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Impact Investment Scalability: Factors that determine the attraction of capital in impact projects in Spain

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Título: Escalabilidad de las inversiones de impacto: Factores que determinan la atracción de capital en proyectos de impacto en España.

Resumen:

La inversión de impacto ha evolucionado de ser una tendencia emergente hasta consolidarse como un ámbito clave dentro del panorama financiero global, impulsada por la creciente demanda de obtener rentabilidad económica junto con objetivos sociales y medioambientales. Este estudio examina los factores específicos que facilitan o restringen la atracción de capital hacia proyectos de impacto en España, que se ha caracterizado por un significativo crecimiento en los últimos años.

Los factores clave que condicionan la escalabilidad de la inversión de impacto se identifican a través de una metodología cualitativa que incluye entrevistas en profundidad con actores relevantes de la industria, incluyendo Oikocredit, Impact Bridge y Suma Capital. Adicionalmente, se ha realizado un extenso análisis documental sobre el marco legal europeo y la evolución histórica del término 'inversión de impacto', comparándolo con otros tipos de inversión y analizando las tendencias a partir de los datos más recientes. Los testimonios de algunos de los principales gestores de fondos de esta tipología de inversión han permitido destacar aspectos de relevancia en la recaudación de fondos como son: la diversificación de los vehículos de inversión, el aumento de la concienciación sobre la sostenibilidad y la adopción de la normativa europea.

Los resultados identifican como elementos principales para generar confianza entre los inversores, lograr una mayor concienciación social, mantener la solidez de rentabilidad financiera y la estabilidad regulatoria, mientras que la colaboración activa con las instituciones públicas y la promoción del compromiso social en la inversión de impacto fueron también considerados.

Palabras clave:

Inversión de impacto, *ESG*, filantropía, impacto social, microfinanciación, finanzas sociales, *blended value*, *greenwashing*, finanzas sostenibles, ODS.

Title: Impact Investment Scalability: Factors that determine the attraction of capital in impact projects in Spain.

Abstract:

Impact investing has evolved from being an emerging trend to becoming a consolidated field within the global financial panorama, driven by an increasing demand to align economic profitability with social and environmental goals. This study examines the specific factors that either facilitate or restrict the attraction of capital toward impact projects in Spain, which has been characterized by significant growth in recent years.

Key factors conditioning the scalability of impact investing are identified through a qualitative methodology that includes in-depth interviews with relevant industry players, including Oikocredit, Impact Bridge, and Suma Capital. In addition, an extensive documentary analysis has been conducted on the European legal framework and the historical evolution of the term 'impact investing', comparing it with other types of investments and analyzing trends based on the most recent data. The statements of some of the main fund managers of this type of investment have highlighted aspects of relevance in fundraising such as: diversification of investment vehicles, increased awareness of sustainability and the adoption of European regulations.

The results identify as main elements to generate confidence among investors, achieving greater social awareness, maintaining sound financial returns and regulatory stability, while active collaboration with public institutions and the promotion of social commitment in impact investing were also considered.

Key words:

Impact investing, ESG, venture philanthropy, social impact, microfinance, social finance, blended value, greenwashing, sustainable finance, SDGs.

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ABBREVIATIONS INDEX

AM – Asset Management

AUM – Assets Under Management

CAGR – Compound Annual Growth Rate

CDC – Commonwealth Development Corporation

CSDDD – Corporate Sustainability Due Diligence Directive

CSRD – Corporate Sustainability Reporting Directive

DFIs – Development Finance Institutions

ESG – Environmental, Social and Governance

EU – European Union

EVPA – European Venture Philanthropy Association

FMO – Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

GIIN – Global Impact Investing Network

GSIA – Global Sustainable Investment Alliance

IBIST® – Impact Bridge Impact Scoring Tool

MFIs – Microfinance Institutions

NGOs – Non-Governmental Organizations

OECD – Organisation for Economic Cooperation and Development

ROI – Return On Investment

SDGs – Sustainable Development Goals

SF – Social Finance

SFDR – Sustainable Finance Disclosure Regulation

SIBs – Social Impact Bond

SRFs – Socially Responsible Investment Funds

SRI – Socially Responsible Investing

SROI – Social Return on Investment

UN – United Nations

USA – United States of America

USD – United States dollar

VC – Venture Capital

PE – Private Equity

LPs – Limited Partners

1. INTRODUCTION

The emergence of so-called ‘Impact Investing’ represents one of the most significant transformations in the contemporary financial landscape. Since this approach began to gain visibility a just over a decade ago, various institutions, including banks, family offices, philanthropic organizations, investment funds and public administrations, have shown a growing interest in projects that, in addition to pursuing economic profitability, seek to contribute in a measurable and deliberate way to the improvement of society and the environment (Jackson and Harji, 2012, p. 15). This combination of objectives, usually related to the concept of ‘blended value’, has led to the emergence of innovative financial structures, specific measurement practices and collaborative strategies involving investors and companies with a commitment to change.

Although impact investment in Spain exhibits great potential, it does not always translate into a stable flow of capital to projects with transformative aspirations. Even though there are successful examples that demonstrate the effectiveness of this investment model and that it has a diverse pool of participants, there are still difficulties that slow down its development and expansion, as considered in section 3.1. Among these obstacles are the need for more precise definitions and categories, and the use of measurement methodologies that are still disparate. This lack of homogeneity generates uncertainty and can make it difficult to obtain sustained financial support for initiatives with a strong social or environmental component. In this scenario, this study seeks to clarify the factors that, in practice, could encourage the injection of resources into projects with an impact purpose. To this end, the paper focuses on the motivations and expectations of the different investor profiles which, despite the variety of approaches and strategies, converge in the willingness to allocate funds to the generation of a benefit for Environmental, Social and Governance (ESG) projects.

The relevance of this topic becomes even more significant if we consider the rapid evolution of impact investing at the international level. According to estimates, the amount of capital managed under impact criteria has grown at a double-digit annual rate throughout 2024, driven by consistent interest from investors seeking to align economic objectives with social or environmental goals (Hand et al., 2024b, p. 48). At European level, the introduction of regulations, such as the Sustainable Finance Disclosure Regulation (SFDR) and the European Union (EU) Taxonomy, has attempted to provide greater transparency, while trying to prevent potential abuses or falsified sustainability claims.

At the same time, recent SpainNAB (2024, p. 47) report indicates that impact investment in Spain, although being a minor activity compared to other forms of investment, is showing remarkable growth rates. This translates into a growing number of specialized funds and vehicles that, on the one hand, satisfy the demand from investors committed to the triple bottom line and, on the other, highlight the urgency of standardizing criteria and information to avoid confusion about what it really means to generate a positive impact. With such a scenario in perspective, this document attempts to provide clarity on the coherence and effectiveness of the strategies applied at the national level, as well as the capacity of the Spanish market to join the global trend in which impact investment is emerging as a viable and promising way to face the great challenges of our time. These will be achieved by relying on professional testimonials and relevant data.

1.1. Objetives

The primary objective of this research is to explore the factors that, in the Spanish context, drive or constrain the scalability of impact investments, especially in terms of attracting both private and institutional capital. In that sense, the central research question is: ***Which factors motivate new investors to invest in impact projects and, consequently, help scale this form of investment in Spain?***

Even while interest in financial vehicles that combine economic returns and a positive contribution to social or environmental challenges has grown recently, structural barriers still stand in the way of this sector's full potential. Investors' sense of risk is a crucial component of these constraints, since many market players are cautious to undertake projects that lack a comparable track record of prior success or consolidated performance data, while having a significant transformational component. The relative disparity in measurement techniques and lack of a single legal framework to offer clarity accentuate this confusion. This problem has been made obvious with the introduction of rules like the SFDR, which are intended to encourage transparency but which, in practice, as SpainNAB (2024, p. 49) explained, there have not yet been homogeneously consolidated in the Spanish market.

Given this outlook, the study aims to explore the motivations and strategies of a broad universe of investors. The aim is to understand to what extent their expectations of financial profitability coexist with the desire to drive social or environmental change, and whether the search for impact emerges as a real priority or, on the contrary, tends to act as an add-on value. Complementarily, the study investigates how various investors understand the potential appearance of practices associated with ‘greenwashing’, particularly in a situation where the need to project a ‘sustainable’ image drives the spread of products and labels whose trustworthiness can occasionally raise questions. The intention is to determine the degree to which participants acknowledge this threat, value its occurrence, or perceive it illustrated in the actions of other agents in the sector, rather than conclusively stating the presence of such activities.

Examining the past evolution of impact investing at the national level is also particularly interesting because the knowledge gained over the past years may be used to forecast future developments in the sector; this means, analyzing the evolution of risk and return criteria. Furthermore, the purpose of this study is to evaluate the potential impact of known as ‘covenants’, or terms and conditions imposed by certain investors, on the funding of more creative or early-stage projects.

The objectives of the limited partners (LPs) who provide capital for impact-focused funds must also be taken into account. These LPs, which might range from high-net-worth individuals and family offices to insurers and pension funds, may represent a variety of interests beyond their desire of promising financial returns. By examining their motivations and the criteria they apply when choosing to invest in these vehicles, it becomes possible to gauge not only the capital supply available for impact initiatives, but also the strategic imperatives (such as, ESG mandates or philanthropic missions) that shape how they view and manage risk. This perspective illustrates the degree of coordination between the fund managers of the vehicles and actual capital providers, emphasizing the larger dynamics that support or restrict the growth of impact investing on the Spanish market.

1.2. Justification / Motivation of the subject matter of the study

The election of this field of study is driven by the urging need to investigate the factors that drive different parties – in particular, investment funds and their LPs – to allocate resources to social or environmental projects. Although the impact investment market has experienced remarkable growth, there is still a lack of transparency regarding the goals and the reasons behind such efforts. Projects, investors, and institutions with a variety of objectives converge together under 'impact economy', from those who approach projects with a philanthropic vision to actors seeking competitive returns. While this heterogeneity enriches the ecosystem, it also leads to a multiplicity of approaches and methodologies that can interfere understanding, giving rise to discrepancies about what is truly considered 'impact' and what actions are merely superficial or subject to greenwashing practices. These differences result in scaling barriers, since investors rarely have uniform standards that enable them to evaluate projects and accurately estimate risks and expected financial incentives.

Along with these academic and professional motivations, my previous volunteer participations in non-governmental organizations (NGOs) that prioritize sustainable development and community-driven projects has encouraged my personal enthusiasm for impact initiatives. Direct experience of the tangible ways that well-designed projects can benefit society and the environment was gained from these collaborations. Realizing how volunteer-led initiatives supported by successful financing plans greatly improve local conditions made me realize how transformative it might be to combine financial resources with a compelling social objective.

From this perspective, this study intends, first of all, to methodically analyze the distinctive characteristics of impact investment in Spain. Specifically, it aims to determine how profitability objectives and commitment to solving social or environmental problems are combined, looking into the underlying rationality that guides investors' decisions. As part of this process, it is important to examine how these agents participate in project governance and what metrics or indicators they employ to make sure the return goes beyond financial aspects. This approach makes it possible to identify with greater precision the structural barriers and opportunities that may emerge in practice, for example, when the investor must balance the search for a competitive economic return with the decision to back companies or initiatives that present innovative models that are more difficult to scale.

Secondly, this report aspires to serve as a valuable resource both for players already operating in the impact investing ecosystem and for those considering their future incursion. Beyond outlining the motivations that lead investors to engage in impact projects, this paper focuses on how these drivers interact with the reality of the Spanish market. Furthermore, in spite of the growing interest in sustainable initiatives, this work seeks to understand the reasons why there is still a gap between the available funds and the proposals with high impact potential. Examining these conditioning elements in greater detail may help define public policy recommendations and encourage the development of financial vehicles that are more appropriate for the projects' requirements and risks. Ultimately, the aim is to is to illustrate how greater clarity on the real dynamics of this market result in a greater private credit contribution, fostering synergies with the role of governments in addressing the pressing needs of society.

1.3. Methodology

This study adopts a methodology based on the combination of a rigorous documentary analysis with the collection of qualitative information through interviews with key players in the impact investment field in Spain. By using this approach, it makes possible to compare theory and experience, while exploring all the factors that affect investments' scalability in Spain and their potential for attracting in institutional and private funding. Through contextualizing current market possibilities and challenges, the integration of information sources guarantees a comprehensive and accurate journey, offering a solid basis for the development of plans and recommendations.

The initial phase of this study involves a thorough examination of reports, academic investigations, and publications from specialist entities and authors that discuss the development and present situation of impact investment. The theoretical basis of the industry is established thanks to this analysis, which also allowed for the identification of key trends regarding investment volume, anticipated profitability, and impact measurement instruments. It also explores the regulatory framework that influences investors' decision-making, the implementation of which continues to generate challenges in the homogenization of criteria and the standardization of the information available in the Spanish market.

In parallel to the literature review, semi-structured qualitative interviews were conducted with professionals who play a key role in impact investing. The selection of interviewees covers diverse profiles, after analyzing all players involved in the Spanish market, including fund managers specialized in impact, financial advisors with experience in structuring sustainable investment vehicles, institutional investors who allocate capital to these funds, and representatives of platforms that act as intermediaries between the supply of capital and projects with transformative potential. The variety of profiles allows for the collection of a comprehensive picture of the marketplace, taking into account the viewpoints of those who manage the funds and understanding those who supply the funding required for their growth. The interviews were conducted via videoconference. Before each interview, invitations were sent by e-mail explaining the objectives of the study and guaranteeing the confidentiality of the sensitive data, which facilitated obtaining detailed information free of conditioning factors.

In order to identify common patterns among the interviewees' answers and to detect points of divergence that reflect differences in the perception of the market according to the investor's profile, it will be important to carry out a comparative analysis, considering the review developed in section 2.4, and the results of the interviews. Based on the information gathered, the aim is to synthesize the key factors affecting the scalability of impact investment in Spain, evaluating the role played by the availability of capital in this type of operations.

The methodological approach employed in this study seeks to provide a high degree of validity to the results, combining the support of documentary sources with the perspectives of those operating directly in the sector. However, it is critical to acknowledge some of the research's limitations. The number of participants will not enable us to fully capture the spectrum of current experiences and viewpoints, even though the collection of interviews offers a comprehensive picture of the ecosystem. Furthermore, the qualitative data gathered will represent personal opinions that could be impacted by unique elements to each investor or organization. Yet, by combining various methods, the paper will be able to shape a representative picture of the existing state of situation and draw pertinent conclusions for the growth and consolidation of impact investment in Spain.

1.4. Structure

The paper is structured in four main sections, each of which responds to a specific purpose within the development of the research. Throughout the text, the aim is to provide a detailed and well-founded analysis of the scalability of impact investment in Spain, with a special focus on the elements that influence capital attraction and how various financial ecosystem actors handle the conflict between social or environmental goals and economic profitability. The study is structured according to a progressive logic that enables contextualizing the phenomena, expanding on the findings gathered from empirical research, and eventually reaching relevant conclusions.

The opening chapter is the initial section of the paper that presents the main goals of the study as well as the topic's relevance. The key aspects that drive the research are discussed, along with the significance of comprehending the variables influencing the growth of impact investment in the Spanish market. It illustrates why comprehending what motivates capital allocation to these financial vehicles requires analyzing investor strategies and motives, as well as the interaction between impact funds and their LPs. It also lays out the methodology used, which integrates a theoretical perspective with the experience of important market participants by combining qualitative interviews and documentary research. As a result, the introduction establishes the framework of the study and defines its parameters.

The second section, corresponding to the literature review, explores the conceptual framework on which the study is based. Impact investing's main definitions and characteristics are examined there, along with comparisons to other sustainable investment models like venture philanthropy, socially responsible investment (SRI), and ESG investment. The historical evolution of the sector is examined, from its origins to its current consolidation, and the global trends that have driven its growth in the last decade are identified. Within this section, special attention is paid to the Spanish market, reviewing reports and studies that have evaluated its development, the actors that comprise it and the barriers that have limited its scalability. The regulatory frameworks that govern this kind of investment are also discussed, with a thorough analysis of the effects of the EU Taxonomy and the SFDR, whose implementation has significantly altered how investors assess and convey their commitment to impact, as well as the newly published Omnibus Directive. The objectives of this section are to give a structured perspective of the environment in which impact investing operates and to serve as a point of reference for the interpretation of the study's findings that follows.

The third stage is dedicated to the analysis and results of the research, and constitutes the core of the document. The results of the fieldwork are presented, incorporating the opinions and experiences of the various actors that were interviewed. It looks at the variables that affect how capital is allocated to impact initiatives, investigating the criteria and reasons that investors use to decide what to invest in. Additionally, it examines the interaction between fund managers and LPs, evaluating how well their commitment to creating social and environmental impact and their expectations of financial return coincide. The contribution of various investor profiles to the governance and administration of the projects they fund, as well as the effect of contractual provisions like covenants on the flexibility and scalability of investments, are the main topics of this examination.

Finally, the fourth section contains the conclusions and lines of future research. This section summarizes the main lessons extracted from the study, highlighting those factors that have been most decisive in attracting capital to impact investment in Spain. The prospects for expansion of the sector are considered, as are potential steps to improve its scalability and the main requirements shared by capital providers. In order to go deeper into topics that have not been thoroughly covered in this study, it also suggests research avenues that could be pursued in subsequent investigations. With this last section, the study aims to provide a closure that not only summarizes the findings obtained but also acts as a guide for further investigation and advancements in the impact investing panorama.

The structure of the document has been designed to provide a rigorous and well-founded analysis that allows a clear and detailed understanding of the current situation of the impact investment sector in Spain. Through a logical progression, it starts with the contextualization and exposition of the theoretical framework, moves on to the analysis of empirical data and culminates with a reflection on the implications of the findings and the possibilities for improvement. In this sense, the study not only offers pertinent data on the current status of the field but also supports in the development of strategies to maximize the attraction of capital to projects that have a genuine impact, thereby reinforcing impact investment position as an important strategy to address the social and environmental challenges of the future.

2. RELATED LITERATURE

2.1. Impact Investing: ESG Commitment

The concept of ‘Impact Investing’, as noted by Jackson and Harji (2012, p. 7), was originally introduced in 2007 during meetings held at the Bellagio Center in Italy, by the Rockefeller Foundation. Global leaders in philanthropy, development, and finance convened to discuss strategies for building a worldwide industry focused on investing to achieve measurable social and environmental impact.

While the term feels relatively contemporary, it has its roots in historical socially sensitive investment practices, such as SRI. Bugg-Levine and Emerson (2011, p. 11) connects and traces the earliest manifestations of this type of investment to the Quakers in England during the 17th century, who made investment decisions following their ethical value. Similar to this, Shaker congregations established companies in Colonial America during the 1800s that supported their religious communities while upholding their social ideals. In addition, during the second half of the 20th century, social justice and sustainability investments were promoted, highlighting anti-apartheid and fair-trade campaigns.

Furthermore, following the timeline, it is interesting to detail that, just prior to the meeting at the Rockefeller Foundation's Bellagio Center, Grameen Bank founder, Muhammad Yunus, received the Nobel Peace Prize in 2006 for his efforts to expand microfinance programs for the poor in Bangladesh (Jackson and Harji, 2012, p. 4).

Awareness and adoption of impact investing accelerated following the 2008 financial crisis as public confidence in traditional financial systems eroded. As mentioned by Agrawal and Hockerts (2021), "*confidence in the financial industry was severely impacted. To regain their public image, one of the strategies that the investors adopted involved investing in socially relevant projects*" (p. 1). In this way, the crisis served as a catalyst for the adoption of impact investing, demonstrating that capital could be deployed not only for financial returns, but also "*could be harnessed to generate positive social and environmental outcomes in a responsible and prudent manner*" (Jackson and Harji, 2012, p. 6).

Institutional and intergovernmental awareness increased in the 2010s, introducing numerous agreements and measures of high ESG commitment. Thus, impact investing established itself as a useful tool for addressing social and environmental challenges, supported by regulatory developments and financial innovation (Jackson and Harji, 2012, p. 3).

As explained by the United Nations (UN) (2015a, p. 4) in the document '*Transforming our world: The 2030 agenda for sustainable development'*, the Heads of State and Government and High Representatives met at the UN Headquarters in New York from September 25-27, 2015, and decided on new global Sustainable Development Goals (SDGs). The scope of this new universal agenda is exemplified by its 169 targets and 17 SDGs, working towards gender equality, the empowerment of all women and girls, and the realization of everyone's human rights.

In the framework of sustainable development, the Paris Agreement adopted in December 2015 "*seeks to strengthen the response to climate change by, inter alia, making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*" (European Parliament and Council of the European Union, 2019, p. 1). The UN (2015b) gathers the objectives of the Paris Agreement under 29 articles, with the intention of "*increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production*" (p. 15), among other premises.

The EU pushed several rules to match financial flows with sustainability and transparency goals in response to the Paris Agreement's climate commitments. The EU Taxonomy and the SFDR stand out among these laws. As stated in the '*Classification Scheme for Sustainable Investments*' by Busch et al. (2022, p. 2), highlighting prior report issued by European Commission (2020), the reorientation capital flows toward a more sustainable economy while supporting transparency and long-termism were the main objectives of the EU's sustainable finance agenda.

The SFDR, also known as Regulation (EU) 2019/2088, was adopted in November 2019 with the goal of standardizing disclosures concerning sustainability in the financial industry. Ensuring that investors receive accurate, comparable, and transparent information about the sustainability impact of financial instruments is the main objective of SFDR. It requires financial organizations to reveal how they include sustainability risks into their decision-making procedures in order to mitigate greenwashing, as SFDR "*lays down harmonised rules for financial market participants and financial advisers on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products*" (European Parliament and Council of the European Union, 2019, p. 7, Art. 1).

Meanwhile, adopted in June 2020, the EU Taxonomy – Regulation (EU) 2020/852 – established a uniform classification scheme to assess the environmental sustainability of economic activity. By setting precise standards for investments that make sustainability claims, the rule aims to stop greenwashing. The European Parliament and Council of the EU (2020, p. 25, Art. 1) aimed to establish "*the criteria for determining whether an economic activity qualifies as environmentally sustainable for the purposes of establishing the degree to which an investment is environmentally sustainable*".

In recent years, the financial industry has become increasingly aware of ESG issues, which has led to an increase in the volume of assets under management (AUM) with ESG purposes. As Hand et al. (2024a) report, '*Sizing the Impact Investing Market 2024'* demonstrates, "*there is growing evidence that institutional asset owners, in particular pension funds, but also insurance companies and sovereign wealth funds, are beginning to reshape their portfolios, incorporating impact-driven investments as a strategic priority*" (p. 7).

2.1.1. Conceptualization of Impact Investing

Once 'Impact Investing' was unveiled to the world, by the Rockefeller Foundation in 2007, its definition has matured and received refinement over the years, incorporating details about its characteristics, objectives and participants, and adapting it to the changing context of markets and social needs.

Nevertheless, as structured by Agrawal and Hockerts (2021, pp. 7-8), the intangible idea of impact investing existed under a number of names and concepts prior to being formally recognized as proper typology of investment, particularly within the disciplines of blended value investing, social finance (SF), and venture philanthropy.

The starting point corresponds to a report co-published in 2010 by J.P. Morgan Chase & Co., the Global Impact Investing Network (GIIN) and the Rockefeller Foundation, where 'Impact Investing' was defined as "*investments intended to create positive impact beyond financial returns*" (Jackson and Harji, 2012, p. 7). This brief definition emphasizes not only the combination of financial and social returns, but also, the intentionality that investors must have in order to generate both. Impact investing, therefore, operates under the principal of 'blended value', which integrates social, environmental and financial objectives. Bugg-Levine and Emerson (2011) further elaborated on this transformative approach, stating that "*if impact investing is what we do, blended value is what we produce. Value is created when investors invest, and the recipient organizations pursue their mission*" (p. 14). This term considers that the integration of all objectives of impact investing establish a transformative synergy which surpasses the sum of all individual components. As Bugg-Levine and Emerson (2011) argue, "*blended value is more than just something we can achieve by adding up its component parts because it is more than the sum of the parts of a triple-bottom-line analysis*" (p. 14). Agrawal and Hockerts (2021) explained how "*between 2012 and 2016, the definitions seem more developed and* *nuanced, demarcating the field from already existing terms like venture philanthropy, socially responsible investing, microfinance, and social impact bonds*" (p. 8).

Finally, from 2016 onwards, the term is continuously evolving. As Agrawal and Hockerts (2021) highlight, "*the definitions of impact investing discussed have greater complexity, where, the authors define it by incorporating elements of stakeholders, profit, and social motives*" (p. 8). Throughout this period, Roundy et al. (2017) emphasized the role of stakeholders and the dual nature of returns in impact investing. According to their research, "*impact investors seek a 'blended' return that consists of generating both a financial return on investment (ROI) and a social return on investment (SROI)*" (p. 14). That perspective sets impact investing apart from conventional investment strategies and reflects the growing emphasis on quantifiable impact, in addition to financial sustainability.

2.1.2. Spectrum and distinctions of Impact Investment

Similarities between 'Impact Investing' and other concepts may emerge during the conceptual analysis carried out. Because of this, it is crucial to explain the meaning of each of these terms, which frequently appear interchangeably and may cause theoretical confusion, as for example, SF, Microfinance, SRI, Venture philanthropy or Social impact bonds (SIBs).

In accordance with the report prepared by Agrawal and Hockerts (2021, p. 16), "*impact investing is unique on six characteristics namely (1) capital invested, (2) degree of engagement with the investee, (3) process of selection, (4) social and commercial outcomes, (5) reporting outcomes, and (6) government role. It is different from socially responsible investing (SRI), microfinance, philanthropy, and social impact bonds on more than two of these characteristics*". Therefore, is important to describe and compare all these terms:

<u>Social Finance:</u>

Lauesen (2017) discussed the scope of SF and the characteristics of this term, pointing out that "*Social and Sustainable Finance is today known under names such as microfinance, social enterprises, Social Impact Bonds, social funding, sustainable funding, or social enterprise lending. Although these relatively new names (and issues) suggest that Social and Sustainable Financing is a young movement into social and environmental spheres, it is not quite so: what is new is rather the concepts built around* *how to fund or finance social improvements and sustainability, and the actors investing in it*" (pp. 5-6). Thus, it is clear that SF is a global concept, as Moore et al. (2012) indicated "*social finance includes a spectrum of approaches, such as impact investing, government finance (such as social impact bonds), and mission-related philanthropic investment*" (p. 185). Rizzi et al. (2018) developed in SF and explained that it "*refers both to the capital and the ethos (Nicholls and Pharoah, 2007, p.11) that flows into projects, initiatives, and organizations which have a strategic focus in achieving positive social and/or environmental outcomes within any given normative social context (Nicholls, 2010a, b)*" (pp. 806 – 807).

Microfinance:

As mentioned above and discussed by Sengupta and Aubuchon (2008, p. 9), microfinance has its modern origin in the Grameen Bank, which offered extremely poor people the opportunity to start their own businesses and generate enough income to break out of the cycle of poverty by offering them small loans. Muhammad Yunus, founder of the Grameen Bank, received the Nobel Peace Prize in 2006 in recognition of his work to eradicate poverty in Bangladesh.

In the work of microfinance institutions (MFIs) in providing financial assistance, as well as social services, it is worth noting the differences with impact investment. Leaving aside the divergences between the two, in terms of investment tickets and the investment relationship of both, "*microfinance investment is rarely equity-based, while impact investing in developing countries is mostly equity based"* (Intellecap, 2013; Unitus Capital, 2014, cited in Agrawal and Hockerts, 2021, p. 5).

Socially Responsible Investing:

SRI, as stated by Martini (2021, pp. 16874-16875), is an investment strategy that takes ESG considerations into account while choosing and managing a portfolio, according to the Global Sustainable Investment Alliance (GSIA). GSIA interprets SRI without making distinctions between this concept and others related terms like social investment, ethical investment, or responsible investing. All of these are referred to as SRI, or sustainable investing.

Agrawal and Hockerts (2021, p. 5) cite J.P. Morgan Chase & Co. and the Rockefeller Foundation (2010) as suggesting that impact investing distinguishes itself through a more active approach to funding businesses that aim to generate both financial returns and social benefits. In contrast to SRI, which emphasizes and prioritizes the integration of ESG factors into asset selection, impact investing strategically allocates capital to business models with a clear social or environmental objective.

Furthermore, Martini (2021, p. 16878) goes on to expand on this, saying that several authors highlight the ethical roots of SRI; in fact, ethical investing was the term originally used to describe SRI. Nonetheless, the author questions whether the term 'ethical investment' could precisely describe the profit-maximizing practices of fund management firms that provide ethical unit trusts, even though it could accurately characterize the decision-making process of such value-based organizations when applying internal ethical principles to an investment strategy.

Venture philanthropy:

OECD netFWD (2014, p. 37) – Organisation for Economic Cooperation and Development – refers to the European Venture Philanthropy Association (EVPA) to define 'venture philanthropy' as "*philanthropy that: 'works to build stronger social purpose organisations by providing them with both financial and non-financial support in order to increase their societal impact.' They also suggest that a set of widely accepted characteristics are common to this approach. These are: high engagement, tailored financing, multi-year support, non-financial support, involvement of networks, organisational capacity-building, and performance measurement*".

Moreover, Aggarwal et al. (2020, p. 4) pointed out that the term 'venture philanthropy' has historically been used to describe the overlap of impact investment and philanthropy, as a strategy that combines non-financial and financial support with the aim of improving social impact. This suggests that venture philanthropy can provide flexible funding options and practical non-financial support to finance creative business ideas.

Table 1 contrasts the main characteristics of both, impact investing and venture philanthropy. Impact investing, in comparison to venture philanthropy, tends to support businesses at a later stage of development, has a comparatively lower risk tolerance, expects financial returns on a shorter time period, and is unlikely to offer non-financial help.

Table 1: Key Characteristics of Impact Investing and Venture Philanthropy.

	Impact Investing	**Venture Philanthropy**
Expectation of Returns	Range of financial returns	No short-term expectation of financial return
Time Horizon	Typically shorter investment horizon	Interested in a longer-term horizon
Non-financial Support	Less hands on non-financial support	Can offer hands-on non-financial support alongside grant capital
Risk Tolerance	Lower tolerance for risky business models	Willing to fund innovative but potentially risky business models
Stage of Maturity	Greater stage of maturity	Can provide early stage seed funding for 'proof of concept'; uses convening power to mobilize other funders

Source: Aggarwal et al., 2020 (p. 5).

<u>Social impact bond:</u>

Within the impact investing ecosystem, SIBs are a cutting-edge financial tool created to match private investment with social goals. According to the OECD netFWD (2014), "*growing interest in impact investing is also coming from government and instruments such as Social Impact Bonds (SIBs) and Development Impact Bonds (DIBs), for example, are being seen as a means to direct private financial flows towards development needs*" (p. 31). This demonstrates how SIBs serve as a link between public sector initiatives and private money, guaranteeing that investments in social projects are organized around quantifiable benefit rather than conventional grant-based funding. Additionally, SIBs are "*contracts that allow the public sector to commission social programs and only pay for them if the programs are successful*", according to Rockefeller Philanthropy Advisors (2018, p. 17). These contracts enable private investments, which only generate income if the social programs' objectives are met; in other words, SIBs' contractual structure guarantees a risk-sharing model in which investors only get paid if predetermined social improvements are realized.

In contrast to conventional philanthropic contributions, which frequently do not have performance-based incentives, SIBs formalize social impact assessment, guaranteeing that public resources are only released if objectives are met. Nevertheless, SIBs present substantial financial risks in spite of their potential benefits. According to Rockefeller Philanthropy Advisors (2018, p. 17), "*risk is often high*", since funders have to cover the expenses until social projects demonstrate their effectiveness. A key principle of impact investment is the necessity of strong impact measuring methods, which is highlighted by this inherent uncertainty. SIBs closely resemble impact investing methods, which aim to produce both financial and social returns, by using thorough data-driven evaluations. Therefore, these tools serve as an example of how the financial industry may support sustainable development while making sure that funds are allocated effectively to evidence-based solutions.

2.2.Investor Profile and Motivation

High-net-worth individuals (HNIs), family offices, institutional asset owners, foundations, and development finance organizations are all examples of impact investors. Their quest for both, financial and social returns, are their main sources of drive. Roundy et al. (2024) explain that "*impact investors are motivated by making investments that align with their personal values and, particularly, values that prioritize societal change and the creation of social good*" (p. 20). This dual emphasis sets impact investors apart from venture capitalists, who only consider financial rewards, and traditional philanthropists, who only consider social objectives.

As shown in Table 2, Agrawal and Hockerts (2021) distinguished actors with different objectives, such as 'Influencers', 'Pursuers', and 'Empathizers', which are part of the impact investing ecosystem. 'Pursuers' strike a balance between financial and social objectives by investing in market opportunities with significant social components, whereas 'Influencers' prioritize systemic change and scalability and frequently co-invest with private players to fulfill their social mandates. 'Empathizers', on the other hand, concentrate on finding low-cost solutions to socioeconomic issues through entrepreneurial endeavors.

Table 2: Drivers and Responses to Competing Goals for different Impact Investors.

	Influencers	**Pursuers**	**Empathizers**
Social Goals	- Market creators for complex socio-economic problems - Typically located in Global North and provide large scale capital to solve complex problems - New solutions - Institution driven	- Focus on social mission - Focus on bottom of the pyramid (BoP) business models - Proven solutions and strategies to address socio- economic problems - Entrepreneur driven who sees a strong market opportunity	- Focus on complex socio- economic problems at low cost - Entrepreneur driven who sees a social opportunity
Financial Goals	- Large scale capital for scaling and replication - Funded from Global North - High capital injection - Value creation, Market creation - Focus on public funds, HNIs	- Focus on ROI - Focus on a particular segment or location that can pay - A greater focus on reach (lower price compared to normal market prices) - Focus on market capital (in addition to other sources) to fund	- Lacks funding to scale the impact - Focus on Grants, public funds to fund
Balancing of Logics	- High reporting standards - High ethical standards - High reputation management - Board position	- ROI is directly linked to the number of beneficiaries serviced (no. of students, no. of loan seekers, no of users of a particular service) - Greater emphasis on impact communication	- Focus on social mission and reach over profitability - Low expectation of financial return - Higher focus on SROI

Source: Agrawal and Hockerts, 2021 (p. 76).

The industry and geographic focus of these investors' investments dictates their motivations. The majority of impact AUM are managed by 87% of impact investors who are headquartered in developed economies, according to Hand et al. (2024b, p. 12). To address important socioeconomic needs, their investments frequently focus on demand-side players in the Global South, including cooperatives, MFIs, and social entrepreneurs.

The growth and development of the impact investing ecosystem are significantly impacted by the characteristics and motives of impact investors. However, as Agrawal and Hockerts (2021, p. 33) point out, impact investing firms' hybrid structure – due to the balance between financial and social returns – can cause difficulties, especially when it comes to balancing conflicting objectives and winning over traditional financial markets.

The complexity of the impact investing environment is illustrated by the variety of investor motivations and personalities. According to Roundy et al. (2024, p. 20), "*the motivations of impact investors are complex and do not fit into the clean boundaries of existing typologies*", underscoring the necessity of customized strategies to meet each investor's particular goals and expectations.

2.3. Rise of impact investment funds: From philanthropy to actual investments

Traditional philanthropy evolved into structured investment vehicles intended to produce both, quantifiable social impact and financial returns, as a result of impact investing's development. Impact investments are typically made in private markets by providing debt or equity to mission-driven businesses. Initially, the industry was mostly fueled by philanthropic funding but has gained traction among a wide range of investors, including large-scale financial institutions, pension funds, family offices, private wealth managers, foundations, individuals, commercial banks, and development finance institutions (DFIs) (J.P. Morgan Chase & Co. and Rockefeller Foundation, 2010, p. 1). The impact investment market has grown significantly, with the GIIN estimating its size at United States dollar (USD) 1.571 trillion (Hand et al., 2024a, p. 2).

The inclusion of government-sponsored organizations which invest humanitarian money to reduce poverty and generate profits – DFIs – as essential intermediaries in facilitating the raising of funds for projects with a social and environmental impact, was one of the turning points in the development of impact investing. Jackson and Harji (2012, p. 22) state that DFIs have been vital in the management of funds in the impact investment market, with organizations like the Commonwealth Development Corporation (CDC) in the UK, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) in the Netherlands, and Norfund in Norway actively allocating funds to sustainable projects.

These organizations serve as co-investors, regulators, and facilitators, allowing the public and private sectors to work together more closely to promote sustainable development (Wood et al., 2013, p. 84). Co-investment opportunities act as an important tool for lowering financial risks and increasing the appeal of impact investments, thereby combining private and public capital. Furthermore, by improving investment conditions in vital industries like renewable energy and infrastructure, DFIs have made a substantial contribution to the growth of impact markets. DFIs and institutional investors have been the main drivers of impact investing's expansion, with DFIs alone contributing a sizeable 9% of the total amount of capital deployed in 2023, according to Hand et al. (2024b, p. 30). Additionally, the report anticipated that both, investment managers and DFIs, would boost their capital deployment by 29% and 32% respectively, in 2024.

2.3.1. Sustainable Momentum: Trends and Growth

Impact investing's expansion has sped up dramatically in the last several years. The impact investing market has been developing steadily, with impact AUM increasing at a compound annual growth rate (CAGR) of 14%, according to the GIIN State of the Market Report 2024 (Hand et al., 2024b, p. 48). Additionally, the amount of capital invested grew at a 6% CAGR from USD 29 billion in 2019 to USD 38 billion in 2024 (Hand et al., 2024b, p. 31).

At the same time, by the end of June 2024, the AUM of sustainable funds had grown to an all-time high of USD 3.5 trillion, which was a 7.7% year-over-year rise and a 3.9% increase from the end of 2023. The fact that this amount represents 7.0% of the entire global AUM shows how institutional interest in sustainable investing is rising (Morgan Stanley Institute for Sustainable Investing, 2024, p. 5).

In terms of geography, most of impact-focused funding is deployed in North America and Europe, where impact investment is still highly concentrated. 70% of overall impact AUM is invested in these two regions, with 23% going to Western, Northern, and Southern Europe and 47% going to the United States of America (USA) and Canada, according to Hand et al. (2024b, p. 13).

Meanwhile, when breaking down by asset class, Hand et al. (2024b, p. 26) state that private debt emerges as the most significant asset type in impact investing, accounting for USD 102.27 billion in AUM in 2024, growing at a CAGR of 7% over the past five years. Private equity (PE) follows as the second-largest category, with USD 63.79 billion in AUM, showing a robust CAGR of 17%, solidifying its position as a favored investment vehicle among institutional investors. Meanwhile, real assets, including infrastructure, account for USD 11.73 billion, with a CAGR of 27%.

2.3.2. Future Outlook and Challenges

Sustainable finance is becoming a fundamental part of global asset management (AM) due to the explosive growth of ESG investing. ESG-related AUM were estimated at USD 37 trillion in 2021, according to Bloomberg (2021), which was referenced by Nykvist and Maltais (2022, p. 220). By 2025, it was anticipated that the entire worldwide ESG AUM will have surpassed USD 50 trillion, accounting for over one-third of all managed assets worldwide.

Expectations for the future are still high. J.P. Morgan Chase & Co. (2024, p. 1) is committing to meet its Sustainable Development Target, which calls for raising over USD 2.5 trillion by 2030 to support SF, inclusive growth, and climate action projects. Meanwhile, The Morgan Stanley Institute for Sustainable Investing (2024, p. 5) highlights that impact investing still confront many obstacles despite its expansion.

In terms of politics, significant changes to the EU regulatory framework were introduced by the recently proposed EU Omnibus Directive package, which updates and eliminates a number of sustainability and investment legislation. These changes have considerable implications for businesses, investors, and public institutions. The main goals of this new law is to simplify some processes, prevent the spread of unnecessary reporting, and maintain the ecological transition and environmental goals that form the basis of the EU Taxonomy, through the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD) (European Commission, 2025a, pp. 1-3).

Adapting the EU Taxonomy criteria to a new business segmentation is one of the main issues. In order to preserve the most rigorous reporting requirements and alignment with the EU Taxonomy for the largest entities, the Omnibus legislative package suggests excluding a sizable group of businesses (those with fewer than 1,000 employees) from the scope of application (European Commission, 2025b, p. 3). The information that the financial sector uses to direct funding toward sustainable initiatives may initially become less uniform as a result of this change. In order to mitigate this risk, smaller businesses are given the option to voluntarily apply sectoral sheets of the EU Taxonomy, even if they are not required to by law (European Commission, 2025a, p. 33, Art. 29a). There are two possible outcomes from this: first, it substantially reduces the administrative load on small and medium-sized enterprises (SMEs); second, if there are no explicit incentives for the voluntary adoption of the standards, it could result in differences in the quality of the data reported.

The easing of the so-called “do no significant harm” (DNSH) criteria, which are a key component in determining whether an activity is considered environmentally sustainable, is another crucial element. The Omnibus proposal simplifies some of the more complicated regulations that apply horizontally across all sectors, particularly those that deal with chemicals and pollution protection (European Commission, 2025c, p. 47). Although the goal of this simplification is to reduce expenses and speed the classification of activities, it also raises questions regarding the comprehensiveness and accuracy of the evaluations. Organizations, such as Oikocredit, interviewed later on, are concerned that lowering technical requirements or allowing for partial compliance with some standards may result in softer interpretations and increase the likelihood of greenwashing.

Mainly, for businesses that want to demonstrate gradual progress in meeting the technical requirements of the EU Taxonomy, the Omnibus Directive suggests a partial opt-in framework (European Commission, 2025a, p. 5). Through a press note, the European Commission (2025d, p. 2) explained how this method eliminated the need for complete alignment up front and allowed companies to disclose only the portion of their operations that fit the EU Taxonomy criteria. The operational problem presented by this formula, which was created to support a gradual transition, is that investors and regulators will need to make a clear distinction between those operations and information in line with EU Taxonomy and those which are not. Lack of detailed practical guidance could cause market misunderstanding and compromise the comparability that the EU Taxonomy is meant to offer.

With its impact on the EU Taxonomy, the new Omnibus Directive implementation in the EU may present a challenging balance between lowering administrative costs and preserving the environmental goals that drove the original legislation. Investor may concur that processes should be streamlined, particularly for SMEs and businesses with lower carbon footprints. The difficulty lies in maintaining the framework's consistency, legitimacy, and applicability in directing sustainable investments. The way the control and verification mechanisms are explained and the level of assistance (incentives, guidelines, and monitoring platforms) offered by EU institutions to guarantee the accuracy of the data and the success of the ecological transition will largely determine how these issues are addressed. As Omnibus was presented in February 2025, there are many questions without precise answers so far.

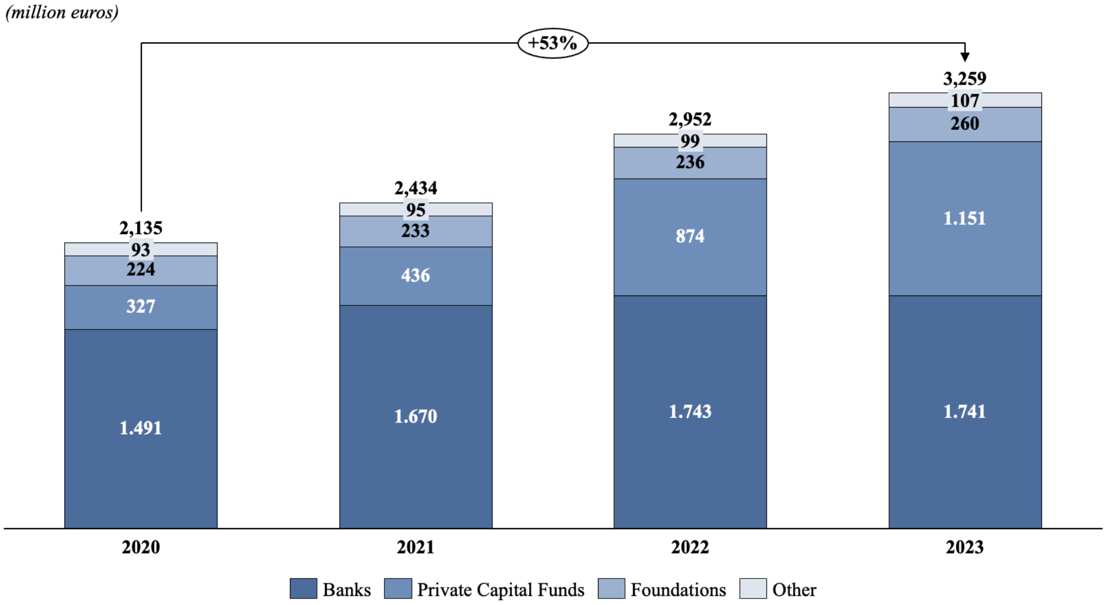
2.4.Spanish Market Situation

Over the years, impact investment in Spain has grown steadily, establishing its position as a key sector within the ecosystem of sustainable finance (SpainNAB, 2024, p. 14). Its growth has been supported by an increasing demand for funding from companies and projects that have a good social and environmental impact as well as the consistent evolution of a structured investment offer backed by both public and private organizations. As the SpainNAB (2024, p. 9) report indicates, "*in recent years, the impact economy has experienced significant growth in Spain, with more and more companies and investors making decisions based on the risk-return-impact trinomial*".

The Spanish impact investing market's expansion is part of a global trend that has witnessed a rapid increase of the growth of assets managed according to impact criteria.

Similarly, as Figure 1 shows, while impact bank funding has remained quite stable over the past four years, impact investment has been constantly increasing. Specifically, impact investment, excluding banks, has increased by 136% in just three years, from 644 million euros in 2020 to 1,517 million euros in 2023. The increased involvement of private funds and foundations, which have raised additional funds for social and environmental strategies, has been a major factor in these figures. Bank impact finance, on the other hand, has evolved more gently, rising by 16% between 2020 and 2023, from 1,491 million euros to 1,741 million euros, indicating a consolidated role for banks in financing impact projects.

Figure 1: Capital managed in impact investment in Spain from 2020 to 2023.

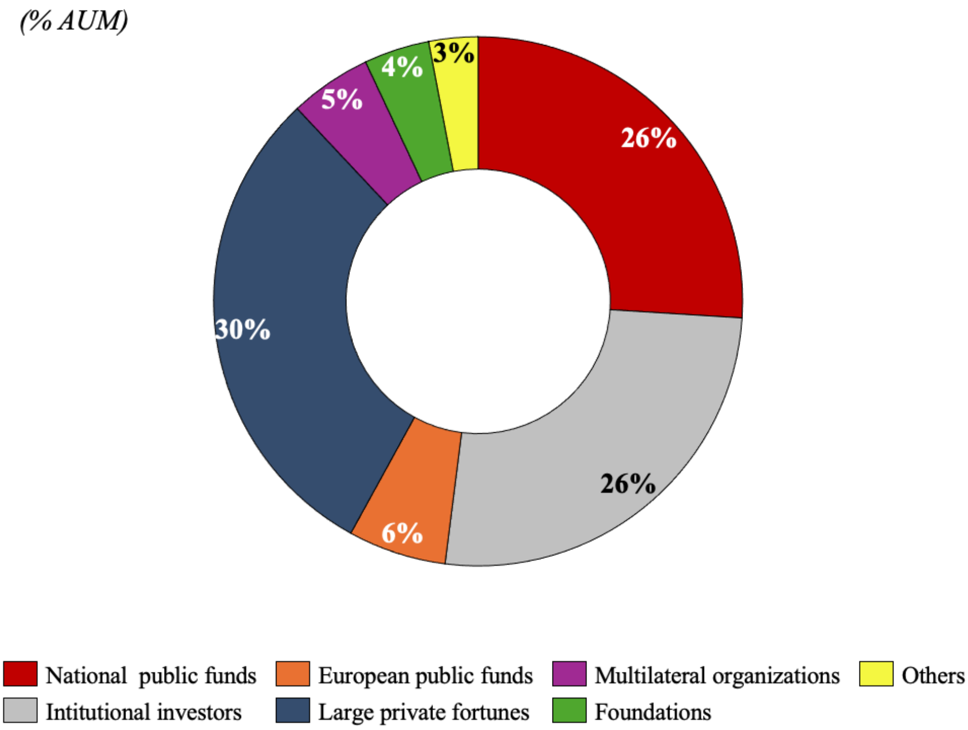


Source: SpainNAB, 2024 (p. 6).

In this regard, SpainNAB (2024, p. 14) distinguishes eight categories of important participants who manage capital for direct impact investments in Spain. In particular, they include foundations, crowdfunding platforms, family offices, business angels, impact Venture Capital (VC), PE fund managers, and platforms that act as a bridge between investors and microfinance firms, industrial corporations, and public funds or financing entities. Each of these players is essential in directing funds to initiatives that have a definite social and environmental return, and their diversity reflects the increasing complexity and specialization of Spain's impact investing ecosystem.

Regarding the source of private capital, Figure 2 illustrates that institutional investors (insurance firms, pension funds, etc.) supply 26% of it. This encourages the professionalization and scalability of impact investments because they are driven by diversification and profitability. Simultaneously, the governmental emphasis on advancing strategic industries with significant social and environmental potential – often through co-financing schemes or guarantees that lower the risk for other investors – is demonstrated by the 26 percent that comes from national public funds.

Figure 2: Origin of the funding of private capital vehicles in Spain, as of 2023.



Source: SpainNAB, 2024 (p. 23).

The largest contributor, at 30%, are large private fortunes or HNIs, indicating the increased interest of family offices and other such actors in combining humanitarian or environmental objectives with strong profits. Although their presence is slightly more limited in volume, European public funds (6%) and multilateral organizations (5%) channel resources linked to development objectives and demand impact measurement standards. Foundations (3%) provide more adaptable and charitable financing that is concentrated on reaching concrete outcomes of social transformation. Lastly, the remaining 4%, which is classified as 'Other', includes more diverse sources (crowdfunding, retail investors, etc.), which broaden the scope and encourage innovation across different industries.

In addition, it is worth exploring how impact investing has effectively drawn in a variety of funding sources, what growth opportunities are still open, and what characteristics impact investments of today have in common. These questions pave the way for a deeper examination of the drivers of impact investing, such as investors' strategic alignments, risk-return expectations, and operational frameworks that enable ESG scalability in Spain.

3. ANALYSIS AND RESULTS

In order to develop an accurate understanding of the dynamics and singularities of the Spanish impact investment market, this study has prioritized in-depth interviews with specialists and investors with outstanding track records in the sector. The goal of these discussions has been to collect both quantitative data, especially regarding investment volume and profitability, and qualitative data, with an emphasis on details and viewpoints that can provided insight into investor motivations, financing methods, and the ecosystem's opportunities and challenges.

As mentioned previously, a first approach to the actors involved was based on the classification proposed by SpainNAB (2024, p. 14), which describes a wide variety of impact investors. This variety highlights the heterogeneity of profiles, objectives and strategies that converge in the Spanish market, although not all exhibit the same degree of commitment or real experience in the execution of impact initiatives.

Table 3 shows some of the main actors we have identified in each of the categories defined by SpainNAB (2024, p. 14), which allows us to illustrate in greater detail how the different types of investors are distributed across the market.

In order to improve the effectiveness and scope of the research, it was decided to narrow the initial universe and focus efforts on those organizations with a proven track record in the creation and management of impact investment vehicles. Therefore, following an initial survey phase, it was concluded that firms like Impact Bridge, Suma Capital and Oikocredit were particularly meaningful as they had a consolidated track record and had taken part in prominent initiatives. The sample has a high representative value of the complexity and difficulties faced by impact investors in Spain because these firms as a whole reflect a range from startup to emerging to scale-up investing stages in.

Table 3: Classification of Main Impact Investing Players in the Spanish Market.

Typology of Impact Investor	**Main Players in the Spanish Market**
Family Office	Pontegadea, Ly Cahero
Business Angels	Zubi Capital, IESE Business Angels Network Impact
VC	Net Zero Ventures, Ship2B Ventures, Creas Impacto, Suma Capital
PE	Q-Impact, GAWA Capital, Seaya Andromeda, Demeter Investment Managers, Cerea Partners, Suma Capital
Crowdfounding Platforms	Microwd, ECrowd!, Goteo
Foundations	CaixaImpulse, Fundación Repsol, Fundación Telefónica, Open Value Foundation
Publicly funded institutions	Compañía Española de Financiación del Desarrollo (COFIDES), Empresa Nacional de Innovación (ENISA), Instituto de Crédito Oficial (ICO)
Private Capital Investors	Impact Bridge, Global Social Impact Investments, MicroBank, Triodos Bank, InfraRed Capital Partners, Resilience Partners, Demeter Investment Managers, Cerea Partners, Eurocapital EAF

Source: Own elaboration.

Regarding interviews with impact investment professionals, all of them were conducted via videoconference. Previously, an e-mail invitation outlining the goals and scope of the study, along with the topic areas to be covered, was sent out prior to direct contact. This approach allowed the experts, for the most part, to respond enthusiastically and to have time to reflect on the more conceptual questions.

Table 4: Interviewed firms.

Firm Name	**Website**	**Typology of investor**	**Description**	**Contact**
Ecumenical Development Cooperative Society U.A. (Oikocredit)	https://www.oikocredit.org	International Cooperative / Microfinance	Oikocredit is an ecumenical cooperative with 50 years of history that channels capital for microfinance, financial inclusion and sustainable agriculture projects.	Rose Serrano (Institutional Investors Relations Manager)
Impact Bridge AM S.G.I.I.C, S.A.	https://www.impactbridge.com	Fund management company	Founded in 2018, Impact Bridge specializes in the creation and management of impact-focused investment funds. It offers private debt and fund of funds vehicles, focusing on sectors such as agrifood, cybersecurity or PE with ESG criteria.	Braulio Pareja (Head of Research) Isabela Lantero (Investment Analyst)
Suma Capital S.G.E.I.C, S.A.	https://sumacapital.com	ESG PE/ Impact strategy	Specializing in investments for environmental transition and circular economy, Suma Capital manages investment vehicles targeting energy efficiency projects, sustainable infrastructure and climate solutions.	Antoni Macià (Partner)

Source: Own elaboration.

In Table 4, a concise profile of the interviewed firms is introduced, including their main characteristics and details, enabling a more concrete understanding of their specific roles and contributions within the sector. Their diversity, which reflects various risk and profitability criteria into different vehicles and projects, guarantees a deep understanding of the various ways that funds can be allocated to social and environmental impact initiatives.

Furthermore, this selection (Table 4) facilitates comparison and exhaustive awareness of how various institutional investors that operate in Spain approach their decisions, because these firms exhibit remarkable heterogeneity in terms of geography, strategic objectives, and return expectations. This divergence enhances the analysis and makes simpler to observe how each kind of institutional investor, with its unique characteristics, contributes to the expansion and consolidation of impact investments.

The questions, compiled in the annex, aim to address the study's main query, which is to determine the factors that drive funding and the degree to which impact investments may be scaled in the Spanish market.

For instance, the conversations included the particular reasons why various investor typologies – such as, insurers, credit institutions, pension funds, and family offices – allocate capital to socially or environmentally conscious enterprises. To find out if there are characteristics that impact investors share, as well as potential differences between those who operate with an honest interest in impact and those who place economic profitability above all else. Also, similarities in terms of financial and social returns were further examined. Similarly, additional mphasis was placed on analyzing the evolution of returns over time, outlining the prospects that these players project profitability.

Determining the extent to which investors participate in the selection or oversight of the projects in which they invest their money was another important component of the interviews. The 'covenants' or clauses that these investors impose were also discussed, as they can serve as a safeguard or, in other cases, represent a restriction that hinders the financing of initiatives with a high risk or innovation profile. Participants in this sense, explained how their investment decisions are structured through committees, as LPs delegate all decisions to their investment team, which works for achieving high profitability at the same time as reducing risk, through diversification and strong due diligence procedures on the projects.

The experts openly provided quantitative information, such as the size of the AUM, the size of the investments driven out, and the rates of return, to supplement the information obtained during these interviews. Their integration with the testimonies made it possible to delineate a panorama in which financial objectives and the desires of social and environmental transformation converge. Furthermore, shared perceptions were identified about which sectors or thematic areas could attract greater investment interest in the future, provided the right regulatory conditions and more mature development of metrics to measure impact are in place.

This approach is thought to be helpful in comprehending the reasoning behind the scalability of impact investments since it blends a conceptual analysis of the industry with first-hand testimonies from those who are actively managing resources. Added to this is the role of regulation, and the political and governmental will to promote incentives or legal frameworks that favor the flow of capital towards initiatives aimed at social transformation and environmental sustainability.

All in all, the sample interviewed offers, on the one hand, a reflection of the heterogeneity of the sector in Spain and, on the other, precise evidence of the brakes and catalysts of impact. Thus, the results that will be presented in the following chapters will seek not only to systematize the findings on how these investors operate, but also to suggest lines of action and recommendations that could maximize the growth and effectiveness of impact investing in Spain. This research logic, therefore, endows the study with a clear vocation of usefulness for institutional actors, investors, social entrepreneurs and other participants who see impact as a way of progress, transformation and, of course, economic viability.

3.1. Scalability and barriers to capital attraction

In order for impact investments to be scalable, organizations must be able to consistently bring in funding and create an atmosphere that encourages the expansion and diversity of initiatives they sponsor. In this regard, the investors interviewed point to several critical factors:

Oikocredit highlighted that the combination of institutional investors – particularly, NGOs, religious institutions, financial institutions, and family offices – and retail investors – such as, families and individuals – has made its growth feasible. These LPs have contributed consistent and reliable capital, enabling Oikocredit to participate in impact projects for the last 50 years. However, Rose Serrano, Investor Relations Manager, emphasized that new obstacles are also appearing, particularly those related to political and regulatory unpredictability, which could reduce the steady pace at which resources are being attracted. According to Rose, regulatory changes (such as those enacted in the US and the EU) may have an immediate impact on the trust of investors seeking significant outcomes and the relative stability of the impact investing scene.

The discussion with Isabela Lantero, Impact Bridge's investment analyst, makes it significantly evident that their growth since 2018 may be attributed to its strategy of diversifying its financial instruments and sectors. After initially concentrating on a developing market-focused fund of funds, they have progressively developed direct private debt vehicles, cybersecurity and agrifood funds, and have experimented with PE. Their diversification has enabled them to balance their goal of producing quantifiable social and environmental effect with the economic objectives of family offices and institutional investors, who require market returns. In order to attract investors who want to fund projects with social or environmental relevance, along with competitive returns, Impact Bridge emphasized the importance of developing strong and sectorally specialized investment theses through the Impact Bridge Impact Scoring Tool (IBIST®). Isabela also highlighted the importance of building a validated track record of returns and business contacts, so that each vehicle launched demonstrates that impact objectives do not compromise profitability.

Players like Suma Capital, a specialized fund that has concentrated its strategy on energy transition, circular economy, and sustainability initiatives, have actively participated in the development of impact investment in Spain. According to the responses given by its partner, Antoni Macià, a major factor in attracting in new investors – including institutional investors – who are becoming more and more interested in projects that have a beneficial social and environmental impact is the pursuit of interesting returns. Antoni drawn attention to the involvement of investors who have an investment pocket set aside for Article 9 investment funds, as specified in the SFDR. These 'dark green' funds are the highest tier of sustainability products since they have a well-defined sustainable investing goal that is in line with the SDGs.

The respondents concurred that one of the biggest obstacles to the expansion of impact investment may be liquidity, or the impression that it is lacking. Even for tiny savers with severe risk aversion, Oikocredit's approach is more appealing because of the confidence it instills in its participants through a withdrawal window of roughly one month. The absence of flexible exit options, however, remains a deterrent for organizations with longer-term investment plans or more ambitious return expectations, as they fear that capital may be locked up for an extended period of time. When the fund works in industries or regions where projects take longer to mature this scenario becomes even worse. Beyond liquidity risk, while European aid related to the energy transition continues to drive investment opportunities in clean energy, biogas, biomethane, or hydrogen as a method of self-capacity, following Russia's entry into Ukraine, Suma Capital describes the challenging fundraising in recent years due to the recent rise in interest rates that negatively impact the valuations of illiquid assets. However, there is a chance that this momentum could eventually slowdown, which emphasizes how crucial it is to have a solid regulatory environment that does not impede the expansion of impact investment.

Nevertheless, the majority of people surveyed are optimistic that the hesitation associated with illiquidity or mistrust of results can be reduced by the increasing demand for ESG products and the steady advancements in financial and social education. Many of them emphasized that, in order to promote and legitimize impact methods, there needs be more institutional and regulatory support in addition to the funds or intermediaries themselves. In this context, they contrast recent actions that may facilitate or impede impact investing's consolidation. For instance, the previously mentioned Omnibus Directive emerged in Europe with the intention of harmonizing and simplifying financial regulations in areas like insurance supervision and financial markets, but it may also introduce changes that affect the clarity and application of ESG criteria. In the same line of analysis, the political debate around Donald Trump's administration creates uncertainties about the continuity of certain sustainability guidelines, which detracts from investments with socio-environmental objectives.

The social awareness and participation in calling for governments and financial actors to be more consistent with impact objectives is crucial to preventing these regulatory actions from becoming a brake. Experts point out that pressure to create stable policies and regulatory frameworks that support this kind of asset class will increase to the degree that the public recognizes the value of these investments, as they are capable of providing sufficient financial returns while improving energy transition and financial inclusion. In fact, half of Impact Bridge's staff members actively participate in educational activities, which promotes a culture of responsible finance and helps others understand these benefits on a larger scale. Furthermore, the public desire for transparency and performance and the need for a policy environment that safeguards and encourages impact investing are mutually reinforcing: the more educated people are about sustainability and responsible finance, the less likely it is that policies like the USA's regulatory rollbacks or the EU's Omnibus Directive will restrict the sector's expansion. Therefore, it is crucial to support educational initiatives that clarify the advantages and validity of impact projects for both investors and the general public, while also combining precise and comparable criteria that ensure the legitimacy of their outcomes.

3.2. Opportunity for impact investment in emerging economies

In emerging nations, impact investment has the ability to create revolutionary changes in markets where institutional fragility and a lack of financial services continue to exist. "*Investors based in developed markets managed 95% of the sample impact AUM, while organizations based in emerging markets accounted for 5% of impact AUM*", according to Hand et al. (2024a, p. 6). This discrepancy presents both a challenge and an opportunity to realign the geographical distribution of inverted capital and achieve more local impact.

Oikocredit's mission remains in promoting financial inclusion by funding social economy initiatives in Latin America, Asia, and Africa through microcredits. The funding of rural agricultural and renewable energy cooperatives is a prime example, as it promotes community development and the establishment of sustainable value chains. Similar to this, Impact Bridge began as an emerging market fund manager and, despite diversifying its holdings, still has large holdings in nations with high rates of poverty. Moreover, in terms of geography, tend to tends to focus on emerging economies, with 29% of total impact investment going to Latin America, Asia and Africa, through specialized vehicles in emerging economies, like microfinance, seed money for social entrepreneurs, and financing for vital infrastructure (SpainNAB, 2024, p. 29). Rose Serrano believe that the big opportunity is in the evolution of socially responsible investment funds (SRFs), which can take on longer investment horizons and greater risks without sacrificing transparency and measurement standards. This will allow capital to be channeled to underserved regions, increasing the percentage of AUM allocated to emerging markets.

All participants underlined that impact programs need to be grounded in a thorough comprehension of the local context and the participation of strategic partners who have a physical presence in order to scale. In the case of Oikocredit, they found a way in helping in the education of the poorest by collaborating with Opportunity International EduFinance; and in water and sanitation projects, especially in Brazil, collaborating with Banco da Familia. However, overcoming a number of obstacles is necessary to fully realize the potential of these prospects. Among these include the lack of defined impact indicators and restricted access to trustworthy information, which make it challenging to assess and track outcomes. Therefore, all these firms count with experienced investment monitoring and control teams. Never forgetting the worthiness and importance of financial returns, as Antoni pointed out, the profit track record is a means of attracting investors and achieving greater impact.

Additionally, political unpredictability in particular developing nations and the lack of access to distribution networks increase investment uncertainty. Oikocredit and Impact Bridge emphasized that, in order to stabilize the flow of capital and create less unstable investment settings, financial education and cooperation with government agencies are crucial.

4. CONCLUSION AND FUTURE WORK

Several factors have been identified throughout the study to influence the attraction of funding for impact projects in Spain, as demonstrated by the overall development of impact investing as well as by the experiences of organizations like Oikocredit, Impact Bridge, and Suma Capital. First, it is important to measure and publish results in a trustworthy way. Investors who are unfamiliar with this market are usually discouraged from participating due to a lack of uniform approaches and, more importantly, a fear of greenwashing. In this line, we might be facing a big obstacle in impact investing with the implementation of EU Omnibus package, with consequences not being quantified yet. As Rose Serrano highlighted, misinformation plays against impact investing. Therefore, recurrent reporting such as Impact Bridge's reports to its LPs serve as a tool for project knowledge and awareness.

Maintaining a suitably flexible and liquid financial offering, whether through guarantees, first loss hedges, or other risk mitigation strategies, is another essential component in attracting resources. According to the interviewees, the existence of structures that blend debt and patient capital, as well as the explicit definition of exit windows, boost investor trust and make it easier for institutional investors to enter the fund. Furthermore, for LPs to feel in agreement, there must be a clear investment thesis that covers both the pursuit of market returns and the accomplishment of social or environmental goals, while never deciding on individual projects. Decisions are made more quickly and deals are larger when managers and investors have same values and impact criteria. Growing societal awareness of environmental urgency is improving the prospects for impact investing, but impact vehicles' profitability continues to be one of the primary driver of their development and a strong track record in this sense, is still really important. Going forward, Suma Capital anticipated that strong financial results, policy congruence, and increased positive regulatory sensitivity will solidify impact investing as a more appealing option for a wider spectrum of LPs.

A governmental and educational framework that supports the professionalization of current actors and the inclusion of new ones is also required. Stable governmental incentives, training in sustainable finance, and the sharing of success stories are all considered to be deciding factors in boosting confidence and expanding the pool of participants. A more robust pipeline of impact projects would be created with improved coordination between governmental, commercial, and philanthropic actors. This would also lower entrance barriers, particularly for investors who are more cautious or have limited funds, increasing volumes of capital invested. As long as the promoters are able to provide quantifiable effect indicators and a return consistent with the risk profile, the opening up of unexplored industries – like cybersecurity, digitalization, or agrifood – offers prospects for growth.

As a conclusion, in parallel to the previous point, it should be mentioned that the impact investing ecosystem's capacity to uphold its reputation and provide measurable outcomes is a major factor in attracting funds for impact initiatives in Spain. The country could become a European benchmark in the integration of financial profitability and the achievement of social or environmental goals if it can consolidate the implementation of sustainable finance and educational methodologies, incorporate hybrid financing models, and increase the supply of solvent projects in strategic sectors. Regulatory agencies and cooperation networks should support this potential expansion, establishing the circumstances needed for impact investment to increase in size and further tackle the global development and sustainability concerns.

4.1. Future lines of investigation

Four lines of analysis are identified for future research that could help advance impact investing, particularly if the number of investors and geographic areas covered are increased:

First and foremost, there is a strong desire to learn more about debt financing and hybrid vehicles, particularly those that combine conventional loan characteristics with patient capital and are available to businesses with room to expand but no financial experience. Understanding the circumstances in which flexible, subordinated, or partially hedged debt tranches can be most successful in directing funds toward high-impact initiatives would be possible through further analysis.

Expanding impact investing's sectoral and global reach is the subject of a second line of study. While some investors have shown interest in microfinance, agriculture, and renewable energy, other industries that were identified in the interviews, such education, health and cybersecurity, may benefit from more advanced financing methods and more knowledge transfer. Examining how to apply successful models and best practices to economies with diverse regulatory frameworks would be necessary for this expansion, all the while maintaining investor trust and consistency in impact criteria.

Another possible line of future research points to the deepening of impact measurement and management. There are still disparities in the acceptance and methodical application of standards and techniques such as the one developed by Impact Bridge, IBIST®. This is partially because different industries and goals have different needs. It would be relevant to look into ways to naturally incorporate impact metrics into investor decision-making, including in investment contracts or agreements, as for example, Oikocredit does requiring an ESG scoring on the companies and projects they finance. It would be interesting to investigate how to consistently measure the impact of investments of greater systemic scope, such as infrastructure projects and local market development, where results may take several years to fully manifest themselves, even though the standardization of analysis and reporting has not been examined throughout this study.

Lastly, further research should be done on the role of public policy and multi-stakeholder cooperation. To find reproducible models, it would be essential to examine cases of effective cooperation between philanthropy, private funds, and government organizations, particularly when these partnerships entail tax incentives or attractive regulatory structures. In addition to guaranteeing alignment with global goals, like SDGs, to increase the effects on a national and worldwide level, promoting these schemes may facilitate the entry of investors who are less aware about impact investing.

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ANNEX

Interviews – Capital supply / Fundraising in impact investing in Spain.

Participants:

Oikocredit	Rose Serrano (Institutional Investor Relations Manager)
Impact Bridge	Isabela Lantero (Investment Analyst)
Suma Capital	Antoni Macià (Partner)

Questionnaire and responses:

1. What has been the evolution over the last few years, in terms of capital under management by your entity and commitment to impact investing? Has it changed much compared to today?

Oikocredit	From its beginnings, Oikocredit was born and developed through the involvement of religious organizations, NGOs and individuals who, after the US involvement in the Vietnam War and the Apartheid, came together in Switzerland with the idea of creating a cooperative which they would support financially and in which their capital contribution would not finance wars and inequalities. They therefore decided to base themselves in the Netherlands, a country with the highest level of volunteerism in Europe. They currently have 1 billion euros invested.
Impact Bridge	The AM company was born in 2018 and initially focused on a single fund of funds with investment in emerging markets. However, in recent years, the rapid growth in volume and number of funds under management has not weakened the direct effect of impact investing, especially through direct private debt. The creation of new funds, such as agrifood, cybersecurity and PE, have served as a means of stability and access to a larger network of investors, who are directed towards impact investing.
Suma Capital	Throughout the life of Suma Capital, there have been changes in the investment approach. In the beginning, it started with a traditional PE growth fund and, subsequently, in 2012, the 20 million euros fund dedicated to energy efficiency was raised,

	which served as a seed to implement impact investing in Suma. 150 million euros Fund 2 opened the environmental scope, dedicated to energy transition and circular economy. And Fund 3, worth 300 million euros, is an Article 9 fund, closely aligned with the SDGs.

2. What are the main reasons that lead LPs – banks, insurers, pension funds and family offices – to invest in impact funds rather than in other investment strategies? To what extent do investors prioritize financial returns over social and environmental impact? Is impact a primary objective or a secondary element in their decisions? What are the key differences between institutional investors and private investors in terms of their approach and commitment to impact investing?

Oikocredit	Oikocredit's LPs are divided into Retail and Institutional. In Spain, the ratio is Retail c. 30% and Institutional c. 70%, while in Europe it is close to 50-50. Retail investors are essentially families and couples who make recurring contributions supporting Oikocredit's causes and projects. The online channel plays a crucial role, as investors are informed and recruited through the web. On the other hand, Institutional investors are NGOs, religious organizations, banks and some family offices. This group, although more focused on profitability, is increasingly prioritizing impact, although in specific situations they simply allocate a small pocket of their funds to improve their own image. These investors have greater knowledge and capacity for involvement.
Impact Bridge	There is a wide spectrum of LPs, from foundations and religious entities to pension funds and family offices. The latter need to meet certain profitability objectives, so they have a balance between their objectives of providing positive impact and economic benefit.

Suma Capital	The LPs are mostly Spanish investors. Most of them are family offices, insurance companies and public investors. All of them, in common, share a great interest in sustainability and green development. Without assessing whether it is a primary or secondary objective, profitability is a highly valued objective by the LPs, as the fact that they are investments in line with Article 9 means that many institutional investors have a pocket available for investment.

3. What are the expected financial returns on impact investing and how have these expectations evolved in recent years?

Oikocredit	Oikocredit offers between 0% and 2% to all its LPs, without discrimination by type of investor or amount contributed. Profitability, as an exotic product of a social organization that does not depend solely on volunteers, is a fundraising tool. Although the profitability may be considered low, Oikocredit does not impose additional costs on investors and allows the liquidation of funds within a temporary period of one month.
Impact Bridge	Those institutional investors without a primary impact target that Impact Bridge has in place require market-level performance. Impact Bridge is able to deliver it.
Suma Capital	Impact investing is a sustainable investment, showing great historical and current returns. Their funds offer low double-digit returns.

4. How do impact investors perceive risk, and what factors do they consider to be the most important determinants of their commitment of capital?

Oikocredit	Two risks stand out, liquidity risk and project risk. Liquidity risk is not an issue at Oikocredit, which, backed by 50 years of successful history, assures its LPs the liquidation of their funds within one month. Similarly, project risk is mitigated by diversification and a contingency fund. LPs cannot choose

	specific projects in which to invest; it is Oikocredit that allocates funds in a diversified manner, greatly reducing this risk.
Impact Bridge	Liquidity risk is always there, investors know this because it is an intrinsic aspect of financial investments. Also, as an alternative fund manager, the products are not as liquid. Likewise, the individual risks of the projects are diversified.
Suma Capital	It is perceived as that of any alternative investment, and illiquid. No major differences.

5. How do investors influence the fund's strategic decision-making, project selection and investment structuring? What is the level of involvement of investors in the management and governance of the funds? Is there a trend towards a more active or passive model in their participation?

Oikocredit	Investors participate in the projects as a community, so that no one can select specific projects to participate or not to participate in. Oikocredit has an 'inflows' team dedicated to raising funds from retail and institutional investors, and an 'outflows' team that analyzes more than a hundred projects a year and finally executes the financing of 4 or 5 projects. Therefore, they have an exhaustive due diligence that gives more security and peace of mind to the investor. For example, one of the aspects analyzed in the due diligence is that the company to be financially supported has an ESG rating by a reputable rating agency.
Impact Bridge	Depending on the type of investor, they are kept involved by sending them a monthly and/or quarterly report. Furthermore, these investors do not condition or have an operational role in the investments. Only the members of the impact committee and finance committee make the decision to make an investment in a particular project.
Suma Capital	The LPs fully delegate all investment decisions to the fund. In addition, the LPs have an advisory committee where they can advise and share ideas with the fund managers.

6. What are the most relevant barriers that prevent investors from allocating more capital to impact investing in Spain? Are they mainly financial, structural or market perception barriers?

Oikocredit	Currently, policy measures such as those being implemented by Trump or Omnibus in Europe may be a major factor playing against ESG measures that were being implemented in recent years, slowing down and serving as a barrier to the growth of impact investing.
Impact Bridge	There is a risk that impact investment may lose the social relevance it currently has. Different political factors could condition public investment in this type of investment. However, private investors are not expected to be equally conditioned.
Suma Capital	Interest rate hikes in recent years have led to a decrease in the valuations of illiquid investments, complicating fund raising. On the other hand, this type of investment has taken advantage of European measures and aid for clean energy and self-supply of biogas, biomethane and hydrogen after Russian entry into Ukraine. There is a possibility that this drive may be limited, slowing growth. Social awareness accompanies impact investment; only regulation can slow it down.

7. What sectors or impact areas are most attractive to investors in Spain and what factors determine their interest in them?

Oikocredit	Initially, Oikocredit focused its efforts on the cooperative side, i.e. agriculture. Now, however, its strength lies in microcredit and inclusion projects. In addition, in recent years it has been investing in renewable energies, especially in the financing of solar mini-grids to bring electricity to everyone, and of 'clean cookstoves', a problem that causes many deaths due to carbon dioxide inhalation.

	Furthermore, interest is growing in two areas: in education, where they collaborate with Opportunity International EduFinance; and in water and sanitation, especially in Brazil, collaborating with Banco da Familia.
Impact Bridge	Impact knows no sector, impact can be generated from all sectors, for example, retail and energy are very common sectors. Of course, as in the case of the PE fund, which is highly specialized in agriculture, the greater the degree of expertise, the more we can contribute.
Suma Capital	Previously, the funds were very specialized, standing out in the niche in which they invested. Now, however, the aim is to make them broader, allowing them to diversify around different areas of impact.

8. What are the most common covenants imposed by LPs on impact investment funds, and how do they shape and/or constrain investment strategies?

Oikocredit	In fact, the LPs do not impose covenants or limit in any way the use of their funds. It is true that in recent years, Oikocredit has been focusing its efforts internally on the so-called 'focus countries', fully supporting the most disadvantaged regions rather than trying to capture a more global market.
Impact Bridge	This will depend on the bargaining power of the LPs. It is possible that geographic, sub-sector, business size and specific return covenants may be implemented.
Suma Capital	Public investors may or usually do apply sectoral limitations. Also, LPs may impose geographic and other limitations that are aligned with the EU Taxonomy.

9. What changes would be necessary in the market for investors to increase their participation in impact projects in Spain?

Oikocredit	One crucial factor in increasing the volume and social involvement in impact investing is education. A financial

	education that is committed to and aware of social and environmental issues will create a generation that is equally committed to society.
Impact Bridge	Political and social influence will be major determinants of the participation of public investment in impact spending. If public management accompanies private investors, impact investment will benefit.
Suma Capital	What will make investors increase their participation in impact projects will be performance, simply, profitability will make investors support these projects. As previously mentioned, awareness of the importance of impact investing in society accompanies these funds, only regulation can slow their growth.