OXFAM
RESEARCH BACKGROUNDER

The Demand Side of Impact Investing

Elevating the perspectives of local entrepreneurs in the impact sector

Jessica Jones

OXFAM

CONTENTS

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AUTHOR INFORMATION AND ACKNOWLEDGMENTS

Jessica Jones is a PhD candidate at the University of Colorado Boulder, Leeds School of Business.

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ACRONYMS AND ABBREVIATIONS

GDP	Gross Domestic Product
GIIN	Global Impact Investing Forum
MBA	Master of Business Administration
NGO	Non-governmental Organization
OECD	Organization for Economic Cooperation and Development
SDGs	Sustainable Development Goals
WEF	World Economic Forum

EXECUTIVE SUMMARY

Impact investing is a growing means of addressing poverty (Global Impact Investing Network [GIIN] 2017 World Economic Forum [WEF] 2018) and has become an important topic within the nongovernmental organization (NGO) and philanthropic community. Although impact investing in theory provides a clear opportunity for blending mainstream finance and traditional philanthropy, it is difficult in practice. As a relatively new field, impact investing suffers from a lack of consensus and clarity about its definition,[1] about how impact should be measured, and about choices regarding in whom to invest.

In addition, the impact investing sector has not fully examined how it is perceived by those who *want* to participate but for one reason or another have been excluded (Bolis and West 2017; Milway 2018). Without the guidance of local entrepreneurs' experiences, investors may continue to make investment recommendations that follow mainstream investment logic (Bolis and West 2017), such as venture capital models (Bannick, Goldman, and Kubzansky 2015), an approach that can yield incomplete decisions and unintended outcomes. Expecting the same scope and scale as venture capital investments, for example, may not be realistic for these entrepreneurs.

This report looks not at impact investors but at those who seek their support, striving to capture the perspective of local entrepreneurs working in high poverty areas to understand how they experience the impact investing process. We explore this approach in two ways: (1) by providing a comprehensive literature review of the impact investing sector, and (2) by interviewing 38 local entrepreneurs in Kenya, India, and Mexico about their understanding of, and experience with, impact investing.

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[1] For the purposes of this study, when referring to "impact investment," we defined such investments as those originating from organizations with a mandate to contribute to poverty-alleviation solutions, specifically development agencies, philanthropies, NGOs, and international financial institutions.

The definition of the art of "impact investing" is, of course, much broader; the World Economic Forum (WEF) overall definition is "an investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured" (2018). Because our intended audiences are the "impact only" and "impact first" communities (not institutional investors who come from the mainstream finance sector and aim to generate financial returns with the secondary intention of having a social or environmental impact), we refined our working definition as "the provision of capital for the purpose of alleviating poverty by philanthropic actors, international aid, and international financial institutions, often through a blended finance approach." For the remainder of this report we use the term *impact investor* to refer to this particular subset of organizations participating in the impact investing sector.

(We note that the Global Impact Investing Network [GIIN] provides the definition of *impact investing* as involving "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return" [2009]. For the purposes of our research only, we use the WEF definition because it embeds an active measurement of social and environmental goals. This definition is closer to the poverty-alleviation focus in our research. We do not intend to challenge the consensus building toward a uniform definition, but rather remain focused on Oxfam's approach to poverty alleviation.)

Our work adds to the conversation about impact investing by focusing on the specific investor-entrepreneur relationship and the importance of nonfinancial metrics in impact-enterprises, such as serving those living in remote or overlooked communities. We identify nuances within the entrepreneur-impact investor relationships beyond quantitative measures in contracts and outcome objectives, and find that impact investors and impact entrepreneurs share important traits—and differences. Both face challenges in getting capital, and both want to apply market-based solutions to poverty alleviation. But their expectations of one another do not fully align.

Our literature review revealed seven tensions in the impact investing sector (mission vs. business, sustainability vs. scalability, outcome vs. process, business vs. fundraising, hockey-stick curve vs. nonlinear, failed enterprise vs. failed livelihood, supporting others vs. supporting themselves). We grounded our interview findings and discussion to reflect these tensions. We were able to organize our interview results into three thematic groups (defining impact investing, engaging in the investor-entrepreneur relationship, and receiving impact investing), into which fell four specific themes/findings, which are discussed in depth in this report.

Two overarching patterns regarding impact investing emerge from our findings and literature review:

- First, investor expectations differ based on heterogeneity of investor preferences and priorities: where the investor wants to make an impact (which may or may not address poverty[2]), how the investor values scalability and sustainability, and how the investor evaluates local experience.

- Second, impact investing is meant to be transformational, but much of the work is transactional. Several factors lead to this outcome: de-coupling ownership of the problem from ownership of the business, and investors and entrepreneurs not working in partnership; lack of accountability to impact measurements leading to a mentality that social impact is a “nice to have” rather than “must have”; and measuring the quantity of investments rather than quality and how the investment serves to drive impact.

Our interviews with entrepreneurs resulted in many visions of the ideal impact investing process, summarized in the following three key areas of recommendations:

[2] Efforts to map impact investment outcomes to the Sustainable Development Goals (SDGs) may lead to improved outcomes, given that SDGs were developed with deep input from stakeholders (GIIN 2018).

- To build transparency and accountability, investors should define their impact investing goals.

- To increase knowledge and consensus-building, the investor-entrepreneur relationship should be an inclusive, transparent partnership.

- To meet market needs, investors are encouraged to consider smaller investments, working with entrepreneurs to find ways to reduce the associated higher transaction costs (for example, by co-investing alongside local investors, embedding third-party local support, or staging investments to focus on impact milestones).

While it is not realistic to ask every impact investor to fundamentally transform his or her current practices, it is important to evaluate how impact investors as a group are developing common practices not typically seen in philanthropy or conventional investing. A critical piece of this evaluation is determining how the voices and viewpoints of affected communities will be heard. Impact investors can take a first step by conducting an entrepreneur-centric due diligence of their own practices. (In Section 6, we offer a checklist of questions focused on three dimensions in this self-reflection: decision-making biases, entrepreneur diversification, and investment ethics.)

This study presents the experiences of a different sample of stakeholders, representing a fuller view of the demand side of impact investing. We hope this approach reinvigorates a set of trailblazers willing to brave the evolving impact investing sector.

INTRODUCTION

"Impact investing is more than just giving money. It's walking a journey."
—Kenyan impact entrepreneur (K1)

In contexts of poverty across the world, local entrepreneurs are engaging in efforts to solve local problems through social ventures, which often require capital. *Impact investing*, a growing means of addressing poverty (Global Impact Investing Network [GIIN] 2019; World Economic Forum [WEF] 2018), seeks to address these entrepreneurs' needs and purports a different path from commercial or donor-based financing approaches in the role of poverty alleviation. To successfully achieve the goals of entrepreneurs and investors, the sector requires defining what impact is, who receives investment, and what the appropriate instruments to measure impact are. However, the investor voice has shaped who participates in determining the benchmarks and success of impact investing (Bolis and Alexander 2017), while insufficient time has been spent asking the entrepreneur the same questions (Floyd, Gregory, and Wilson 2015). If investors fail to listen carefully to entrepreneurs, investors may miscalculate how capital can be allocated and measured effectively. With this context in mind, this research explores—from the local entrepreneurs' perspective—the nature of constraints on impact enterprises in developing countries and how impact investing is removing or exacerbating these constraints.

BACKGROUND AND PURPOSE

Our research efforts in impact investing began with a survey of existing research. The survey results were nebulous at best because reliable data are relatively few and the criteria for inclusion in studies were inconsistent. Interestingly, previous research leans toward answering the question "How can enterprises generate the returns that investors seek?" rather than "How can the investment sector find ways to deliver capital that is affordable and sustainable to meet the needs of impactful enterprises?" In asking this latter question, our literature review suggests that investors, reflecting a variety of backgrounds (nongovernmental organizations [NGOs], state actors, and private actors), have made important assumptions about what entrepreneurs need, and want, from impact investors (Floyd, Gregory, and Wilson 2015). Thought leaders in the field worry that the sector has set unrealistic expectations about both financial and social returns (Bolis et al. 2017).

Through this project, we hope to provide guidance for investors in the social sector with an organizational mandate to contribute to poverty-alleviation solutions, rather than act to avoid harm (see Table 1 for this classification of impact enterprises by the Impact Management Project [2018]). This report is intended to add to the conversation among development agencies, philanthropies, NGOs, and international financial institutions regarding how local impact entrepreneurs have experienced the process of seeking impact investing and working with impact investors in three key impact investing markets: Kenya, India, and Mexico.

Rather than interviewing well-known, well-connected, and well-funded impact entrepreneurs, we interviewed local impact entrepreneurs who are building credible enterprises with varying levels of experience with impact investing. Our goal was to broaden the scope of who is shaping the impact investing sector by interviewing this group of underrepresented voices. Ultimately, we hope to inspire changes in impact investing norms and behaviors to improve outcomes for people living in poverty. (To be clear, our report seeks to understand perspectives rather than examine effectiveness.)

RESEARCH OVERVIEW

Our literature review reveals that impact investing is characterized as monolithic, but our interview research shows heterogeneity in investors' motivations. Part of our research method was to have our interview respondents conceptualize the meaning of *impact investing* and *impact investor*. Our interviews with entrepreneurs revealed that entrepreneurs are receiving mixed signals as to what investors are looking for in an investment. While work is being done by organizations like the Impact Management Project to enable comparability across different impact investing opportunities, the audience is still investor-centric. Furthermore, efforts to clarify this oversight are not reaching this particular set of entrepreneurs—those operating in their local context.

The report findings reveal that the entrepreneurs we spoke with often felt uncertain about what investors were looking for. Unlike walking into a bank and having a loan application prepared with the understanding of what is "loan worthy," this entirely new form of blended capital carries a new set of norms that have not been explained to these entrepreneurs.

Just as customer feedback is critical to an entrepreneur, impact investors may enhance their experience by listening to their core customer, the entrepreneur. While we recognize that many investors and support organizations are beginning to address some of these challenges, such as through the Impact Measurement

Project, our report highlights how this path-breaking work needs to be disseminated to local entrepreneurs.

REPORT CONTRIBUTIONS

This report contributes to knowledge of impact investing in three important ways:

1. First, this report is an in-depth analysis of entrepreneurs' experiences in seeking investment. Why is this crucial? Because without the guidance of local entrepreneurs' experiences, investors may continue (Bolis and West 2017) to make investment recommendations that follow traditional investment logic, such as venture capital models (Bannick, Goldman, and Kubzansky 2015), an approach that can yield incomplete decisions and unintended outcomes. Expecting the same scope and scale as traditional venture capital investments, for example, may not be realistic for this population of local impact entrepreneurs. We seek to understand what realities these entrepreneurs face and what forms of capital may be most appropriate.

2. Second, we identify nuances to the entrepreneur–impact investor relationships beyond quantitative measures in contracts and outcome objectives. Reputable organizations, such as the Global Impact Investing Network, have focused on how to increase the pipeline of investment opportunities and diversify investment structures to maintain mission alignment while still scaling and exiting profitably (Bouri et al. 2018; Schiff and Dithrich 2018). This approach does not sufficiently speak to impact investors willing to have more patient capital in order to contribute to poverty alleviation solutions, rather than avoid harm (see Table 1). Our report adds to the conversation by focusing on the investor-entrepreneur relationship and considering the importance of nonfinancial metrics in impact enterprises, such as valuing projects that serve populations living in hard-to-reach and typically overlooked communities. The more investors understand how entrepreneurs perceive the impact-investing process, the greater the potential for the investor-entrepreneur relationship to meet the goals of both parties.

3. Our report also shows that funding is not just substantively important to the growth and scale of impact enterprises, but also has symbolic implications for how impact entrepreneurs are perceived. Impact investors and impact entrepreneurs share important traits—and differences. Both face challenges in getting capital, and both want to apply market-based solutions to poverty alleviation. But their expectations of one another don't fully align. For impact investors and entrepreneurs to engage each other more effectively, we suggest nuanced approaches that take into account entrepreneurs' and investors' perspectives.

This report is organized as follows: first, we offer working definitions of key terms in the impact investing sector and examine impact investing research to date, highlighting tensions in investor-entrepreneur relationships and how assumptions are shaping the impact investing process. We then share our interview findings, representing 38 entrepreneurs in three key impact investing markets (Kenya, India, and Mexico) and describe the 12 themes/findings we found to be consistent across all three country markets. We then distill what we learned from our literature review and our experience speaking with local impact entrepreneurs in a general discussion. This report concludes with actionable recommendations and an entrepreneur-centric due-diligence checklist suggested by the interviewees.

Table 1. The investor's impact matrix

The Investor's Impact Matrix: Mapping an investment by its impact on people and planet
Illustrative products

IMPACT OF UNDERLYING ASSETS / ENTERPRISES

	INVESTOR'S CONTRIBUTION	A	B	C
		ACT TO AVOID HARM	ACT TO AVOID HARM / BENEFIT STAKEHOLDERS	ACT TO AVOID HARM / BENEFIT STAKEHOLDERS / CONTRIBUTE TO SOLUTIONS
1	Signal that impact matters	E.g. Ethical bond fund	E.g. Positively-screened / best-in-class ESG fund	E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to underserved people or renewable energy projects
2	Signal that impact matters + Engage actively	E.g. Shareholder activist fund	E.g. Positively-screened / best-in-class ESG fund using deep shareholder engagement to improve performance	E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people
3	Signal that impact matters + Grow new/undersupplied capital markets	E.g. Anchor investment in a negatively-screened real estate fund in a frontier market	E.g. Positively-screened infrastructure fund in a frontier market	E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation
4	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets	*Investment archetype not widely observed*	*Investment archetype not widely observed*	E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people
5	Signal that impact matters + Grow new/undersupplied capital markets + Provide flexible capital	*Investment archetype not widely observed*	*Investment archetype not widely observed*	E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people
6	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	*Investment archetype not widely observed*	*Investment archetype not widely observed*	E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people

Source: Impact Management Project analysis.

* Although Table 1 provides a helpful overview of the range of intended impacts within various investment classes, these classifications are not exhaustive or neatly categorized. For example, in box 2A, shareholder activist funds are typically exclusionary, i.e., seeking to avoid harm by excluding investment in such industries as tobacco or firearms. But these funds may also combine positive criteria that can help stakeholders, such as investing in companies with greater board diversity and voting proxies to support this attribute, without deep corporate engagement.

LITERATURE REVIEW

Underpinning this report is the assumption that the voices of impact entrepreneurs need to be heard if the impact investing field is to effectively achieve poverty alleviation goals and increase the pipeline of investment opportunities. This assumption is informed first by the foundational work in the social enterprise movement by leaders such as Ashoka and Grameen Foundation, organizations that have shown that marginalized populations that engage in social enterprise face barriers to accessing credit that investors need to understand (e.g., Bornstein 2007; Yunus 1999), and second, by Oxfam's rights-based approach that understands poverty not simply in terms of absolute wealth, but in terms of human dignity, opportunity, and empowerment (Oxfam 2014). In this regard, we conceive this project to be part of the empowerment process of raising the voices of otherwise unheard populations.

The impact investing field suffers from a lack of consensus about goals and success, and consequently, multiple stakeholders ascribe different definitions to the term *impact investing*. As we will discuss later in this section, we are not necessarily hampered by having different definitions of what impact investing is, but we are challenged by differing ideas about what is considered success in impact investing. Our literature review illustrates how the sector grapples with this lack of consensus and identifies a series of tensions.

Of fundamental importance to this study is identifying impact entrepreneurs—individuals who have started an impact enterprise --whose voices have to date been largely excluded from conversations regarding the impact investing process. We distinguish between two types of entrepreneurs: (1) those who are nationals of the country in which they are working, who operate in constrained local credit markets, and who lack access to social networks of impact investors, and (2) those who tend to be relatively privileged expatriates or foreigners, who can access foreign credit markets and who have social capital sufficient to support their access to impact investors and impact investing funds. This work is primarily concerned with the former of these groups: those entrepreneurs whose voices have tended to be excluded from discussions regarding the barriers to effective impact investing.

TERMS AND DEFINITIONS

For the purpose of this research, we employ the following definitions:

Impact investing: The definition of "impact investing" is broad; the World Economic Forum provides an overall definition of "an investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured" (2018). Because our intended audiences are the "impact only" and "impact first" communities, rather than investors who place financial returns first, we refined our working definition as "the provision of capital for the purpose of alleviating poverty by philanthropic actors, international aid, and international financial institutions, often through a blended finance approach."[3]

Impact enterprise: Because we are focusing on alleviation of poverty, the definition we use in this research for *impact enterprise* is "any legal organization that is created for the purpose of alleviating poverty, with a revenue stream, but not bound by structure or sector." Our research focuses on impact enterprises with local founders, working mostly in areas in which Oxfam has long-held institutional knowledge: agriculture and food, clean energy access for people living in poverty, and women's economic empowerment.

Impact investor: As previously mentioned, impact investing is a convergence of stakeholders participating in the sector. Our research with entrepreneurs reflects this sentiment as we ask the entrepreneurs to explain their experience with various stakeholders who consider themselves impact investors. The intended audience of this report is those organizations who operate in the philanthropic sector whose focus has predominantly been "impact only" but are shifting to generate returns after putting "impact first" (as opposed to institutional investors who come from the mainstream finance sector whose aim is firstly to generate financial returns and secondly to have social or environmental impact). For the remainder of this report we use the term *impact investor* to refer to this particular subset of organizations. Specifically, organizations are considered impact investors if they have an organizational mandate to contribute to poverty-alleviation solutions, such as development agencies, philanthropies, NGOs, and international financial institutions that have an interest in making capital contributions to impact enterprises with an expectation of social and financial return.

[3] While the Global Impact Investing Network provides the definition of *impact investments* as "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return" (2017), we understand impact as an intention rather than an action. For the purposes of our research, we use the WEF definition because it embeds an active measurement of social and environmental goals, which is closer to the poverty-alleviation focus in our research. We do not intend to challenge consensus building toward a uniform definition, but rather remain focused on Oxfam's approach to poverty alleviation.

IMPACT INVESTING: RESEARCH TO DATE

Research on impact investing has been shaped largely by two perspectives: (1) focus on the inherent conflicts or *tensions* in the impact investing sector due to the convergence of two disparate institutional contexts—mainstream finance and the international development sector, and (2) focus on the investor. We expand on these perspectives below.

Inherent tensions experienced in impact investing

Just as using an exercise band can strengthen muscles, tension in the impact investment sector has helped it gain strength. While some may see these tensions as challenges, they are also what sets impact investments apart from commercial investments and aid-based grants. The current body of impact investing research has found the following tensions in the sector. This research has also predominately focused on traditional investors with a "return first" goal. Subsequently, tensions may arise for the philanthropic and development actors, the audience this report focuses on, because they come from a different background from that of mainstream finance.

Table 2. Categories of tension in impact investing

Category	Tension
1. Impact outcomes	Mission vs. business
2. Business outcomes	Sustainability vs. scalability
3. Resource acquisition	Outcome vs. process
4. Time	Business vs. fundraising
5. Growth	Hockey-stick curve vs. nonlinear
6. Consequences of failure	Failed enterprise vs. failed livelihood
7. Role of intermediaries	Support for others vs. supporting themselves

Impact outcomes: Mission vs. business

The study of hybrid organizations (Battilana and Lee 2014; Pache and Santos 2010 and blended finance (Organization for Economic Cooperation and Development [OECD] 2018) delve deep into the challenges of allocating resources and time, and of measuring financial and social outcomes. Conflict arises when organizations do not carefully integrate social metrics into an existing conventional business operating in a poor country, or when they establish performance targets that are based on abstract ideas of what may be possible to achieve, rather than flowing naturally from the work itself (Ebraham and Rangan 2014). How to fully balance social and financial goals with outcomes becomes challenging due to contextual factors, changing team members and growth, and difficulty in accurately assessing lofty and aspirational social goals such as empowerment and poverty alleviation (e.g., Lumpkin et al. 2013; Santos 2012).

Business outcomes: Sustainability vs. scalability

Commercial enterprises are rewarded for profitable and scalable operations, while nonprofits and many social organizations are rewarded for the service of social impact (Social Investment Intelligence Network [SIIN] 2018). For those organizations that seek to be an impact enterprise, there's no clear threshold at which revenue generation can be considered sufficient and when one should—or should not—maximize return on investment. Nor is it clear when social impact should have greater priority than returns.

Resource acquisition: Outcome vs. process

Studies of impact investing assume the "acquisition of resource" (investment in an enterprise) is an outcome in and of itself. Measurements of "received funding" equate to success, which in turn influences the impact entrepreneurs' belief in the need to acquire capital at all costs (Clarkin and Cangioni 2016). This belief also encourages a "more is better" mentality and may lead to detrimental outcomes if an entrepreneur focuses on only acquiring resources regardless of the structure and source (Navis and Glynn 2011). Rather than focusing on outcomes such as when entrepreneurs reject investment offers, studies assume that enterprises will automatically accept the resource when it becomes available to them.

Time: Business vs. fundraising

When time is an additional resource constraint for entrepreneurs, there is an inherent flaw as the expectation to raise capital increases. The activity spent fundraising has little value creation until capital is actually acquired. Depending on how long an entrepreneur spends raising capital, her valuation of her company may actually decrease as she allocates time away from business operations. This allocation is greater for impact enterprise entrepreneurs unfamiliar with the resources and processes of raising capital, as they must also learn the explicit and implicit norms of fundraising, and obtain the skills necessary to acquire capital (Blagrave Trust 2017). When a conventional entrepreneur deals with this tension, she might lose revenue herself. But an impact entrepreneur risks not drawing attention to an enterprise that can benefit other people. Power also lies at the discretion of the investors such that they can drag out the process until an entrepreneur is willing to accept less-than-favorable terms in order to receive a necessary infusion of capital.

Growth: Hockey-stick curve vs. nonlinear

Proponents of a blended finance approach to impact enterprise argue that the sources and structure of finance vary based on the stage of the enterprise. Tension arises when investors map commercial enterprise stages to impact enterprises (Deiglmeier and Greco 2018). Impact enterprises operate in a world of additional uncertainties, such as political instability or infrastructure barriers, and earlier stages may last longer than in commercial enterprises. These factors necessitate concentration of capital at earlier stages for a longer period of time, rather than expecting growth after each subsequent investment.

Consequences of failure: Failed enterprise vs. failed livelihood

Perhaps one of the greatest tensions in impact enterprise is the consequence of failure (The Failure Institute/De La Salle University 2017). Compared with startups in Silicon Valley where failure is sometimes seen as a badge of honor and a signal of learning and growth, impact enterprises in contexts of poverty cannot afford to fail. First, if investors choose to invest at all, they are taking on more risk; if failure is an outcome, they will likely not invest again. Entrepreneurs are therefore discouraged to learn and try again, a highly cited reason for entrepreneurial learning (Minniti and Bygrave 2001; Palich and Bagby 1995). By holding impact entrepreneurs to a higher standard, the supply of entrepreneurs decreases and the pipeline of potential impact enterprises shrinks. Second, if an impact enterprise does fail, the consequences of failure are catastrophic to the entrepreneur and often to her beneficiaries (Dees 2017).

Role of intermediaries: Support for others vs. supporting themselves

Incubators, accelerators, and foundation-funded conferences are just a few examples of organizations that aim to support entrepreneurs in the investment seeking process. Tension for some intermediaries arises when their business models are tied to the success of the entrepreneurs with whom they work. When this is the case, intermediaries prefer to work with entrepreneurs who appear to offer a better investment, rather than remaining true to the mission of developing the skills and opportunities for those entrepreneurs and businesses previously overlooked by investors.

Overemphasis of investor-focused research

The common narrative in the impact investing sector asks whether and how impact investors can gain market rate returns (Field 2015). However, these conclusions are based on small samples of selected entrepreneurs who meet this expectation (Cambridge Associates 2015) and are framed to the investor as the focal audience (Bolis et al. 2017). Financial return expectations have become the dominant outcome of interest in the sector, overlooking the focus on poverty alleviation by the impact enterprise. Recent research findings in this area include the following:

- Research to date notes the challenge of measuring impact, arguing impact cannot be achieved if the business is not profitable (Rawhouser, Cummings, and Newbert 2019). Solutions posed include creative financing structures (Bannick, Goldman, and Kubzansky 2015), aligning expectations with entrepreneurs (WEF 2017), or expanding across private and public funding sources (Kohler, Kreiner, and Sawhney 2011). Some organizations are making efforts--such as phased financing or syndicating across different capital needs--in hopes of leading to more sustainable results (Kohler, Kreiner, and Sawhney 2011).

- The aforementioned research provides recommendations for how investors can successfully seek and grow impact enterprises. For example, Kohler, Kreiner, and Sawhney's recommendations include using clusters of networks and ideas to foster efficiency (2011) in seeking impact enterprises. While such recommendations are helpful if efficiency is the goal, it is not clear whether they are effective in growing impact enterprises (McCreless 2016).

- Many philanthropists with former private sector careers hold market-driven expectations that are unrealistic in working with impact enterprises (Deiglmeier and Greco 2018). Insufficient attention has been paid to the experiences and expectations of the entrepreneurs themselves.

The impact investing sector has not fully examined how it is perceived by those who *want* to participate but for one reason or another (e.g., geographic distance, cost, or not receiving an invitation to discussions such as impact investing conferences) have been excluded (Bolis and West 2017; Milway 2018). In other words, stakeholders beyond investors need a seat at the table.

What entrepreneurs have said

The few reports that do seek understanding from entrepreneurs still emphasize investor objectives over impact. These studies tend to parallel research questions asked to investors, such as "How can entrepreneurs become sustainable?" (WEF 2017), again with the assumption that scale must precede poverty-alleviation outcomes.

Another challenge is the selection bias of the research. Studies like those of the World Economic Forum or the Keystone Accountability, an organization specializing in collecting social performance feedback (WEF 2017; Keystone Accountability 2010) provide reports of entrepreneurs' perspective about how their investors are doing. These insights are important, especially because they highlight entrepreneurs' lack of understanding of investors' social impact goals or how to meet them (Keystone Accountability 2010). Yet, these are all entrepreneurs who have been successful in acquiring impact investment.

By sampling only those who are already successful, perspectives of the majority of enterprises seeking impact investors get left behind. Just as investors face the responsibility of measuring social and financial return, entrepreneurs experience the responsibility of actually creating social and financial return, and then aligning their value creation with an investors' expectation (Bolis and Alexander 2017). This perspective has yet to be understood.

INTERVIEW FINDINGS

CONSISTENT THEMES

The findings of our interviews are organized according to a two-step coding process. In the first step we sorted how the entrepreneurs have engaged in the impact investing process into one of three large thematic groups of findings: (1) how impact investing is defined, (2) who entrepreneurs come into contact with, and (3) what happens as a result of who is funded and how funding is allocated. These groups parallel the processual nature of how a stakeholder engages in the sector—first by understanding its definition, next by engaging with entrepreneurs and investors, and last by looking at outcomes and measurement. The second step of coding mapped 12 more specific themes, or findings, into the three thematic groups. The 12 themes of findings are not necessarily mutually exclusive, as themes from thematic group 1 may relate to themes from group 2. The processual nature of moving from group 1 to group 3 in the impact investing process explains the interrelated nature of the themes. For example, giving preference to foreign entrepreneurs (finding 3) is also embedded in who investors are more willing to trust (finding 5).

The following table provides an overview of the 12 findings, and Appendix B provides examples of quotes from entrepreneurs and how they fit into these themes. Following the table, we explain each of the themes from the perspective of entrepreneurs, mindful that some themes did not pertain to some entrepreneurs. We'd like to emphasize that the quotes presented are representative of consistent findings, but are not generalizable to *all* interviewees.

We conclude this section with an analysis of gender. Gender was not a primary focus of our report, but we did ask whether gender influenced the impact investing process, and more generally, we asked whether impact entrepreneurs experienced gender-related issues.

Table 3. Thematic groups and specific findings that emerged from interviews

Thematic groups	Specific themes/findings
1. Defining impact investing	1. Prioritizing finance over impact
	2. Confronting a culture of dependency
	3. Giving preference to foreign entrepreneurs
	4. Conflicting views on theories of change
2. Engaging in the investor-entrepreneur relationship	5. Enabling or constraining trust
	6. Who possesses knowledge?
	7. Impact investing language is exclusive
	8. Perceptions of power
3. Receiving impact investing (outcome)	9. Not all impact enterprises need an impact investment
	10. High concentration of "darlings"
	11. Poverty outcomes are a "nice to have"
	12. The impact entrepreneurs take more risks than investors

Thematic group I: Defining impact investing

As articulated in Section 2, the tensions of impact outcomes, business outcomes, and growth derive from the lack of an agreed-upon definition of what impact investing is, and how it is measured. While the lack of clarity around the definition is not new, interview participants said this lack of clarity stems from the identity, culture, or norms of the investor's background. In the general category of "defining impact investing," four subthemes emerged from our interviews:

Finding/theme 1. Prioritizing finance over impact. Impact investing claims to have fundamentally different goals from traditional finance. Yet many entrepreneurs held the opinion that impact investing is emerging in their culture based on the processes and behaviors of conventional finance. With regard the selection process, entrepreneurs felt investors sought digital startups or familiar business sectors of interest, particularly foreign investors. "Our business model is scalable, but it's not traditional [digital]" (M5), expressed an entrepreneur whose agriculture business aims to empower women and girls and produce healthy food at scale. While her impact thesis is certainly compelling, she claimed that in her experience, it is not typically what investors are looking for. Further, entrepreneurs felt they had to align scalability with the models of conventional finance. One interviewee said that when investors asked whether entrepreneurs could adopt a high-tech, high-growth solution to the problem they were solving, she reminded them that they were in Africa, and responded, "the reality is, you're not going to invest in most of the companies [here], because there's no hockey-stick [curves]." (K1). The fundamental issue of providing equity is its reliance on scalability. However, most impact entrepreneurs interviewed would be unable to scale at the rate that familiar high-growth enterprises in the developed world can operate. Ultimately, the entrepreneurs deemed that investor bias imposed conventional finance systems onto a new context with a broader set of motivations.

Finding/theme 2. Confronting a culture of dependency. Local impact entrepreneurs operate in cultures shaped by the presence of aid. Many stakeholders may see appeal in impact investing because it challenges the culture of aid dependency. One comment illustrates entrepreneurs' excitement about impact investing precisely because it was not in the form of aid. "What happens if we receive funds that are not investment driven, and they are more like ... alleviation or relief funds? They keep promoting this culture of receiving money for free and not having to return it. And that, from my point of view, impoverishes the business ability of these enterprises. Because then you don't have the pressure of making it work" (M6).

Even with this more business-minded thinking, some entrepreneurs expressed a fear that even this form of capital will contribute to dependency in impact investing: "I believe there's a culture which just feels that there is a lot of free money out there, and you just pitch, and … you just get the money and then you don't end up delivering. And that's a dangerous culture, as well. And I feel that … the investors are also … fueling that kind of a culture, which is the sad part" (K10).

What this theme specifically addresses is the manner in which capital is allocated. In no way does the *manner* in which funding is allocated influence how entrepreneurs' felt about the accessibility of capital. As it relates to the thematic group 1 findings (the definition of impact investing), our interviews reflect a strong urge for impact investors to consider how their approach to impact investing overcomes the culture of aid dominant in many of their local contexts.

Finding/theme 3. Giving preference to foreign entrepreneurs. Entrepreneurs described a strong dynamic between entrepreneurs and investors— regardless of whether the entrepreneurs were from the host country or were foreigners/expatriates. First, foreign investors may prefer to work with a foreign entrepreneur owing to convenience, trust, or familiarity. "They [foreign investors] have the funds [and are] willing and ready to come in and invest. But when they come here, they find that the culture is too different. They would rather invest in the European who lives in Kenya, managing a project in Kenya, rather than [invest in] a local project." Second, our set of interviewees felt foreign investors may either not understand local entrepreneurs, or may avoid working alongside local entrepreneurs because of the higher risk of failure. While foreign investors often encourage experimental approaches to encourage innovation, the repercussion for failed experiments is far greater for the local entrepreneur than for the greater-resourced foreign entrepreneur. “Foreign impact investors feel like they are experimenting more than taking it as seriously as … locals—our lives are on the line” (I1.) Third, local investors have a better understanding of local norms and how to overcome structural barriers, decreasing the time it takes to receive funding. In speaking about the difference between working with a foreign or local investor, one entrepreneur noted that foreign investors felt that “they would need to comply with all of the rules and regulations,” (I6) rather than focusing on the norms embedded within the rules. This process ended up taking far more administrative time and effort, and ultimately, the investor did not end up investing.

Finding/theme 4. Conflicting views on theories of change. Entrepreneurs were unsure of what investors viewed as impactful. For example, one entrepreneur who pitched to an audience of potential investors received two conflicting views from them on how impact should be calculated. The entrepreneur knew changing his impact focus to adapt to one of the investors would also fundamentally change the nature of the business. What would happen if he had to seek investment or support from an additional stakeholder with a different view on impact? One entrepreneur noted the tension experienced when encountering investors in the fundraising process: “There are two types of impact investors: those who are looking for profit and good profit margins, and those who are willing to fund a project purely based on the impact it can bring into the local community” (K7). Entrepreneurs felt “impact” is being defined as what the investor is looking for, without actually asking how the entrepreneurs define impact. One entrepreneur illustrates this impression in a comment regarding the alignment of expected outcomes: “I think we should all think about exits. But, for them, they think about it more along the lines of venture capital” (I10).

Thematic group 2: Investor-entrepreneur relationship

The second thematic group of findings focuses on the nature of the entrepreneur-investor relationship. Several of the tensions inherent in impact investing, including resource acquisition, time, and the role of intermediaries, influence the relationship formed between investors and entrepreneurs. Research to date is incomplete without a deeper understanding of the investor-entrepreneur relationship, which consists of four influential dynamics: trust, knowledge, language, and power:

Finding/theme 5. Enabling or constraining trust. Impact entrepreneurs are most in need of capital in the earlier stages of the business, yet investors often look for more mature enterprises, as massive uncertainty becomes calculable risk (Knight 1921). Investors typically prefer to invest at the stage in which risk can be calculated rather than when the outcome of the enterprise is completely unknown. Yet many impact entrepreneurs need capital and investor support in order to *overcome* uncertainty. This is known in as “the valley of death,” whereby most enterprises fail because they are still looking for capacity-building support but there is little capital available for this stage (Deiglemeier and Greco, 2018). According to our interviewed entrepreneurs, those investors who *do* provide this type of capital are those who enable trust in their relationship rather than constrain it. This occurs when the investors shift their expectations from merely hoping to avoid hiccups or potential failure to building a strong foundation to work through such challenges. Entrepreneurs are seeking an investor who sees an opportunity to build a stormproof enterprise alongside the entrepreneur.

Unfortunately, entrepreneurs also feel that investors more readily trust those entrepreneurs who share similar characteristics, such as product familiarity or country background. For example: “There’s enough of us young people, black Africans, who’ve had exposure in the Western countries. And we’re good. I mean, we dress well. We speak well. We’re eloquent. But, apparently, [if] you don’t have a Harvard or a Stanford degree, you’re put on the sidelines. Because you’re still African. [It’s like they are saying,] ‘We really can’t trust you because ... where are you going to take our money?’” (K13)

In order to overcome this familiarity bias, some impact entrepreneurs and investors have addressed trust constraints in the earliest stages. Entrepreneurs explain that this step takes place when investors “walked with me, and they talked … they walked the talk” (K4), and when “they know me right from the early stages” (K2). Whether it’s associating with impact investors early or expecting them to work alongside of communities, articulating how enabling trust becomes embedded in the relationship earlier encourages more successful partnerships.

Finding/theme 6. Who possesses knowledge? One of the challenges of defining impact investing stems from the global nature of stakeholders involved, paired with the local focus of enterprise operations. Knowledge can be viewed as know-how, know-who, and know-why, which are all determined based on context. Where an entrepreneur may “know-why”—they believe a product may have challenges scaling—an investor may “know-who” to speak with about scaling the opportunity. While both the entrepreneur and the investor have knowledge, such knowledge must be recognized by the other. The challenge our interviewed entrepreneurs felt is that their expertise and different forms of knowledge were not being acknowledged. For example, one entrepreneur questioned “whether impact investors are really committed to solving poverty issues. … They want us to subscribe to their way of doing things. But who’s the expert?” (K1). Another entrepreneur expressed how the expertise of finance is equivalent to intellectual capability but not widely applicable in the context: “So, you have this high-flying investor thinking that this particular entrepreneur is as stupid as can be, because they’ve not figured out how to do a recurring revenue model” (K12).

Theme 7. Impact investing language is exclusive. The ambiguity of impact investing has garnered a wide audience representing different sectors. Consequently, investors or entrepreneurs suffer when they fail to fully understand the complexity of either the *impact* or the *investment.* One entrepreneur articulates, “It is a complicated space. With so many terms and things. I mean, I did not know a word. ...[Y]esterday someone was talking about LPs and CPs and all those other kinds of things. And I [wasn’t following] ... as an investee ... the language itself is a barrier” (I6).

Impact investors may influence the trajectory of businesses, and may even unintentionally steer the market to products that do not alleviate poverty, even when poverty alleviation is the investing goal. For example, entrepreneurs said that investors created a huge market for cookstoves due to the easily scalable nature of the product, while markets in agriculture were left behind or marginalized (Hanna, Duflo, and Greenstone 2012). One entrepreneur expressed the tension in aligning outcome expectations based on this exclusivity:

> Because those numbers to me just ... came from nowhere. They [the investors] just multiplied it based on, you know, what we should achieve, so that in five years, according to them, this should be the revenue, and then they can have an exit. Instead of being practical and saying, ‘Now look, this is what we’ve done so far. … This is the maximum growth we can have, if everything goes well.’ And because it’s an impact business, there has to be a lot of focus on training and all social aspects, as well. For which, all you need is time. You can’t train a person [to create] an export-quality product in a month or two. (I1)

Entrepreneurs who do not have an understanding of the available and appropriate source and structure of finance may agree to unfavorable terms. Furthermore, entrepreneurs may spend far too much time trying to navigate the investment process and neglect business operations.

Our interviews led us to speculate that professional financial language may exclude or discourage local entrepreneurs from participating in impact investing. This impediment may be exacerbated for marginalized groups, such as women and non-English speakers. Two interviews with female founders revealed that they did not feel confident “discussing the numbers” (I1) because they felt their gender influenced an investor’s willingness to listen to them. Similarly, non-English speakers face an even higher barrier, as many pitch presentations or applications for funding are conducted in English. As stated by one entrepreneur in Mexico who does speak English, “The guy from Chiapas, he doesn’t know how to give a pitch in English. So, also another bias” (M1). Further research is needed to explore the specific challenges of women and non-English speakers face, and what forms of inclusive language may minimize these challenges.

Finding/theme 8. Perceptions of power. Generalizing from the previous theme, exclusivity in language, there is a broader perception of power in the nature of the investor-entrepreneur relationship. In the impact investing sector, one interviewee told us, “[The] golden rule is: The one with the gold makes the decision” (K12). Entrepreneurs felt this creates a dynamic in which impact entrepreneurs feel they must adapt to what the investors want to hear and see in order to receive investment. Impact investors may forget the power they hold owing to their position and circumstance, and consequently lose sight of the entrepreneurs’ expertise. As articulated by an entrepreneur sharing a story of her friends’ experience, “[The investors] seem to forget that [my friends have] some idea of how that market works. And they try to push these particular restrictions on them, because they have money. And so, they’re using this money to do that. But they’re not entirely understanding that [my friends] have seven years of experience, and they’ve survived for a reason” (I2).

Finally, investors may prioritize enterprises with rosy valuations or projections that have been inflated to tell the story that they want to hear. The pressure to show such figures may stem from a lack of clarity about what impact components should be measured and displayed, or from a desire to give investors what they seem to want. One entrepreneur held the opinion that prioritizing valuations led to a “sort of a pressure to show very big figures. And then, they’re not always quality” (K1). Because due diligence is costly to obtain and ascertaining the actual quality of the business is unknown, investors may end up with a skewed proportion of failed enterprises from the start. As a consequence, increased information leads to “lots of people telling lies about what they’re really doing” (K12), and potentially “costs you your dignity” (K12).

Thematic group 3: Receiving impact investing/Outcome

A third group of themes focuses on what happens as a result of who is funded and how funding is allocated. Tensions such as the resource acquisition, time, and consequences of failure lead to a better understanding of *who* is receiving impact investing, and how capital is received. The specific subthemes detailed below, featuring interviewed entrepreneurs’ perspective of the types of entrepreneurs being funded and how investments are measured, corroborate some of the tensions discovered in the literature review (for example, consequences of failure lead to the level of risk an investment can take).

Finding/theme 9. Not all impact enterprise needs an impact investment. A widespread assumption is that impact investing is the saving grace for impact enterprises and that impact investment is *necessary* in order for impact to be had. This assumption resonates with the entrepreneurs we interviewed. As a result, some entrepreneurs viewed investment as a success metric rather than a mechanism to achieve success: “Now I know, our company and the stage that it was at, completely was not ready to take on that size of investment. And, again, the ignorance is on both of our part[s]. It’s on my part for not recognizing that, yes, and seeing that, yeah, I was enamored by the dollar signs” (K3).

However, some entrepreneurs realized that their enterprise was not necessarily fit for investment, or for the particular investors’ terms. For example, “So, there were opportunities we saw and [that] we said no to because it would have pulled us off that track” (I11). While entrepreneurs agreed that the structure and source of finance must align with the specific enterprise, there was little transparency as to why they were not fit with the investor. Entrepreneurs felt the onus is not on the impact investors to automatically provide funding, but to provide specific feedback to entrepreneurs.

Finding/theme 10. High concentration of darlings. The type of entrepreneur and enterprise that gets funded results from the ideas in thematic group 2 on the nature of power and trust in the entrepreneur-investor relationship. Entrepreneurs believe there to be high levels of capital concentration into specific “darling” companies. One entrepreneur explains, “There is a tendency for us in the impact investing world to keep funding a handful of very well-known success stories—so, that means that alternate models or people talking about different things, like me, if I’m talking about agriculture, I walk into a room and a couple of other big names will walk in and all the oxygen gets sucked out” (I10). These companies seem to be further distances from the localized and poverty focus of many of our interviewed entrepreneurs. As an example: “There’s a lot of money for sustainability and green energy and what have you. But if it’s not really getting down to that person who is at the grassroots” (K4).

The consequence of investing in such darling companies, entrepreneurs expressed, were twofold: (1) fewer entrepreneurs working at the local levels have opportunity to receive investment, and (2) investors become less transparent or conduct less due diligence when funding these companies because they rely on the reputation of previous funding to justify their support.

Finding/theme 11. Poverty outcomes are a nice-to-have. When impact investing is defined by themes like prioritizing finance over impact (theme 1), measuring poverty outcomes becomes less critical. Entrepreneurs said that investors emphasized financial metrics over the impact thesis of the organization. Capital-focused, rather than impact-focused conversations took place during the application process, the due diligence phase, and even after receiving investment. One entrepreneur had to question the investor in reflection: “Are you serious about addressing poverty or are you after the excitement and the thrill of the story?” (I13).

The challenge of addressing poverty is far greater than measures such as "amount of capital invested in X country" or "this enterprise reached x growth last year." Yet that is what most of the investors seem to focus on when milestones are created for impact entrepreneurs. Entrepreneurs feel that the challenge of addressing poverty must take a deeper measurement than growth or amount of capital allocated. As articulated by one entrepreneur, "The deepest [outcome] has to be completely transforming to changing the 'why' from growth to actually, you know, to thriving, to balance, to well-being, to, like, completely different outcomes. And that is not growth related" (M4).

Finding/theme 12. Who takes more risks—impact entrepreneurs or investors? While risk is named as a theme in this thematic group, we realize that we have not fully investigated all potential risks in the impact investing sector because the current operative is founded on assumptions in the capital market.

Stemming from the power theme (theme 8) in the investor-entrepreneur relationship, both parties incur risk in assessing outcomes of impact investment. The literature review heavily emphasizes that impact investors face high risk in investing into new, different, or uncertain markets. On the flip side, entrepreneurs eclipse this complaint because they are also incurring risk in the contexts in which they work.

Most of the impact entrepreneurs interviewed are profitable but cash-flow negative, making investing in their enterprises riskier. As articulated in thematic group 1, investment behavior norms such as looking for risk-taking entrepreneurs as a sign of commitment, do not always align with the reality of impact entrepreneurs. Local entrepreneurs are seen as a higher investment risk than expats for fear of inability to repay, or lack of familiarity or trust. As a response to this frustration, one entrepreneur challenges potential investors to "Come with an open mind. And believe more. Trust more. Take that bet. Walk with the person. They're not just another statistic. So just walk with them. Put in a certain amount. Risk it. Have some risk capital. Just risk it, and see where it will take you" (K1).

However, entrepreneurs expressed that investors do not necessarily respect how much risk the entrepreneur has taken to pursue their endeavor. One entrepreneur articulates how an impact investor's fund was "run by somebody with very deep pockets who was dabbling. I think there's no other way [to say it]—dabbling in social enterprise and in impact investing. [He did] not have a clue" (K3). Just like knowledge and expertise, who has "more" risk is also relative, based on the audience. And in the context of poverty, larger risk is required to overcome massive uncertainty.

Findings related to gender

Our interviews asked two gender-related questions:

- How is achieving gender equity integrated into your business model?
- In your opinion, how does the gender dynamic play out in the fundraising and partnership process?

Gender was not a primary focus of this research project, but it is a core Oxfam theme (women's economic empowerment) and an integral part of financial inclusion (e.g., gender lens investing). We felt it important to gauge how gender is viewed across sectors, by country, and by both male and female founders. Although this report is not conclusive as our sample size is too small to generalize, we highlight a few interesting observations that could be used for future gender-focused research.

As much research has demonstrated, gender equity is vital for economic development (e.g., Elborgh-Woytek et al. 2013). In impact enterprises, gender is considered across four components of the business model: the founders, the employees, the beneficiaries, or the supply chain. Our interviews reflected that enterprises focus on gender equity in one or more of these business model components. For example, having a woman co-founder or founder (I13), hiring more women employees (I2), providing products like cookstoves with a focus on women's education (K11), or using women producers for supply chain inputs (M6), but rarely is gender-equity a focus of all four components.

Entrepreneurs were able to identify the barriers that exist for women more generally in their culture, and their enterprises were responses to those barriers in some way.

The gender equity focus may be influenced by the following factors:

- Location (urban vs. rural)
- Cultural norms
- Legal and institutional norms
- Industry (agriculture vs. financial services)
- Education of business knowledge and know how

In response to the second question related to how gender plays out in fundraising and partnership dynamics, entrepreneurs explained that the impact investing process suffers from challenges similar to those women face within cultural and country context. Even if an investor wanted to focus on gender through any of the four aforementioned business components, the investor would have to find ways to overcome barriers within the local context. For example, one entrepreneur said that just adding women to the workplace did not eliminate the gender bias women faced elsewhere as “the gender bias was more at home” (I1). As stated by another, “It has nothing to do with the investor lens. It has to do with, unfortunately, you know, the gender lens for all” (I8).

In our context of local entrepreneurs in developing countries, the gender component may be even more important to consider, as barriers women face were ever-present across the entire business model. Our interviews reveal that there is no clear-cut solution to achieving gender equity in investing. Simply investing in women-run businesses or women beneficiaries may only be a part of the solution. One entrepreneur commented, “Gender is ever-present. The thing is, how do you make it more evident” (M4). The impact investing sector generally recognizes the importance of gender lens investing, as well as the need for metrics to go beyond counting the number of founders, beneficiaries, or board members who are women.

DISCUSSION

This report aims to distill what we learned from our literature review and our experience speaking with local impact entrepreneurs. The literature review revealed seven tensions those participating in the impact investing sector face. Our interview findings illustrate the barriers entrepreneurs face in three stages of the impact investing process.

Two dominant patterns emerge from our findings and literature review. First, related to thematic group 1 (definition) and thematic group 2 (relationship) findings, the investor expectations differ based on heterogeneity of investor preferences and priorities. Second, related to thematic group 3 (outcome) findings, impact investing outcomes result from a transactional process despite their intentions to be transformational. We discuss these two patterns in more depth in this section.

Investor expectations have different priorities and they manifest differently

Investor expectations have different priorities and they manifest differently based on the following.

Emphasis of impact

Investors navigate the tension of impact outcomes subjectively; investors choose the mission and therefore own the vision of impact, implicitly skewing investments toward the solutions or technologies that investors *want* to fund, at times even when local entrepreneurs would prefer a different path to the stated impact goal (findings/themes 1, 2, 4, and 8 from Table 3). For example, one entrepreneur shared how certain investors only focused on cookstoves as a priority for a fundable, scalable business to address poverty. Because of their focus primarily on the product and whether they had a large enough target market to scale, the entrepreneur feared investors would forget the problem they had hoped to solve in the first place: local poverty, not a lack of cook stoves. There are some solutions to this lack of understanding. For example, crowdfunding platforms like Kiva and Global Giving educate individual investors about the breadth and depth of opportunities on the supply side, ideally broadening investor interest beyond subjective preferences.

Preference towards scalability

Impact investing literature demonstrates a tension between sustainability versus scalability and growth; where investors fall on this spectrum determines how and if investors will engage with entrepreneurs. While many investors may equate scale with high impact, some investors insist on concentrating on a more narrowly focused population to ease poverty (findings/themes 3 and 4). The former may be more profitable, while the latter may be more expensive and—unable to reach scale to millions of individuals—rarely receives funding.

One nascent solution to scalability—"investor marketplaces"—would build on the crowdfunding technology and impact-driven strategies of platforms like Kiva, but at a level of sophistication and project size that could attract larger, accredited impact investors. At a macro level, these marketplaces would ideally help overcome the barrier of slow flow of capital to social enterprises. Several foundations have collaborated with companies and NGOs to form such investor marketplaces, including SVX in Canada, IIX Impact Partners in Singapore, and in the US, ImpactUS and Mission Markets. Unfortunately, both the ImpactUS and Mission Markets platforms, despite enjoying significant donor support from the like of the MacArthur and Ford Foundations, closed in 2018–2019, suggesting the impact marketplace business model requires further analysis. Thought leaders within the impact investing space should parse the differences in these platforms to determine why some models are successful. In the case of SVX, for example, the Canadian government contributed funding, unlike the two US examples that failed. Did government buy-in help SVX succeed, or were there other, less obvious factors? Are there lessons to be learned from impact marketplaces dedicated to climate-related impact goals?

Evaluation of local experience

In thematic group 2 of our findings, when and how investors engage with entrepreneurs depend on whether they know the entrepreneur is well-qualified to successfully run and grow a business. Yet entrepreneurs feel that the prioritized "signal of quality" investors consider relevant is beyond most entrepreneurs' reach: a degree from a top Western university, financial modeling skills, and English fluency (findings/themes 3, 5, 6, and 7). This bias is problematic if the goal of impact investing is to overcome inequality, as some forms of experience are bound inextricably to privilege. Impact entrepreneurs felt frustrated that to be seen as capable of solving the problems of poverty, they should have had experiences that are expensive, hard to obtain, and sometimes (as in the case of English language ability) beside the point.

Organizations like Echoing Green are addressing the need to enhance entrepreneur experience by identifying leaders early in their careers and providing a comprehensive fellowship program. Completion of a fellowship sends a signal just as education, financial experience, or English fluency does to spark investors' interest in a more unique set of entrepreneurs.

Impact investing is meant to be transformational, but much of the work is transactional

Impact investing is meant to be transformational, but much of the work is transactional due to the following factors.

De-coupling ownership of the* problem *from ownership of the business

The entrepreneur-investor relationship (thematic group 2) led to negative experiences (thematic group 3 findings) in instances where investors distanced themselves from the impact being received, seeing it as a product for which they had paid for with their investment. More successful partnerships may result when investors and entrepreneurs shoulder the problem together. These partnerships diminish power imbalances through trust and shared decision-making processes (finding/theme 5). Entrepreneurs felt that investors who had had development experience, lived in the region, worked in the impact sector, or became “a fly on the wall” (K11) were more practiced in creating ways of working that shared the burden and responsibility of creating impact. In this way, investors and entrepreneurs would share the risk required of both parties (finding/theme 12). A recent report by the Institute of Development Studies (IDS; Higdon and O’Flynn 2018a; Higdon and O’Flynn 2018b) highlights opportunities for participatory approaches within the impact investing cycle. Investors like the Buen Vivir Fund prioritize community stakeholders by including them in the board of directors (Higdon and O’Flynn 2018a; Higdon and O’Flynn 2018b).

Lack of accountability to impact measurements

Entrepreneurs felt that a lack of consistent impact measurement or responsibility to adhere to such measurements resulted in the mentality that impact is a “nice to have” rather than a “must have” when speaking with their investors (finding/theme 11). They said that *wanting* to hold oneself accountable to financial and social impact is different than *needing* to do so. In impact investing, the investor decides what is most important based on what the investor cares about most.

Some investors have measured impact by embedding investees in the process (such as the lending and advisory services organization, Root Capital), designing incentive structures that reward managers based on social impact measurement (e.g., venture capital firm Core Innovation Capital), or considering vehicles like social impact bonds or program-related investments where impact is reported as a measure of legality.

Measuring the quantity of investments rather than the quality

Related to the tensions of resource acquisition and time spent on fundraising, the literature review highlights a widespread assumption among all stakeholders in the impact investing sector that receiving capital is the primary outcome of interest. What is overlooked is how favorable the terms of the capital are, whether the capital is allocated effectively, and what subsequent outcomes take place as a result of the investment. Investors are influenced by focusing on the quantity of investment rather than how the investment serves as a mechanism to drive impact. In some instances, enterprises do not necessarily need investment, yet they do not receive that feedback and may result in costly efforts to raise funds (findings/themes 9 and 12).

Innovators such as Morgan Simon (Simon 2017), provide insights as to how investments can overcome short-sightedness by shifting away from measuring poverty alleviation *intentions* toward actual value-creation of global prosperity.

Our research reveals two patterns in the current impact investing sector, differences in investor preferences and transactional outcomes related to those preferences. This discussion of our findings is at a level of analysis removed from the entrepreneurs' voice. The next section provides specific recommendations directly from the entrepreneur interviews.

RECOMMENDATIONS FROM ENTREPRENEURS

The purpose of this research is to elevate entrepreneurs' voices by sharing what they believe is necessary for impact investing to be substantively unique from the mainstream finance and philanthropic sectors. Up to now, this report has been evaluating the entrepreneurs' voices at a high level of abstraction to identify common themes. This section aims to directly correspond with the entrepreneurs' voices.

We asked entrepreneurs two questions related the impact investing process: "If you could wave a magic wand and change impact investing in any which way, what would you do?" and "What suggestions would you make to impact investors directly?" We wanted to gauge what the demand side—according to this set of local impact entrepreneurs—envisioned an *ideal* impact investor should look like, behave, and act. The entrepreneurs' recommendations map to the three thematic groups from the findings: (1) defining impact investment, (2) engaging in the investor-entrepreneur relationship, and (3) receiving impact investment/outcome. (Appendix C provides a list of their suggestions.)

While impact investing institutions and thought leaders are focused on consensus-building of what "counts" as impact investing (e.g., the GIIN, WEF, and Impact Management Project), the demand side articulated frustrations with investors not clearly communicating what their impact intentions and expectations were. To entrepreneurs, an investor's conviction mattered more than consensus of who and what defined impact investing. And by "conviction," they meant that investors were able to clearly articulate what they considered impact, what their expectations for the entrepreneur were, and what directions they could point the entrepreneur in should there not be an alignment in their definition of impact. Entrepreneurs delineated six specific recommendations for impact investors (the first two recommendations relate to thematic group 1, defining impact investment; the second two recommendations apply to thematic group 2, engaging in the investor-entrepreneur relationship; and the last two recommendations fall into thematic group 3, receiving impact investment/outcomes).

Entrepreneurs' recommendations for impact investors

1. *Create a code of* impact intentions. Previous reports and organizations encourage investors to embed intentionality around impact. Whether it is a code of practice (Bolis and West 2017), or a taxonomy of impact (WEF, 2018), those who deploy capital for the purpose of impact need to clarify what

their impact is beyond a mission statement or target population. Entrepreneurs felt that *intentions* did not meet what actually occurred in the due diligence, negotiation, and post-contract process with investors.

2. *Mutually define impact*. Even if investors led with impact over financial intentions, impact intentions were often pre-defined. When that was the case, entrepreneurs felt their vision of impact was unimportant or consequentially, left out of the equation. As a result, the investors and entrepreneurs disagreed over ways in which entrepreneurs could be most impactful. Subsequently, the impact focus ended up being something the investor prioritized rather than being grounded in the local reality and context.

3. *Be inclusive*. While a number of innovators in impact investing urge investors to increase the level of Inclusiveness by choosing investees who do not look like them (e.g., different in terms of gender or geography) or go to the same events (e.g., Baird 2017), investors who do so are few and far between. Local entrepreneurs often felt excluded from the sector if they did not have the network or speak the language. The language barrier includes not just English, but more importantly, technical financial terminology. If entrepreneurs did not know what to ask for specifically, they feared being seen as an “un-investable entrepreneur.” What is needed is not just support in building scalable businesses, but support in learning about fundraising, from whom, and on what terms. Such knowledge may be especially important to achieve gender justice in impact investing, as observed in our findings. More specific research with this focus can explore how to overcome these nuances.

4. Display transparency *of the impact*. Most entrepreneurs were unaware of consensus-building efforts to define impact (such as the Impact Management Project) in the sector. As a result, many entrepreneurs also experienced the challenge of distinguishing one investor from another in regard to what investors were looking for in terms of impact. Entrepreneurs felt the fundraising process would greatly benefit if investors shared their impact expectations up front and in regular communications.

5. *Address real market needs.* Any number of reports will cite the latest trillion-dollar amount of capital deployed as impact investment. Entrepreneurs did not suggest that there was insufficient capital, but rather that the allocated capital was distributed in large quantities to a few entrepreneurs. While the economies of scale argument may hold, entrepreneurs felt that for investment to truly be *impact* focused, the size of impact investment must align to the market needs. In their eyes, market needs were in smaller quantities addressing specific problems.

6. *Find ways to reduce transaction costs without reducing impact intentions*. Realizing that it takes an extensive amount of time and effort to reach local

entrepreneurs embedded in communities of poverty, entrepreneurs suggest finding ways to reduce transaction costs that do not take shortcuts to the amount of impact to be gained. Some suggestions include utilizing local resources such as fund managers, co-investing with local investors or across sectors (philanthropic and mainstream sectors working together), embedding third-party local support into the investment negotiation process, and staging investments to focus on impact outcomes.

CHECKLIST FOR THE FUTURE

This report highlights important issues that entrepreneurs felt were not being addressed and makes recommendations that focus on a more entrepreneur-centric decision-making process. While it is not realistic to ask every impact investor to fundamentally transform current practices, it is important that the voices and viewpoints of entrepreneurs are heard. Impact investors can take a first step in rethinking how they are entering into the impact investing sector by conducting entrepreneur-centric due diligence of their own practices using the following checklist of questions.

10 key questions impact investors should ask themselves

Biases:

1. How might the quality signals I look for in impact entrepreneurs leave out potential entrepreneurs worth investing in (e.g., only looking at those with higher education, those who speak English, etc.)?
2. How do I incorporate the developing market context that may influence business performance?
3. How do I know I am solving the right problem? What forms of stakeholder engagement have informed the problem I am trying to solve?
4. Do I take enough time to understand the problem that the impact entrepreneur is seeking to solve?

Diversification:

5. How can I come to value and appreciate local knowledge as expertise relevant for an impact business?
6. What would it take for an entrepreneur to get access to me? What barriers may be invisible to me that an entrepreneur would they have to overcome (e.g., geographic distance, language, etc.)?

Ethics:

7. What ethical and moral duty do I have to entrepreneurs in contexts where legal fiduciary duty does not exist?
8. If not me, then who or what? How can I guide entrepreneurs to the appropriate support?

9. How do I avoid competing with others but remain a part of the investment spectrum?

10. How do I help entrepreneurs navigate the investment journey over time?

Our checklist is particularly relevant as governments and development institutions clamor for greater investment in projects aligning with the Sustainable Development Goals (SDGs). The SDGs were created in 2015 to provide guidance on 17 different goals to advance global efforts on issues such as poverty, gender equality, climate change, and water. Impact investors may feel pressure to scale up their efforts, or make larger financing deals to help meet the SDGs by 2030. In fact, the 2018 Impact Investor Survey by The GIIN found that 55% of impact investors are already measuring their impact within the context of one or more SDG goals (GIIN 2018b). Our checklist can help target investments and other resources, such as mentorship and networks, to worthy entrepreneurs furthering SDG goals that might otherwise be overlooked.

CONCLUSION

Primary research conducted on impact entrepreneurs offers important insights about their perceptions of the impact investing sector. While many entrepreneurs acknowledge the tensions investors face in making commitments to impact enterprises serving both mission and business, they are critical that the manner in which investors approach impact investing remains largely tied to preferences they developed in their previous work (mainstream finance or aid-based grant allocations). Frustrations arise when investors do little to recognize the nuanced experiences of an entrepreneur and her impact thesis.

In addition, although entrepreneurs recognize the difficulty of providing patient or flexible capital, an even greater emphasis on how capital is allocated would improve the alignment of the investor and entrepreneur. Direct recommendations from entrepreneurs shape a different model that moves away from the norms and behaviors of both the private sector of purely commercial enterprise and the public sector of aid-based work.

This report paves a new way forward for understanding the evolving impact investing sector. It explores how a different sample of stakeholders—local entrepreneurs, many of whom had not received impact investments—experienced impact investing. While this report provides a high-level overview with broad implications, the field would be better served by understanding how these recommendations fit in different contexts (e.g., urban vs. rural, industry sector, and country-specific nuances). Following these stakeholders over time could provide additional insights into how the investor-entrepreneur relationship dynamic changes as different milestones are achieved—or not. Future studies could examine how the tensions revealed in our literature review are reconciled, or embraced, into the relational dynamics between investors and entrepreneurs. Greater depth in each impact investing market (such as those that are impact-first or finance-first) would allow for greater internal validity of the contextual nuances. A comprehensive study of specific investor-entrepreneur interactions, such as from meetings and phone calls, would be useful in evaluating investor and entrepreneur preferences. Another area for future analysis could be an assessment of how misalignment of impact goals may lead to failed partnerships and subsequently failed enterprises. We hope this new path reinvigorates a set of trailblazers willing to brave the unknown but evolving impact investing sector.

APPENDIX A: METHODOLOGY

Data collection process

Our research setting focused on three key emerging impact investing markets: Kenya, India, and Mexico. To address our research questions, we used a qualitative inductive methodology (Strauss and Corbin 1998). This exploratory approach allowed the entrepreneurs to openly share their experiences in the impact investing process and decide what was most salient, rather than being primed to discuss certain topics.

Method and selection

Our method of gathering data for this report involved multiple sources and country partners. We first formed a commission of experts and practitioners (mentioned in the acknowledgments) who guided our research throughout the entire process. Next, we requested to interview local entrepreneurs from social sector organizations with knowledge of the global and local impact investing sector. Additional interviewees were suggested by other intermediary organizations and members of the commission, who put us in touch with entrepreneurs from their networks. Using a snowball sampling technique, we followed up with additional entrepreneurs who were suggested in our interviews during our in-country visits. These follow-up interviews were conducted after our in-country trips. In addition, our trip to Kenya included a few additional informal interviews and observations from the SANKALP 2018 Africa Summit, a conference in Nairobi, Kenya, designed to encourage growth strategies for the region in the areas of impact investing and innovation.

The interviewees were selected using the following two-step process:

- *Step 1: We developed generic criteria for the impact enterprise*. First, each enterprise was required to be a legal entity created for the purpose of alleviating poverty; this requirement was not bound to structure or industry. Second, the enterprise had to have a revenue stream and be deemed potentially “investable.” Third, we required that the enterprise be locally owned or managed. Finally, with a few exceptions, we required that the enterprise be working mostly in sectors similar to Oxfam’s themes of agriculture and food, clean energy access for people living in poverty, women’s economic empowerment, and inclusive finance.

- *Step 2: We initiated contact with organizations with operations in Kenya, India, and Mexico to identify enterprises that met these criteria*. We conducted exploratory conversations with the organizational partners in this research project to identify interviewees willing to share their experience. Entrepreneurs who met the aforementioned criteria were invited by the social sector organizations. We were clear to inform all entrepreneurs that this was *not* a funding opportunity but rather a chance to share their insights. We provided an introduction both electronically and in person that described the effort and the criteria we were looking for. After considering how well the impact enterprises matched our criteria, as well as their availability to participate, we interviewed 43 impact entrepreneurs across all three countries. We excluded five interviews from our analysis because these entrepreneurs failed to meet our criteria; in each case the core of their business was focused on profit maximization versus an impact objective.

Limitations of the sample

We limited our initial sample to 43 interviews for two reasons. First, our ability to access local entrepreneurs with familiarity of impact investing was restricted by our limited time and the geography of the three countries where we conducted research (e.g., getting all entrepreneurs to the same location). Second, our inductive approach required that we seek out a variety of perspectives across industries and cultural characteristics, but not that we adopt a large sample that could be extrapolated broadly. For this reason, we cannot make widespread claims to compare and infer broader patterns, nor aggregate the data to prove any particular hypotheses. Thus, we recognize that each interview participant is not representative of every attribute (e.g., every female impact entrepreneur in Kenya who hasn't received funding does not feel one certain way). Instead, we classify their experiences into common themes. Finding ways to corroborate the behavior and outcomes expected of this sample would be fruitful for next steps. Adopting a larger sample size or even conducting a longitudinal study of local entrepreneurs over time would add greater certainty and depth to our findings.

One important aspect of our data is that each entrepreneur's experience with impact investing varied—some entrepreneurs who did not receive impact investing funds do not want them, have been denied, or have not yet applied. We did not disaggregate each instance because each of the 38 had a unique experience with impact investing. However, we can confirm that the attitude toward impact investing did not categorically differ between those who had been denied and those who were either uninterested or had not yet applied for funds. Again, this subject may be another potential area to explore in future research.

Data collection

Our primary data collection involved traveling to each of the three countries to observe impact enterprises and conduct in-person interviews. For the purpose of triangulation (Lincoln and Guba 1985), our data collection involved multiple sources of data (including interviews, observation, and field notes) and secondary data collection (including information about the impact enterprises and transcriptions of each interview).

- *Interviews:* Two researchers traveled to the study countries to conduct the interviews and observational analysis. A third researcher developed the research protocol and conducted the primary data analysis of interviews. The interviews were semi-structured to include the following topics: general background information of the entrepreneur, capital support for the enterprise, experience with impact investing, challenges in the process, and changes the entrepreneur would make to the process. Interviews ranged from 60 to 120 minutes. In total, we interviewed 43 impact entrepreneurs as well as four individuals who were working with some of the entrepreneurs and had deep contextual knowledge of impact investing and the local country. All interviews were audio-recorded and transcribed for further analysis.

- *Observation and field notes:* The two researchers took field notes while in the countries, including notes from an impact investing conference, interview observations, and reflections during the visits. The research team also conducted observational meetings before, during, and after each country visit. The meetings were audio-recorded and analyzed along with the field notes by the third researcher as supplementary information to the interview transcripts.

- *Secondary data:* Publicly available archival resources, such as news videos, LinkedIn profiles, and company websites were used to triangulate information about the impact venture and examine other attributes related to the impact entrepreneur and her venture. While researchers found publicly available information about most interviewees, such information was not found for all impact entrepreneurs.

Data analysis

As is common in qualitative research, our analysis was iterative and involved repeated comparisons of emerging data. We detail the process in phases:

- *Phase 1: Theme coding:* Using an open coding approach, we focused on key phrases, reflecting interviewees' experience with the impact investing process, what outcomes took place, and how the experience influenced the entrepreneur. We ended up with 12 themes, categorized into the three components of impact investing: defining the sector, engaging in the investor-entrepreneur relationship, and outcomes of impact investment such as who receives funding and under what conditions.

- *Phase 2: Design-thinking synthesis:* Using the themes and stories from the entrepreneurs, a group of external experts in the design-thinking process and familiar with the impact investing sector gathered to highlight the most prominent themes. In a two-day workshop in the summer of 2018, the group used the human-centered design process, a design framework that involves the human perspective to develop solutions to problems developed by IDEO.org, to first document the experience of the entrepreneurs (Social Capital Markets, 2018). This process involves a deep immersion into the life and context of the interviewees. We did this by documenting the life story and entrepreneurial endeavor of the interviewees, and asking how they experienced challenges and opportunities in impact investing. The external experts guided the group in cues that encouraged empathy and perspective. Next, common themes were highlighted in groups distinguished by specific entrepreneur and country attributes.

- *Phase 3: Overarching dimensions and recommendations*: Using data captured in the two-day workshop, the findings presented here illustrate (1) characterizations representative of the impact entrepreneurs interviewed and (2) actionable recommendations common among interview respondents. The purpose of the report is to share with the impact investing sector what we *heard,* not what we, as researchers, *suggest*. We aimed to keep the authenticity of the entrepreneurs by purely providing opinions rather than making a directive as to what the sector should do.

Interview sample

While there are certainly contextual nuances specific to each country, the purpose of our study was to broadly understand the entrepreneurs' experience. We did not set out to conduct a comparative case study, but such an approach would be an important avenue for future research to test our findings and analysis. Our hope is to see future work that may explore boundary conditions to our findings, based on differences across countries. Below, we offer the table of the aggregate sample of interview participants (Table A1: Interviewed entrepreneurs, their projects, funding, and experience), followed by a brief overview of the observed differences in each country. We also offer two examples of entrepreneurs from each country to illustrate the type of entrepreneurs we spoke with. This section concludes with a short summary of how gender is reflected in the sample.

Table A1: Interviewed entrepreneurs, their projects, funding, and experience

ID	Impact theme	Gender	Country of operation	Experience outside of local country (either in education or industry)	Foreign/local?	Stage of venture	Any funding?	Impact investment received?	Grants received?	Currently seeking capital?	Experience with impact investing (positive, negative, neutral)
K1	*Agriculture*	*F*	*Kenya*	*Y*	*Local*	*Post-revenue*	*Y*	*N*	*Y*	*Y*	*Negative*
K2	*Energy*	*M*	*Kenya*	*N*	*Local*	*Startup—not profitable yet*	*Y*	*N*	*Y*	*Y*	*Neutral*
K3	*Health care*	*F*	*Kenya*	*Y*	*Local*	*Post-revenue*	*Y*	*Y*	*Y*	*N*	*Negative*
K4	*Energy*	*M*	*Kenya*	*Y*	*Local*	*Post-revenue*	*Y*	*N*	*Y*	*N*	*Neutral*
K5	*Energy*	*M*	*Kenya*	*N/A**	*N/A*	*Post-revenue*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
K6	*Finance*	*M*	*Kenya*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
K7	*Energy*	*F*	*Kenya*	*Y*	*Local*	*Established business*	*Y*	*N*	*Y*	*Y*	*Neutral*
K8	*Energy*	*M*	*Kenya*	*Y*	*Local*	*Established business*	*Y*	*N*	*Y*	*Y*	*Neutral*
K9	*Energy*	*M*	*Kenya*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*NA*
K10	*Agriculture, energy*	*M*	*Kenya*	*Y*	*Local*	*Established business*	*Y*	*N*	*Y*	*Y*	*Neutral*
K11	*Finance*	*M*	*Kenya*	*N*	*Local*	*Startup*	*Y*	*N*	*N*	*Y*	*Negative*
K12	*Finance*	*M*	*Kenya*	*Y*	*Local*	*Startup*	*Y*	*N*	*N*	*Y*	*Positive*
K13	*Agriculture*	*F*	*Kenya*	*Y*	*Local*	*Post-revenue*	*Y*	*N*	*Y*	*N*	*Negative*
I1	*Livelihoods*	*F*	*India*	*Y*	*Local*	*Post-revenue*	*Y*	*N*	*Y*	*N*	*Negative*
I2	*Agriculture*	*M*	*India*	*N*	*Local*	*Post-revenue*	*Y*	*N*	*Y*	*Maybe*	*Neutral*
I3	*Energy*	*M*	*India*	*N/A*	*N/A*	*Established business*	*N/A*	*Y*	*N/A*	*N/A*	*N/A*

I4	*Agriculture, energy*	*M*	*India*	*N/A*	*N/A*	*Post-revenue*	*N/A*	*N*	*N/A*	*N/A*	*N/A*
I5	*Women's empowerment*	*F*	*India*	*Y*	*Local*	*Established business*	*Y*	*Y*	*Y*	*N*	*Positive*
I6	*Agriculture, women's empowerment*	*M*	*India*	*Y*	*Local*	*Established business*	*Y*	*N*	*Y*	*N*	*Neutral*
I7	*Financial services*	*F*	*India*	*Y*	*Local*	*Post-revenue/cash-flow positive*	*Y*	*Y*	*N*	*Maybe*	*Positive*
I8	*Agriculture*	*F*	*India*	*Y*	*Local*	*Post-revenue*	*Y*	*Y*	*Y*	*N*	*Positive*
I9	*Agriculture*	*M*	*India*	*Y*	*Local*	*Startup*	*Y*	*Y*	*Y*	*Y*	*Positive*
I10	*Agriculture*	*F*	*India*	*Y*	*Local*	*Established business*	*Y*	*N*	*Y*	*Y*	*Neutral*
I11	*Agriculture/online services*	*F*	*Sri Lanka*	*Y*	*Foreign*	*Startup—almost revenue-generating stage*	*Y*	*N*	*Y*	*Y*	*Neutral*
I12	*Women's empowerment*	*M*	*India*	*N/A*	*N/A*	*Post-revenue*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
I13	*Sanitation*	*M*	*India*	*Y*	*Local*	*Established business*	*Y*	*N*	*Y*	*Y*	*Negative*
I14	*Financial services*	*M/F (two founders)*	*India*	*N/A*	*N/A*	*Established business*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
I15	*Women's empowerment*	*M*	*Nepal*	*Y*	*Local*	*Startup*	*Y*	*N*	*Y*	*Y*	*Negative*
I16	*Women's empowerment*	*F*	*India*	*N/A*	*N/A*	*Established business*	*N/A*	*Y*	*Y*	*N/A*	*Neutral*
M1	*Agriculture*	*M*	*Mexico*	*Y*	*Foreign*	*Established business*	*Y*	*Y*	*N*	*N*	*Neutral*
M2	*Agriculture*	*F*	*Mexico*	*N*	*Local*	*Startup*	*N*	*N*	*N*	*N/A*	*Neutral*

M3	*Agriculture*	*F*	*Mexico*	*N*	*Local*	*Startup*	*Y*	*N*	*Y*	*N*	*Neutral*
M4	*Finance*	*F*	*Mexico*	*Y*	*Local*	*Startup*	*Y*	*Y*	*N*	*Y*	*Negative*
M5	*Agriculture*	*F*	*Mexico*	*Y*	*Local*	*Post-revenue*	*Y*	*N*	*Y*	*N*	*Negative*
M6	*Agriculture*	*M*	*Mexico*	*Y*	*Local*	*Established business*	*Y*	*N*	*Y*	*N*	*Negative*
M7	*Energy*	*F*	*Mexico*	*Y*	*Local*	*Established business*	*Y*	*N*	*N*	*N*	*Negative*
M8	*Agriculture*	*F*	*Mexico*	*Y*	*Local*	*Established business*	*Y*	*N*	*N*	*N/A*	*Neutral*
M9	*Agriculture*	*F*	*Mexico*	*Y*	*Foreign*	*Post-revenue*	*Y*	*N*	*Y*	*Y*	*Neutral*

**N/A indicates responses were missing, unintelligible, or not relevant to the interviewee.*

Voices from Kenya

Contextual observations

Kenya is Africa's ninth-largest economy, experiencing growth rates of 5–6 percent since 2015. According to the interviewees, this GDP growth is largely due to widespread digitization and a higher level of foreign capital and attention received. Strong GDP growth is likely a reason for Kenya becoming Africa's "impact investing hub" (Disrupt Africa 2015). However, many interviewees expressed trouble with the notion of Kenya as representative of the entire African continent.

Kenya's colonial past and history of receiving aid influenced interviewees' work to varying degrees. Kenyan entrepreneurs may find it challenging to sell a product that was previously donated, or may find resistance from locals who feel capitalistic approaches to poverty reduction result from Western institutional pressures. Little education is available locally to learn about impact investing; moreover, the definition, language, and use of impact investing is largely defined by those outside the local context, which provides advantages to expatriate, well-connected entrepreneurs over local Kenyan entrepreneurs.

Overview of Kenya sample

Sample size	13 interviewees
Gender	9 male; 4 female
Received impact investing?	9 no; 1 yes (3 unknown)
Received any form of capital?	10 yes; 0 no (3 unknown)
Local Kenyan?	10 yes; (3 unknown) Note that some interviewees have a foreign co-founder; most have been affiliated with highly prominent intermediaries.
Stage of business	3 startup, 5 post-revenue, and 3 established (2 unknown)

Industry	3 finance, 6 energy, 1 health care, 2 agriculture, 1 healthcare/energy

Illustrative profiles of entrepreneurs from Kenya

Table A2: Illustrative profiles of entrepreneurs from Kenya

	Entrepreneur 1	Entrepreneur 2
About the business	The business aims to increase access to markets and affordable inputs for smallholder farmers by connecting farmers with a dependable supply of fresh food to urban areas. Impact goals: • Poverty alleviation of smallholder farmers • Provide a steady, reliable source of food to rapidly growing urban centers	The business is an app that enables low-income consumers to make digital payments through partnerships with businesses that pay to advertise on the platform. Service would be at rates below those charged by M-PESA (a finance and microfinance service provided through mobile phones that dominates the Kenyan market). Impact goals: • Connect low-income consumers to technology payment platforms at a lower cost • Vocalize how and why local entrepreneurs are overlooked
About the entrepreneur	Formerly a biopharmaceutical engineer, she became a marketer and then realized the barriers that smallholder farmers face in achieving a decent livelihood. She has a vision of changing the agriculture industry of her country, and believes in the power of storytelling.	Starting out selling bread and cakes in his village, then into farming, and then starting an environmentally friendly charcoal business, the entrepreneur is a self-proclaimed “serial entrepreneur.” He believes the only way to be heard is to be loud.
About their process with impact investing	Her impact enterprise has been financed using her own savings, the business’s cash flow, seed funding from an intermediary group, and a grant from a prominent foundation. After a year of flying around the world and speaking to investors at different conferences, she has been unsuccessful in raising impact capital. At one point, she realized she was spending more than half her time fundraising. She expresses frustration that impact investors adopt the norms of commercial investors. She does not intend to let failure get in the way of changing the lives of smallholder farmers.	He believes that impact investing is an unequal playing field and uses his enterprise as a platform to share his belief. He has yet to receive funding for his current enterprise. He believes business and the bottom line can solve problems, but investors look for problems to be “sexy” in order to want to solve them. He is seeking debt from an investor because equity often comes with a short time horizon that is unrealistic in the local context. The only reason he was able to attend a particular high-profile conference was because he hacked the promo code. He spent all night figuring out the login to get a free ticket.

Voices from India

Contextual observations

The impact investing ecosystem in India appeared more robust and localized than those in Kenya and Mexico. A considerable amount of private domestic capital connects more entrepreneurs to the market. However, there is little clarity about what differentiates venture capital and private equity from impact investing (other than additional reporting requirements). There is some fear that impact investing may have a similar effect as the microfinance movement did: good intentions that end up with unintended consequences. Barriers to adequate legal structures are most concerning, particularly around the symbolic and substantive differences between NGO/nonprofit and for-profit/limited liability company structures. The structure either enables or constrains opportunities for different sources of investment.

Overview of India sample

Sample size	16 interviewees
Gender	7 male; 8 female; 1 of both male and female
Received impact investing?	8 no; 6 yes; (2 unknown)
Received any form of capital?	11 yes; 0 no (5 unknown)
Local Indian?	14 yes (most very well educated and have experience outside US) 1 Sri Lanka 1 Nepal
Stage of business	3 startup, 6 post-revenue, and 7 established
Industry	1 livelihoods; 4 agriculture; 4 women's empowerment; 1 energy; 2 financial services; 1 sanitation; and 3 mixed (agriculture/energy; agriculture/women's empowerment; and agriculture/online services)

Illustrative profiles of entrepreneurs from India

Table A3: Illustrative profiles of entrepreneurs from India

	Entrepreneur 1	Entrepreneur 2
About the business	The business connects local artisans to the global market. The entrepreneur developed her own business form, called a *democratic public limited company*, to enable shared ownership with the artisans where participating artisans are required to take an ownership stake. Impact goals: • Provide an alternative economic opportunity in situations in which women were finding it increasingly difficult to support themselves in their traditional trade • Work with artisans typically excluded from society • Prevent outward migration and preserve the local culture of rural communities	Registered as a B corporation in the US, the business uses a technology project to provide direct market access service to farmers. The business works with farmers themselves. Impact goals: • Provide economic opportunity for women • Provide smallholder farmers access to technology
About the entrepreneur	Driven by frustration built from 25 years in nonprofit management and her experience as a Fulbright scholar studying conflict resolution, she became passionate about closing the gap between people who benefit from globalization and those who do not. Her solution to this conflict was to develop an impact enterprise that connects local artisans to the global market. She was an early entrant to the social enterprise space and has little business experience.	Relative to other entrepreneurs interviewed, she comes from a privileged background and has had a diversity of experiences. She understands the culture and languages of the NGO and business world. While her enterprise is registered in the US, she is deeply embedded in the local and rural context as she lives about a five-hour drive from the closest major city.
About their process with impact investing	She is learning about the business by working alongside strategic partners and investors. Although impact investors provided advisory support such as business plan writing, project assessments, and optimizing operations, she felt “stupid” in these conversations and felt she needed to have been savvier. At times, she felt pressure to scale up quickly and had to vigorously defend the core of her impact thesis.	Aware of her own privilege and social capital, she has raised financial capital on reasonable terms from two angel investors: her former boss and a foundation. She recognizes that her business needs more time to be ready for more investment and is confident in the direction of her enterprise, but knows she may be excluded because of her unique model and slow-growth sector focus. She finds that impact investors emphasize technology solutions as outcomes more than poverty alleviation per se, concentrating on exits rather than impact-focus.

Voices from Mexico

Contextual observations

Outside of Mexico City, the perception is that there is little knowledge of blending social impact and business enterprise. Entrepreneurs felt sectors such as agriculture were seen as less important in the eyes of potential investors. Most impact investment funding has come from the US and Europe; very little domestic support exists for acquiring resources. Non-English-speaking interviewees had less input on impact investing and external capital in general.

Overview of Mexico sample

Sample	9 interviewees
Gender	2 male; 7 female
Received impact investing?	7 no; 2 yes
Received any form of capital?	8 yes; 1 no
Local Mexican?	7 yes; 2 no
Stage of business	3 startup, 2 post-revenue, and 4 established
Industry	7 agriculture, 1 finance, 1 energy

Illustrative profiles of entrepreneurs from Mexico

Table A4: Illustrative profiles of entrepreneurs from Mexico

	Entrepreneur 1	Entrepreneur 2
About the business	The business trains local farming families on beekeeping and then uses the farmers' bee outputs to create, market, and distribute a number of value-added honey- and beeswax-	The entrepreneur converted his NGO to a social enterprise in order to become self-sustaining. The entity now encompasses six enterprises across 88

	based products such as candles, honey, and beauty products. Impact goals: • Improve the livelihood and land preservation of local farmers • Promote ecologically sound production processes of beekeeping byproducts • Transform the gender inequity in farming by training and employing women producers	local communities. The six enterprises have evolved to add value to the local community through microfinance and production of soaps and honey. Impact goals: • Improve the economic livelihood of people in the region • Operate based on a co-ownership model in which all communities that benefit from the business participate in the governance, strategic decision-making, and ownership • Grow the enterprises to reinvest profit in additional social projects that serve the people of the region
About the entrepreneur	Growing up outside of the city, her family had always been devoted to beekeeping and honey production. She does not speak any English, but studied law in the capital city then returned home to start a business. She is not a business person, but has an idea and passion for helping her community. She is focusing her work in an area she knows best—and keeping the focus there.	Starting with a mission to address the "poverty crisis," the entrepreneur began by starting an NGO to find an alternative to mining and improve the livelihood of people in the region. This led to a multi-pronged approach with multiple self-sustaining businesses. He did not share much of his personal background but demonstrated awareness of the political and cultural issues that led may people of his region to poverty.
About their process with impact investing	The entrepreneur has funded her business by bootstrapping, and she offsets operating costs through partnerships with NGOs and friends (for example, having friends help label product containers). She is unaware of how the entrepreneurial financing process works, and, for fear of being perceived as a "poor social entrepreneur" and lack of time to dedicate toward investment opportunities, she is not actively seeking funding.	While the entrepreneur started with grant capital, he had a goal of more sustainable financing. The entrepreneur created a social investment pool for starting new enterprises. In the entrepreneur's opinion, there is a dominant power dynamic in fundraising that can be more harmful than helpful, deterring him from the process.

Voices across gender

Our research included 18 women entrepreneurs discussed in our sample (after excluding five interviews because they did not meet the sample criteria, and excluding a pair of entrepreneurs working together—one male and one female). Of the 18 women, six received some form of impact investment. Of those six, only half expressed having a positive experience with the impact investing process. Four of the enterprises are in the startup stage, six are an established business, and eight are post-revenue. In regard to sector, there are 10 enterprises in agriculture (one of which is online services), two in energy, two in finance, one in livelihoods, and one in health care. At the time of interviewing the entrepreneurs, six of the 18 were actively seeking impact investment.

APPENDIX B: REPRESENTATIVE QUOTES FROM CONSISTENT THEMES

Our study was primarily rooted in qualitative data from interviews with entrepreneurs in Kenya, India and Mexico. In Table B1, "Highlights from entrepreneur interviews," we have organized quotations from these interviews to illustrate key themes explored in the study.

Table B1: Highlights from entrepreneur interviews

GROUP	SUBGROUP	ILLUSTRATIVE QUOTES
GROUP 1: Impact investing definition	A. Norms adopted from conventional finance	"Our business model is scalable but it's not traditional [digital]." (M5) "[T]he reality is, [investors are] not going to invest in most of the companies [here], because there's no hockey-stick [curves]." (K1). "They're looking for scalability and … replicability—a business that has growth potential in the next maybe five to seven years, to expand rapidly." (K7) "Of all the innovations around, not all of them, but many of them that I find are all about IT, online, and internet solutions. But not necessarily the hardware that the poor can stick to, can use, and sort out their challenges out there." (K8) "They [investors] want me to be within a certain box." (K11)
	B. Norms adopted from aid/handout culture	"I believe there's a culture which just feels that there is a lot of free money out there, and you just pitch and, you know, you just get the money and then you don't end up delivering. And that's a dangerous culture as well. And I feel that it's ... so much also, the investors are also, you know ... they're fueling that kind of a culture, which is the sad part." (K10) "You are not doing a charity by giving us money—we are capable, confident, and with or without your funding we'll get there." (K1) "And Kenya got money from the World Bank to put speed bumps on a highway. But now we realize that it's not the ideal. We are going to get a second loan to take bumps out of the highway." (K12) "What happens if we receive funds that are not investment driven, and they are more like ... alleviation or relief funds? They keep promoting this culture of receiving money for free and not having to return it. And that, from my point of view, impoverishes the 'business by ability' of these enterprises. Because then you don't have the pressure of making it work. And, in [our country], one of the big problems is that there's a lot of money that arrives

		to the communities, to . . . the poor communities, that it goes for free. Because it's also a political weapon that they [big business and politicians] have." (M6) "Investors should be cautious and so, too, should entrepreneurs." (I1)
	C. Foreign/local dynamic	"They [foreign investors] have the funds, [they are] willing and ready to come in and invest. But when they come here, they find that the culture is too different. They would rather invest in the European who lives in Kenya, managing a project in Kenya, rather than a local project." "Foreign impact investors feel like they are experimenting more than taking it as seriously as those of us locals—our lives are on the line." (I1) "Sometimes I think because I'm working with the communities and because I'm local, I have a better understanding of the problem—but there is more trust in a foreign co-founder. I know people who have put in foreign co-founders just to make themselves look good." "There is a language problem. It's easier for a person based in the West to build a model to work in India, even though they may not have extensive experience in India. I see quite a lot of 'I came as a tourist, I saw this problem, I decided to solve it.'" (I10)
	D. Unclear vision of "impact"	"Generally, [there are] two types of impact investors. One, those who are looking for profit and good profit margins. Two, those who are willing to fund a project purely based on the impact it can bring into the local community." (K7) "What we see is when people access certain kinds of trajectories, they bring with them whole communities. And we are talking from alleviation both in a monetary [way] ... how much money you can make, how much you can invest back into a community, how much you can employ people. But also kind of like a mental emancipation. If people start seeing they can actually do something or start something or build something … then … they go and start creating things that will generally be the future of … those particular communities." (K12) "I think we should all think about exits. But, for them, they think about it more along the lines of venture capital." (I10) "For us, serving the farmers takes precedence over becoming a marketing conduit for big corporates. That would be a really easy way to get to profitability. However, we should care about the farmer at the end of the chain far more than we should care about the retailers or the conglomerate." (I10)
GROUP 2: Investor-entrepreneur relationship	A. Trust overcomes uncertainty	"And I'm like there's enough of us young people, black Africans, who've had exposure in the Western countries. And we're good. I mean, we dress well. We speak well. We're eloquent. But, apparently, [if] you don't have a Harvard or a Stanford degree, you're put on the sidelines. Because you're still African. We really can't trust you because ... where are you going to take our money?" (K13) "When you've worked with the communities, there's trust that no one would just walk away with our money." (I5)

		"But that's why I feel associated with them, because they really ... they walked with me, and they talked ... they walked the talk." (K4) "They know me right from the early stages. So, in that case, it's been a little bit easier to engage and stuff. So, in that sense, it's not been very difficult. They can see where I'm coming from, in most of the cases." (K2) "To build that trust, to build that possible rapport where it's not just a given.,.. And it's more of, you know, building a sense of community that will give; yeah, you are all in it together. And they need to help themselves first, you know, before we can help them." (I1) "So, when you invest in an enterprise, the part of trust is very important. And who will you trust? A social entrepreneur that has an MBA at Columbia or at Stanford or any other business school in the world, right? It's easier to trust that guy, but not a community that is fighting, organizing themselves to have their own social enterprise, to defend their interests." (M6) "If we do the right thing, the path to profitability may be a bit longer and harder. However, once we get there, then we have earned the trust of the farmers. And there are a lot more opportunities that will open up, where we can then play a power-brokering role. We are trying to get a seat at the table for the farmer." (I10)
	B. Knowledge and expertise are socially constructed	"They look at you and they put you in a box." "I have questioned whether impact investors are really committed to solving poverty issues. … They want us to subscribe to their way of doing things. But who's the expert?" (K1) "And that's what local entrepreneurs are going for … we know how to build the road where there's no road. To just ensure the vehicle that we are using gets the guest where [he] needs to go." (K11) "So, you have this high-flying investor thinking that this particular entrepreneur is as stupid as can be, because they've not figured out how to do a recurring revenue model. But that doesn't exist. So speaking the language of the people on the ground does help." (K12) "Impact investors who are coming in from the West expect a certain [refinement] in the entrepreneur. And if that entrepreneur has not necessarily had that Western education, then they may not be of interest. … But, because of their [lack of refinement], then they can't ... they don't manage to have that first attraction, and they can't take part." (K10)

	C. Uncertainty of nuances lead to exclusivity and poor results	"They try to dictate projection as they want. … I said, yes, because I need money. But actually, this is not my business model. What I wanted to do." (I2) "It is a complicated space. With so many terms and things. I mean, I did not know a word ... so yesterday someone was talking about LPs and CPs and all those other kinds of things. And I ... I mean ... yeah, so as an investor ... I mean, as an investee, I'm ... the language itself is a barrier." (I6) "Don't think that someone is stupid because they don't know. It's just that they haven't had this information. Maybe having more women in the impact investing space would help bring in more local entrepreneurs." (i5) "The pipeline problem is a man-made problem." (K1) "And that also means that most of these impact investors need to start looking at their teams. If your team is 90 percent Ivy League men, you're going to make those kinds of mistake all the time, because you have no local context, you have no ... you know, it's a good old' boys' club. So, if I don't drink whiskey and I don't go hiking, I generally am not going to get into that. ... You know, it's just ... it's a systemic failure." (K12) "Because those numbers to me just ... came from nowhere. They [impact investors] just multiplied it based on, you know, what we should achieve, so that in five years, according to them, this should be the revenue, and then they can have an exit. Instead of being practical and saying, 'Now look, this is what we've done so far. … This is the maximum growth we can have, if everything goes well.' And because it's an impact business, there has to be a lot of focus on training and all social aspects, as well. For which, all you need is time. You can't train a person into creating an export-quality product in a month or two." (I1)
	D. Power dynamic	"[The] golden rule is: The one with the gold makes the decision." (K12) "But as soon as there's money involved, [the investors] seem to forget … experience. They seem to forget that [my friends have] some idea of how that market works. And they try to push these particular restrictions on them, because they have money. And so they're using this money to do that. But they're not entirely understanding that [my friends] have seven years of experience, and they've survived for a reason. This is one of the things that we discussed today, is [my friend] has failed several times. He's struggled. And he's still here. There's a reason for that. Because [he's] been able to adapt. But investors don't seem to see that. They don't see the whole journey. They're only looking [at] how do you scale; how do you do this? But they're not able to see that he's been able to adapt and adjust in this environment." (I2) "Instead of giving them the money to build these companies, you have somebody else on top of them, who could take the company in any direction. You know, the company that I run is doing 100 percent what I built. And I remember at a certain point where they closed down all those projects because an impact investor has decided something else is sexy." (K3) "There are lots of people telling lies about what they're really doing." (K12)

		"It's sort of a pressure to show very big figures. And then they're not always quality." (K1) "You pour your heart out [to the investors], you tell them a good story, and one thing I will say is: *Don't wait to be validated. Don't get your validation from them*." (K1) "It costs you your dignity." (K1)
GROUP 3: Outcomes	A. Not all impact enterprise needs an impact investment	"I think it's a matter of we need to just keep ... going. And the best thing about ... how difficult the path has been is it means we've been fully focused on what's best for the community." (I11) "So, there were opportunities we saw, and we said no to because it would have pulled us off that track." (I11) "[I] wanted to change the world and thought that impact investing was a sexy way to do it. And I'm just afraid that we are attracting very many people like that. [I came] into the impact investing world as a complete newbie and unaware. Now I know, our company—and the stage that it was at—completely was not ready to take on that size of investment. And, again, the ignorance is on both of our parts. It's on my part for not recognizing that, yes, and seeing that, yeah, I was enamored by the dollar signs." (K3)
	B. High concentration of "darlings"	"I'm tired. You know, I'm tired of presenting ideas to my expatriate team and them shooting it down when the entrepreneur comes to pitch and they say they don't build the energy. Where they're like, 'No, I don't like the energy of the entrepreneur, so I don't think he's invested in the idea. So, we're not going to give him money.' When a foreigner comes in and pitches because they have that, you know, savior mentality or this is going to change the world, it's going to scale, they invest in it." (K11) "They're looking for scalability and a business that has replicability—a business that has growth potential in the next maybe five to seven years, to expand rapidly." (K7) "I've been told there's a lot of money for sustainability and green energy and what have you. But if it's not really getting down to that person who is at the grassroots." (K4)
	C. Poverty outcomes are a "nice to have"	"Are you serious about addressing poverty or are you after the excitement and the thrill of the story?" (K1) "It would be more important if we get an investor who is aligned to our kind of product, with the impact. Because all the others are negotiable. We can always sit down and negotiate the terms. It's not like we cheat. No, we can never cheat on banks. But at least the investor has to understand our kind of business, the kind of impact that we can generate, you know? That would be more important for us." (K7) "And the deepest [form of impact investment] has to be completely transforming to changing the 'why' from growth to actually, you know, to thriving, to balance, to well-being, to … completely different outcomes. And that is not growth related." (M4)
	D. Taking risks: Intent does not	"Come with an open mind. And believe more. Trust more. Take that bet. Walk with the person. They're not just another statistic.

	match the behavior	So, just walk with them. Put in a certain amount. Risk it. Have some risk capital. Just risk it, and see where it will take you." (K1) "Nobody takes risk. You see, that's the thing. So I was like, you cannot call yourself an investor if you're risk averse. This risk averseness needs to stop … [you] can't hold money forever. Money's there to be used, burned, gotten rid of, you know. And I'm like, you were talking about impact. Is it that clean energy's the only sector in Africa that needs whatever, or toilets? Hygiene? How about other sectors? Agriculture? … How about invest in that. So, for me, it's ... I think ... nobody's holding these guys accountable." (K13) "They want to invest in things they already know, understand, and things that have already created impact." (K13) "Now, this is my frustration, as the founder. People don't seem to buy this. People seem to be so cautious." (K1) "I don't think this organization started out to destroy us. I think that they themselves did not have a clear vision or awareness or knowledge of what it is they wanted to do. And very unfortunately, they were run by somebody with very deep pockets who was dabbling. I think there's no other way—dabbling in social enterprise and in impact investing. Did not have a clue." (K3)

APPENDIX C: RECOMMENDATIONS

Four actionable recommendations emerged from our interviews. These are presented in the following table, with subcategories, and are discussed in detail in the remainder of this appendix.

Table C1: Actionable recommendations

Abandon what you know and embrace the unknown	Re-evaluate the sources and structure of financing	Don't think about funding in isolation	Focus on the nuances of the investor-entrepreneur relationship
1. Be proactive about seeking underrepresented groups	5. Be open to ways in which capital can be more "patient"	9. Make diversification a priority	13. Create a partnership, not an investment relationship
2. Include an advisory board with expertise in the impact objective to help select businesses	6. De-couple the source and structure of financing	10. Think holistically about restricted vs. unrestricted funding	14. Co-invest carefully with diverse partners
3. Be realistic about how an entrepreneur's time influences the enterprise valuation	7. Rethink the logic of scale	11. Build cross- sector partnerships, not competition	15. Make *trust* and *transparency* verbs, not nouns
4. Make contextual accommodations in the due diligence process	8. Have flexibility in milestone-based funding structures	12. Encourage low-stakes pathways entrepreneurs can learn, and engage with other investors and entrepreneurs	

Abandon what you know and embrace the unknown

The entrepreneurs interviewed felt that investors' backgrounds, often from mainstream finance or a "handout" culture, were prohibitive in creating unique ways of financing. Entrepreneurs recommend that investors find ways to refrain from what is familiar and that they be open to new possibilities. Interviewed entrepreneurs make the following suggestions for investors:

- Be proactive in seeking underrepresented groups.

    - Rely on local staff and hire translators when conducting due diligence to increase the potential to include non-English speaking businesses in your portfolio.

    - Change the way intermediaries are incentivized. Evaluation should not be based on the number of jobs created or the amount of funding an enterprise subsequently receives, but on how much support (e.g., access to networks) is achieved.

    - Go to where the entrepreneurs are and where they find information. Literally, put fliers up.

    - Refrain from excluding entrepreneurs who can be taught skills necessary to understand how to navigate the financing relationship.

- Include an advisory board of individuals with a background in the impact outcome you are seeking to address to help select businesses (e.g., a local community member, an expert in agriculture in northern Mexico, etc.).

    - "A good investor would be one that would be willing to place a person within their [the investor funds'] management." (K8)

    - If investing in a different country, use local fund managers as opposed to Western ones because they may have more understanding of the complexities in that particular environment.

- Be realistic about how an entrepreneur's time influences the enterprise valuation.

    - Find mechanisms to account for how much time an impact entrepreneur has spent fundraising and to account for its associated costs: Does the entrepreneur have to travel to a different country at her own expense? Is she willing to accept less-favorable terms after a certain amount of time waiting in due diligence because of the need to reach beneficiaries?

- Make contextual accommodations in the due diligence process.

    - Decide on the alignment of an *impact thesis* before asking about the business model.

    - Instead of shying away from entrepreneurs and enterprises that may have obstacles related to doing business in a poor or remote area, understand that these obstacles—such as closed roads, brownouts, or poor Wi-Fi—are largely unavoidable and may even create business opportunities. Ask: "Can this person and specific product/service uniquely and effectively solve the problem?"

- Change the question about experience to: “Does this entrepreneur have valuable life experience relevant to this country and this problem that makes her uniquely placed to solve this challenge relative to other people?” (See McCreless 2016 for how to do this effectively.)
- Don’t be disappointed when what looks good on paper doesn’t reflect realty. Verify the information with what’s going on in the ground. Despite higher upfront costs, it will save tension and potential failure in the long term.
- Just as entrepreneurs need time to understand the nature of the financing options, investors need patience to become familiar with the sector or poverty focus. This familiarity can come from allocating capital in small amounts over time.

Re-evaluate the sources and structure of financing

No longer are there only a few ways an investor can support impact entrepreneurs. Impact entrepreneurs suggest nuanced ways to think about how to more effectively allocate capital:

- Be open to ways in which capital can be more patient.
    - Incentivize inclusivity by setting targets for portfolio investments. The more inclusive factors in your investment, the more patient the capital should be (e.g., patient capital can address an entrepreneur who has lacked the privileges that allow her to adopt norms common to the investment world, harder to reach beneficiaries, slow-growth industry, etc.).
    - Give freedom within a framework by allocating discretion to the entrepreneur.
- De-couple the source and structure of financing.
    - Be willing to incorporate a hybrid of financial instruments.
    - Change the structures and alternative structures, and try things that fit the entrepreneur instead of yourself.
- Rethink the logic of scale.
    - Look for ways to achieve deeper impact than impact businesses that purport to generate higher margins and lower fixed costs over time.
    - Consider that capital-intensive enterprises may actually be more impactful.

        - Be willing to invest in hardware or things that will scale over the long-term. “There’s a strong bias toward solutions that scale, but poor people need products, too.” (K4)
    - To compensate for slower growth, invest in more businesses. One to two investments a year is not enough to increase the supply of businesses.
- Have flexibility in milestone-based funding structures.
    - Remember that the entrepreneurs are operating in fragile markets that have insufficient infrastructure and are very affected by climate change and migration—exogenous factors can compromise an investment that are completely out of the control of the entrepreneur. Use the structure of the contract as a platform for negotiation. Be open to iterations if there are unexpected setbacks related to exogenous factors and other things outside of the entrepreneurs’ control (e.g., floods, health crises, etc.).
    - Extend grace periods or be flexible in unforeseen circumstances.

Don’t think about funding in isolation

- Make diversification a priority.
    - Focus more on horizontal markets than vertical markets. How might a portfolio of ventures working on complementary issues that together solve women’s empowerment be more powerful?
    - Either decrease the deal/ticket size or have an arm that does small deals with lower return expectations.
    - Because these investments are accompanied by greater uncertainty, the likelihood of failure is just as great if not greater. And if only a few companies are invested in and they fail, the likelihood of any investor wanting to allocate capital again decreases. “If the top five companies that have got an investment in Kenya fail, they will take away with them a billion dollars. Now, if that happens, then everybody will say, ‘This is why we do not invest in Africa.’” (K1)
- Think holistically about restricted vs. unrestricted funding.
    - In the aid and philanthropic sectors, is it possible to look at grants and other sources of unrestricted capital as a way of ecosystem strengthening (e.g., opportunities to attend international conferences or entrepreneur trainings) and reserve restricted funding for the businesses’ growth?

    - “Our mission is that humanity is served by wealth, not ruled by it. So, our mission is way bigger than direct deals. We know that direct deals are the most romantic, sexiest, most proactive things that we can do for impact investing. But we had to be conscious that we need impact across asset classes.” (I10)

- Build cross-sector partnerships, not competition.
    - Understand the power imbalance at the negotiating table, for example, when one side can’t afford lawyers. How might investors be willing to share resources with entrepreneurs to come up with the best possible partnerships?
    - Could nonprofit and for-profit structures partner to allocate appropriate support to the issues of poverty, rather than the product or service that scales more quickly?
- Encourage low-stakes pathways by which entrepreneurs can learn and engage with other investors and entrepreneurs.
    - Provide a platform for entrepreneurs to learn from each portfolio of investments, from nonselected applicants, or from other investors.
    - Put entrepreneurs and investors in the same room without the pressure of seeking investment opportunities.

Focus on the nuances of the investor-entrepreneur relationship

- Create a partnership, not an investment relationship.
    - Embed co-creative decision-making into the investment thesis.
    - Be willing to have a high-touch relationship.
- Co-invest carefully with diverse partners.
    - Develop partnerships with community-led, public, or private sectors that stage conditional investments. For example, funds could develop working relationships with community-based organizations in doing due diligence.
    - Use different financial instruments.
- Make *trust* and *transparency* verbs, not nouns.
    - Rethink your risk profile to include not only financial risk but also the risk of not achieving impact.

- Encourage trust by asking about their experience in impact investing thus far.
- Encourage transparency by providing direct feedback. Clarify funder preferences and what is meant by "impact."
- Use clear, direct language. As one entrepreneur explained, "…work together with the entrepreneur. 'We are concerned that you may not be able to repay, and we really want to know that you are going to use these funds for what they are intended.' So, help us come up with a structure that is going to make sure that you don't get to a point where you get into problems." (K2)

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