOs, but that they require the same degree of planning*". Nevertheless, trade sales can potentially be executed quicker than IPOs, depending on the process style chosen.	**c) Potentially limited number of trade buyers** Another consideration when targeting strategic buyers in an M&A process is that particularly in concentrated industries there might only exist a restricted number of potential buyers. This exposes the private equity investor to substantial execution risk, if none of these buyers is prepared or able to pay an attractive price (WALL and SMITH 1997, p. 9).
d) More flexible, less regulated process than IPO Somewhat related to the previous point, trade sales per se are not regulated processes as are IPOs and thus do not have to be organised around specified dates and time periods. Mandatory process timelines set out by stock exchanges or listing regulators can potentially result in execution delays (BAKER and MCKENZIE 2005, p. 11).	**d) Cyclical nature of financial buyers' demand** Financial investors' appetite for assets and their ability to pay premium prices depends strongly on the state of debt financing markets, which show a cyclical pattern.[295] While in periods when cheap debt funding at aggressive leverage ratios is available, financial investors are even able to pay higher valuations than strategic buyers, in periods when debt lenders are more cautious they might not be able to commit appealing valuations.

Advantages of M&A exits	Disadvantages of M&A exits
e) Less cyclical exit route compared to IPOs The potential for successful public listings depends on the appetite of investors for new stock issues. LERNER, SHANE and TSAI (2003) prove empirically that new issuance activity in the public equity markets tends to be clustered in periods, so-called '*market windows*'. The market reception and capacity for trade sales, despite certain documented links to public equity markets (LESCHKE 2003, p. 251), tends to be more stable. In times, when public equity markets would not enable attractively priced IPOs, trade sales at high valuations might still be possible.	**e) Loyalty concerns of management in secondary buyouts** In a sale process from one financial investor to another, WALL and SMITH (1997, p. 9) warn that management is likely to show divided loyalty, as they benefit on the one hand from a successful exit by the exiting investor but also get granted an incentive package tied to further value creation from the buying investor. The objective to strive for value maximisation at the time of exit contradicts the consideration that a lower entry valuation of a buyer enables easier value growth that is driving managements' future performance linked compensation.
f) Lower transaction costs compared to IPO M&A exit processes typically cause substantially less transaction costs than IPOs (WALL and SMITH 1997, p. 9, LESCHKE 2003, p. 251). Preparation and execution often demands less work carried out by professional advisers and investment banks charge typically lower fees for M&A exits than for IPOs.[296] Moreover does the costly '*underpricing*' phenomenon[297], which causes a substantial part of IPO transaction costs, not apply to M&A exits.	**f) Less reputational benefit than IPOs** Lastly, M&A divestment types typically only receive public attention for a short-while compared to IPOs. Private equity firms with need and desire to establish reputation will prefer an IPO (i.e., GOMPERS 1996), which generates substantially more publicity than other exit types.
g) Need to convince only one buyer, rather than a whole market In order to achieve an attractive valuation in an M&A process, ultimately only one buyer needs to be convinced about the quality and the outlook of the business. Conversely, in an IPO numerous investors need to be motivated and inspired to make a transaction successful, which is a considerably more difficult task (WALL and SMITH 1997, p. 9).	
h) Less disclosure, higher confidentiality Depending on the process style pursued, M&A exits can be organised and executed in a confidential way and require significantly less disclosure of sensitive data and information as well as cause less publicity than IPO processes (BAKER and MCKENZIE 2005, pp. 11-12).	
i) Lower risk attached to process cancellation In relation to the previous point, due to the lower degree of publicity in an M&A process, there is lower risk of business disruption and the negative implications on the reputation of all parties involved in case of a process abortion are more limited than in case of cancelling a already widely publicised IPO process (BAKER and MCKENZIE 2005, p. 16).	
j) Individual parts of companies can be sold separately A further advantage of M&A exits is that parts of the business can be sold separately (LESCHKE 2003, p. 251). This can benefit a successful overall valuation, if an acquisition of only distinct parts can create high strategic value for different buyers. However, one needs to flag that a splitting of businesses needs planning well ahead of an exit process and is often very difficult, due to common shared infrastructure and head office functions.	

4.2 Initial Public Offering.

IPOs have garnered much academic attention, not only as a way for private equity investors to leave but also to generate money in general. Most scholarly studies on initial public offerings (IPOs) focus on either the well-known phenomena of underpricing, in which the price of an IPO rises to much higher levels than the initially set IPO price, or on the long-term underperformance of IPOs.

Despite the wide range of research and publications in this area, only a few contributions comprehensively explain and analyze the IPO process. The purpose of this section is to summarize significant process processes and highlight crucial considerations for IPO exits. In addition, the benefits and drawbacks of IPOs in comparison to other exit options will be examined.

Successful IPO exits necessitate meticulous planning, a thorough due diligence process, intensive preparation work, and a significant amount of

management time. An IPO process is depicted in the flowchart below, which includes nine essential steps.

Figure 22: Principal IPOs process steps

Exits via an IPO are associated with substantial transaction costs, which often outweigh costs associated with any other exit method.

It is now possible to distinguish between three types of transaction costs when selling shares in a public company:

- the cost of brokerage
- the cost of price pressure on the price paid for the shares
- the cost of any signaling effect on the price of the shares

These charges might add up to much money. Although brokerage charges are low, pricing pressure and signaling costs might be high. Price pressure occurs when a seller's broker must decrease a price below the listed market price to attract enough buyers to clear the seller's holdings, according to the cost components. The size of the block being liquidated concerning the

public float of shares determines the magnitude and likelihood of price pressure.

Signaling costs occur when the market assigns informational content to an insider's sale of shares, such as believing the insider is selling because it

possesses unfavorable information, lowering the price at which buyers are ready to buy.

Advantages of IPO exits	Disadvantages of IPO exits
a) Potential for highest price IPOs have historically often achieved attractive valuations for portfolio firms, superior to other forms of exit (WALL and SMITH 1997, p. 8, LESCHKE 2003, p. 250). METTLER (1990, p. 301) indicates that investors buying public shares in a company are prepared to a pay a premium for liquidity that might exceed an overall control premium paid by purchasers in an acquisition exit.	**a) High transaction costs** Overall transaction costs including the underpricing of an issue of 20% of the issue volume[339] are not uncommon, while typical M&A exits for large buyout investments result in transaction costs of 3% to 5% of the transaction volume.
b) Favoured by management Not only do executives retain more managerial freedom and flexibility with a well diversified shareholder base rather than with a large majority owner, an IPO can also enhance the image profile and status perception of a company and its management particularly vis-à-vis stakeholders such as customers and suppliers.	**b) Extensive preparation required, intense execution process** Particularly for the due diligence process, the drafting of a prospectus and also the marketing campaign a lot of commitment, time, and resources from senior management, staff, private equity managers, and all advisers are required. A due diligence examination might stretch over months. Although extensive due diligence is also required for M&A sales, the standards are even higher in case of public listings (WHALEY and SEMLER 2001, p. 400).
c) Share participations: Stakeholder incentives Following a public listing, share participation or stock-option schemes can be offered as a complementary and highly effective form of employee incentives (METTLER 1990, p. 300). Moreover, other stakeholders such as customers, suppliers or strategic partners can be invited to acquire shares in the business to solidify commercial relationships.	**c) Only partial immediate exit – lock-up conditions** Due to the usual lock-up restrictions imposed by underwriters, private equity firms can only sell a small proportion of their stake immediately at the IPO.[340] A full exit can only be achieved following the expiry of a lock-up period, typically between 6 and 24 months after an IPO (LIN and SMITH 1998, p. 245). A continued shareholding in a public company carries the risk of still having to monitor.
d) Publicity, reputation and image IPOs are highly publicised processes (LERNER and HARDYMON 2002, p. 335). A listed company might project an image of stability and dependability to customers, suppliers and joint venture partners (LERNER and HARDYMON 2002, p. 335) and benefit from an improved reputation in the recruitment markets for key personnel (METTLER 1990, p. 300).	**d) Risk of illiquid stock markets** Contractual lock-up periods also leave the private equity investor exposed longer to the risk of stock market downturns and a lack of market liquidity (WALL and SMITH 1997, p. 8). To be able to sell substantial blocks of shares at attractive price levels, sufficient liquidity in the stock is necessary (LESCHKE 2003, p. 250).
e) Provoking M&A bids The high publicity of an IPO process frequently triggers interest by M&A buyers, provoking bids at attractive levels (LESCHKE 2003, p. 250). A credible IPO processes signals a high quality to potential purchasers, which might satisfy them with lower due diligence requirements in the interest of a quick transaction process.	**e) Need to convince a large number of investors** Unlike in the case of M&A exits, where only one buyer needs to be convinced about the quality and future outlook of a business, a large number of investors need to be attracted to a business for a successful IPO completion (LESCHKE 2003, p. 250).

Advantages of IPO exits	Disadvantages of IPO exits
f) Retaining future upside potential IPOs do not enable full immediate exits. However, the private equity investor is able to retain a stake in the business, sharing potential profits of future growth of a business (WALL and SMITH 1997, p. 8).	**f) High, often short-term-oriented, performance pressure** METTLER (1990, p. 302) warns that performance pressure due to continuous expectations by institutional investors can over time alter a previously longer-term-oriented management style to a strive for short-term goals, and thus limiting management's flexibility in pursuing strategic objectives. Downturns in a company's stock prices can also have a negative impact on a business, such as a loss of reputation with customers, suppliers and employees.
g) Source of financing Most IPO exits issue to the largest extent new, primary shares. Proceeds for these primary shares are typically retained in a company as a source of funds for future investments or acquisitions (METTLER 1990, p. 300). Other exits, with the exception of recapitalisations, do not provide new financing to a company.	**g) High disclosure requirements** Public listings are not only highly publicised processes, they do also require comprehensive disclosure of commercially sensitive information, such as the divisional cost structure or operational data (BAKER and MCKENZIE 2005, p. 12). Disclosure of sensitive information might be used by competitors to the detriment of the company.
	h) Substantial risk attached to process withdrawal Given the high publicity associated with IPO processes, the risks attached to a withdrawal of an IPO are more significant than in case of a cancellation of other exit routes (BAKER and MCKENZIE 2005, p. 16). Companies that cancel IPOs might have severe problems accessing public capital markets again, as investors may be reluctant to re-consider an investment, presuming the company has withdrawn an IPO due to a fundamental business problem.[341]
	i) Only for sizeable companies with attractive projected growth profile Successful IPOs usually require a company's business plan to credibly demonstrate a growth pattern and the ability to generate attractive returns for expansion capital (LESCHKE 2003, p. 250). Moreover, IPO exits typically require a minimum issue size, as otherwise institutional investors are unlikely to commit to transactions (WALL and SMITH 1997, pp. 8-9).

4.3 Buy-Back.

A buy-back transaction occurs when a private equity fund sells its shares to the entrepreneur or firm that originally sold them. While buy-backs are possible in the context of leveraged buyouts, they are uncommon. Early-stage investments with fair values are more likely to benefit from buy-backs.

This form of exit is commonly thought to be a way out for investments with a poor track record.

The buy-back is triggered by the exercise of contractual rights set by the venture capitalist at the time of first investment, especially in early-stage businesses. For example, a venture investor may be able to 'put' or sell back its shares to an entrepreneur when specific periods have passed, the company has failed to meet performance expectations, or the company has failed to go public.

Buy-backs are quite transaction-specific from a process standpoint; hence they are not studied. A buy-back procedure is like a pre-emptive offer approach, in which just one possible bidder is approached, and negotiations are conducted. Due to the prior owners' superior experience and understanding of the company than other buyers, there is less due diligence and fewer negotiations over warranties and indemnity provisions, allowing for faster implementation. Buy-backs can be accomplished in a matter of weeks, whereas other M&A transactions can take months.

No more process detail is offered due to buy-backs' minimal relevance for the buyout market.

4.2 Recapitalization.

Although recapitalizations reduce investors' exposure to their initial invested equity capital by financing an extra-ordinary dividend, they are sometimes used as a "prelude" to a later exit or a temporary alternative to divestment. Recapitalizations are a common way to take cash from assets while still having the option to wait and prepare for a potentially more lucrative exit. An increasing number of buyout investors are performing recapitalizations,

some of which fund dividends that surpass the total stock contributed to a portfolio business due to the availability of attractive leveraged finance. As for the buy-back, the chapter will not delve into this solution since the regression analysis will only consider M&A and IPOs as feasible alternatives.

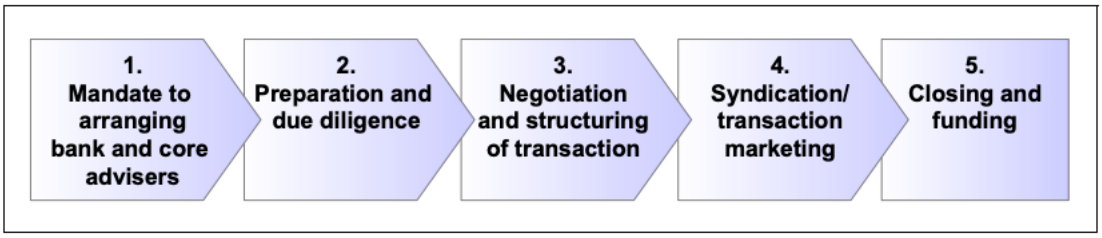


Figure 23: Main Recapitalization Process Phases

Chapter 5: Research Question and Thesis Statement.

5.1 Research Objective.

The study's overall goal is to generate relevant knowledge and benchmarking data about impact investing, evaluating the sector's performances, trends, and growth perspectives. More specifically, the goal is to learn how impact investors conduct their financing activities, which methodologies and practices they employ, and which methods and practices produce the best results in both impact and financial returns. Regarding the latter, the thesis also aims to examine exit strategies seeking impact investing returns and vice-versa.

5.2 Research Question & Sub Questions.

The objective of this thesis is to investigate if impact investing and social backed rounds generate exit strategies comparable to those of traditional funds by answering the following question:

#	**Question**
Main	*What is a long-term exit strategy for impact investors balancing the dual goals of impact investing and financial returns from their social companies?*
1	*What is impact investors preferred entry stage in a company for social return and financially oriented exit? Which is the optimal investment type to achieve this goal?*
2	*How does the investor type influence the outcome of a social-backed round?*
3	*What 'exit' strategies are available in impact investing in general and sustainable companies in particular?*
4	*How does an organization's general interest (evaluated by the total number of funding rounds and amount raised in the latter) lead to exit?*

Chapter 6: Data & Methodology.

The data in the study comprises four components:

1. The investments database comprises information regarding the investment performed in the last 104 years (although, data start to be numerous and relevant after 1990) in different funding rounds and stages. Among the details available, the main two comprehend the investment type and raised amount.
2. The investor database contains data on the investors, from the geographical location to funding year.
3. The organization database includes general information plus organization total funding round and raised amount; in addition, the leading data points available are exit strategies - such as Merges, Acquisitions, and IPOs - and sustainable business model, based on the belonging category group.

4. Sustainable-flag database indicates the funds dedicated to impact investing for social and sustainable returns.

To test the hypothesis and answer the research question, it has been necessary to interrogate four distinct sources for the data:

- Crunchbase[12]
- Impact Base[13]
- Impact Asset[14]
- Impact Space[15]

While the first source covers creating the first three components of the database, the remaining three filled up the latter by individuating the investors comprised in the social impact world.

The following diagram depicts the relationships between the different databases used in the analysis. Among the initial variables available, the

[12] **Crunchbase** [https://www.crunchbase.com]: Crunchbase is a website that allows one to look up information about private and public firms. Investments and funding information, founding members and individuals in senior roles, mergers and acquisitions, news, and industry trends are among the topics covered. Created to track startups, Crunchbase is a website that tracks public and private enterprises on a global scale. Crunchbase gets its data from four sources: the Crunchbase community, machine learning, an in-house data team, and the venture program. In addition, the Crunchbase database accepts submissions from the public. Before being accepted for publication, these submissions must be registered, socially validated, and frequently evaluated by a moderator.

[13] **Impact Base** [https://www.impactbase.org]: the website is no longer available. Since Impact Base's introduction, the impact investing market has evolved enormously, which means there are now alternative platforms that provide more specialized and focused deal-making support. The Global Impact Investing Network (GIIN) website has taken ownership to keep updated data available.

[14] **Impact Asset** [https://www.impactasset.org]: Impact Assets was spun off Calvert Impact Money in 2010 in response to the growing need to increase capital flows to the world's most pressing problems.
The Impact Assets Donor Advised Fund was established "by, by, and for impact investors" to provide a flexible alternative for philanthropists seeking innovative and creative impact investing.
Impact Assets has grown to become the premier facilitator of direct impact investing within donor-advised funds since its founding. We have over 660 impact investment positions and $1.5 billion in assets in our portfolio. We also connect contributors to a rotating portfolio of private impact funds and a broader asset platform, all of which are fully aligned with the United Nations Sustainable Development Goals framework.

[15] **Impact Space** [https://impactspace.com]: Impact Space is the global impact marketplace's open data platform. It provides stories and data to investors, entrepreneurs, and other market participants, driving business advantage with social and environmental impact in collaboration with the associate sister site, Impact Alpha.

unnecessary ones (flagged in *grey*) were removed with the appropriate function during the analysis on STATA.

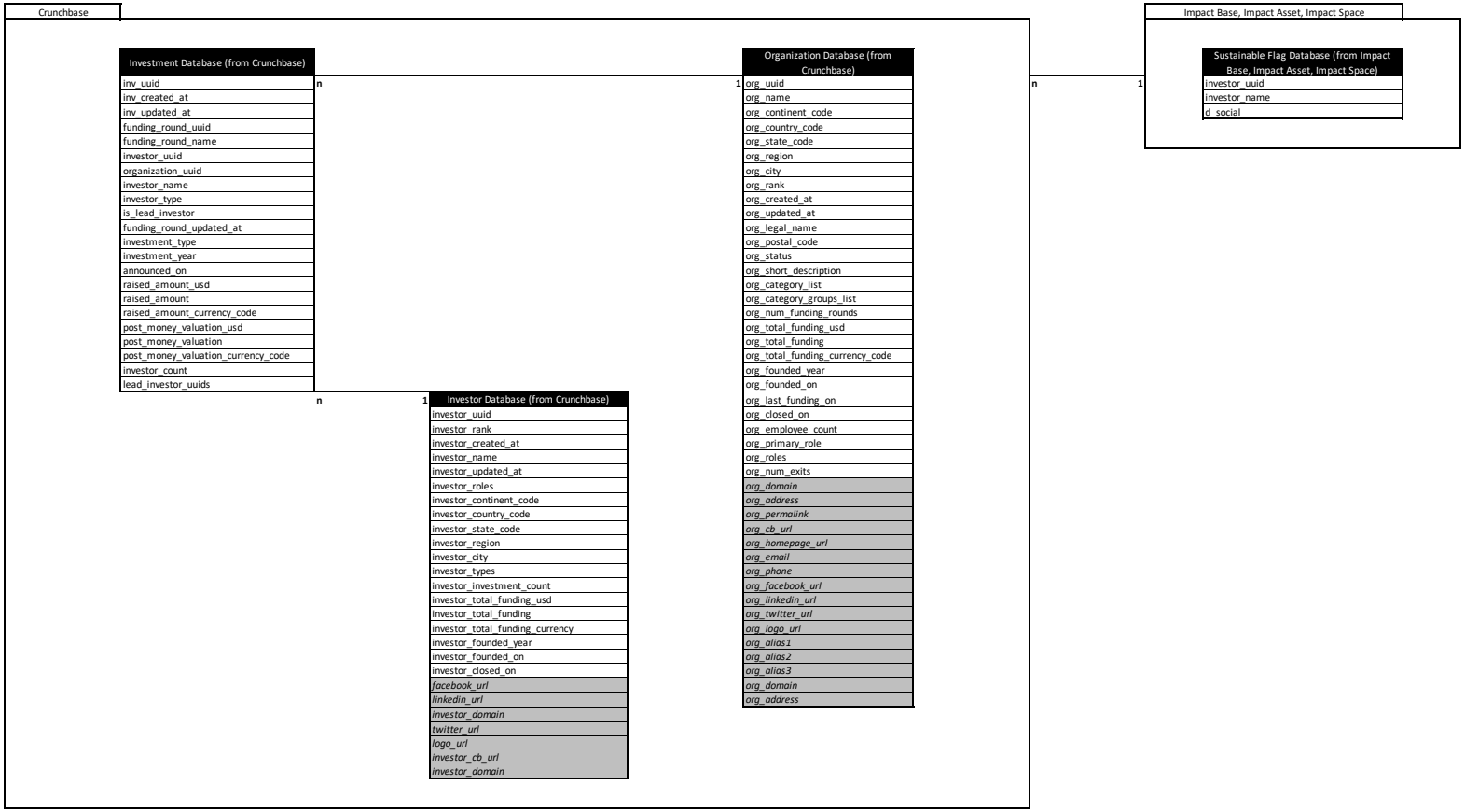


Figure 24: Diagram of databases' relationships

The unique-key variable used to identify each row in the database are:

- [Investment Database] Inv_uuid: investment's unique identifier.
- [Investor Database/Sustainable Flag Database] investor_uuid: investor's unique identifier.
- [Organization Database] org_uuid: organization's (receiver of the funds) unique identifier.

The table below displays a summary[16] of the Crunchbase databases' main variables with a brief example for each of them. As suggested by the variable's names and definitions, the data points available are mainly descriptive.

Variable Name	Comments	Example
Investor_uuid	Unique ID that identifies investor	0bf88cb1-9aea-49fc-afb6-0e4f61e42970
Organization_uidd	Unique ID that identifies organization	ab4297e8-d9d7-99dc-6214-2bbb88bb7bcd
Investor_country_Code	Code that identifies investor country	USA
Org_country_Code	Code that identifies organization country	USA
Investment_type	Identifies the type of investment used to finance	series_c / seed
Raised_amount_usd	Tot amount of dollars raised for the round	15000000
Investor_type	Type of investor	hedge_fund / venture_capital
org_total_founding	Total amount of dollars raised by the company	33000000
Investor_founded_on	Date of investor foundation	01/01/1986

In addition to the previous, some additional variables were developed to perform all the required analysis[17]:

[16] A complete description of all the variables present in the database is presented in the additional documentation available.

[17] Among the variables required, tags are a fundamental piece to retrieve the descriptive statistics and regressions. However, since the generation of this do not represent a task specific to our

- d_social: it is a Boolean variable flagging if the investor is social or not. The Sustainable Flag Database already contained the variable; therefore, only the merger of the databases was required.
- sustainability_org: similar to the previous, this variable indicates when an organization commits to a sustainable goal and, for this reason, Crunchbase recognizes its category as sustainable-oriented. However, the information is not clearly stated in the database, and a particular formula was used to extract it:

```
gen sustainability_org = strpos(org_category_groups_list, "Sustainability") > 0
```

- social_backed_round: due to the database structure and the importance to track the presence of every single round with a social investor, it was necessary to create an investment-level variable to track:

```
egen social_backed_round = max(d_social), by (funding_round_uuid)
```

- investor_type_clean: the original variable investor_type required a clean-up process to determine the predominant type for each investors, in terms of category, comprehending: Governments, Pension Funds, Hedge Funds, Venture Capitals, Private Equities, Universities, Corporates, Families, Startups, Micro funds, Angels, Accelerators, Incubators.

```
gen investor_type_clean = regexs(0) if regexm(investor_types, "(([a-zA-Z]+)[ ]*([a-zA-Z]+))")
```

database structure, it has been omitted to focus more on the aspects that may not be evaluated in another situation.

Chapter 7: Descriptive Analysis.

The number of impact investors identified in our database is equal to 1,322, with a total number of investments performed of 83,049 and an aggregate of $1,570 Billion. Furthermore, the sample shows that venture capital represents 10,637 of the total investors available (about 50% of the total investors) and 176,427 of the investments performed, followed by private equity funds (3,998 investors and 38,183 investments) and early-stage capital providers, like accelerators, incubators, and angels (2,532 investors and 52,353 investments). On the other hand, the situation changes radically with 45% of the venture capital when dealing with the impact investing variable.

Table 1: Composition of the Investor in the Database

	Overall		Impact Investor Only	
investor_type_clean	Number of Investor	Number of Investments	Number of Investor	Number of Investments
accelerator	1122	35964	104	15385
angel	949	11586	41	1537
co	44	393	3	26
corporate	495	14632	35	3018
entrepreneurship	64	2228	5	190
family	370	3830	17	709
fund	149	1760	10	84
government	388	13387	26	1419
hedge	236	2121	4	458
incubator	461	4803	26	534
investment	669	7588	33	1539
micro	1421	27768	101	8400
pension	20	47	0	0
private	3998	38183	182	4156
secondary	17	240	1	20
startup	10	32	0	0
syndicate	12	78	0	0
university	169	1069	6	26
venture	10637	176427	501	44701
Total	21231	342136	1095	82202

Note: Missing values are caused by BLANK cells

From a country perspective, there is a clear emphasis on the more mature (in terms of impact-investing capital providers location) markets, such as Europe (18.3%) and the US (61.9%).

Another relevant component of the study takes into consideration the foundation year of the investors. From 1975 to 2018, a sharp increase in the number of openings of impact investors from 2002 onwards occurred in the

last forty years. This evolution is evidence of the great interest that capital providers place in this market.

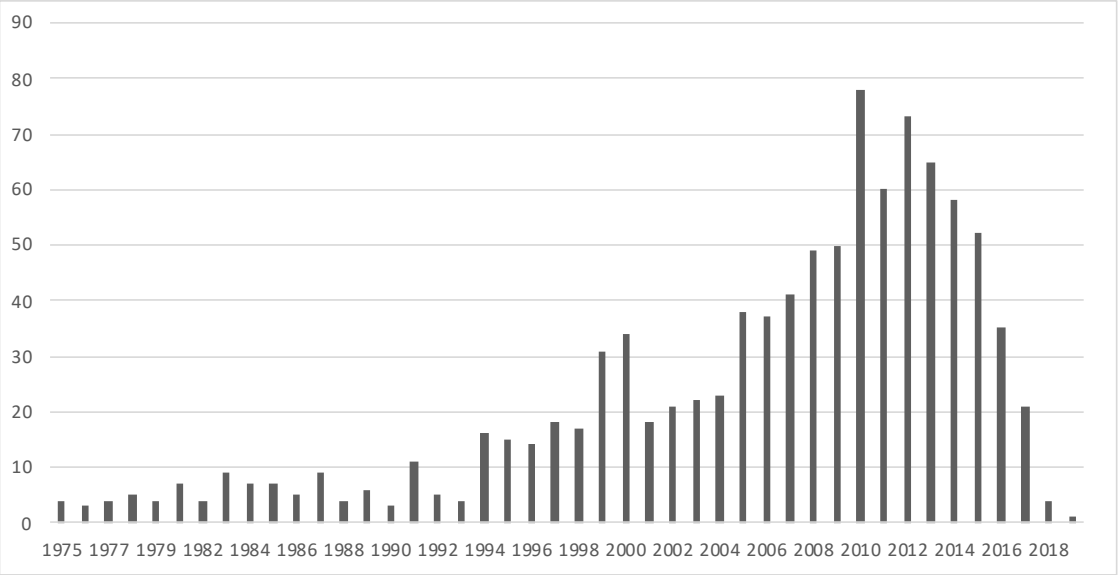


Figure 25: Number of Impact Investors per Foundation Years

It was possible to identify – thanks to the previously indicated formula in Chapter 6 – 4,407 sustainable-oriented organizations (over the total in the database of 114,844 organizations, or 3.84%), that received a total of $322 Billion in 10,883 investments with the mean raised an amount of $29.5 Million. Particularly significant is the geographical distribution of this that displays an entirely different scenario than one of the investors. Indeed,

North America still represents the more significant piece of the cake with 46.7%, but the gap with Europe is minimal (-9.2% in respect to the EU).

It is relevant to notice that, among all the impact investors and the total investment rounds identified (equal to 195,986), only 54,486 funding rounds were impact-backed, and social investors made 83,049 investments.

In monetary terms, it is interesting to see how on average, the social-backed investments raise $23.3 Million (Standard Deviation of $146 Million, due to the high discrepancy between min [$0] and max [$14 billion]), in comparison to non-social-backed investments it represents the 13.5% less. This is because social-backed investments are less appetible for the organization, but when the impact investor invests in a sustainable organization, the amount raised increases by 18.3%.

Table 2: Social-Backed Investments

	Obs	Mean	Std. Dev.	Min	Max
Raised Amount USD	68.428,00	23.000.000,00	146.000.000,00	0	14.000.000.000,00

Table 3: Non Social-Backed Investments

	Obs	Mean	Std. Dev.	Min	Max
Raised Amount USD	231.323,00	26.600.000,00	184.000.000,00	0	21.800.000.000,00

Table 4: Social-Backed Investments toward Sustainable Organizations

	Obs	Mean	Std. Dev.	Min	Max
Raised Amount USD	2.431,00	27.200.000,00	66.100.000,00	5000	1.200.000.000,00

Moreover, as it is possible to see in the following graph, the number of impact investments significantly increased in the last two decades and the interest to invest in more/less secure and mature stages. Thus, seeds and series A, B, and C (respectively 29.1%, 18.8%, 14.0%, and 8.3% of the total

investments) embody a new trend in the impact investing market, with a higher trust placed by the investors in a fast-growing panorama.

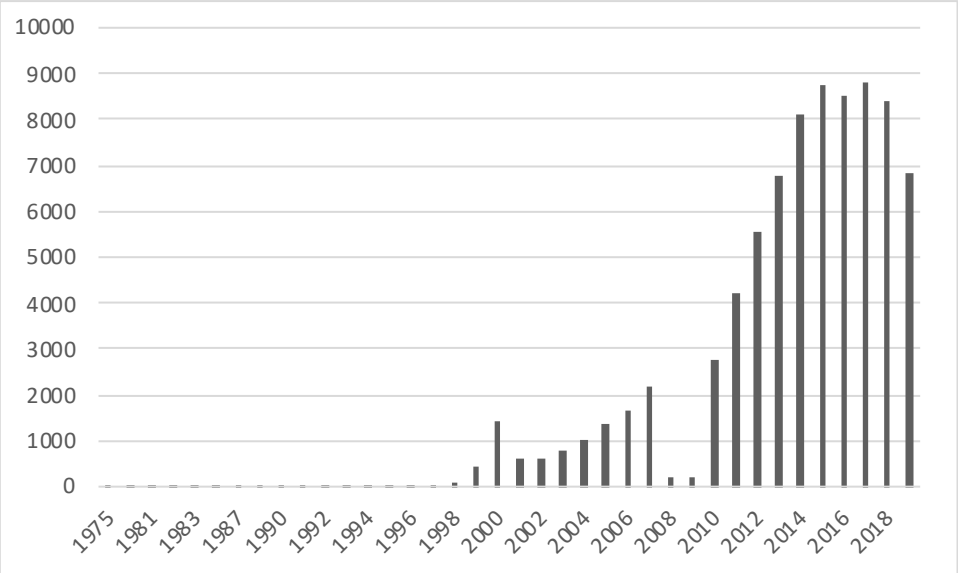


Figure 26: Number of Social Investments from 1975 to 2019

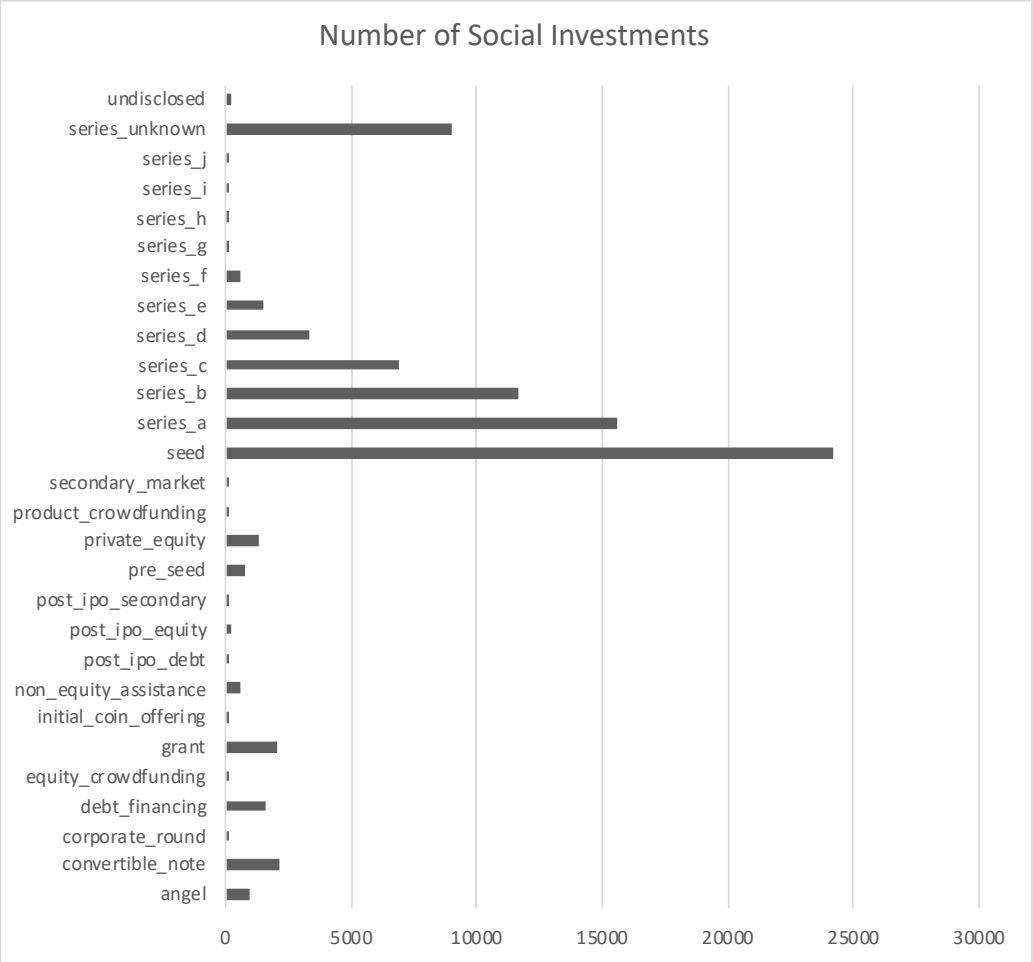


Figure 27: Number of Social Investments per Investment Type

Not only uncertainty does not seem to represent a concern to the social investor, but comparing the capital funded is visible that: impact investor tends to invest on average more money (+18.3%) into a sustainable organization (mean: $27.2 million) rather than non-sustainable organizations (mean: $23 million), although with lower frequency (2,431 sustainable-related observation to 65,997 non-sustainable). The second part of the analysis aims to nudge further into the organization of the reader's eye into the capitalization of the funds' receiver during the investments. Impact investors contribute more than 40% to the monetary

resources collected by social organizations, therefore assuming an absolute position in the development of the business.

To understand the numbers, the trend analysis of the investments over the last two decades gives a clear perspective of the fast growth of this sector. In fact, from 2000 to 2019, the investments performed by impact investors to social organizations perceived a 4540% increase and, in monetary terms,

nearly quadrupled. However, it is essential to notice that the peak of this trend is in the middle: 2017 embodied the golden year for this market.

Table 5: Number of Investments Performed by Impact Investors towards Sustainable Organizations by Year

Investment Year	Number of Social investment towards Sustainable Organizations
1997	1
1999	2
2000	5
2001	6
2002	4
2003	9
2004	22
2005	24
2006	51
2007	107
2008	208
2009	116
2010	165
2011	204
2012	194
2013	187
2014	268
2015	293
2016	314
2017	354
2018	289
2019	232
Total	3,055

From a geographical perspective, the number of sustainable organization and impact investor per continent is respectively (in descending order):

- North America: 749 Impact Investors, 2,035 Sustainable Organizations.
- Europe: 221 Impact Investors, 1635 Sustainable Organizations.
- Asia: 134 Impact Investors, 440 Sustainable Organizations.
- Others (Oceania, South America, Africa): 106 Impact Investors, 242 Sustainable Organizations.

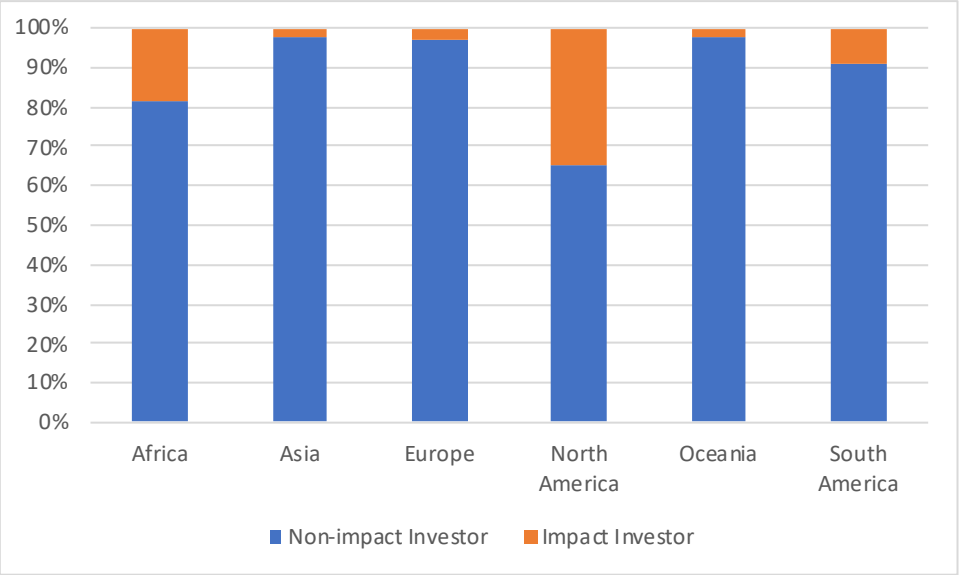


Figure 28: Number of Impact and Non-Impact Investors per Continent

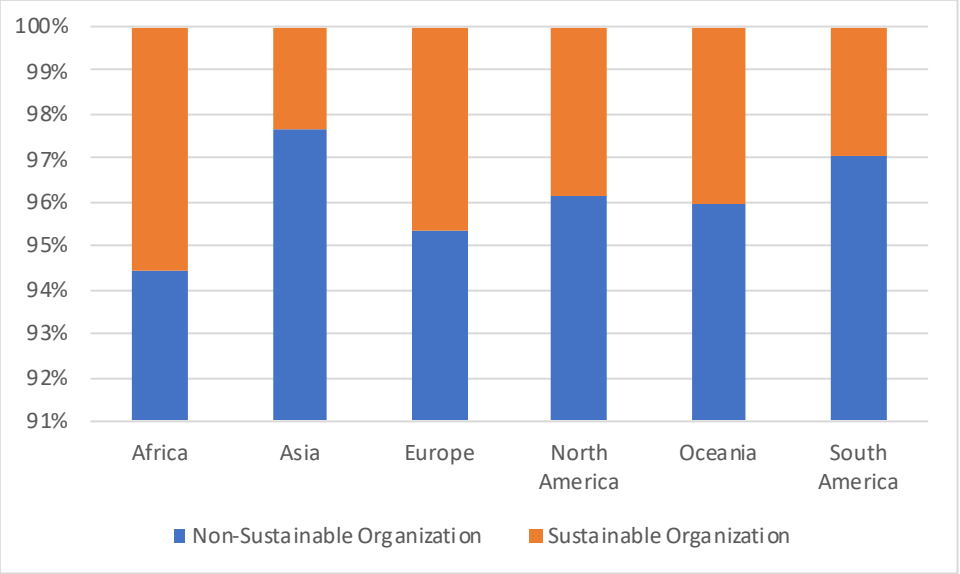


Figure 29: Number of Sustainable and Non-Sustainable Oriented Organization

On the other hand, the concentration of investments from impact investors is located from North American investors towards North American organizations, as showed in the next table[18]. Following the previous, a

[18] The table contains a conditional formatting with the logic: "Green-Yellow-Red Scale" with green as the top performers and red as the worst.

similar situation is identifiable for Europe and Asia, which remain conservative by investing in their continent. However, it is worthy to notice that the top three continents per investor's count still participate in rounds in the respective continents.

Table 6: Investment Count per Investor Continent and Organization Continent

Impact Only		Organization Continent						Total
		Africa	Asia	Europe	North America	Oceania	South America	
Investor Continent	Africa	611	181	61	133	6	5	997
	Asia	28	3894	212	1272	19	11	5436
	Europe	339	473	4423	152	28	386	7169
	North America	456	4452	3627	57874	212	595	67216
	Oceania	0	4	6	19	17	1	47
	South America	1	35	108	374	11	890	1419
Total		1435	9039	8437	61192	293	1888	82284

The situation changes when considering the average investments' amount performed for each continent; indeed, from this analysis, Asia comes out as the best performer with $47.8 million followed by Africa ($25.2 million), mainly due to the higher tendency of developing and emerging countries to participate in impact investing rounds, as well as the lower number of investors involved in every single round. North America, on the other hand, takes fourth place for single average investment's amount (with $20.8 million) performed by each investor for two reasons:

A higher number of participants in each round.

Propension to invest in other sectors with a higher financial return (since impact investing usually assures below-market returns).

In conclusion, a brief overlook to the exit panorama gives a clearer perspective of the impact investing panorama. As it is identifiable from the table below, a social-backed round gives a higher chance (+3.5%) to the organization to perform a successful organization; of the 5,492 exits accomplished, 11.6% were IPOs while the remaining 88.4% were acquisitions. It is also worth noticing that when dealing with impact investing

and having noticed the higher tendency to invest in early-stage, a considerable percent of the organization ceases to operate and, therefore, the investment has no return. Finally, from a geographical perspective, as shown in the bar chart, most of the exits (and the number of organizations overall) are based in North America, followed by Europe, Asia, and South America.

Table 7: Organizations' Status After Investment, With a Focus on Impact-Backed Organizations

Organization Status After Investments:	Total		Social-Backed Org	
	#	%	#	%
Ceased	5.941	5,2%	2.043	7,2%
Operating	90.568	78,9%	20.746	73,4%
Exit	18.212	15,9%	5.493	19,4%
IPO	*3.091*	*17,0%*	*636*	*11,6%*
M&A	*15.121*	*83,0%*	*4.857*	*88,4%*
Total	114.721	100,0%	28.282	100,0%

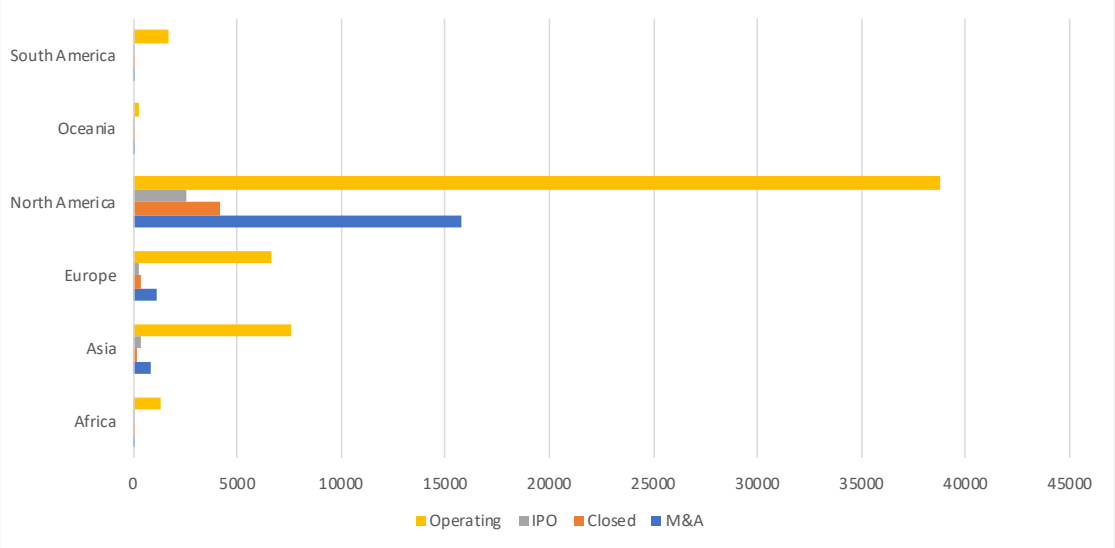


Figure 30: Organization Status by Organization Continent

Chapter 8: Regression.

In this study, logistic regression is performed to examine how a social backed round affects the possibility of an exit for the organization, sustainable or not.

This chapter contains three sections:

- Variables: this subparagraph shows the main variables used and the formulas to make the non-numerical one usable by the regression.
- Method: This section presents a theoretical view of the regression model used, focusing on its essential components and parts.
- Regression Model & Output: the final portion of the paragraph applies the method to the database.

8.1 Variables.

8.1.1 Dependent Variables.

Exit

In the original database, the data exit comprehended 4 different types of alternatives[19]:

- Acquired
- IPO
- Closed
- Operating

To make it valid for the regression model, it was necessary to transform the variable from textual to numerical with the following formula:

```
generate exit_calculated = 1 if org_status == "acquired"

replace exit_calculated=-1 if org_status == "closed"

replace exit_calculated=1 if org_status == "ipo"
```

[19] For Acquired and IPO please refer to Chapter 4.

```
replace exit_calculated=0 if org_status == "operating"
```

The newly created variable places a positive value when a successful exit, null value when the organization is still operating, and a negative value when the business ceases to operate. However, for the sake of the regression, another new variable was generated, considering only the positive cases or acquisition and an initial public offering.

```
generate exit = 1 if org_status == "ipo"

replace exit = 1 if org_status == "acquired"
```

8.1.2 Independent Variables.

Social Backed Round

A Social Backed Round possesses an impact investor to determine the latter's influence on the probability of an exit and the organization's performance.

The following formula expresses a way to generate this type of variable without taking into consideration the presence of multiple impact investors in the same round[20]:

```
egen social_backed_round = max(d_social), by (funding_round_uuid)
```

8.1.3 Control Variables.

Investment Type

The investment type give an indication on the different categories of funding round in which an investor can participate based on the maturity and the

[20] If the desired output would be to analyze the presence of more than one impact investor, the function SUM can be used.

characteristics of the organization. As it is possible to see from the below list, the wide range of investment type covers all the lifespan of a company:

- Angel
- Grant
- Pre Seed
- Seed
- Equity Crowdfunding
- Product Crowdfunding
- Series A, B, C, D, E, F, G, H, I, J
- Post-IPO Debt
- Post-IPO Equity
- Post-IPO Secondary
- Initial Coin Offering (ICO)
- Convertible Notes
- Corporate Round
- Debt Financing
- Non-Equity Assistance
- Private Equity
- Secondary Market
- Undisclosed
- Series Unknown

Furthermore, the variable required a variation to evaluate the impact in the regression of the single different rounds separately.

Investor Count

This variable takes into consideration the total number of investors that participated in each round. This metric is a good representative of three factors:

- The general interest surrounding an organization receiving multiple sources of funds
- The probability of a future exit seek and forecasted by the investors
- The possible additional interest generated with the participation of an impact investor

Raised Amount (in USD [$])

The raised amount denotes the total money obtained by the organization from each different investor during a funding round. The amount will be used to grow the company in return for a share of the company (in most cases) owned by the investor, whose final interest is to increase their stakes because of an exit.

Investor Type

The investor type indicates the principal nature of the investor for every single investment ID. As previously mentioned, this variable required a clean-up process[21] to consider just the principal component for each of them.

Organization Number of Funding Rounds

The total number of funding rounds undergone by an investor represents a critical metrics to define the attention placed on the organization. However, it would be wrong to think that the higher the number, the better; indeed, when a company possesses a significant funding round performed, it may indicate lousy management of the business or the money, resulting in a loss of appeal the long run.

Organization Total Funding (in USD [$])

[21] Formula present in Chapter 6.

As for the organization's number of funding rounds, the total funding raised is an excellent metric to evaluate the company's position on the market in monetary terms. However, this metric cannot be taken into consideration linearly; in fact, a considerable amount may symbolize (for a complete analysis, the number of investors that participated in a company equity or debt must be considered):

- If there are also numerous funding rounds, it can embody the previously mentioned situation with bad management of the money and of the company.
- If the number of funding rounds is low (ideally equal to one), there might be a significant level of hype surrounding this organization.

8.2 Methods: Probit Regression.

As the existence of a successful exit is determined by a binary variable obtained from the organization's status, a probit regression analysis is executed to investigate its relationship with the independent factors. When the dependent variable under the study is discrete or binary, a non-linear regression model takes the place of linear regression analysis because the latter assumes that the dependent variable's prediction can take any value, which does not fit the nature of a binary dependent variable (David W. Hosmer Jr., 2013). The mathematical formula of the probit regression model is:

$$probit(\pi(x)) = \beta_0 + \beta_1 x_1 + \cdots + \beta_n x_n$$

In which:

- $\pi(x)$ = Prediction of the dependent variable
- $x_1, \dots, x_n$ = Independent variable, with x_1 as the main independent variable and the remaining as control variables
- $\beta_0, \beta_1, \dots, \beta_n$ = Regression coefficients, with β_0 as the constant term

8.3 Regression Model & Output

The key outcomes of the non-linear regression analysis are presented in Table 8.

In the model, the relationships between exit and the independent and control variables are studied with regards to the independent and control variables using a probit regression model, with the following structure:

```
probit
            exit
              social_backed_round
                    dummy_investment_type* investor_count raised_amount_usd
                    dummy_investor_type_clean* org_num_funding_rounds org_total_funding_usd
                          , robust
```

From the probit regression, it is possible to individuate that the variable exit, being it M&A or IPO, correlates with the independent variable and most of the control variables, except for some investment and investor types (Table 8).

To begin, there is a positive correlation between social backed round and exit at a significance level of p=0.000 in terms of impact targets, so significant at 99.9%. To put it another way, investment rounds backed by a social impact investor appear to have led to more exits than those without attention to impact investing themes.

Secondly, the control variable linking the number of investors participating in the round is directly correlated with exit on a p=0.009 significance level. On the other hand, the data point indicating the raised amount in the round seems to negatively correlate with exit with a significance of 99.9% (p=0.000). Additionally, as expected, the organization's number of funding

rounds and total amount raised is both enormously significant and positively correlated with the exit. Among the remaining control variable, it is possible to individuate that:

- Investment Type: The only values not significant when correlated with the exit probability are:
    - Angel
    - Equity Crowdfunding
    - Series I
    - Series J
    - Undisclosed
- Investor Type: The non-significant data for these control variables are:
    - Hedge Funds
    - Pension Funds
    - Secondary Markets
    - Startups
    - Universities[22]

Additionally to the statistical significance, the effect size should also be considered to understand the single impact for each variable. As it is possible to see from figure 31, the average marginal effect is shallow, and two out of the main five variables under consideration are incredibly close to zero. Firstly, the social backed round that previously showed a significance of 99.9% also presents the highest marginal effect overall, ranging from 0.15 to 0.18. Interestingly, only the raised amount variable's confidence interval is also entirely below zero, confirming the earlier identified negative correlation. Furthermore, it is noteworthy that the effect

[22] Actually, the p-value is 0.043, so the correlation is significant but at a lower level of significance than the other variables

of the number of funding rounds is substantially more relevant than the total funds raised by an organization, supporting the previously developed theory.

To conclude, it is vital to keep in mind when interpreting these results that the results are only indicative, and the hypotheses cannot be considered comprehensively validated based on these results alone due to the small sample size, the newness of the phenomenon, and general lack of previous studies on impact investing.

Table 8: Output of the Probit Regression

Exit	Coefficient	Standard Error	z	P>|z|
Social Backed Round	.1697211	.006069	27.97	0.000
Angel	-.0213789	.0552792	-0.39	0.699
Convertible Notes	-.1328454	.0561531	-2.37	0.018
Corporate Round	-.433731	.1059559	-4.09	0.000
Debt Financing	.4013507	.052366	7.66	0.000
Equity Crowdfunding	-.2322921	.1231272	-1.89	0.059
Grant	-.3099199	.0545185	-5.68	0.000
ICO	-1187282	.2041256	-5.82	0.000
Non-Equity Assistance	-.3970486	.1349616	-2.94	0.003
Post IPO Debt	345431	.2137662	16.16	0.000
Post IPO Equity	2967817	.0864625	34.32	0.000
Post IPO Secondary	0	(omitted)		
Pre-Seed	-.9425446	.0781055	-12.07	0.000
Private Equity	.6206556	.0527476	11.77	0.000
Product Crowdfunding	0	(omitted)		
Secondary Market	.6678234	.10114	6.60	0.000
Seed	-.1533974	.0492897	-3.11	0.002
Series A	.2252873	.0491937	4.58	0.000
Series B	.5026699	.0492473	10.21	0.000
Series C	.6707194	.0495216	13.54	0.000
Series D	.7659629	.0502885	15.23	0.000
Series E	.8975191	.0521481	17.21	0.000
Series F	.8949091	.0571883	15.65	0.000
Series G	.8944002	.0720326	12.42	0.000
Series H	.968546	.1073184	9.02	0.000
Series I	-.1687538	.3116762	-0.54	0.588
Series J	0	(omitted)		
Series Unknown	0	(omitted)		
Undisclosed	0	(omitted)		
Investor Count	.0021909	.0008336	2.63	0.009
Raised Amount [USD]	-1.63e-10	3.19e-11	-5.11	0.000
Accelerator	-.4413423	.0150944	-29.24	0.000
Angel	-.2868981	.018192	-15.77	0.000
Co	-.5351674	.1108496	-4.83	0.000
Corporate	-.0601781	.0130587	-4.61	0.000
Entrepreneurship	-.3316263	.0549815	-6.03	0.000
Family	-.232756	.0264894	-8.79	0.000
Fund	-.1263323	.0357416	-3.53	0.000
Government	-.2369565	.0185522	-12.77	0.000
Hedge	.0398389	.0310489	1.28	0.199
Incubator	-.2639844	.032869	-8.03	0.000
Investment	.0793519	.0165736	4.79	0.000
Micro Finance	-.1219261	.0113183	-10.77	0.000
Pension	-.3161867	.2293345	-1.38	0.168
Private Equity	.0218044	.0091029	2.40	0.017
Secondary	.0475958	.1179956	0.40	0.687
Startup	-.1852062	.3613532	-0.51	0.608
Syndicate	-1348867	.368494	-3.66	0.000
University	-.0967042	.0477739	-2.02	0.043
Venture Capital	.0204556	.0100453	4.27	0.000
Org Num Funding Rounds	.0103426	.0010549	9.80	0.000
Org Tot Funding [USD]	5.03e-11	5.47e-12	9.18	0.000

	Social Backed Round	Investor Count	Raised Amount [USD]	Org Num Funding Rounds	Org Tot Funding [USD]
95% Lower	0,157826	0,000557	-2,26E-10	0,008275	3,95E-11
95% Upper	0,1816163	0,0038248	-1,01E-10	0,0124103	6,10E-11
Coefficient	0,1697211	0,0021909	-1,63E-10	0,0103426	5,03E-11

Figure 31: Mean marginal effects and confidence intervals for prediction of exit

Chapter 9: Discussion and Conclusions.

9.1 Discussion of the Results.

The goal of this dissertation was to learn more about the impact investing business, particularly from the perspective of private equity investors. Impact investing is still a relatively new phenomenon in the private equity market; hence it has not been thoroughly researched. As a result, the study's research questions focused on the most pressing unanswered concerns and challenges that impact investing faces:

- The definition of impact investing.
- An overlook of the panorama surrounding impact investing, from a geographical perspective to a descriptive one, analyzes the investments and the investors and the organizations involved.
- The effect of an impact-based round on the execution of successful exits, being them IPOs or M&A.

The study's theoretical component was a literature review to answer the first research question and briefly investigate the second one. In terms of impact investing definitions, it was discovered that most definitions are relatively aligned and that the essential features of impact investing are widely understood. Impact investment, according to almost all definitions, is about aiming for both financial returns and positive social or environmental consequences. The amount of financial aim ambition is unrestricted in any way if specific financial targets distinguish it from a charity. Most definitions also include conditions for intentionality and measurability, which means that expenditures must be undertaken to target good benefits consciously, and those impacts must be observable and verifiable in some way.

According to the literature, the main areas of controversy and debate about the concept are profitability and additionality. For example, some critics

wonder whether it is possible to provide market-rate profits while also providing positive outcomes that would not have occurred otherwise. As a result, critics believe that a definition that enables any degree of financial returns is unworkable because there is always a trade-off between the investor's effect and financial rewards.

Moreover, it was discovered that while the phrases responsible investing, ESG investing, impact finance, and similar ideas are commonly used interchangeably, they are distinct from impact investing. The main differences are that, while responsible investment and other approaches focus on avoiding harm and limiting existing harm, impact investing is all about maximizing positive impact and looking for companies that do good rather than those that do the least amount of harm. On the other hand, impact finance characterizes an umbrella term, comprehending impact investing and other forms of financial instruments with impact and social objectives.

The second research question had been studied in dept thanks to the database comprehending investment, investor, organization, and social information.
Thanks to this, it was possible to get a concrete and numerical confirmation of the growth of impact investing in the last decade, with a quick increase in monetary and volume terms.
Major players in this industry and with the impact investing propositions are venture capital funds, followed by private equity. This information notably justifies the primary use of equity instruments over debt to finance impact investing activities. Moreover, the critical presence of players such as venture capital funds has accelerated the process of early investment in the last decade, favoring the market's maturation. Indeed, it is not surprising that the highest investment is performed in seed and Series A rounds

(followed by series B, series C, and later stages), which target early-stage companies. However, this decision brings a nested risk: investing in unmatured businesses can represent a winner move if a successful exit occurs or a liability if the company does not fit the market and ceases its operations.

From a geographical perspective, the analysis established North America as the fulcrum of the impact investing market, followed by Europe and Asia, both in terms of impact investing funds and sustainable organization present. The presence of key players determines the principal market, but the number of social-backed rounds and the total raised amount in this country makes the previously mentioned continents predominant. Although, it would be wrong to limit the impact investing market only to these three continents. Indeed, developing continents, like Africa and South America, covers an important role too, having a small volume but a considerable high average value per investment. The developing countries' position in the strong development of this industry may remain little, yet essential.

The third and final part aimed to analyze the possible relationship between an exit strategy, an initial public offering (IPO) or a merger and acquisition (M & M&A), and an impact investor's investment in the company.

The study found a considerable correlation between impact-based round (with the investment from a capitalist having the intention to generate good social or environmental externalities) and the occurrence of an exit.

Although determining the root cause is beyond the scope of the study, the paper speculated that impact investing's relation with exit manifestation could be due to the following factors: number of investors, investor types, investments type, organization number of funding rounds, organization total raised amount. Nevertheless, from the regression analysis, it was easily identifiable that the social-backed round variable still brings the major contribution to an exit and the remaining ones are significantly smaller than the latter.

9.2 Limitations and Further Research.

As more impact funds reach the end of their investment cycle, the impact investing industry is primed to benefit from increased data accessibility. Indeed, the industry's rapid growth in the last ten years has not yet generated all the data and information required for a complete study of the phenomena, particularly from an exit perspective. Nevertheless, traditional firms' strategic decisions are already being influenced by data analytics. Similarly, the growing volume of financial performance data in the impact investing area can answer unresolved issues and contribute to a better knowledge of the industry. This trend offers a once-in-a-lifetime opportunity to bust prejudices and preconceptions about contract investment. Thanks to this and data availability, the market players' decisions will be data-driven, leading to a more sustainable industry and supporting the main principle of impact investing: the social return above the financial one.

Considering this, future study should focus on two distinct but complementary directions:

- Enhancing and developing existing impact evaluation tools and procedures.
- Identifying the factors that influence the tendency of an exit.

It is critical to pursue these two paths at the same time. Impact investing's assumption of the intentionality of impact is no longer sufficient. Impact theories must be confirmed, demonstrate additional factors, and be empirically verifiable by tests, just like any other sound scientific theory. Impact investors should strive for this ideal result because it will allow the industry to evolve into a mature state with a differentiated product that will cater to the broad interests of impact investors.

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