How Do Social Impact Businesses Get Financed in Brazil?

ABSTRACT

This study analyzes the financial sources, financing strategies and the related ecosystem for social impact businesses in emerging countries. For such, this research employed a qualitative approach, through documental research and semi-structured interviews. Our findings resulted in an analytical model that presents financing models, their features, and alternatives, also revealing that loans are the main form these businesses to finance their initiatives. Widening access to loans depends on actors' level of information and participation to reduce asymmetries. We propose a financing model better adapted to emerging countries reality, composed of a customized version of microcredit summed with capacity-building programs.

Keywords: Social impact business. Social business. Financing social businesses. Brazil.

1 Introduction

As countries attempt to recover from the social, economic, and environmental consequences of the Covid-19 pandemics, there has been an urge for initiatives capable of tackling the social problems, especially in emerging countries, where poverty and inequality have been historical issues. In this sense, initiatives capable of causing social impact, i.e., able to promote the positive social transformation to low-income individuals, have been the focus for both the academia and practitioners as social problems in emerging countries have further deepened, due to the consequences from the sanitary measures necessary to contain the spread of the virus and control the surmounting death tools (Ratten 2020; Ruiz-Rosa, Gutiérrez-Taño, and García-Rodríguez, 2020).

In this regard, the demand for social impact has widened the space for entrepreneurial organizations to address to issues such as racial inequalities, unemployment, or women empowerment. Organizations with different business models have also been developed as an attempt to tackle those problems by using market logics but straying from the profit-oriented rationale guiding traditional businesses. These initiatives have proposed a different way of doing business, bringing together intentional social transformation and efficiency (Rawhouser, Cummings, and Newbert, 2019).

Social Impact Businesses (SIBs) have thus emerged with the search for solutions to different social problems, but most especially, poverty. As a research field, it is rather recent, as one can perceive by the fact that both the volume of publications is still low and there is still little consensus among researchers on its definition (Irene et al. 2015; Glänzel and Scheuerle 2016; Olinsson 2018). Nevertheless, unlike traditional businesses, this kind of enterprises has the intention of generating impact and solving social issues in its very essence. In this regard, SIBs rethink the world aiming at eradicating poverty and, consequently, tackling related social problems and reducing inequality, issues which have been gaining strength and being addressed through different logics of doing business (UN, 2015; Alegre, Kislenko, and Berbegal-Mirabent, 2017; Monge, 2018).

Social impact investments, meaning the ones made in the aforementioned kind of businesses and likewise, have been important enablers for success within the social entrepreneurship field (Höchstädter and Scheck, 2014; Molnár, 2017). In this regard, private third-party capital has been one of the main forms found by SIBs to fund their activities, along with their proprietary capital. Nevertheless, the access to other forms of financing has been difficult for a variety of reasons, ranging from surmounting paperwork and insufficient knowledge from social entrepreneurs about possible alternatives, to investors' lack of trust (Motta et al., 2015; Orminston et al., 2017; Calderini et al., 2018).

Despite any barrier social entrepreneurship might face (Pelucha, Kourilova, and Kveton, 2017), addressing to poverty and inequality is alarmingly relevant. For instance, in 2018, 4.4% of the working poor in the world received less than US$1.90 a day (World Bank, 2018). Thus, civil societies have seen the need for alternatives to reduce such number and, being so, related initiatives have been fostered by civil societies, governments, and private organizations.

There has also been a lingering research gap on the sources of finance for such businesses (Rawhouser, Cummings, and Newbert, 2019), gap which served as the basis for our research question, namely: How are SIBs financed in emerging countries? Accordingly, our main objective was to investigate the SIBs' sources and financing strategies in emerging countries. By fulfilling this objective, we contribute to SIBs' literature by presenting its main financing models, describing their characteristics, and identifying the alternatives SIBs have for financing their efforts in a large emerging country.

This qualitative research was operationalized by collecting secondary and performing semistructured interviews with key actors from the SIBs' ecosystem in Brazil, which has been chosen for being one of the world's largest emerging countries, dealing with societal problems and has an explicit governmental policy of stimulating entrepreneurship for social improvement (Matos and Hall, 2019; Sousa-Filho et al., 2020). About its social problems, for instance, Brazil has a Gini coefficient of 0.47, like other unequal emerging countries such as Mexico and Chile but quite different to the average Gini figure of 0.3 for OECD countries (OECD, 2020), figure which highlights its deep social inequalities and the need for initiatives to address to it.

Therefore, this paper has a three-folded contribution. It first contributes to the urge for specific studies on SIBs' financing models. Furthermore, it provides an analysis of the opportunities for these businesses in large emerging countries, considering all their political, social, and cultural complexities. As a result of this analysis, we also contribute by providing an analytical model out of which financing alternatives for SIBs can be systematized. Secondly, this paper contributes by analyzing how the related social impact ecosystem and its actors operate. These contributions also address to the need for more knowledge about this ecosystem and the development of its actors. In addition, this study signals to microcredit as one of the most suitable models for SIBs operating in developing countries, but it does so by highlighting the need for microcredit to be equipped with capacity-building programs.

This paper is divided into five sections. After this introduction, the second section establishes the theoretical backgrounds and operational definitions which served as bases for our research. The third section then introduces the methodological directions guiding how this study was operationalized. Next, the fourth section presents and analyzes the data and, finally, the fifth presents our concluding remarks, shows the study's limitations, and suggests avenues for future research.

2 Theory

2.1 Social Impact Businesses

Social impact can be defined a positive transformation on the current state of relations in a certain territory, that is, a change capable of transforming lives of socially vulnerable individuals or groups effectively and for the better, alleviating the consequences of problems caused by poverty and historical inequalities (Rawhouser, Cummings, and Newbert, 2019). This kind of impact becomes even more important for emerging countries, where the consequences of poverty and inequalities were further aggravated by the Covid-19 pandemics, emphasizing the need for different initiatives to tackle to the socioeconomic results of not only of the health crisis itself, but also of the social distancing measures and lockdowns required to reduce hospitalizations and death tools (Gerard, Imbert, and Orkin, 2020; Proaño, 2020; Stubbs et al., 2020).

Although governmental action and public policies have been essential to address to the problems related to poverty, private companies and third-sector organizations have also engaged in trying to solve those issues. In this regard, other alternatives have emerged in-between, bringing together different rationales, organizational forms, and business models to solve, or at least to mitigate, the impacts on low-income populations of social problems related to their vulnerable condition (Pathak and Muralidharan, 2018; Bansal, Garg, and Sharma, 2019). It is in this space in-between sectors that one can see the rise of entrepreneurial initiatives such as social impact businesses.

In this sense, one of SIBs' trademarks is the intentionality of their actions. This statement is supported by one of the first challenges it poses, namely, the variety of concepts and terms to define them such as social businesses, inclusive businesses, social enterprises, and businesses on base of the pyramid. All of these can be linked by elements like social purpose and the intention to reduce poverty as well as solve specific problems (Irene et al., 2015; Alegre, Kislenko, and Berbegal-Mirabent, 2017; Arena et al., 2018). Furthermore, these businesses foster opportunities to introduce new models, which can contribute to develop socially and economically emerging countries (Wulleman and Hudon, 2016; Monge et al., 2018).

In addition, SIBs employ business models focused both on the financial returns and on the intentional creation of social and/or environmental benefits. In this sense, the use of terms related to "intention" and "intentionality" have been systematically observed in SIBs' definitions (Comini, Barki, and Aguiar, 2012; Lanteri, 2015), but investments made to create social and environmental impact have been mainly measured based on their capacity to foster financial returns (GIIN, 2013). Although SIBs connect the economic and social spheres, this connection might lead to conflict between social entrepreneurs and investors when their financial expectations differ (Grassl 2012; Höchstädter and Scheck, 2015; Alegre, Kislenko, and Berbegal-Mirabent, 2017; Calderini et al., 2017).

Moreover, SIBs focus on having financial autonomy and on representing the balance between social objectives and profit. They also differ from traditional nonprofits by using market methods to achieve financial results instead of relying on philanthropy (Michellucci, 2017). In other words, this type of business generates positive social impact by aggregating results achieved in the economic, social, and environmental fields (Wulleman and Hudon, 2016; Olinsson, 2017).

Regarding the foment of social impact and SIBs in Brazil, Artemisia (2016) has been one of the main SIBs' precursors and enablers, conceptualizing them as initiatives intentionally offering scalable solutions to social problems for low-income populations. It also characterizes this type of business through six other elements. First, the focus on low-income individuals as SIBs' models are formatted to fulfill their demands. Second, intentionality, i.e., there is the explicit mission to cause social impact through ethical and responsible management. Third, potential for scalability, meaning the possibility of expansion, either by its replication in other regions or by the dissemination of elements inherent to it. Fourth, profitability, that is, SIBs' models must not depend on donations or subsidies. Fifth, generation of social impact related to the core activity, that is, their main products or services must result in direct social impact. Finally, the distribution or not of dividends, i.e., distribution of dividends is not a defining criterion for SIBs.

This last element is crucial in our study since it what mainly differs our concept social impact business of Yunus' social businesses. For the Bengali Nobel prize winner, the latter are bound to reinvest all their profits in their core mission and, as such, investors are allowed only to receive back precisely the funds they had provided (Yunus, 2007; Yunus, Moingeon, and Lehmann-Ortega, 2010). Nevertheless, the rationale behind SIBs is less restrictive in this regard as there is flexibility for allowing shareholders to receive the dividends of their investments. Therefore, this element becomes definitional here as it permits one to make the clear difference between social businesses and SIBs.

2.2 Financing SIBs

In conceptual terms, investing in an activity referring to the decisions taken by the owners of financial assets; as such, investments are directly linked to the process of capital allocation aiming to obtain financial returns (Reeder et al., 2015). These decisions are characterized by being long-term (after feasibility evaluation), complex (as every investment incurs in risks of losses), value generator and attractive (when financial returns are likely to exceed goals). These elements imply in an evaluative decision-making process, involving the analysis of cash flows, returns and risks (Monge, 2018).

Financing is also linked to one's capacity to raise resources applicable in other activities, which can even include another future investment, and such resources might be of one's own or come from third parties (Molnár, 2017). It also involves knowledge and information about the proper credit scope, analyses, and concessions, that is, why investments differ in terms of purpose, the origin of resources, operationalization, and related instruments (Alijani and Karyotis, 2019).

Furthermore, the foundation of the Grameen Bank was a hallmark not only to the search for solutions to tackle poverty, but it was also fundamental to raise questions about the origin of resources for social businesses. In other words, microcredit, Grameen's first and most prominent product, both served those who conventional banks saw as lacking credit capacity and brought along the question on how social businesses could finance their efforts (Molnár, 2017).

In this perspective, an essential issue has been where would the money for social businesses come from. This question has another challenging rationale behind it, that is, the fact that investment decisions for social businesses cannot be based on potential pecuniary profit, but on the social cause as well as on the possibility of these businesses be financed by philanthropic actions, bilateral and multilateral donations, foundations, companies, and governments (Yunus, 2007; Yunus, Moingeon, and Lehmann-Ortega, 2010).

Accordingly, the relationship between this new type of organizations, their models of doing businesses, and the challenges to obtain resources might result in different growth opportunities for impact investing. Thus, there has been emergence of different social investment funds, with different scales and investors, as well as the emergence of strategies to manage the socially risky ones (Orminston et al,. 2015).

In historical terms, the concept of impact investment first appeared in 2007 to classify the kind of capital invested in SIBs. The concept was introduced in the First Meeting of the Rockfeller Foundation held in the city of Bellagio, Italy, and gained strength when J.P. Morgan published a report in 2010 on the relevance and novelty of impact investments. The report defined impact investments as the allocation of private capital to create a positive impact on society, but without neglecting the idea of obtaining financial returns. Those were investments that sought the traditional financial return and were made in businesses that intentionally focused on reducing poverty and inequality or, at least, explicitly searched for solutions to such problems (Izzo, 2013; Chmelik et al., 2015).

In the first quarter of 2020, the Global Impact Investing Network (GIIN) reported that more than 1,340 organizations had been managing approximately US$502 billion in impacting investment assets worldwide. Moreover, this document also described research results outlining the profile of 261 investors, the main forms of investments performed, and the volume of investment made, which was about US$35 billion in 13,358 impact investments during 2018.

Accordingly, there are two possible classifications for investors in SIBs. First, there is the impact investor, who prioritizes the generation of social impact over profitability, and, the investor financier, a person with a more traditional profile who seeks profitability and financial returns, but accepts some social impact (Freireich and Fulton, 2009; Reeder et al., 2015). Nevertheless, both these groups tend to fund SIBs' through loans and equity operations as these two strategies provide more assertive relationships between investment decisions and social impact. Accordingly, debt and equity have been considered the most reliable instruments to make investments on SIBs (Bugg-Levine and Emerson 2011; Ormiston et al. 2015).

Nonetheless, one of the most recurrent challenges for SIBs is how to obtain capital to finance activities. It is so as new companies do not have the structure to fund themselves and, even consolidated initiatives need capital to keep expanding. In this sense, the credit lines available for SIBs have been usually similar to those used in traditional businesses, posing comparable obstacles (Ormiston et al., 2015). This study also addresses to such challenge by taking into account how it is configured in an emerging country reality such as the Brazilian.

3 Method

3.1 Research design and field

This qualitative research began with a question which originated new others through a three-phase process. Firstly, the exploratory phase began with the delimitation of object, theory, methodology, assumptions, instruments, chronogram, space, and sample. Secondly, the field work phase occurred by studying secondary data and interviewing key individuals. Thirdly, empirical, and documental material were treated and analyzed by ordering, classifying, and analyzing data. This research cycle was not a closed one, since it produced knowledge and new questions, and its ideas complemented one another (Creswell et al., 2007; Creswell and Poth, 2016).

To meet our main objective, we also identified and explored experiences as well as visions from different actors belonging to the ecosystem (Stake, 2010). During the exploratory phase, a literature review was also carried out, with a survey and further examination of papers that allowed to deepen into the state-of-the-art on the issue (Collis and Hussey, 2016; Creswell and Poth, 2016).

Moreover, as being one of the most unequal countries in Latin America, Brazil was analyzed in this study for being not only one of the largest emerging countries in the world (OECD, 2020), but also for being one in which the need for initiatives to tackle the consequences of inequality and poverty on low-income populations has fostered different social entrepreneurial initiatives to address to those issues (Sousa-Filho et al., 2020). Furthermore, the Brazilian government has also been openly arguing in favor of entrepreneurship, as well as social entrepreneurship, as ways to reduce the consequences of poverty and inequalities on low-income populations' lives (Brazil, 2017).

In 2018, Brazil already totaled 1,002 SIBs registered in 6 areas, namely, green technologies, citizenship, education, health, financial services, and cities (Pipe.Social, 2019). Accordingly, inspired by initiatives from the United States and the UK, the Institute of Business Citizenship (*Instituto de Cidadania Empresarial* – ICE in Portuguese) in Brazil created the Alliance for Impact, with other partners, to discuss, map the obstacles and opportunities in the social finance field.

The Alliance for Impact released 15 recommendations to raise awareness as well as it devised an action plan aimed at strengthening and maturing SIBs' ecosystem. Out of these fifteen recommendations, six were directly related to the challenges of access to credit and investment (Alliance for Impact, 2015). Part of this direction is addressed and contemplated in the action plan of the Brazilian National Strategy for Investment and Impact Businesses, an initiative fostered in 2017 by the federal government, the private sector and civil society seeking to promote a favorable environment for investments in SIBs (Brazil, 2017).

3.2 Data collection and analysis

Data collection took advantage of two different sources: secondary data and semi-structured interviews. Secondary data collection happened through research of documents such as reports, sites, articles, books, and institutional data related to SIBs funding (Bowen 2009). Afterwards, it was possible to adhere to research objectives and to theoretical backgrounds, which resulted in the interview script. For validation purposes, three interviews were performed on a test basis to validate the script and insert new adjusted questions (Creswell and Miller, 2000; Creswell et al., 2007).

The selection of respondents happened through the snowball technique, considering the convenience, knowledge, and access to interviewees. Moreover, the ecosystem proposed by the Alliance for Impact (government, national development agencies, multilateral credit agencies, corporations, accelerators and incubators, community finance institutions, private sector, individuals) was accounted in the sampling process, and eighteen actors were invited to take part of the interviews.

Thirteen of them agreed to participate and ten also participated in the application of the final script, since three had already been interviewed in advance with the initial script. For anonymity purposes, interviewees were later identified from I1 to I10. The interviews were conducted from November 2019 to June 2020 and encompassed 10 individuals: 3 representatives from accelerators/incubators; 1 federal public servant; 3 entrepreneurs; and 3 investors. The average duration of each interview, which had taken place both in-person and online, was 57 minutes and they totaled about 23 hours of oral accounts.

The interview script was then divided in three blocks, i.e., an introductory part related to the theme and to respondents' description, the questions themselves, a closing part, and a segment for optional final remarks. The first block, from questions one to three, sought to identify the types of social impact investments and their existing models. In the second block, the three following questions aimed at raising descriptions about the characteristics of those different models. Finally, the last block of three questions sought alternatives for funding in Brazil.

For data analysis, all answers were evaluated and compared regarding their recurrence and classification. At the end, these answers were consolidated through the categories linked with the research objectives and theoretical backgrounds. Concomitantly, documental analysis refined data collection by looking closely into reports and their particularities, as they were key sources of understanding about the ecosystem (Bowen, 2009). The analytical process also took advantage of the Content Analysis technique to interpret the data by performing the stages of pre-analysis, material exploration and treatment, inference, and analysis of results (Bardin, 1991).

4 Results

4.1 SIBs' sources and financing strategies

The first block sought to identify the main SIBs' funding forms. Accordingly, the first question indicated that the money to finance SIBs mostly comes from loans as this was the answer from five out of ten interviewees. Afterwards, financial resources coming from the businesses themselves and investment funds appeared as the second answer. The second question from this first block than revealed loans to be the commonest financing model. From the 18 modalities listed, 10 were loans, followed by 8 other investment modalities. In the last question, respondents answered about access to credit as well as about specific programs for SIBs, and only two interviewees confirmed they knew about the existence of specific lines. In this regard, interviewees' accounts were systematized in Table 1.

Table 1 – Interviewees' accounts on the first block of questions

Interviewees	Accounts
I1	"There is no specific credit line as the options are the same of any business. This is bad, because we don't have the same business model and a lot of things are different, even the market niche. When I tell the bank that the intention of my business is to make an impact on society, that social businesses have the idea of solving social problems, I'm sure they don't take me seriously"
I4	"I looked for alternatives when I set up the business and decided to borrow money to get started. In fact, I don't know any other way, only micro-credit"
I5	"[Capital from] equity does exist but, in practice, most entrepreneurs take loans whenever they can"
I8	"Almost everyone you ask will say you can only do business with a social impact if you are in debt, because there are no angels at the door"
I9	"Access is limited and scarce, it depends a lot on the individual support from influential people as there is no specific line to claim resources. There are some government initiatives (e.g. Gov. of São Paulo) that sponsor mentoring and even donate some resources. There are also some big companies creating acceleration projects"
I10	"I asked for a loan in a company indicated by the mentoring program. It was very simple and fast, but I almost went bankrupt to pay the 8% per month [interest] rate"

The accounts revealed loans to be the driving force in financing SIBs. Accordingly, they are the main and the commonest supply of resources. Moreover, microcredit and working capital loans from commercial banks were also mentioned as frequent financing forms. In addition, interviewees also indicated other forms that do not fit as financing in the scope of this study, but as investments, e.g., equity and money coming from angel investors. Nonetheless, it is important to pay attention that the lack of information on the specificalities on these alternatives turn out to be a problem on how social entrepreneurs can access them (Deloitte, 2015; Molnár, 2017; Pelucha, Kourilova, and Kveton, 2017; Michelucci, 2017).

4.2 Characteristics of SIBs' financing models

Afterwards, the second block of questions described the characteristics for SIBs' financing models. The first focus was to identify the actors comprised in this financial ecosystem. In this regard, in line with the ecosystem proposal, six interviewees could identify such actors even citing the terms contemplated in the model, and the four remaining identified other parties involved like companies and lenders/investors. When asked about the interactions between parties, seven respondents identified the direct interaction between ecosystem actors, with access and exchange of information, relationship, and frequent among them.

The last question then brought to light insights on the main obstacles and opportunities for the sector. In this regard, the most prominent challenges were the costs of capital and the access to financing alternatives and related information. Although excessive bureaucracy was also mentioned, it was expressed as a smaller concern when compared to other obstacles. When the focus turned to investment opportunities, both market size and available spaces as well as financial returns were cited as more relevant, which made answers about these issues to converge. Regarding this second block of questions, interviewees' accounts can be seen in the Table 2.

Table 2 – Interviewees' accounts on the second block of questions

Interviewees	Accounts
I1	"The obstacles are many and cost is the main one. So, it's almost a common feature for all SIBs not to count on money, because either you have it or you look for it in the financial market, where the doors are closed most of the time. They [the investors] often don't understand or show interest, but I see it as a great opportunity though".
I3	"It is important that communication among participants to exist and that happens only in São Paulo, but the biggest problems in the country are not in the South and Southeast regions, so how are we going to solve and move forward on these issues if there is no interaction elsewhere?"
I4	"All I see are entrepreneurs and banks, because in fact they're the ones who are really there"
I5	"The cost of financing an SIB seems to be much higher than a traditional business, and that's when you get access to credit lines, but maybe that's an opportunity, too. However, I hardly see it happening and, when it does, the values offered are far less from the company's real needs"
I6	"Communication flows and evolves very well, but it is necessary to expand it throughout the country"
I8	"The cost is very high. If you search for the available options, you will see that they make the dream of starting a business impossible"
I9	"The obstacles are mainly the lack of trust [from investors] in the entrepreneur, because of his or her amateurism and lack of clear goals"
I10	"The actors are clear, but what remains to be defined are their roles. If the sector manages to organize it and engage all players, it's all going to work"

It is noteworthy that interviewees recognized the actors within the ecosystem and could notice the different interactions between them. Nonetheless, costs, access to financial alternatives and to information were deemed as the greatest barriers. Even though interviewees mentioned opportunities related to market size and available spaces as well as to financial returns, these barriers were seen as the most prominent ones. Accordingly, table 3 shows that the first block aligns with the second as the costs of financing, access to it and to information as well as to its specific models were also foregrounded there.

Table 3 – Summary of answers I

Interviewees	Who are the actors/stakeholders involved??	In which ways do these stakeholders interact?	What are the main barriers and opportunities to finance SIBs in Brazil?
I1	Entrepreneur/investor	Direct	Bureaucracy, cost, market size
I2	Accelator/incubator/entrepreneur/investor	Direct	Access, bureaucracy, market
I3	Investor/entrepreneur	Indirect	Bureaucracy, cost, access, market
I4	Bank/entrepreneur	Direct	Access, information and cost, market
I5	Accelator/incubator/entrepreneur/investor	Direct	Information, cost, many options
I6	Accelator/incubator/entrepreneur/investor	Direct	Cost and information, return
I7	Accelator/incubator/entrepreneur/investor	Indirect	Cost, access, return.
I8	Investor/entrepreneur	Indirect	Mentoring/information, return
I9	Accelator/incubator/entrepreneur/investor	Direct	Access, cost; return
I10	Accelator/incubator/entrepreneur/investor	Direct	Information, cost, many options

4.3 Alternatives for financing SIBs

The final block of three questions aimed at identifying funding alternatives. Correspondingly, the first question asked about the difference between investments and financing. In this regard, it was not exactly clear to interviewees the actual difference between these two terms, hence, they assumed them to be interchangeable. Moreover, answers showed that participants either did not know the difference or could not explain it. The interviewees also considered loans to be the most viable option to finance SIBs. Although other forms of investment and proprietary resources had been cited, these forms were disregarded because they were not considered financing modalities in the context of this study. On this issue, interviewees' accounts have been summarized in Table 4.

Table 4 – Interviewees' accounts on the third block of questions

Interviewees	Accounts
I2	"For me, it was all the same, but I imagine something like microcredit, but with a higher offer and lower cost"
I6	"I'm not really sure I can tell the difference, but I think the situation for both of them need to be much improved here in Brazil. The feeling I got it's that we have none of them, you know?"
I7	"Aren't they the same thing? Yes, they are…"
I8	"The best form of financing would be one bringing along with the financial resources, knowledge and network support necessary to make the project prosper"

Furthermore, for the last question, interviewees suggested that to increase the volume of financing it would be necessary to reduce related costs. In this third block of answers, interviewees corroborated their misunderstanding of investments and financing as interchangeable, as such, loans were again reported as the best alternative for Brazilian SIBs, despite the problems related to their costs. Interviewees' insights on this block are thus summarized in the Table 5 below.

Table 5 – Summary of answers II

Interviewees	What is the difference between investing and financing SIBs?	What is the best option to finance SIBs in Brazil?	What can be done to raise the volume of financing for SIBs?
I1	None	Propietary capital	Cost reduction
I2	None	Equity	More actors
I3	None	Equity	More actors
I4	Could not explain	Loan	Government incentives
I5	None	Loan; agility	Cost reduction
I6	Could not explain	Propietary capital; cheap	Government incentives
I7	None	AnjoAngel investor; cost	Debureaucratization
I8	None	Loan; simple	Cost reduction
I9	None	Loan; agility	Cost reduction
I10	None	Loan; agility	Cost reduction

4.4 Analytical model

Before introducing the analytical model, it is important to present another contribution of this research, that is, the systematization of the forms of financing and investments available for Brazilian social impact businesses. In this sense, in the Brazilian context, SIBs have been created and maintained mostly by using their proprietary capital. Nonetheless, these businesses have also increasingly employed third-party capital mixed with their own, as such, third-party capital has been vital for their operations (Pipe.Social 2019).

Furthermore, in this regard, the Social Impact Business Map from Pipe.Social (2019) surveyed 1002 entrepreneurs and revealed that 356 use third-party capital and loans have been the most frequent way for SIBs to finance their operations. The survey also showed there is a high concentration of SIBs in the Southeast region of Brazil, reflecting the country's historical social inequalities. Lastly, the Map provided a summary of forms of financing that impact entrepreneurs have available in the market, which were summarized in the table 6 below.

Table 6 – Kinds of impact investments available for SIBs

Modality	Definition	Classification
Equity	Investment in exchange for equity interest, making the investor a partner	Investment
Angel-investor	First investor of a company	Investment
Seed money	First relevant investment in the company	Investment
Venture capital/Private equity	Professional investment in equity	Investment
Particpation investment funds	Investment in (public or private) corporations or limited companies made, at least 90% in participation in companies and, at most, 10% in other financial assets	Investment
Equity crowdfunding	Online input in which the company offers shares and there is no public offering	Investment
Debt	Loan: a financial resource, good or service	Financing
Direct credit	Loan made by financial institutions/organizations for people/companies. They may or may not require guarantees, paid in installments, with interest and monetary correction	Financing
Subsidized credit	Loan made by a public bank/government agency with lower interest rates than the direct credit	Financing
Microcredit	Loan intended for small entrepreneurs - proposal of agility and simplicity	Financing
Debentures	Debt securities issued by publicly or privately held corporations	Financing
Debt bonds	Loan of financial resources/goods/services, by means of assumed obligation of payment through negotiated conditions	Financing
Green bonds	Debt securities: the issuer may only use the funds raised to finance sustainable (green) projects	Financing
Credit rights investment funds	Fund that has at least 50% of its resources invested in credit rights	Financing
Peer to peer lending	Loan from person to person or company, through online services	Financing
Debt + Equity	Investment that shares risks and returns in an intermediary manner. It balances the conservatism of fixed income with the high risk of equity	Investment
Venture debt	Loans for companies that do not have assets or cash flow to obtain traditional credit	Financing
Covertible debt	Investment with the option of holding a stake in the company's capital/results/royalties	Financing
Equity with smaller managerial interference	Investment in which the investor gives up participation in the business management in exchange for a reduction in risks	Investment
Convertible grant	Donations that can be converted into equity, debt, profit sharing or royalties	Donation
Conditional loan	Loans that can be forgiven in part or as a whole. Debt forgiveness becomes a donation	Financing
Social impact bond	Partnership between the State and the private sector for actions that generate measurable social impact	Investment

From the data analysis, it was possible to categorize the various types of forms for financing SIBs into an analytical model. Interviewees' answers were synthesized and categorized to identify the key words and results were then schematized relating each interviewee's answer to each of the questions asked. To create this model, answers were cross-checked to identify the forms contemplated within the ecosystem (Alliance for Impact, 2015), thus, forms and characteristics were identified and the column "alternatives" was included to comprise our research findings.

In this regard, it is possible to conclude that the main alternative for financing Brazilian SIBs namely, loans, does not fully contemplate the sector demands. Furthermore, the other forms mentioned as sources of funding are deemed as practically the same as traditional businesses in terms of their suitability to SIBs (Rossi, 2015). Therefore, based on the aforementioned elements, table 11 presents our analytical model.

Table 11 – Analytical model for financing SIBs

Models	Characteristics	Alternatives
Debt	- Target audience: individuals and corporations - Creditors: financial institutions, individuals and corporations - Formalization: informal operation - Bureaucracy: low - Term: short; - Creditor risk: high - Cost: high - Guarantees: variable (personal and real) - Accessibility: simplified; - Average ticket: variable	- Formalization to reduce risk and costs - Increase the participation of other ecosystem actors
Direct credit	- Target audience: masses - individuals and corporations - Creditors: financial institutions, individuals and corporations - Formalization: formal operation - Bureaucracy: average - Term: short, medium and long - Creditor Risk: high - Cost: high - Guarantees: variable (personal and real) - Accessibility: simplified; - Average Ticket: low.	- Increase the level of information for the entrepreneur (taker) - Increase the level of information about SIBs for the creditor - Format specific lines for SIBs - Reduce cost of operations
Subsidized credit	- Target audience: legal entities - Creditors: financial institution - Formalization: formal operation - Bureaucracy: high - Term: long - Creditor Risk: low - Cost: low - Guarantees: variable (personal and real) - Accessibility: restricted, via specific governmental programs - Average ticket: variable	- Flexibilize credit lines - Simplify credit lines - Capacitation for ecosystem actors - Communication "with the sector's own language" to improve informational flows

Models	Characteristics	Alternatives
Microcredit	- Target audience: individuals and corporations - informal and small businesses - Creditors: financial institutions and credit agents - Formalization: formal operation - Bureaucracy: medium - Term: short - Creditor Risk: high - Cost: high - Guarantees: personal and solidarity groups - Accessibility: medium - Average ticket: low	- Improve the level of information - Increase qualification of ecosystem participants - Use technology to provide security and scale - Reduce operational costs - Increase and customize the average ticket - Intensify credit management actions

5 Discussion

Our findings highlighted the role played by key actors such as donors, investors, creditors, managers, accelerators, incubators, mentors, organizations, entrepreneurs, and businesses in the impact investment ecosystem. Those actors are essential for the system to exist and, in the case of financial transactions, there are also other necessary mediating organizations as well as experts who facilitate, connect, and support the relationship between supply and demand building these exchanges in Brazil (Alliance for Impact, 2015).

In this regard, the different intermediaries of resources and financial services are crucial to risk management and reduce transaction costs. Without them, the lack of knowledge about what a SIB is and does as well as how intermediaries and entrepreneurs can connect might become further hurdled. Some scenarios might even cause a direct impact on transaction costs, on intermediaries' responsibility, and imply on greater risks for decisions, thus limiting capital contributions. Some obstacles to intermediaries' actions include the lack of information and mutual understanding between stakeholders; increasing costs; access and knowledge about investment opportunities; reduced investment capacity and readiness; and the lack of value proposal (Deloitte, 2015; Pelucha, Kourilova, and Kveton, 2017).

Therefore, our first key contribution lies in having identified the need in Brazil to combine two or more forms of funding into a third one, with the characteristics enabling to contemplate the sector’s needs, i.e., more agility, simplicity, lower costs, scalability, formalization, associated training, technological intensification, and specificity. In this perspective, the form that best approaches these ideal characteristics is microcredit as it fits to the context of emerging countries, which are intertwined with poverty and complex social inequalities. Nevertheless, microcredit strategies would still need to be modified according to local specificities so they could fulfill SIBs’ specific demands (Orminston et al., 2015; Molnár, 2017).

Moreover, the access of microcredit alone does not necessarily result in good performance. To achieve better results, social entrepreneurs also need capacity-building education, since there are skills directly regarding performance such as ones related to accounting and opportunity recognition; skills which the supply of microcredit alone does not compulsorily provide (Molnár, 2017; Asmalovskij et al., 2019).

Hence, microcredit lines must come along with specific mentoring and training programs, so the credit conceded does not get lost and turn out indebting social entrepreneurs. In this sense, these programs are a fundamental strategy to empower social entrepreneurs to fulfill their businesses’ social missions and also, if designed correctly in a multi-stakeholder perspective, such programs can help to avoid common dangers for SIBs such as unfortunate mission drifts (Caldeirini et al,. 2017; Alijani and Karyotis, 2018).

Finally, it is important to bear in mind that businesses with a social impact are very idiosyncratic and need to follow the specificities of the communities and beneficiaries they assist (Lanteri, 2015; Olinsson, 2017; Wullerman and Hudson, 2018). Hence, impact investors need think and act as empathetic stakeholders, meaning that the indicators and metrics chosen to assess performance will have to be adapted to the specificities not only of the SIBs themselves, but also of protagonists and beneficiaries (Irene et al., 2015; Alijani and Karyotis, 2018).

As Chmelik et al. (2015) pointed out, it is not possible to measure performance of an investment in a social enterprise from the catering sector using the same parameters employed to one operating in the handicraft field, for instance. It is imperative to remember constantly that these sectors, as well as their actors, are diverse and this diversity has direct impacts on the goods, services, and outcomes they provide to their markets.

5 Conclusion

Our findings showed loans to be the predominant form of financing available for Brazilian SIBs. Moreover, these businesses face similar challenges to their traditional counterparts, which reveals a proximal and tenuous line of understanding between these two types of businesses. In this sense, our findings also revealed that concerns with elements such as price, deadlines, access, agility, bureaucracy, risk, and returns are similar for both social and traditional businesses as the forms of financing converge likewise.

Even though loans have been the most accessed mechanism to finance SIBs, it does not mean they are the most suitable instrument to finance those businesses. On the one hand, this particular feature shows one of this study's contribution as we argue that the combination of forms or, more likely, the improvement of the most adapted alternative, i.e., microcredit, would be the best way to boost the availability and potential of financing SIBs. On the other hand, the lack of an ideal form for financing SIBs poses also an opportunity as it demonstrates there is plenty of space to build viable models to finance SIBs in Brazil.

This study is not without limitations, as its nature does not allow to generalize results. In this regard, future research can resort to quantitative methods to provide more generalizable analyses. Future research could also deepen into the differences between the concepts of financing and investment among social entrepreneurs. Another avenue for future research could be the analyses of ways to improve communication and approximation between the most relevant actors in the sector and to introduce new forms for financing focused on developing countries' idiosyncrasies. In addition, future studies could also scrutinize how these issues have developed in other countries in Latin America, a region with countries institutionally similar to Brazil.

Furthermore, we identified a new gap for future research when the different understandings shared by interviewees bring together the financing and investment models as interchangeable, even though they intuitively knew these forms would be distinct. We have also tried to highlight the lack of synergy and knowledge about the forms for financing the main actors of the sector face. In an attempt to sophisticate concepts, mechanisms, forms and their applications, those discussions need to be deconcentrated to regions such as the North and Northeast as those have been historically demanding of actions to reduce poverty and its dire consequences. Deconcentrating those efforts is essential to tackle Brazilian social issues, as it would reduce the rift between those problems and their solutions.

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