
**Understanding SAFE Funding in Portugal: A Framework-Based Analysis of Early-
Stage Startup Financing Dynamics**

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Abstract

This thesis investigates how SAFE (Simple Agreement for Future Equity) contracts function as financing instruments within the Portuguese startup ecosystem. Using a design-oriented, abductive approach, the study builds and empirically refines a conceptual framework along three analytical dimensions: Accessibility, Acceptance, and Effectiveness.

Findings reveal that, although Portugal lacks statutory codification and standardized templates for SAFE contracts, startups can pragmatically access SAFE funding through legal counsel, incubator networks, and ecosystem-driven support. However, this access remains structurally incomplete and resource-dependent, especially regarding regulatory accounting ambiguity.

Investor acceptance of SAFE contracts is not inherent to the instrument itself but hinges on founder behavior, specifically legal literacy, negotiation preparedness, and transparent communication. Contractual adaptations such as valuation caps and maturity dates are essential to align expectations and mitigate risks.

Despite the absence of formal governance rights, founders and investors align goals through relational mechanisms. Voluntary reporting, reputational pressure, and contractual safeguards substitute for institutional controls, although these may introduce accounting trade-offs.

The study concludes that SAFE funding in Portugal operates through a hybrid logic: structurally informal yet behaviorally disciplined. The empirically grounded framework developed in this thesis captures how legal and institutional gaps are offset by ecosystem trust and professional contracting. Derived suggestions offer practical guidance for improving SAFE practice in Portugal and inform policy and research in other emerging startup ecosystems.

Keywords: SAFE contracts, startup finance, entrepreneurship, fundraising

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1. Introduction

The development of efficient financing mechanisms remains a central challenge in entrepreneurial finance, particularly for startups operating under high uncertainty and limited initial resources. As early-stage ventures seek capital to fund innovation and growth, both founders and investors face complex trade-offs related to valuation, control, and contractual design. Among emerging financing instruments, SAFE contracts have increasingly attracted attention as an alternative to traditional seed-stage funding models. This thesis examines the adoption and implications of SAFE contracts in Portugal's evolving startup ecosystem.

1.1 Problem Definition

In early-stage entrepreneurship, access to flexible and founder-oriented financing instruments is critical for startup survival and growth. Traditional financing structures, such as convertible notes and priced equity rounds, often impose legal complexity, valuation pressures, and transaction costs that conflict with the volatile realities of nascent ventures.

To address these inefficiencies, the Simple Agreement for Future Equity (SAFEs) has emerged as a valuation-deferring, equity-linked financing model. Originally introduced by Y Combinator in 2013, SAFE contracts have gained substantial traction in U.S. entrepreneurial ecosystems due to their simplicity, legal efficiency, and founder-aligned structure (Coyle & Green, 2018).

However, SAFE contracts fundamentally reshape the contractual balance between founders and investors by deferring critical financial negotiations and limiting investor control prior to conversion. These structural features amplify well-documented risks associated with information asymmetry and adverse selection (Akerlof, 1970), as well as agency conflicts (Jensen & Meckling, 1976).

Such risks become even more pronounced in less institutionalized and evolving ecosystems, such as Portugal, where legal codification of SAFE contracts remains absent and adoption practices remain fragmented (Trabulo, 2023; Giudici et al., 2022). This thesis addresses this underexplored problem space by analyzing how SAFE contracts influence early-stage financing dynamics in Portugal, focusing on investor perceptions, accessibility constraints, and strategic outcomes for startup development.

1.2 Problem Significance and Motivation

A rigorous understanding of the mechanisms, risks, and outcomes associated with SAFE contracts is essential for developing sustainable early-stage financing ecosystems. While SAFE contracts offer attractive solutions for founders, they simultaneously raise critical challenges regarding legal enforceability, investor protection, and long-term entrepreneurial value creation, particularly in regulatory environments lacking standardized contractual governance.

This research is further motivated by the author's dual exposure to theoretical and practical startup finance across both Germany and Portugal. First-hand experiences with SAFE contracts in operational settings revealed not only their pragmatic potential but also highlighted the current absence of empirically grounded insights into their adoption, contractual dynamics, and regulatory fit within European entrepreneurial finance. The thesis aims to address this empirical and theoretical void through a structured, framework-based analysis of SAFE contract adoption in the Portuguese context.

1.3 Research Objectives

The objective of this thesis is to analyze how SAFE contracts shape early-stage financing practices in Portugal, with particular attention to both the structural characteristics of the national startup ecosystem and the perceptions and behaviors of key stakeholders involved. The study investigates how founders, investors, and legal practitioners interpret and apply SAFE contracts in practice, and how these contracts influence financing processes, accessibility of capital, adoption patterns, and long-term startup development. Furthermore, the research examines how contractual features, and institutional conditions interact with core theoretical challenges in entrepreneurial finance, including information asymmetry, agency risks and signalling, particularly in the context of legal uncertainty that characterizes the Portuguese market. The theoretical scaffolding builds on established conceptual frameworks, drawing from information asymmetry theory (Akerlof, 1970), signalling theory (Spence, 1973), agency theory (Jensen & Meckling, 1976)

1.4 Research Question

Building on the identified objectives and theoretical foundations, this thesis formulates the following research questions to guide the empirical investigation.

Main Research Question:

How do SAFE contracts operate as financing instruments in the Portuguese startup ecosystem across legal accessibility, contractual acceptance, and governance alignment?

Sub-Questions:

- (1) Can early-stage startups in Portugal structurally access SAFE funding under current legal and market conditions?
- (2) How are the use of SAFE contracts perceived and what shapes willingness to accept them?
- (3) How do founders and investors pursue and align their goals under SAFE contracts?

1.5 Research Methodology Overview

This study investigates the role of SAFE contracts in shaping early-stage startup financing dynamics in Portugal using a design-oriented, theory-building approach. The research integrates principles from Design Science Research (DSR) to guide framework development and employs explanatory model building to capture the complexity of the phenomenon.

A three-stage research design was applied. In the first stage, a structured literature review synthesized existing research on SAFE contracts and applied selected theoretical lenses, namely information asymmetry, signaling theory, and agency theory, to guide the initial analytical framing of the model. The framework organizes analysis along three core dimensions aligning with the research questions: Accessibility, Acceptance, and Effectiveness.

In the second stage, the framework was empirically refined through semi-structured expert interviews with founders, investors, legal advisors, and ecosystem experts in the Portuguese startup environment. The interview data were systematically analyzed to evaluate whether empirical insights confirmed, extended, or modified the theoretical assumptions. The refinement process led to the validation of existing dimensions, the inductive identification of subdimensions, and context-specific adjustments to framework definitions. The outcome is an empirically grounded explanatory model that captures the institutional, contractual, and behavioral dynamics of SAFE contract adoption in Portugal's early-stage financing context.

Third stage extends the model through abductively derived suggestions developed during the discussion. These proposals are grounded in the empirical insights and theoretical framework established in the previous phases. They represent consistent and context-sensitive recommendations for improving SAFE-related governance and ecosystem design. As such, they serve as a forward-looking extension of the model and a foundation for future empirical exploration.

1.6 Workplan

The research was conducted in sequential stages, starting with a comprehensive literature review to develop the initial conceptual framework. This was followed by qualitative data collection through expert interviews with key stakeholders in the Portuguese startup ecosystem. The empirical findings were used to iteratively refine the framework, resulting in an empirically grounded model of SAFE contract dynamics in Portugal.

1.7 Structure

The thesis is structured as follows: Chapter 1 introduces the research motivation, outlines the problem statement, and defines the research questions. Chapter 2 discusses the specific characteristics of early-stage startups and situates SAFE funding within the broader context of entrepreneurial finance. Chapter 3 presents the literature review and the theoretical foundations that guide the analytical lens. Chapter 4 describes the research design, which follows a design-oriented, abductive approach inspired by elements of Design Science Research. Chapter 5 develops the initial conceptual framework (V1) based on insights from the literature. Chapter 6 presents the empirical findings from expert interviews and refines the framework into its contextually validated version (V2). Chapter 7 discusses the implications of the findings and offers practical suggestions to improve SAFE usage. Finally, Chapter 8 concludes the thesis by summarizing the key insights and outlining avenues for future research. Supplementary materials such as search documentation, interview guides, and full transcripts are included in the appendix.

2. Fundamentals of Startup-Financing

A theoretical understanding of startup financing is essential to contextualize the role of SAFE contracts within entrepreneurial finance. This chapter provides the conceptual foundations by defining startups, outlining their development stages, and examining the relevance of early-stage financing mechanisms. These foundations establish the basis for analyzing the adoption and implications of SAFE contracts in Portugal.

2.1 Startup Definition

Startups are newly founded, high-growth ventures characterized by innovation, scalability, and external investment needs (Oranburg, 2015; Hahn, 2018; Kollmann, 2016). According to Oranburg (2015), startups are high-growth, high-risk enterprises seeking private equity investment, fundamentally distinct from small businesses due to their expansion focus and financing dependence.

Hahn (2018) differentiates between a broader definition, where any young company in the founding process and capital acquisition phase qualifies as a startup, and a narrower definition focusing on highly innovative growth companies, particularly in digital markets such as internet, social media, mobile applications, or gaming.

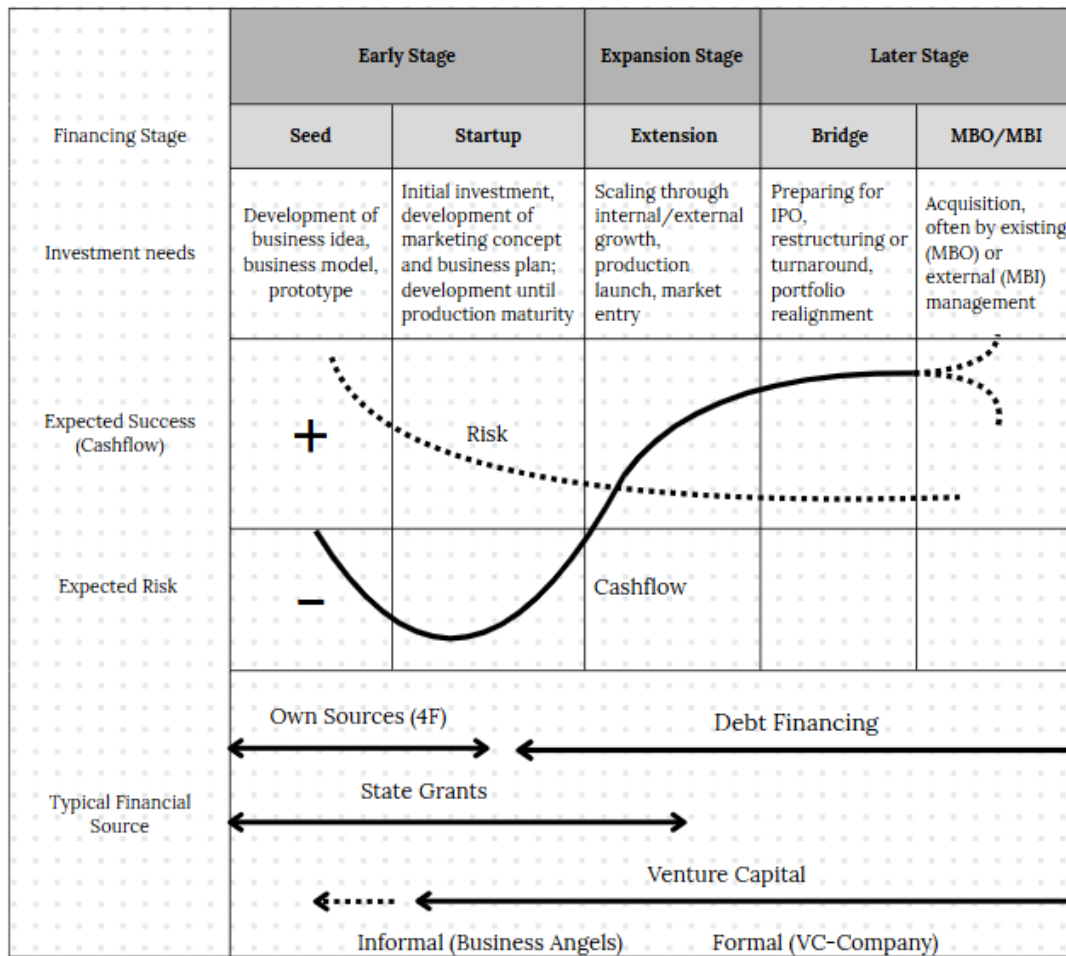
From a structural perspective, Kollmann (2016) defines startups as independent enterprise foundations, created without reliance on pre-existing business structures. Innovation plays a central role, as startups often introduce new combinations of production factors, particularly intangible assets like knowledge and creativity, resulting in disruptive innovations, especially within digital sectors.

In summary, startups are independent, newly established entities with high innovation and growth potential, typically operating in digital markets and relying on substantial external financing for rapid scaling (Oranburg, 2015; Hahn, 2018; Kollmann, 2016).

2.2 Startup Phases

Startups typically progress through several development phases, each characterized by specific challenges, risk profiles, and financing needs (Achleitner, 2001; Cumming & Johan, 2014; Kollmann, 2021).

Figure 1. Phases of the Entrepreneurial Process



Own illustration based on Kollmann (2021).

This figure visualizes the sequential phases of the entrepreneurial process, emphasizing financial sources, and growth cycles as key components of venture development.

Seed Phase

In the seed phase, the business often exists only as an idea, sometimes requiring capital for prototype development and business planning. Key risks include technical feasibility, market demand, and management capability, making this the riskiest stage of the startup life cycle (Achleitner, 2001). Funding usually comes from founders, family, or friends, as institutional investors avoid this highly uncertain stage (Cumming & Johan, 2014). Seed investments serve to test feasibility and develop early prototypes (Cumming & Johan, 2014).

Start-up Phase

The start-up phase focuses on market entry preparation, including establishing technical infrastructure, production capacity, and sales channels (Achleitner, 2001). Although technical

feasibility is typically achieved, significant business risk remains due to market uncertainty. Venture capital often becomes involved for the first time, funding product completion, marketing, and business operations, even though profitability is not yet expected (Cumming & Johan, 2014).

Expansion Phase

During expansion, the startup aims to scale revenues and operations. External financing remains necessary to support growth, while management must address scaling challenges and internal process development. Although market risks decline, managing rapid growth introduces operational complexity (Achleitner, 2001).

Late-Stage Phase

In late stages, startups show stable revenues and profits, while technology and market risks diminish. Nevertheless, additional financing may be needed for ownership restructuring, IPO preparation, or buyouts (MBO, MBI, LBO), as well as for possible turnaround situations. At this stage, funding rounds involve larger investments, and investors focus on returns and exit strategies (Achleitner, 2001).

Throughout the startup life cycle, changing risk profiles influence investor types, funding volumes, and required non-financial support such as expertise and networks (Achleitner, 2001).

2.3 Importance of early-stage financing for Startup growth

Early-stage financing plays a critical role in enabling startup innovation by providing capital for experimentation, development, and commercialization under high uncertainty (Kerr & Nanda, 2015). The availability of capital at this stage directly influences a startup's ability to pursue growth opportunities and expand operations (Robb & Robinson, 2014).

Cavallo et al. (2019) demonstrate that venture capital investments have a significant positive impact on startup growth, particularly during initial funding rounds. However, this relationship is non-linear, as growth may stagnate beyond certain investment thresholds, emphasizing the critical importance of early and timely investments.

Venture capital also serves as a powerful certification mechanism that signals startup quality to external financiers, suppliers, and customers, particularly in environments of high uncertainty and information asymmetry (Chemmanur & Fulghieri, 2014). Empirical evidence by Davila, Foster, and Gupta (2003) shows that startups experience increased employee

growth both before and after receiving venture capital funding, indicating that expected funding influences operational behavior even prior to the actual capital infusion.

Hellmann and Puri (2000) provide evidence that venture capital financing accelerates professionalization by supporting organizational development and facilitates faster product market entry, particularly for innovative startups. Moreover, venture capital reduces perceived external risks for outside investors through its certification role (Meggison & Weiss, 1991). Timing mismatches between capital needs and funding availability remain a frequent growth constraint, as startups may delay scaling not for strategic reasons, but due to limited access to financing when required (Davila et al., 2003). In summary, early-stage financing is pivotal not only for providing capital but also for delivering certification effects, mitigating uncertainty, and shaping growth dynamics.

2.4 Startup Financing Structures and Sources

Startup financing can be categorized into internal and external financing, depending on whether capital originates from within the firm or external sources (Hahn, 2018; Kollmann, 2016).

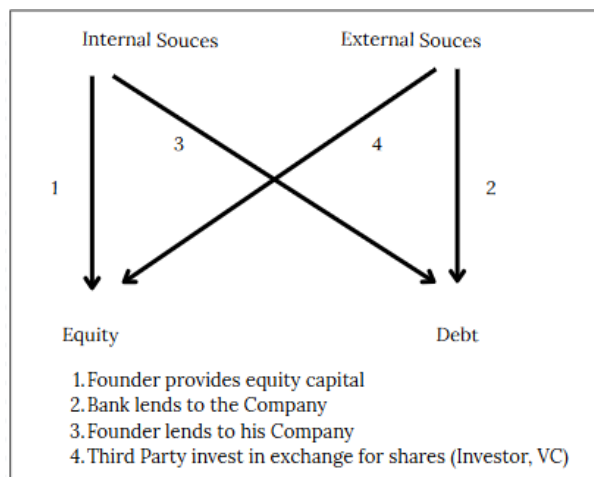
Internal Financing

Internal financing includes retained earnings, depreciation, or released working capital (Nathusius, 2001). However, early-stage startups typically lack revenues or assets, making internal financing largely irrelevant in initial phases (Hahn, 2018).

External Financing

Due to limited internal funds, startups rely heavily on external financing from private investors, financial institutions, or public agencies (Hahn, 2018). This is especially critical during pre-seed, seed, and early growth stages (Kollmann, 2016; Hahn, 2018). External capital can be subdivided into equity, debt, and mezzanine financing (Hahn, 2018).

Figure 2. Sources of Startup Financing



Own illustration based on Brettel (2005).

The diagram distinguishes internal and external financing options depending on whether capital originates from internal or external sources and if it gets categorized as equity or debt.

Equity Financing

Equity investors obtain ownership shares, assume entrepreneurial risk, and expect returns through future liquidity events such as IPOs or acquisitions (Cumming & Johan, 2014; Hahn, 2018). Business angels and venture capital funds are primary equity providers in early-stage financing (Hahn, 2018).

Debt Financing

Debt financing involves repayable credit with interest (Nathusius, 2001). Startups often struggle to obtain debt due to lacking collateral, cash flow, and credit histories, leading banks to require guarantees that early-stage firms cannot provide (Hahn, 2018).

Mezzanine Financing

Mezzanine financing combines debt and equity features, such as subordinated loans with profit participation or conversion rights (Hahn, 2018; Kollmann, 2016). These hybrid instruments offer flexibility in aligning investor claims with founder interests.

In sum, external financing dominates early-stage startup funding. The choice between equity, debt, and mezzanine capital depends on the firm's development phase and risk profile (Hahn, 2018).

3. Conceptual Literature Review

This chapter reviews the existing literature relevant to the study of SAFE contracts in early-stage startup financing. It integrates empirical findings on SAFE instruments with established theoretical frameworks addressing core challenges of entrepreneurial finance. The review serves as the conceptual foundation for framework development and guides the subsequent empirical analysis.

3.1. Introduction

This literature review establishes the conceptual and empirical foundation for analyzing SAFE (Simple Agreement for Future Equity) instruments in early-stage startup financing. The objective is to explore how SAFEs function as funding instruments and how they influence financing dynamics, particularly in the Portuguese entrepreneurial ecosystem.

The review integrates two complementary strands of literature. First, empirical and applied research specifically addressing SAFE instruments, their legal structure, adoption patterns, and practical implications for investor-founder relations. Second, seminal theoretical literature offers established conceptual frameworks such as information asymmetry, signaling theory, adverse selection, and agency theory to explain core challenges of early-stage financing. These theories provide the analytical foundation for the development of the initial framework that guides the empirical investigation.

3.2 Search Strategy and Literature Selection

The literature selection followed a structured and iterative process, suited for the exploratory and emergent nature of SAFE research. Following guidelines for rigorous literature reviews in underexplored fields (Wolfswinkel et al., 2013), the search strategy was designed as a combination of systematic database queries, complementary citation snowballing, and theoretical integration.

Given the limited academic maturity of SAFE financing as a research domain, database searches alone were insufficient to reach conceptual saturation (Davidsson, 2017). Therefore, backward and forward citation tracking, as snowballing techniques, were applied to identify additional studies referenced in core papers. This process allowed the integration of relevant empirical contributions not immediately captured through keyword-based searches.

Complementary to the empirical search, seminal theoretical literature was integrated to provide explanatory depth. This abductive theorizing approach (Ramoglou & Tsang, 2016)

enables iterative refinement between empirical findings and theoretical constructs, particularly relevant when investigating emerging entrepreneurial practices such as SAFE adoption.

3.3 Search Execution

To ensure methodological transparency and search precision, a structured multi-phase strategy was conducted within a bibliographic database.

The initial search string broadly targeted literature on startup financing and entrepreneurial finance to identify key terminology, central sources, and thematic entry points. As expected, this phase yielded general insights but no direct references to SAFE funding, prompting the need for more focused queries.

Subsequent searches incrementally refined the scope. A specific search string isolating SAFE as a financial instrument, and filtering for relevance through terms like “finance”, produced few results, confirming the niche status of SAFE in academic literature. Nevertheless, several key texts formed the basis for the theoretical framework.

To capture a broader but still relevant set of studies, later search strings included alternative formulations of SAFE and contextual terms like “early-stage” or “seed financing.” This increased the volume of hits but required additional screening to extract relevant material.

The final search string expanded the scope to include related instruments such as convertible notes and loans, while narrowing the context to early-stage capital raising. This combination yielded 57 relevant publications, offering the most balanced and comprehensive dataset for this thesis. While Web of Science was considered during the exploratory phase, it did not produce any additional relevant contributions. As such, Scopus was selected as the sole database for the systematic search, based on its superior yield in both topical coverage and result quality. All search strings and methodological details are documented in Appendix A.

3.4 Reflection on Search Outcomes

As expected for an emergent topic, the database searches produced a limited number of directly relevant SAFE-focused studies. Nonetheless, the applied combination of specific and broader search strings allowed for the identification of both core SAFE publications and adjacent studies addressing comparable convertible instruments such as convertible notes.

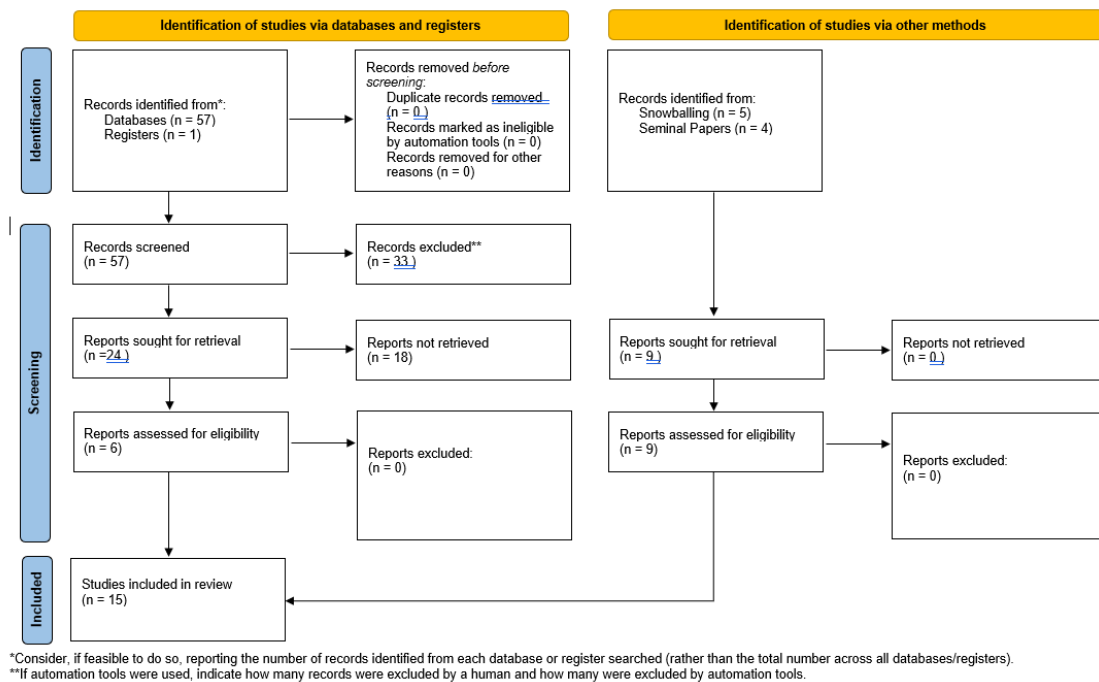
The additional snowballing process contributed substantially to extending the empirical foundation, while the integration of seminal theoretical works provided the conceptual

scaffolding for subsequent framework development. Overall, the applied strategy ensured sufficient empirical and theoretical grounding for the analysis presented in the following chapters.

3.5 Systematic Literature Selection Process

The following section applies the PRISMA methodology to document and transparently structure the process of inclusion, screening, and exclusion of sources for the literature review.

Figure 3. PRISMA



Adapted from Page et al. (2021)

3.6 Overview of Relevant Literature on SAFE

The following table provides an overview of key academic contributions on SAFE contracts and related startup financing instruments. It highlights core concepts and proposed research gaps, offering a structured foundation for the theoretical positioning of this thesis.

Table 1. Literature Review

Authors and Year	Keywords and Concepts Covered	Future Research
Oranburg, S. C. (2015).	<i>Bridgefunding: Crowdfunding and the market for entrepreneurial finance</i> Bridgefunding; Series A Gap; Convertible Notes; Equity Crowdfunding; Startup Finance Regulation The paper analyzes the Series A funding gap and proposes "Bridgefunding" via crowdfunding as a regulatory fix. It critiques Regulation Crowdfunding as restrictive and costly. While SAFEs are not discussed, related instruments like convertible notes and equity crowdfunding are covered. Bridgefunding serves as an intermediary instrument, conceptually similar to SAFEs.	Future research could explore how hybrid financing tools like SAFEs or bridgefunding influence startup success and investor protection, especially for funding rounds between \$1 and \$5 million. Combining crowdfunding with SAFE-like terms might create new, accessible models for early-stage startup financing.
Wright, F. (2017).	<i>How do entrepreneurs obtain financing? An evaluation of available options and how they fit into the current entrepreneurial ecosystem</i> Financing; Convertible Notes; Early-stage Funding; Founder-friendly Terms; Informal Investment Rounds Presents early-stage funding options: bootstrapping, friends and family, banks, accelerators, angel investors, peer-to-peer lending, and crowdfunding. Convertible notes are used in friends and family rounds; SAFEs, introduced by Y Combinator, reduce legal complexity and debt risk. The paper notes a shift toward simple, valuation-deferred instruments favoring founders.	Compare SAFEs to convertible notes regarding dilution, risk, and investor protection. Analyze how SAFEs impact follow-on funding, cap table stability, and founder ownership. Investigate SAFE adoption across ecosystems and legal frameworks.
Shimizu, M. (2023).	<i>Pecking order of convertible security financing for start-up ventures and overinvestment</i> Convertible Securities; Adverse Selection; Signaling; Overinvestment; Relationship Financing Explains how startups use convertible securities for early funding under uncertainty. They allow strong startups to signal quality but may lead to overinvestment as weak startups also raise funds. Private negotiations help separate good from weak startups. SAFEs are not mentioned, but similar dynamics apply: limited investor control and delayed valuation.	Compare SAFEs to convertible notes in terms of signaling and investor protection. Study effects of SAFEs on overinvestment and startup quality screening.

Smirnova, E., Platt, K., & Lei, Y. (2020).	<i>Pleasing the crowd: the determinants of securities crowdfunding success</i> Analyzes U.S. Regulation Crowdfunding (2016–2018). SAFEs represent 23.5% of offerings, classified as deferred equity with no maturity, interest, or clear rights. SAFEs show lower success rates; larger firms prefer preferred stock. Authors question SAFEs' suitability for crowdfunding, suggesting convertible notes as better alternatives.	Study how SAFEs affect investor protection and funding success in early-stage rounds. Compare crowdfunding and venture capital use of SAFEs. Analyze long-term outcomes of SAFE-funded startups. Evaluate regulatory frameworks for SAFEs across Portugal.
Giudici, G., Agstner, B., & Capizzi, V. (2022).	<i>The Corporate Design of Investments in Startups: A European Experience</i> SAFE Instruments; Convertible Securities; Venture Capital Law; Startup Charters; Legal Adoption Analyzes Italian startup charters for U.S.-style venture financing. SAFEs and KISSes appear, with valuation caps, automatic conversion, and no repayment unless liquidation. Italian law limits SAFE flexibility (capital increase rules, shareholder withdrawal rights). U.S. models influence Italian practice but require legal adaptation.	Study how national laws affect SAFE adoption in early-stage financing. Analyze how legal flexibility impacts founder–investor balance in SAFE-funded startups.
Oranburg, S. C. (2020).	<i>Start-up financing</i> Convertible Debt; Equity Financing; Early-stage Capital; Valuation Uncertainty; Seed Round Instruments Analyzes equity, debt, and convertible instruments, focusing on convertible debt, closely related to SAFEs. Praised for speed, low cost, and valuation independence, making them suitable for early-stage startups. Risks include valuation uncertainty and founder–investor conflicts. Though SAFEs aren't mentioned, the analysis offers a strong conceptual basis.	How SAFEs impact startup capital structures, investor rights, and valuation processes. Especially relevant are comparisons with traditional financing instruments and the analysis of country-specific legal frameworks, such as in Portugal.
Parra, Á., & Winter, R. A. (2022).	<i>Early-stage venture financing</i> SAFE Instruments; Asymmetric Information; Moral Hazard; Equity Mispricing; Early-stage Financing Models Models SAFE as non-priced, deferred equity for early rounds. Startups face trade-offs: equity risks mispricing under asymmetric information; SAFEs create moral hazard as	Study how SAFE use affects funding efficiency under real-world market signals. Analyze SAFE vs. equity in different investor ecosystems. Model founder incentives and

	founders may avoid dilution. High-quality ventures prefer SAFEs, expecting favorable signals; lower-quality startups choose equity. SAFEs reduce adverse selection but weaken investment incentives, increase founder flexibility, and reduce market efficiency, shifting early-stage financing dynamics.	investment decisions in SAFE-backed rounds. Assess long-term ecosystem impact of type-based financing via SAFEs.
van der Meyden, R. (2021).	<i>A Game Theoretic Analysis of Liquidity Events in Convertible Instruments</i> Convertible Instrument, SAFE contract, Liquidity Event, Nash Equilibrium, Computational Complexity Analyzes how SAFE contract types affect payouts in liquidity events. Investor returns depend on contract terms and others' decisions (cashout or conversion). Models liquidity events as a non-cooperative game. With uniform SAFEs, pure strategy Nash equilibria exist; mixed SAFE types create conflicts without stable solutions, raising legal and coordination risks.	Analyze how different SAFE designs influence startup behavior before a liquidity event, especially in early fundraising rounds.
Kuti, M., Bedő, Z., & Geiszl, D. (2017).	<i>Equity-based Crowdfunding</i> SAFE Instruments; KISS Contracts; Equity Crowdfunding; Investor Protection; Platform-based Finance Analyzes equity crowdfunding for early-stage startups. Platforms use standardized contracts like SAFEs and KISS. SAFEs delay shareholder rights until future events, offering low-cost, founder-friendly terms without control before conversion. KISS adds interest and repayment, offering more investor protection. Crowdfunding balances startup flexibility and investor safety, shifting financing toward simplified, scalable, contract-based models.	Compare SAFE and KISS in crowdfunding: risk, and investor outcomes. Study SAFE effects on founder–investor balance. Analyze how SAFEs perform in Portugals regulatory environment.
Wroldsen, J. (2017).	<i>Crowdfunding investment contracts</i> SAFE Instruments; Crowdfunding Contracts; Convertible Debt; Standardized Templates; Early-stage Equity Analyzes 39 U.S. crowdfunding contracts. Six securities used: common stock, preferred stock, loans, revenue sharing, convertible debt (KISS), and future equity (SAFE). SAFE and	Compare SAFEs and convertible debt in crowdfunding: investor protection, conversion risk, contract enforcement. Analyze long-term outcomes of SAFE-

	KISS serve as simplified contracts for high-growth startups. SAFEs avoid upfront valuation, lack interest and maturity, and convert later, offering less investor protection than convertible debt. Platforms promote SAFEs via templates, reflecting a shift to founder-friendly, low-cost crowdfunding contracts.	funded startups.
Coyle, J. F., & Green, J. (2018).	<i>The SAFE, the KISS, and the Note: A Survey of Startup Seed Financing Contracts</i> SAFE Instruments; Deferred Equity; Convertible Notes; Contract Standardization; Seed Financing Dynamics SAFE, created to replace convertible notes, removes maturity and interest to reduce legal complexity. Investors gain future equity rights upon a priced round. Surveys show widespread US use. Lawyers mostly apply standard YC terms, sometimes adding protections (pro rata, MFN, maturity). SAFEs blur debt-equity boundaries and shift power to founders. SAFE and KISS also serve as accelerator branding tools.	Compare SAFE design to convertible notes in terms of investor protection and founder leverage. Analyze SAFE impact on deal speed, legal costs, and follow-on financing.
Cumming, D., & Johan, S. A. (2014).	<i>Venture Capital and Private Equity Contracting</i> Early-stage financing; Convertible instruments; Contract design; Venture capital; Investor protection Provides a strong foundation for understanding early-stage startup financing. The book covers venture capital structures, convertible securities, control rights, and staged financing. SAFEs are not discussed, but convertible notes are analyzed as flexible tools to delay valuation and reduce founder dilution. The work highlights how investor protections and contract design manage risk in uncertain environments, which might offer key parallels to SAFE dynamics.	
Akerlof, G. A. (1970).	<i>The market for "Lemons": Quality uncertainty and the market mechanism</i> Asymmetric Information; Adverse Selection; Market Failure; Quality Uncertainty; Signaling Model of markets with asymmetric information, using the example of used cars ("lemons"). Sellers know more about the product's quality than buyers. As a result, low-quality goods drive out high-quality ones. This	Apply Akerlof's model to startup funding. Study how SAFEs affect adverse selection in seed-stage investments. Compare signaling strength of SAFEs vs. priced equity. Assess whether SAFEs reduce founder-investor

	leads to adverse selection and market failure. When buyers cannot verify quality, they offer lower prices, discouraging sellers of high-quality goods. The paper shows that without trust, information signals, or legal protections, markets collapse even when good products exist.	information gaps. Analyze SAFE contract design as a response to quality uncertainty in early-stage finance.
Spence, M. (1973).	<i>Job Market Signaling</i> Signaling Theory; Asymmetric Information; Quality Signaling; Market Efficiency; Separating Equilibrium Develops signaling theory in markets with asymmetric information. High-quality actors use specific traits or actions to credibly demonstrate their quality. Signals help reduce information asymmetry and improve market decisions. A signal is only effective if it is cheaper for high-quality actors to send than for low-quality ones. In Spence's model, education serves this role in the labor market. Without clear signals, markets remain inefficient because good and bad actors cannot be distinguished.	Future research could examine how the use of SAFE functions as a quality signal in early-stage financing. It would be relevant to analyze whether startups that defer valuation through SAFEs are perceived more positively by investors compared to those opting for immediate equity deals.
(Jensen & Meckling, 1976)	<i>Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure</i> Agency Costs; Ownership Structure; Monitoring; Incentive Misalignment; Residual Loss Introduce the foundational concept of agency costs, arising from conflicts of interest between principals and agents when control and ownership are separated. These costs include monitoring, bonding, and residual losses caused by misaligned incentives and limited oversight. This framework may be relevant for analyzing SAFE financing, where investors typically lack control until conversion. The agency perspective could help explain potential incentive misalignments and governance risks between founders and investors in early-stage startup funding.	Future studies could explore how different SAFE structures (e.g., with or without valuation caps, MFN clauses, or conversion triggers) influence agency costs in early-stage financing. It would be particularly relevant to investigate whether specific contractual designs can better align the interests of founders and investors. In the context of emerging ecosystems such as Portugal, further research could assess how investor experience affect the danger of agency problems in SAFE-funded startups.

3.7 Seminal Literature

This thesis applies three established theoretical frameworks that offer relevant perspectives for analyzing SAFE financing in early-stage entrepreneurial finance. These theories, originally developed in broader economic and organizational contexts, have been widely referenced in entrepreneurial finance literature to examine financing decisions under uncertainty.

Akerlof's (1970) theory of adverse selection explains how information asymmetry may discourage transactions when investors cannot fully assess the quality of ventures prior to investment. This problem is particularly pronounced in early-stage startup financing, where limited track records and high uncertainty complicate investor assessments (Cumming & Johan, 2014).

Building on this, Spence's (1973) signaling theory describes how actors with private information may use observable signals to reduce information asymmetry. In entrepreneurial finance, signaling mechanisms have been studied extensively to explain how startups communicate quality to external investors (Connelly et al., 2011; Cumming & Johan, 2014).

Jensen and Meckling's (1976) agency theory introduces the problem of incentive misalignment between entrepreneurs and investors once external capital is committed. Agency costs, ownership structures, and governance rights are recurring themes in early-stage financing (Brettel, 2005). Empirical evidence from venture capital research illustrates how contractual mechanisms are structured to address such agency conflicts by allocating control and cash flow rights (Kaplan & Strömberg, 2003). Since SAFEs typically defer formal governance mechanisms until conversion, agency considerations may play a role in evaluating their suitability in different entrepreneurial contexts.

These theories have been adopted in entrepreneurial finance research to examine how uncertainty, incentives, and contractual structures shape early-stage financing relationships (Cumming & Johan, 2014; Brettel, 2005; Connelly et al., 2011). Their combined perspective offers a useful lens to explore how SAFEs function within the entrepreneurial finance landscape and informs both the theoretical framing and empirical focus of this thesis.

3.6 Key Findings

Given the emerging nature of SAFE research, particularly outside the U.S., this thesis applies a broad and exploratory literature review to capture relevant mechanisms across the concept of SAFE. Where peer-reviewed academic literature remained scarce, especially regarding legal practice and market-specific dynamics, practice-oriented sources were used to clarify foundational aspects and ensure conceptual coherence. The systematic integration of these findings into a theory-guided framework occurs in later stages of the thesis. The following section synthesizes the key insights of this literature review.

3.6.1 SAFEs and How They Work

Simple Agreements for Future Equity (SAFEs) are standardized financing contracts developed by Y Combinator in 2013 to simplify early-stage startup funding. SAFEs allow startups to raise capital without issuing shares or determining a valuation at the time of investment. Instead, they offer investors the right to convert their investment into equity upon a future triggering event, typically a priced equity round or a liquidity event such as an acquisition or IPO (Levy, 2023).

In 2018, Y Combinator introduced the **Post-Money SAFE** to improve transparency regarding investor ownership and founder dilution. While the original **Pre-Money SAFE** (2013) calculated the investor's ownership percentage based on the company's capitalization *before* the next financing round, the Post-Money SAFE defines investor ownership *after* the SAFE investment is included. This means the investor's equity stake is fixed upon signing, regardless of other fundraising dynamics at that point (Levy, 2023). As a result, Post-Money SAFEs provide greater clarity for investors but can lead to unexpected levels of dilution for founders if multiple SAFEs are issued without careful coordination (Levy, 2023).

SAFE Contract Variants

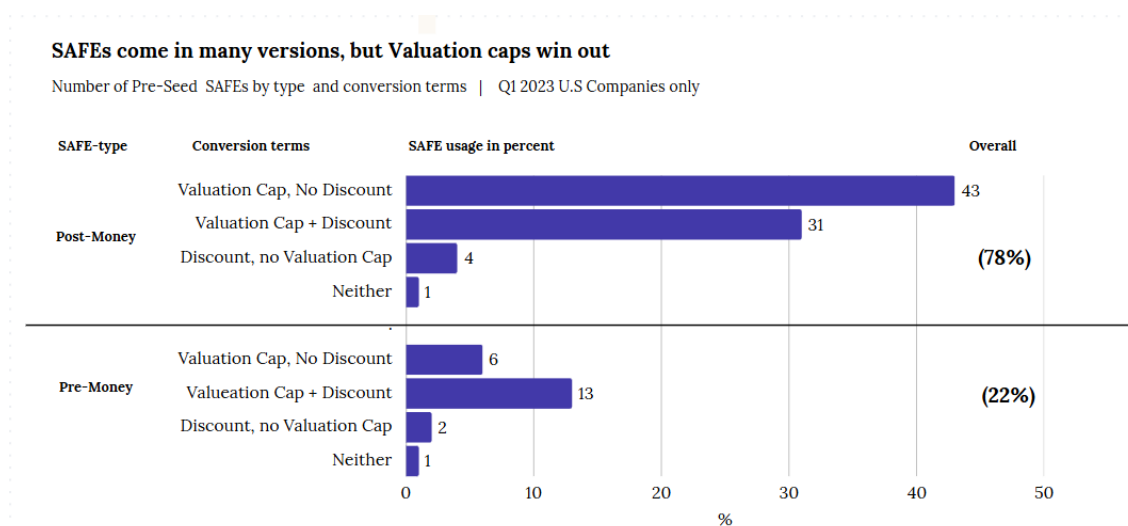
SAFEs can be issued in different forms depending on whether they include a **valuation cap**, a **discount rate**, both, or neither. These variables define how the SAFE will convert into equity in the future and help compensate early investors for the risk of investing before a company's valuation is established (Levy, 2023).

(1) SAFE with Cap Only: This version sets a maximum company valuation (the cap) that will be used to determine the conversion price. If the company's actual valuation at the time of conversion exceeds the cap, the investor receives more shares, thereby benefiting from the company's growth (Levy, 2023).

- (2) **SAFE with Discount Only:** This version gives the investor a fixed percentage discount on the price per share in the next equity round. It is typically used when founders expect strong future valuations but still want to offer investors early-stage incentives (Levy, 2023).
- (3) **SAFE with Cap and Discount:** In this hybrid structure, the investor receives the more favorable outcome between the valuation cap and the discount. While this form was part of the Pre-Money SAFE framework, Y Combinator removed it from the Post-Money structure due to challenges in applying it to liquidity events (Levy, 2023).
- (4) **SAFE without Cap or Discount (MFN SAFE):** This version offers neither a cap nor a discount but includes a "Most Favored Nation" clause. This clause allows the investor to convert under more favorable terms if the company later issues SAFEs with better conditions. This variant is rarely used and typically appears in bridge or insider rounds (Levy, 2023).

The existence of these variants gives startups and investors flexibility to tailor the agreement to their expectations and risk tolerance. Founders can defer valuation while offering investors risk-adjusted entry points into future equity, and investors can protect themselves through contractual terms that reflect market uncertainty and upside potential (Parra & Winter, 2022).

Figure 4. SAFE Instrument Distribution at Pre-Seed Stage



Own illustration based on Carta (2023).

The image shows the distribution of SAFE contracts in order to the SAFE-type and their conversion terms. This sample represents U.S. Companies only during the Pre-Seed phase. It can be seen that SAFE contracts including Valuation Cap are the most commonly used and

Post-Money SAFE contracts are notably the dominant Version compared to the old version of Pre-Money SAFE contracts.

3.6.2 Legal and Structural Characteristics of SAFEs

The Simple Agreement for Future Equity (SAFE) was introduced as a simplified alternative to convertible notes for startup seed financing. Unlike convertible debt, SAFEs are not debt instruments and therefore carry no interest, no maturity date, and no repayment obligation. Instead, they function as deferred equity contracts: investors provide capital in exchange for the right to obtain equity in a future priced financing round (Coyle & Green, 2018).

Legally, SAFEs are designed to delay valuation discussions between founders and investors, often including a valuation cap or discount to reward early investment. Conversion typically occurs automatically during a future qualified financing round or liquidity event (Coyle & Green, 2018). Unlike traditional debt, SAFEs reduce regulatory complexity and financial risk for startups, especially in jurisdictions with strict debt regulations (Wroldsen, 2017).

Although SAFEs provide founders with speed and flexibility, their simplicity can limit investor protection because they do not grant shareholder rights, voting rights, or enforceable claims before conversion (Smirnova et al., 2020). Their success depends largely on legal standardization and investor familiarity, but their international adoption often faces challenges due to varying corporate law systems (Giudici et al., 2022).

In summary, SAFEs are minimalist contracts designed to facilitate early-stage financing while shifting more control and risk management toward founders, raising important questions about long-term investor protection and regulatory fit.

Regulatory and Legal Context of SAFEs in Portugal

In Portugal, SAFEs are increasingly used in early-stage financing, but their legal classification remains ambiguous. No specific legislation recognizes SAFEs as a distinct financing instrument (Trabulo, 2023). According to Cuatrecasas (2025), in Portugal SAFEs are particularly common in bridge rounds between seed and Series A financing, where they help overcome valuation disagreements between founders and investors. This growing use in practice contrasts with the lack of legal codification, highlighting a gap between entrepreneurial financing needs and the current regulatory framework.

From a civil law perspective, SAFEs are generally treated as conditional claims, meaning investors acquire future equity only after a defined trigger event occurs. Until then, SAFE

holders do not possess shareholder rights, voting power, or control, which limits their legal protection in disputes or insolvency (Trabulo, 2023).

A major challenge is the lack of clear legal standards for defining trigger events. Many SAFE agreements vaguely reference a "financing round" without specifying minimum thresholds, leading to potential conflicts about valuations and dilution (Trabulo, 2023). Additionally, the treatment of multiple SAFE contracts with different conditions remains legally unregulated, increasing the risk of unequal investor outcomes and complicating conflict resolution (Trabulo, 2023).

SAFE investors in Portugal also typically lack a direct right to enforce a conversion or payout before the trigger event, creating significant dependency on founders. Without strong transparency obligations, this can result in considerable power asymmetries. Furthermore, tax treatment is unclear, particularly regarding when equity ownership for tax purposes is recognized (Trabulo, 2023).

Although no formal legal framework for SAFEs currently exists in Portugal, initiatives such as Seed Summit Portugal are working on a standardized template that aligns with Portuguese corporate law. This reflects growing recognition of the need for legal adaptation to support early-stage financing instruments like SAFEs (Seed Summit Portugal, 2025).

Overall, while SAFEs offer flexibility and speed, their successful application in Portugal requires careful legal drafting to address open regulatory and governance issues.

3.6.3 Information Asymmetry, Signaling and the Role of SAFE Instruments

To understand how SAFEs interact with early-stage capital markets, it is essential to consider theoretical foundations of information asymmetry and recent advances in signaling theory applied to convertible startup finance.

Akerlof (1970) introduces the concept of information asymmetry and adverse selection in markets where sellers possess more information about product quality than buyers. In such settings, the presence of low-quality offerings ("lemons") leads to market failure, as buyers are unable to differentiate between good and bad options. Applied to startup financing, this theory implies that investors may avoid early-stage startups altogether, fearing to back underperforming ventures due to insufficient information (Parra & Winter, 2022).

Building on this foundation, Parra and Winter (2022) model early-stage financing decisions under asymmetric information. They demonstrate that traditional equity financing leads to underinvestment by high-quality startups, as these firms are undervalued by uninformed

investors. To mitigate this, founders prefer valuation-deferring instruments, such as SAFEs, which allow investment without immediate pricing, thus overcoming adverse selection problems. Their model predicts that high-quality startups self-select into SAFE financing, whereas lower-quality firms tend to accept upfront equity deals with less risk of future dilution.

While Parra and Winter (2022) do not explicitly frame SAFEs as signaling instruments, their model shows that high-quality startups benefit from delaying valuation because future information release reduces adverse selection. This mechanism indirectly separates stronger from weaker ventures, even though the primary intent is not signaling. In contrast, Shimizu (2023) emphasizes that convertible securities can serve as deliberate signaling tools. According to this view, the willingness of strong startups to postpone valuation demonstrates their confidence and helps distinguish them from lower-quality ventures that may fear future scrutiny or dilution.

Together, these findings support the idea that SAFEs function primarily as a response to Akerlof's "lemons problem" in early-stage startup markets. By postponing valuation and lowering transaction complexity, SAFEs offer a way to attract early capital while minimizing the negative effects of information asymmetry. Additionally, the delay in valuation can produce an implicit signaling effect, reinforcing investor perceptions of startup quality under asymmetric information (Parra & Winter, 2022; Shimizu, 2023).

3.6.4 Agency Risks in SAFE Financing

While SAFEs are often praised for their simplicity and flexibility, they may also introduce agency-related risks. In classical agency theory, such risks emerge when decision-making power lies with an agent (e.g., founder) whose actions are not fully observable or contractible by the principal (e.g., investor) (Jensen & Meckling, 1976). Holmström (1979) formalizes this challenge as moral hazard, where the agent may take hidden actions that benefit themselves at the expense of the principal.

In the context of SAFE financing, there is evidence that similar incentive misalignments may arise. Parra and Winter (2022) argue that, although SAFEs can reduce adverse selection, they may simultaneously create founder-side moral hazard. Because founders retain full discretion over whether and when to trigger conversion events (e.g., priced equity rounds), they may strategically delay follow-on financing to avoid dilution. This can potentially undermining investor interests (Parra & Winter, 2022).

To counterbalance risks, many SAFE contracts include a valuation cap, which limits the price at which the SAFE converts into equity. This mechanism can be seen as a contractual response to agency costs, designed to align founder and investor incentives (Parra & Winter, 2022).

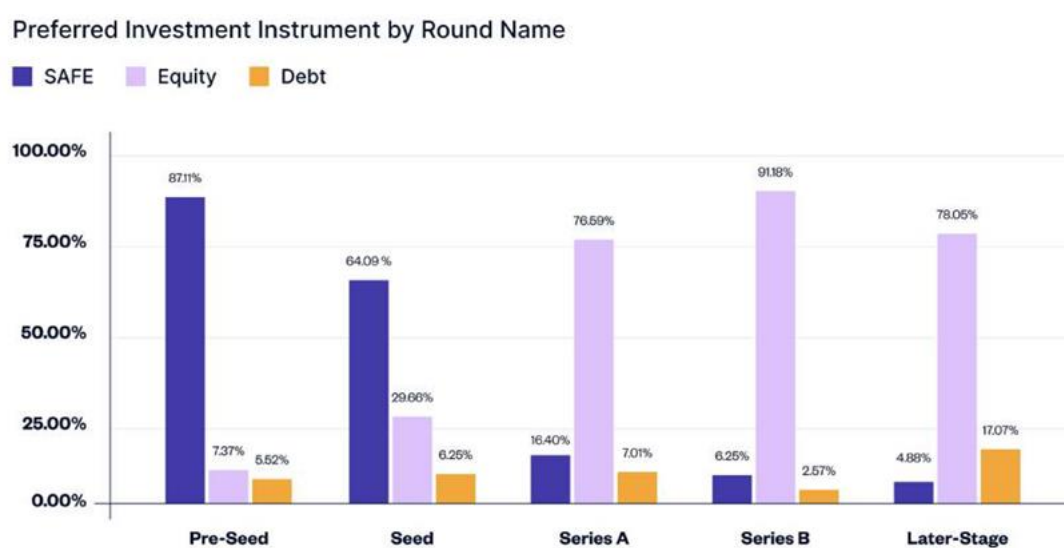
In the Portuguese context, legal uncertainty surrounding SAFE conversion rights and trigger events may reinforce these problems. As Trabulo (2023) notes, investors typically hold no governance or information rights prior to conversion, which increases dependency on founder behavior and limits recourse in cases of disagreement (Trabulo, 2023). In contrast Wroldsen (2017) highlights, simplified early-stage agreements such as SAFEs often substitute formal legal control with reputational discipline and transparency-based trust, enabling effective governance even under contractual uncertainty.

These observations suggest that SAFE financing, while structurally efficient, may carry hidden agency risks that require further empirical analysis and careful contractual design.

3.7 Conclusion of the Literature Review

The reviewed literature highlights that SAFE instruments emerged as a founder-friendly, simplified financing tool designed to address specific challenges in early-stage startup funding. SAFEs postpone valuation and legal complexity, thus offering an attractive alternative to convertible notes and traditional equity contracts, especially in contexts of high information asymmetry (Coyle & Green, 2018; Wroldsen, 2017).

Figure 5. SAFE Usage by Startup Stage on AngelList



Source: AngelList & Silicon Valley Bank (2022).

This figure illustrates the distribution of SAFE and equity financing instruments across different startup stages on the AngelList platform in Q1 2022. The data show that SAFEs remained the preferred instrument by deal count, especially at the pre-seed and seed stages. SAFEs dominate early-stage fundraising due to their simplicity, while equity becomes more prominent as companies mature. These trends have shown historical continuity within the AngelList dataset.

From a theoretical perspective, the application of Akerlof's (1970) concept of adverse selection is essential to understanding the role of SAFEs. In markets where investors lack sufficient information about startup quality, traditional equity financing can lead to underinvestment, as high-quality ventures are undervalued. SAFEs mitigate this problem by deferring valuation to a future point in time, when more information about the venture's performance becomes available, thus reducing the impact of adverse selection (Parra & Winter, 2022).

While the signaling theory of Spence (1973) is often applied to financing decisions under information asymmetry, Parra and Winter (2022) do not position SAFEs as explicit signaling instruments. Instead, their model emphasizes SAFEs as a mechanism to circumvent adverse selection. Nevertheless, the self-selection effect, where high-quality startups opt for SAFEs while lower-quality ventures prefer immediate equity deals, can create an implicit signaling effect. This dynamic is more explicitly addressed by Shimizu (2023), who shows that the willingness to postpone valuation reflects founders' confidence and can serve as a credible quality signal in uncertain environments.

However, SAFEs also introduce new risks. While they reduce initial valuation-based adverse selection, they may increase agency problems due to the lack of investor control prior to conversion (Parra & Winter, 2022; Trabulo, 2023). This trade-off highlights the importance of contract design elements such as valuation caps and trigger definitions to align incentives and protect investor interests.

Empirical studies suggest that while SAFEs have become widespread in the U.S. startup ecosystem, their adoption in Europe faces structural and legal adaptation challenges (Giudici et al., 2022). Particularly in Portugal, where SAFE contracts are not explicitly regulated, concerns arise regarding investor protection, trigger event definitions, and enforceability (Trabulo, 2023).

Overall, the literature indicates that SAFEs influence early-stage financing dynamics by shifting the balance of power toward founders, reducing transaction complexity, and offering

an alternative mechanism to manage information asymmetry. While the signaling effect of SAFEs may be indirect, it remains relevant in separating high- from low-quality ventures through self-selection processes. Nevertheless, the actual effects of SAFE adoption in specific legal environments, such as Portugal, remain underexplored, suggesting a clear need for further context-specific research.

4. Methodology

This thesis applies a design-inspired, explanatory theory-building approach to explore the role of SAFE funding in shaping early-stage startup financing dynamics in Portugal. The research was initially grounded in the Design Science Research (DSR) paradigm, which is well suited for developing theoretically grounded artifacts to address practical problems (Hevner et al., 2004; Peffers et al., 2007). However, as the study progressed, the complex and context-specific nature of SAFE funding led to a stronger focus on explanatory model development. While not adhering strictly to DSR methodology, the study follows its core logic by iteratively developing and refining an explanatory model through the integration of theoretical foundations, empirical insights, and abductive interpretation.

4.1 Research Design

4.1.1 Framework Development

The research initially applied Design Science Research (DSR) principles to develop a theoretically grounded artifact addressing the underexplored phenomenon of SAFE contract adoption in Portugal's early-stage startup ecosystem. Based on a problem-centered conceptualization, the AAE-Model was developed to structure the analysis along the dimensions of Accessibility, Acceptance, and Effectiveness. These dimensions were informed by practical observations and grounded in theoretical integration of information asymmetry, signaling theory, adverse selection, and agency theory.

During the empirical engagement with practitioners, the research focus progressively shifted toward explanatory model development, reflecting the complexity and evolving legal and institutional context of SAFE funding in Portugal. The resulting model integrates theoretical constructs and empirical insights to capture the institutional, contractual, and behavioral mechanisms influencing SAFE adoption.

4.1.2 Problem Relevance

As discussed in the previous chapters, SAFE contracts are increasingly used in early-stage startup funding but remain underexplored in the European context. In Portugal, SAFEs are used despite legal ambiguity and limited standardization. This creates an urgent need for structured knowledge about how such instruments function in practice. The model addresses this problem by organizing knowledge along three practically relevant analytical dimensions:

(1) **Structural access** (Accessibility)

Can early-stage startups in Portugal structurally access SAFE funding under current legal and market conditions?

(2) **Perception and adoption** (Acceptance)

How are the use of SAFE contracts perceived and what shapes willingness to accept them?

(3) **Governance Dynamics** (Effectiveness)

How do founders and investors pursue and align their goals under SAFE contracts?

4.1.3 Rigor Cycle

The Framework design is grounded in a synthesis of established theories addressing core challenges in early-stage startup financing, including information asymmetry, signaling, and agency-related conflicts. By integrating these theoretical perspectives, the Framework captures the dynamics of SAFE funding in contexts characterized by uncertainty and limited transparency. Additionally, insights from recent empirical studies ensure the framework reflects both academic discourse and practical realities in startup financing.

4.2 Data Collection

The Model development and evaluation follow a **two-phase data collection approach**:

(1) **Literature Synthesis**

Due to the emerging nature of SAFE research, the literature review was initially broad and exploratory. The systematic integration of relevant mechanisms and theoretical anchors occurs in the framework development. The initial version of the framework was developed through a systematic synthesis of seminal theories and SAFE-specific literature. This phase provided the theoretical foundation for the Model, ensuring internal consistency and alignment with the identified problem context.

(2) **Expert Interviews**

In the second phase, six qualitative, semi-structured interviews with key stakeholders (founders, investors, legal advisors) were conducted. An interview guide aligned with the AAE dimensions ensured thematic comparability while allowing for exploratory depth (see Appendix B). An overview of the anonymized interviewee profiles is provided in Appendix C. Data was analyzed using qualitative content analysis with an abductive approach,

combining theory-informed categories with emergent themes. Full transcripts of all interviews are available in Appendix D.

4.3 Model Development Process

The Model development follows an iterative search process (Hevner et al., 2004).

Phase 1 focuses on the initial version of the model (V1) which will be developed through a systematic literature review that synthesized seminal theoretical perspectives relevant to the research problem. This phase ensured that the model reflected existing scholarly understanding and aligned with the institutional challenges observed in practice.

Phase 2 focuses on empirical refinement through expert feedback. Stakeholder insights will inform targeted adjustments to the model, ensuring its practical relevance, contextual fit, and analytical robustness. This process aligns with the DSR design cycle, allowing the model to evolve from a theoretical design proposition to a context-validated explanatory design model (V2).

Phase 3 extends the model through abductively derived suggestions developed during the discussion. These additions emerge from interpretive reflection on the empirical patterns and aim to extend the model's prescriptive relevance. While not validated through further data collection, they represent plausible interventions for future testing and model evolution.

4.4 Model Refinement Process

The Model evaluation follows Venable et al. (2016) by combining ex-ante and ex-post evaluation phases.

Ex-ante descriptive refinement

The initial version of the AAE framework (V1) was developed through a theory-informed synthesis of existing literature on information asymmetry, signaling theory, and agency theory. This Model served not as a finalized model but as a conceptual scaffold to guide the empirical investigation. Its role was to ensure internal consistency and alignment with established theoretical constructions prior to fieldwork.

Ex-post pragmatic refinement

Guided by the principles of Design Science Research (Gregor & Hevner, 2013; Peffers et al., 2007), the ex-post phase aimed to empirically validate and iteratively refine the initial Model (V1) based on practitioner insights. This utility-driven refinement process followed an

abductive logic, combining the theoretical structure derived from the literature with empirical evidence from expert interviews.

The V1 framework, structured along the dimensions of Accessibility, Acceptance, and Effectiveness, provided the analytical basis for both interview design and data interpretation. Interview statements were systematically reviewed in relation to these framework dimensions to assess whether participant experiences confirmed, nuanced, or expanded the initial assumptions. During this systematic review, recurring patterns and additional aspects emerged across multiple interviews that had not been fully anticipated during the initial artifact development. These emerging themes were documented and evaluated as potential subdimensions to extend the explanatory power of the framework.

The refinement process proceeded in three analytical steps:

- (1) **Validation:** Interview responses that directly supported the V1 assumptions were recorded as empirical validation, reinforcing the initial theoretical constructs.
- (2) **Extension:** Repeatedly observed, previously unconsidered aspects led to the inductive derivation of new subdimensions, expanding the framework's contextual fit.
- (3) **Adjustment:** In cases where interviewees provided insights that nuanced or partially challenged V1 assumptions, the dimension definitions were adjusted to reflect these empirical realities.

As a result, the Framework evolved from a purely theory-informed conceptual model (V1) into an empirically grounded, context-sensitive framework (V2).

4.5 Contribution

This study contributes a context-specific explanatory model that enhances understanding of how SAFE funding shapes early-stage financing dynamics in Portugal. The developed AAE-Model systematically integrates theoretical perspectives into a structured framework organized along the dimensions of Accessibility, Acceptance and Effectiveness.

Through iterative theoretical development and empirical refinement via stakeholder interviews, the model provides design-relevant explanatory knowledge that contributes to theory-building in Information systems (Gregor, 2006). It delivers a robust analytical foundation for both academic inquiry and potential future design science research aimed at developing prescriptive solutions. The model also offers practitioners an empirically

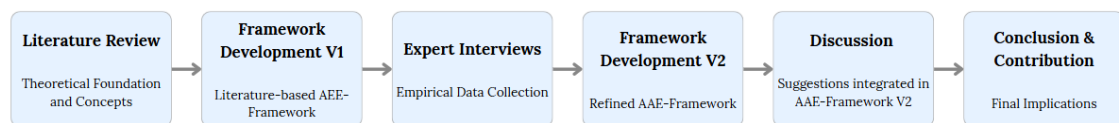
grounded structure to better understand the complex institutional and contractual dynamics surrounding SAFE funding in an emerging European startup ecosystem.

4.6 Communication of Results

Results will be communicated through:

- (1) A finalized Model and its key Mechanisms structured by Dimensions.
- (2) A critical discussion of empirical findings and their implications.

Figure 6. Methodological Process Overview



Own illustration.

The process visualization abstracts the detailed methodological approach into the 6 main research phases, illustrating the iterative development and refinement of the artifact while condensing theoretical rigor and evaluation into a practical flow model.

5. Theory-based AEE Framework

Based on the methodological approach of this study, this chapter presents the development of the initial version of the AAE Framework. Following a design-inspired theory development process, the framework synthesizes theoretical insights to explain the adoption dynamics of SAFE instruments in Portugal's early-stage financing context. The model integrates literature-based mechanisms into a structured explanatory framework, providing analytical clarity on how institutional, contractual, and behavioral factors interact. This initial version (V1) serves as the theoretical foundation for subsequent empirical refinement.

5.1 Theoretical Link of Dimensions

The following sections systematically link each dimension of the AAE-Framework Accessibility, Acceptance, and Effectiveness with its respective conceptual foundation. While Acceptance and Effectiveness are anchored in established behavioral theories such as information asymmetry, signaling, and agency theory, the Accessibility dimension is based on structural factors. It addresses the legal and institutional conditions that shape the practical feasibility of SAFE adoption, focusing on codification, standardization, and contractual infrastructure. This distinction reflects the complementary roles of systemic context within the overall framework.

5.1.1 Accessibility in SAFE Financing

Introduction and Scope of the Accessibility Dimension

The Accessibility dimension of the AAE-Framework addresses the structural and legal conditions that determine whether SAFEs can be reliably adopted in early-stage financing. It examines how legal uncertainty and contractual heterogeneity increase entry barriers for both founders and investors (Cumming & Johan, 2014; Giudici et al., 2022).

Legal Uncertainty and Contractual Heterogeneity

SAFE agreements lack legal codification under Portuguese commercial law, creating uncertainty about enforceability, particularly regarding conversion mechanics, investor rights, and conflict resolution (Trabulo, 2023; Giudici et al., 2022). This absence of statutory guidance increases contractual fragility and elevates risk for both contracting parties.

In addition to legal uncertainty, Portugal lacks nationally standardized SAFE templates. While international models such as the Y Combinator SAFE are widely used elsewhere (Coyle & Green, 2018), their application in Portugal requires significant legal adaptation to

fit domestic corporate law (Trabulo, 2023; Giudici et al., 2022). Giudici et al. (2022) highlight that across European ecosystems, inconsistent contract practices create high customization burdens, prolong negotiations, and elevate legal costs, particularly in the absence of harmonized templates.

These structural challenges are amplified in Portugal by the overall immaturity of legal infrastructure for venture financing. The lack of regulatory guidance not only complicates contract design but also creates interpretive uncertainty regarding legal outcomes, limiting SAFE accessibility (Trabulo, 2023; Giudici et al., 2022).

Legal uncertainty and contractual heterogeneity exacerbate hidden information problems, impeding transparent contract formation. Regulatory clarification, adoption of standardized templates, and legal professionalization may mitigate these asymmetries and facilitate broader SAFE adoption (Giudici et al., 2022; Trabulo, 2023).

Integration into the AAE-Framework

In the AAE-Framework, Accessibility captures the legal and contractual conditions that define whether SAFEs can be reliably structured and executed. Structural barriers, such as missing legal codification and the absence of standardized contracts, limit contractual transparency and increase negotiation complexity. These conditions shape the feasibility of SAFE adoption at the contract formation stage and directly address the research question: Can early-stage startups in Portugal structurally access SAFE funding under current legal and market conditions?

Based on theoretical analysis and contextual factors, two key mechanisms are incorporated into the Accessibility dimension of the AAE-Framework:

- (1) Lack of legal codification for SAFEs:** Absence of statutory regulation undermines contract enforceability and increases legal uncertainty.
- (2) Absence of standardized contracts and high customization burden:** Increases legal costs, negotiation complexity, and risk exposure for both parties.

These mechanisms ensure that the V1 model accurately reflects the structural barriers affecting SAFE accessibility in early-stage financing contexts such as Portugal.

5.1.2 Acceptance and the Role of Signaling Theory in SAFE Adoption

Introduction and Scope of the Acceptance Dimension

The Acceptance dimension of the AAE-Framework examines how SAFE contracts are perceived and adopted under information asymmetry. It evaluates whether SAFE contracts function as signals of startup quality, with interpretation depending on investors' contextual knowledge and familiarity with the instrument (Connelly et al., 2011).

Signaling Dynamics

Empirical studies suggest that the deferral of valuation, inherent in SAFEs, can serve as an indirect signal of confidence. Startups willing to postpone a evaluation may be perceived as signaling stronger growth prospects (Parra & Winter, 2022; Shimizu, 2023). However, signaling effectiveness is not universal but highly context dependent. In less mature ecosystems like Portugal, where legal codification and market norms for SAFEs are underdeveloped (Trabulo, 2023), investors face greater interpretive uncertainty (Giudici et al., 2022). The relevance of signaling theory increases where institutional frameworks provide limited guidance, making investor interpretation more critical (Connelly et al., 2011; Cumming & Johan, 2014).

Contextual Amplification in Portugal

The Portuguese startup ecosystem exhibits several institutional factors that complicate SAFE adoption. Legal ambiguity concerning conversion rights, investor protections, and contract enforcement contributes to uncertainty in interpreting SAFE contracts (Trabulo, 2023). These regulatory gaps intensify reliance on individual investor judgment and further amplify the informational asymmetries already inherent in early-stage financing (Giudici et al., 2022).

While signaling theory (Spence, 1973; Connelly et al., 2011) can explain perception-driven adoption dynamics, contract evolution also reflects market responses to investor concerns (Levy, 2023). Initial SAFE contracts lacked valuation caps, generating ambiguity in ownership outcomes and dilution risks (Parra & Winter, 2022; Coyle & Green, 2018). Subsequent iterations introduced valuation caps, discounts, and MFN clauses to enhance contractual clarity and better align expectations between founders and investors (Levy, 2023). The transition from pre-money to post-money SAFE structures exemplifies such market-driven adjustments (Levy, 2023). Though not designed as signals (Parra & Winter, 2022), these contractual refinements may serve as indicators of professionalization and ecosystem responsiveness (Giudici et al., 2022). In Europe, such adaptations are essential to foster

acceptance of U.S.-origin instruments like SAFE contracts within divergent legal and institutional settings (Giudici et al., 2022).

Integration into the AAE-Framework

In the AAE-Framework, Acceptance reflects how investors interpret the attractiveness and trustworthiness of SAFE contracts. Perception is influenced by how contract features signal startup quality and by the degree of contractual clarity provided. Contract adaptations that improve transparency, such as valuation caps and discount provisions, play a critical role in facilitating acceptance and reducing uncertainty. This dimension addresses the research question: How are the use of SAFE contracts perceived and what shapes willingness to accept them?

Based on the theoretical analysis and contextual factors, two key mechanisms are incorporated into the Acceptance dimension of the AAE-Framework:

- (1) Deferral of valuation as indirect confidence signal:** Startups delaying valuation may signal stronger growth expectations to investors.
- (2) Contextual need for contract adaptations:** Introduction of valuation caps, discounts, and MFNs reduces interpretive uncertainty and addresses trust deficits.

These mechanisms ensure that the V1 model reflects both perception-based and contractual dynamics influencing SAFE acceptance in early-stage financing contexts such as Portugal.

5.1.3 Effectiveness and the Role of Agency Risk in SAFE Funding

Introduction and Scope of the Effectiveness Dimension

The Effectiveness dimension of the AAE-Framework assesses whether SAFE contracts enable secure and coherent capital deployment in early-stage ventures. While their simplified structure improves ease of use and reduces transaction costs (Coyle & Green, 2018), this simplification often reduces investor governance rights and contractual protections (Parra & Winter, 2022). The dimension evaluates to what extent this absence of interim control may compromise SAFE effectiveness, particularly in jurisdictions with weak investor protection (Parra & Winter, 2022).

Governance Mechanisms and Agency Risk

SAFE investors typically hold no voting rights or strategic control before equity conversion (Coyle & Green, 2018). This lack of interim governance differentiates SAFE contracts from convertible notes or preferred equity, which usually grant investors at least some degree of

influence or protection (Parra & Winter, 2022). The absence of monitoring and control rights exposes investors to moral hazard risks, allowing founders to delay priced equity rounds or allocate funds opportunistically (Parra & Winter, 2022). The resulting incentive misalignments between investors and founders are particularly pronounced during the SAFE period when investors have limited contractual means to intervene (Parra & Winter, 2022).

In Portugal, these governance risks are amplified by the absence of statutory regulation concerning conversion mechanics, board representation, and investor recourse prior to equity issuance (Trabulo, 2023). The limited legal framework increases investor exposure, with governance often depending on informal norms or reputational enforcement, which may prove insufficient to mitigate agency conflicts (Giudici et al., 2022).

Agency theory (Jensen & Meckling, 1976) provides the theoretical foundation for understanding these dynamics. The separation of ownership and control, combined with weak contractual safeguards, creates agency problems that are intensified in institutional environments with limited investor protection (Parra & Winter, 2022). While these risks exist, literature suggests that contract standardization and follow-on investor protections (e.g., pro-rata rights, staged financing) can partially mitigate governance concerns in more developed ecosystems (Parra & Winter, 2022).

Integration into the AAE-Framework

In the AAE-Framework, Effectiveness addresses governance dynamics after SAFE issuance. The absence of interim control rights creates a period where investor influence is limited, increasing reliance on incentive alignment mechanisms to safeguard capital deployment. The dimension contributes to answering the research question: How do founders and investors pursue and align their goals under SAFE contracts?

Based on the theoretical analysis and contextual factors, two core agency-related mechanisms are incorporated into the Effectiveness dimension of the AAE-Framework:

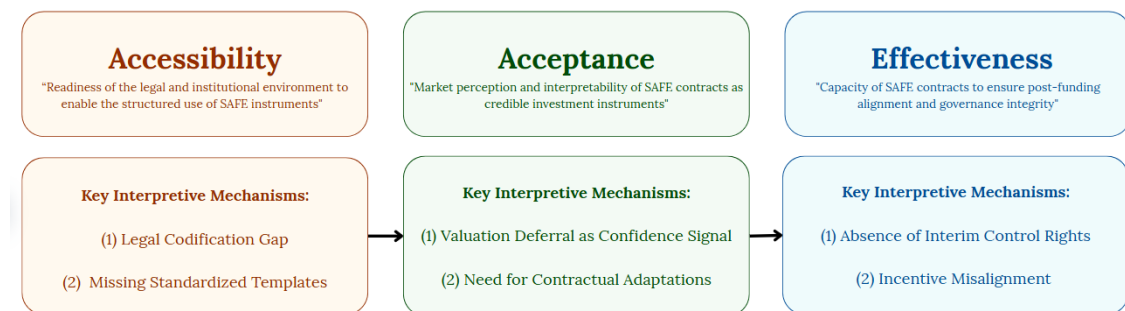
- (1) Absence of interim control rights prior to conversion:** Investors lack governance rights during the SAFE period, increasing moral hazard and opportunistic behavior by founders.
- (2) Incentive misalignment during the SAFE period:** The absence of contractual safeguards heightens the risk of diverging interests between founders and investors before equity conversion.

These mechanisms ensure that the V1 model captures the central governance dynamics affecting SAFE contract effectiveness in early-stage financing environments such as Portugal.

5.2 Functional Relationship of AAE Dimensions in the Framework

The AAE-Framework integrates three complementary dimensions to explain SAFE adoption in Portugal. Accessibility captures legal and contractual preconditions; Acceptance reflects investor perceptions shaped by signaling and contract design; Effectiveness addresses post-investment governance and incentive alignment. Together, the dimensions structure how institutional, contractual, and behavioral factors jointly influence SAFE viability.

Figure 7. AAE-Framework – Version 1 (V1)



Own illustration.

Initial version of the Accessibility–Acceptance–Effectiveness (AAE) framework outlining dimensions and key mechanisms for analyzing SAFE financing dynamics in the Portuguese startup ecosystem.

6. Empirical Results

6.1 Empirical Results – Accessibility Dimension

The initial V1 framework identified two central mechanisms affecting accessibility of SAFE funding in Portugal: (1) the lack of legal codification, and (2) the absence of standardized contracts. Both mechanisms were derived from literature considerations on legal infrastructure and enforceability risks in early-stage financing under institutional uncertainty.

The empirical analysis serves to validate, refine, or extend these mechanisms based on stakeholder perspectives gathered through six expert interviews.

6.1.1 Empirical Validation and Extensions

General Accessibility of SAFEs in Portugal

Interviewees consistently confirmed that SAFE contracts are legally accessible for early-stage startups in Portugal, despite lacking statutory regulation or standardized templates. Enforceability relies on general civil law principles and qualified legal drafting (Interview, Legal Advisor A, 2025; Interview, Legal Advisor B, 2025). Founders benefit from incubator support and mentoring that provide localized templates and negotiation guidance (Interview, Founder A, 2025; Interview, Founder B, 2025). Investors emphasized the necessity of legal counsel to navigate contractual complexities (Interview, Investor A, 2025). Overall, legal expertise and ecosystem support enable functional SAFE accessibility under current conditions.

Key Mechanism 1: Lack of Legal Codification

All interview participants consistently confirmed that no specific statutory regulation for SAFE contracts currently exists under Portuguese commercial law. Both legal advisors explicitly stated that Portuguese civil law provides sufficient legal foundation to enforce properly drafted SAFE contracts. In the words of one legal advisor: *"The basic legal mechanisms that SAFEs rely on exist under general law, but there are no specific statutory provisions that govern them."* (Interview, Legal Advisor B, 2025).

Although the lack of codification presents a structural gap, its practical relevance appears limited in the Portuguese startup context. As Founder A, (2025) explained, legal uncertainty did not influence his decision to use SAFEs. Instead, his team consulted a legal advisor to verify terms, not to assess enforceability. He emphasized that support from incubators and mentors, such as access to localized SAFE templates, provided sufficient clarity and

confidence. According to Founder A, (2025), trust in peer-shared experience and practical legal input outweighed concerns over formal legal ambiguity.

However, Legal Advisor B, (2025) further emphasized an additional regulatory ambiguity regarding the accounting treatment of SAFE under IAS 32. Specifically, uncertainty persists whether SAFE funding should be classified as equity or liability on corporate balance sheets. The interviewee indicated that this classification often depends on the specific contractual design. Features such as maturity dates, interest payments, or debt-like characteristics may trigger liability classification by auditors. Careful contract structuring allows most SAFE contracts to be treated as equity, but no absolute regulatory clarity exists. As Legal Advisor B, (2025) summarized: *"You have to structure SAFEs to have equity characteristics; otherwise, certain accountants may classify them as debt."*

In summary, while the absence of legal codification theoretically restricts regulatory clarity, professional legal and accounting expertise allows most founders to overcome enforceability risks and accounting ambiguities effectively.

Key Mechanism 2: Absence of Standardized Contracts

The empirical findings confirm the absence of official standardized SAFE templates under Portuguese law. All interviewees indicated that the Y Combinator (YC) SAFE template serves as the de facto starting point for contract drafting. However, this template is rarely used without adaptations. Legal advisors routinely customize the YC template to ensure alignment with Portuguese law and market practices.

Founders largely rely on incubator networks, legal advisors, and mentors to access pre-adapted templates and legal toolkits. Incubator support structures significantly reduce perceived contract complexity for many early-stage startups. As one founder stated: *"The incubator gave us access to a whole toolkit, including SAFE templates with some localization."* (Interview, Founder A, 2025). Mentorship further helps founders navigate contractual negotiations, especially during first-time financing rounds.

Founder B further emphasized that *"especially for very early rounds, like raising small tickets from family, friends, or first-time angels, having accessible SAFE frameworks, with clear language, practical templates, and educational resources, could lower the threshold dramatically."* (Interview, Founder B, 2025). This illustrates the perceived need for accessible frameworks and highlights potential entry barriers in the absence of supporting resources.

While legal access to SAFE contracts is largely secured through legal expertise and ecosystem support, negotiation processes may introduce further contractual complexity during the actual structuring of SAFE agreements, as discussed in the Acceptance dimension.

In summary, the absence of standardized contracts remains a technical gap but is functionally compensated for founders who have access to legal and ecosystem resources.

6.1.2 Emerging Accessibility Mechanisms (V2 Framework)

The empirical findings allow refinement and expansion of the original mechanisms into four revised key mechanisms for the Accessibility dimension:

- (1) Legal Codification Gap:** SAFE contracts lack specific statutory regulation under Portuguese commercial law. Enforceability depends on the application of general civil law principles and the involvement of specialized legal counsel to ensure legal validity and contractual security.
- (2) Contractual Customization Requirement:** There are no official national SAFE templates available in Portugal. Contract negotiations typically begin with the Y Combinator template but require case-by-case legal adaptation to align with Portuguese law and address investor-specific preferences.
- (3) Accounting Ambiguity:** The absence of codified accounting guidelines creates uncertainty regarding the classification of SAFE contracts as either equity or liability. This classification depends heavily on contract design features such as maturity dates, interest obligations, and other debt-like provisions, requiring careful legal and accounting structuring.
- (4) Resource-Dependent Access:** The accessibility of SAFE funding strongly depends on founders' access to qualified legal advisors, incubator networks, and mentoring structures. Ecosystem support plays a critical role in mitigating structural legal and procedural complexities, especially for first-time founders.

6.1.3 Interpretation of Accessibility Findings

The empirical results demonstrate that while structural legal and procedural gaps exist, SAFE funding remains practically accessible in Portugal for founders who engage professional legal support and leverage incubator networks. The absence of statutory codification does not fundamentally hinder contract enforceability, provided that SAFE agreements are carefully drafted to comply with general civil law principles.

Accounting ambiguity introduces a further layer of regulatory uncertainty, particularly regarding equity versus liability classification. However, this ambiguity is generally manageable through careful contract structuring that avoids debt-like features. Legal advisors emphasized the importance of contract design choices, such as excluding maturity dates, to ensure favorable equity classification.

The absence of standardized contract templates is widely compensated through the adaptation of the Y-Combinator SAFE template and ecosystem-driven informal standardization. Incubators, mentors, and legal networks provide founders with localized templates and negotiation support.

In summary, accessibility to SAFE funding in Portugal can be described as pragmatically functional but structurally incomplete. Legal and institutional gaps persist but are effectively mitigated through ecosystem-based support structures and professional advisory services. Founders who lack access to such networks may face higher entry complexity, but no interviewee reported legal codification as a prohibitive barrier when appropriate legal guidance is engaged.

6.2 Empirical Results – Acceptance Dimension

The initial V1 framework identified two central mechanisms affecting the acceptance of SAFE funding in Portugal: (1) the deferral of valuation as an indirect signal of confidence, and (2) the contextual need for contract adaptations to address trust deficits. Both mechanisms were derived from theoretical considerations on signaling theory and contractual safeguards in early-stage financing under information asymmetry.

6.2.1 Empirical Validation and Extensions

General Acceptance of SAFEs in Portugal

Across all interviews, participants consistently reported that SAFE contracts are broadly accepted as legitimate and pragmatic financing instruments within Portugal's early-stage investment landscape. No stakeholder fundamentally rejected SAFE as unsuitable or problematic. However, acceptance is conditional: both legal advisors and investors emphasized that willingness to engage with SAFE depends on how competently founders structure, justify, and negotiate the contract terms.

A legal advisor summarized: *"If founders demonstrate a clear understanding of how SAFEs work and are prepared to negotiate the terms seriously, it signals to investors that they are competent and committed."* (Interview, Legal Advisor A, 2025).

Another legal advisor noted: *"The use of a SAFE itself can serve as a signal of a founder's experience and professionalism."* (Interview, Legal Advisor B, 2025) but emphasized that this depends on the founder's demonstrated contractual competence.

Investor A, (2025) further nuanced: while SAFE contracts themselves are not inherently problematic, their acceptance depends strongly on founder motivation and transparent communication during fundraising. Founders who use SAFE contracts to avoid addressing valuation prematurely without a credible plan risk undermining investor trust.

Thus, while SAFE contracts are fundamentally accepted, founder competence and negotiation behavior act as crucial determinants for actual investor willingness to engage.

Key Mechanism 1: Deferral of Valuation as Indirect Signal of Confidence

The empirical findings do not validate the original assumption that valuation deferral itself functions as a positive signal of startup quality. All participants emphasized that deferral is widely accepted as a technical feature of SAFE instruments but carries no inherent signaling function. Instead, signaling emerges from how founders approach negotiation, cap setting, and SAFE literacy.

Founders highlighted that cap realism and negotiation preparation directly influence investor perceptions. As one founder emphasized: *"Being realistic and fair signals that you're serious and grounded."* (Interview, Founder A, 2025). Another founder underlined: *"We didn't want to appear naive by just picking a high cap [...] it's a trust-building moment."* (Interview, Founder B, 2025). For Founder C (2025), negotiation dynamics themselves operate as signaling mechanisms: *"Your terms send a signal. If you're too aggressive, it might scare investors off."* Investor A (2025) adds: *"If Founders don't have a clear understanding for the tool, it's a sign for us to step away. In that way the quality of the founders is sending the signal."* (Interview, Investor A, 2025). Clarifying that founders' professionalism sends the signal not the tool itself.

An important empirical nuance emerges regarding the role of valuation deferral. Founder A (2025) used SAFE to postpone valuation decisions until further traction was achieved: *"We needed funding, but we felt a full valuation at that point wouldn't do justice to our potential."* Conversely, Investor A (2025) warned that deferral becomes problematic when founders employ SAFE without a clear plan for future valuation or growth milestones: *"If a founder uses a SAFE simply to postpone valuation discussions without having a clear plan for reaching the next priced round, that's concerning. SAFEs should always be part of a broader fundraising strategy [...]."* (Interview, Investor A, 2025). This reflects that valuation deferral is broadly accepted, but as a functional tool but only when embedded into a transparent and well-articulated funding strategy. He extends

this perspective: *"SAFE itself is not a green nor a red flag — but the motivation behind raising via SAFE matters."* (Interview, Investor A, 2025).

In summary, valuation deferral itself is neutral but the intention matters. The decisive factor for investor acceptance is founder competence demonstrated through negotiation behavior, defining clauses, and clarity regarding funding trajectories.

Key Mechanism 2: Contextual Need for Contract Adaptations to Address Trust Deficits

The second V1 mechanism is fully validated. Investors consistently apply contractual adaptations to address risks related to uncertainty and governance limitations inherent in SAFE.

Both legal advisors confirmed that valuation caps, discounts, MFN clauses, and maturity dates are widely used safeguard tools. As one legal advisor stated: *"Investors typically prefer to include valuation caps and discounts. More experienced investors also tend to request MFN clauses."* (Interview, Legal Advisor B, 2025). Another added: *"Investors here often demand stronger protection by combining several mechanisms: cap, discount, pre-money cap, maturity date."* (Interview, Legal Advisor A, 2025).

Investors calibrate these adaptations based on perceived founder competence, financial projections, and deal stage. One investor explained: *"We negotiate valuation caps also floors, combined with discounts. A maturity date is almost always included."* (Interview, Investor A, 2025). The addition of valuation floors reflects a Portugal-specific adaptation aimed at constraining valuation volatility during conversion.

While reporting obligations via side letters were occasionally mentioned *"A couple of angels [...] asked for simple side letters to ensure they'd stay informed."* (Interview, Founder B, 2025), the governance-related function of these mechanisms is discussed more extensively in the subsequent Effectiveness dimension. These adaptations are thus introduced here but analyzed in greater depth later.

In sum, investors in Portugal apply SAFE contracts flexibly but frequently combine standard international terms with localized contractual additions to manage perceived venture risk.

6.2.2 Emerging Acceptance Mechanisms (V2 Framework)

The empirical results refine the original mechanisms into two revised mechanisms for the Acceptance dimension:

(1) Competence Signaling through SAFE Negotiation Behavior: SAFE instruments themselves do not carry inherent signaling value. Investor willingness to accept SAFE deals depends on founder competence in contract structuring. Founders demonstrate professionalism through SAFE literacy, realistic clause setting, transparent negotiation preparation, and the ability to justify contractual proposals. Strategic and transparent use of valuation deferral supports this competence signaling, while unstructured deferral erodes investor confidence.

(2) Contextualized Contractual Safeguards with Portugal-Specific Adaptations: Investors systematically apply contractual safeguards to balance trust deficits, tailoring contract terms based on founder competence, deal risk, and negotiation dynamics. In Portugal, these adaptations include not only internationally common mechanisms but also more frequent requests for valuation floors, caps and maturity dates to limit conversion risk exposure. Contract complexity increases where founder preparedness and transparency are lacking.

6.2.3 Interpretation of Acceptance Findings

The empirical findings demonstrate that SAFE contracts are widely accepted within Portugal's early-stage funding environment. However, acceptance is strongly behavior-dependent: investors assess founder competence through SAFE literacy, clause realism, transparent negotiation behavior, and strategic use of valuation deferral.

While valuation deferral is broadly accepted as a functional feature, it neither signals quality nor confidence on its own. Founders lacking SAFE understanding or pursuing deferral without a clear funding trajectory may undermine investor willingness to participate. Conversely, founders who prepare transparent, realistic clauses structures and clearly articulate SAFE terms strengthen investor confidence.

Investors complement competence signaling with contractual adaptations. In Portugal, these include internationally common elements as well as more localized risk protections, such as the addition of valuation floors and frequent use of maturity dates. While some governance-related adaptations are introduced in the context of acceptance, their role will be analyzed in greater detail in the following Effectiveness dimension.

In conclusion, SAFE acceptance in Portugal is pragmatically established but contingent on founder negotiation competence and investor-driven contractual adaptations that reflect Portugal's evolving venture ecosystem.

6.3 Empirical Results –Effectiveness Dimension

The initial V1 framework identified two central mechanisms affecting governance under SAFE contracts: (1) the absence of formal control rights increasing the risk of moral hazard, and (2) the potential for incentive misalignment due to flexible conversion timing. Both mechanisms were derived from theoretical considerations on agency theory, emphasizing control gaps and opportunism risks in early-stage financing structures.

6.3.1 Empirical Validation and Extensions

General Governance Dynamics under SAFE Contracts

Across all interviews, stakeholders consistently acknowledged that SAFE contracts structurally limit formal investor control prior to conversion. Investors hold no board seats, voting rights, or governance authority during the SAFE period. As one legal advisor noted: *“Until conversion, investors have very limited formal alignment with founders under SAFEs. That’s exactly why some prefer equity when possible.”* (Interview, Legal Advisor A, 2025).

Despite these structural control limitations, the interviews revealed that both founders and investors actively adopt alternative mechanisms to mitigate potential agency risks and align their respective interests during the SAFE period. These mechanisms rely on behavioral transparency, preventive contract design, and strong reputational pressures within Portugal's compact startup ecosystem.

Key Mechanism 1: Absence of interim control rights prior to conversion

The empirical findings partially validate the original assumption that lacking control rights may increase moral hazard. While founders retain full operational control under SAFE contracts, interviewees consistently emphasized that voluntary transparency serves as an effective substitute for formal governance structures. Founders proactively provide regular updates to maintain trust and demonstrate alignment. As Founder A (2025) explained: *“We made sure to share updates every 6–8 weeks, not because we had to, but because it just felt right.”* (Interview, Founder A, 2025). Similarly, Founder B (2025) emphasized: *“We shared monthly updates, not just financials, but also key product decisions, challenges, team dynamics, basically giving them full visibility.”* (Interview, Founder B, 2025).

From the investor perspective, these voluntary updates are increasingly institutionalized through contractual side letters that formalize reporting obligations without introducing formal governance rights. As the Legal Advisor B (2025) noted: *“Investors commonly negotiate for reporting obligations. While they typically do not seek governance rights, they often require regular updates on the startup's financial and operational status.”* (Interview, Legal Advisor B, 2025).

In summary, while the absence of control rights theoretically creates moral hazard risk, voluntary transparency and informal reporting practice effectively mitigate this risk in practice.

Key Mechanism 2: Incentive misalignment during the SAFE period

The second V1 mechanism concerns potential incentive misalignment due to founders' flexibility in determining conversion timing. Interviewees confirmed that founders have significant discretion during the SAFE period, which could theoretically enable strategic delays. As Founder B (2025) candidly admitted: *“Let's be honest: if we really wanted to, we could have hidden information or delayed updates. The legal structure wouldn't stop us.”* (Interview, Founder B, 2025). However, actual opportunistic behavior was not reported. Instead, reputational concerns within Portugal's small startup ecosystem act as a strong informal constraint. As Founder C (2025) explained: *“If you burn your early investors, your reputation is gone, and word spreads fast, especially in a small market like Portugal.”* (Interview, Founder C, 2025).

In parallel, investors apply contractual safeguards such as maturity dates to limit conversion uncertainty. As Investor A (2025) described: *“A maturity date is almost always included, often set for up to 24 months.”* (Interview, Investor A, 2025).

These contractual adjustments, while effective in bounding conversion discretion and mitigating Moral Hazards, also introduce potential side effects. Legal advisor B (2025) expresses concern that such features may shift the SAFE closer to a debt-like instrument, affecting its legal and accounting treatment. As discussed in the Accessibility dimension, these safeguards may trigger accounting classification challenges, illustrating emerging tensions between governance improvements and structural accessibility.

In sum, while contractual safeguards successfully reduce conversion risks, they introduce a governance-accessibility trade-off that requires careful balancing during SAFE negotiations.

6.3.2 Emerging Governance Mechanisms (V2 Framework)

The empirical results refine the original mechanisms into three revised mechanisms for the Governance Dynamics dimension:

- (1) **Voluntary Transparency as Informal Governance Substitute:** Founders proactively maintain investor trust through regular, voluntary updates that compensate for the absence of formal control rights. Contractual side letters often codify these expectations without granting governance authority.
- (2) **Contractual Safeguards to Limit Conversion Flexibility:** Investors negotiate maturity dates to preempt conversion timing opportunism. These provisions limit founders' discretion but may affect the SAFE's classification under financial regulations.
- (3) **Reputational Enforcement within a Relational Ecosystem:** Portugal's tightly networked startup ecosystem strongly disincentivizes opportunistic behavior. Founders prioritize long-term reputation over short-term gains, ensuring discipline without formal legal enforcement.

An emerging **governance-accessibility tension** was identified: stronger contractual safeguards may undermine the equity-like nature of SAFE funding, creating regulatory and practical frictions that intersect both governance and accessibility concerns.

6.3.3 Interpretation of Governance Dynamics Findings

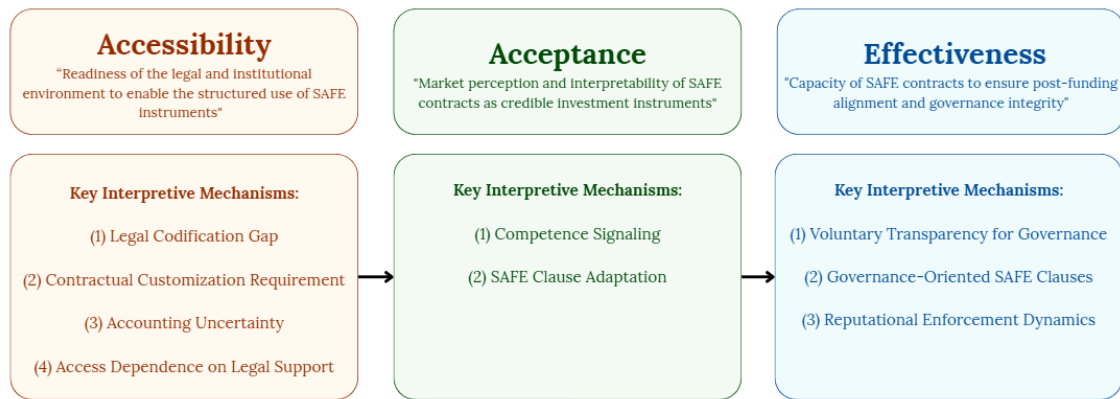
The empirical findings demonstrate that governance under SAFE contracts operates through a multi-layered substitute system rather than formal legal control. Founders and investors collectively rely on voluntary transparency, preventive contractual design, and reputational discipline to achieve mutual goal alignment during the SAFE period.

Voluntary reporting practices foster ongoing information sharing and reduce moral hazard concerns. Contractual safeguards bound founders' conversion discretion without introducing formal governance rights. Reputational enforcement remains a powerful informal mechanism that aligns founder behavior with investor expectations in the absence of legal sanctions.

However, efforts to strengthen governance through additional contractual provisions may simultaneously undermine the legal and accounting accessibility of SAFE deals. This emerging trade-off highlights that governance design in SAFE structures requires balancing relational trust, preventive contracting, and regulatory implications.

In conclusion, governance dynamics under SAFE contracts in Portugal reflect a pragmatic blend of informal behavioral norms, preventive legal safeguards, and reputational enforcement, enabling effective founder-investor alignment even in the absence of formal control rights.

Figure 8. AAE-Framework – Version 2 (V2)



Own illustration.

Revised framework V2 incorporating empirically validated mechanisms, including adaptations, and extensions defining ecosystem-specific mechanisms explaining SAFE instrument dynamics in the Portuguese ecosystem.

7. Discussion

This discussion critically examines the empirical findings through the lens of the three core dimensions of the AAE-Framework: Accessibility, Acceptance, and Effectiveness. Each dimension is delineated, reflecting the complex reality of SAFE contract adoption in Portugal's startup ecosystem. Based on these differentiated insights, the discussion proposes a set of literally grounded and empirically informed suggestions aimed at improving the functional implementation of SAFE financing.

Importantly, any proposed improvements should remain aligned with the original design intent of SAFE contracts. As one legal advisor cautioned: *"SAFEs were designed to simplify[...]"* (Interview, Legal Advisor A, 2025). This highlights the need to balance legal robustness with operational simplicity. However, while these recommendations address observed barriers and trust deficits, their practical applicability requires further validation across diverse startup profiles, funding stages, and investor types to ensure contextual robustness and long-term relevance.

7.1 Accessibility

The accessibility of SAFE contracts in Portugal is fundamentally shaped by the legal codification gap. The persistent lack of formal legal recognition for SAFE contracts creates a climate of uncertainty for both founders and investors, echoing the concerns articulated by Trabulo (2023), Giudici et al. (2022) and Smirnova et al. (2020). This legal ambiguity not only raises questions about enforceability but also inhibits the broader diffusion of SAFE as a mainstream financing instrument.

A barrier lies in the absence of nationally standardized SAFE templates. Although the Y-Combinator model serves as a common starting point, its effective use in Portugal requires legal adaptation to align with national corporate law and the specific needs of local stakeholders. This customization demands legal expertise that is often inaccessible to resource-constrained startups, limiting inclusive adoption.

To navigate this uncertainty, stakeholders have developed a repertoire of legal adjustments, from informal legal opinions to workaround clauses, demonstrating remarkable adaptability. However, these solutions are often only available to resource-rich startups, leading to a resource-dependent access dynamic that risks reinforcing inequalities within the ecosystem.

Further complication arises from accounting ambiguity. The unclear classification of SAFEs on balance sheets, as highlighted by a legal Advisor, creates additional barriers. Notably, the

introduction of contractual features such as maturity dates, often intended to enhance governance, may paradoxically intensify accounting challenges by making SAFE contracts resemble debt instruments, thus complicating their treatment under Portuguese accounting standards.

Suggestions: To improve SAFE accessibility in Portugal, both short-term support and long-term structural reforms are needed.

- (1) Close legal gaps:** Introduce a statutory framework for SAFEs under Portuguese commercial law to clarify enforceability and reduce reliance on case-by-case legal interpretation.
- (2) Standardize contract templates:** Develop and disseminate legally vetted, nationally adapted SAFE templates to reduce customization burdens and negotiation complexity.
- (3) Review accounting treatment:** Clarify the classification of SAFE instruments under national accounting standards to ensure consistent and practicable financial reporting.
- (4) Expand advisory support:** Provide targeted legal and financial guidance for early-stage founders, especially through incubators and public innovation programs.

7.2 Acceptance

The acceptance of SAFE is driven by the interplay of competence signaling and contextualized contractual safeguards. While Shimizu (2023) suggests that convertible contracts can serve as quality signals, the Portuguese context reveals a more nuanced picture: Here, the signaling effect is only credible if founders demonstrate legal and financial competence in negotiating SAFE deals. This supports the argument by Parra & Winter (2022) that practical competence and risk mitigation outweigh abstract signaling value in the typical understanding of Spence (1973).

Moreover, contextualized contractual safeguards, such as valuation caps, floors, MFN clauses, and discounts, are not merely technicalities but essential trust-building devices. The empirical findings show that investors are more willing to accept SAFE deals when contracts are thoughtfully tailored to the Portuguese market, confirming the importance of adaptation highlighted by Parra & Winter (2022); Giudici et al. (2022) and Levy (2023).

Suggestions:

- (1) Founder Competence Development:** Invest in capacity-building initiatives to enhance founders' legal and financial literacy, strengthening their credibility and negotiation power.
- (2) Standardization of Clauses:** Continuously update and disseminate best-practice contractual standards, ensuring that safeguards remain aligned with evolving market and regulatory conditions.

7.3 Effectiveness

The effectiveness of SAFE contracts in aligning interests and ensuring sound governance is shaped by a triad of mechanisms: voluntary transparency, contractual safeguards for governance, and reputational enforcement.

Voluntary transparency, in the form of regular updates and open communication, emerges as a practical substitute for formal control rights, echoing Wroldsen's (2017) argument that transparency-based trust can compensate for legal gaps. The empirical data show that such voluntary practices are particularly valued by investors in the absence of statutory governance provisions.

Contractual safeguards for governance such as information rights, observer clauses, or maturity dates are increasingly incorporated into SAFE agreements to address agency-related risks. While Smirnova et al. (2020) has critically highlighted the lack of investor control in SAFE deals, the present findings suggest that innovative contract design can partially compensate for these governance limitations. However, these governance-oriented adjustments are not without trade-offs: they can unintentionally intensify accounting ambiguity, underscoring the delicate balance SAFE structuring must strike between governance enhancement and regulatory clarity.

Finally, reputational enforcement plays a critical role in ensuring compliance and deterring opportunistic behavior, especially where legal recourse is limited. This aligns with Giudici et al. (2022) and Wroldsen (2017), who emphasize the importance of informal mechanisms in entrepreneurial ecosystems.

Suggestions:

- (1) Foster transparent reporting routines:** Encourage founders to proactively establish transparent reporting routines to investors to strengthen reputational enforcement.
- (2) Improve regulatory Clarity for Governance Features:** Clarify legal and accounting implications before integrating governance features.
- (3) Strengthen founder-investor community ties:** Encourage accelerators to facilitate informal exchange between founders and early-stage investors to reinforce reputation-based trust and accountability.

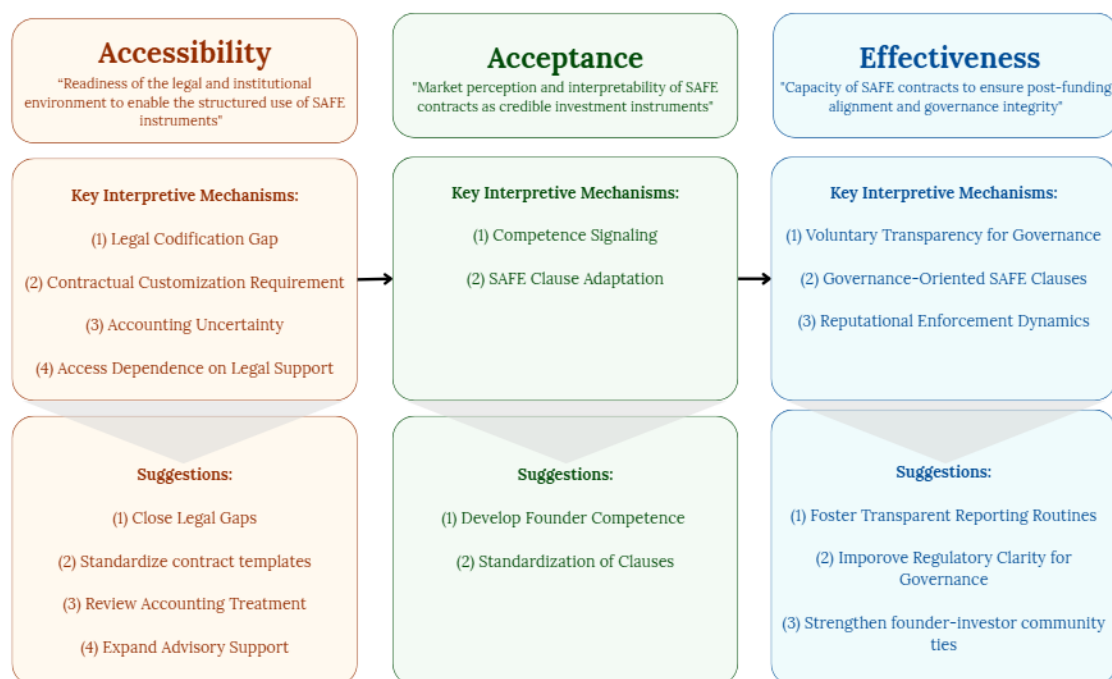
7.4 Interconnection

The empirical findings confirm that accessibility, acceptance, and effectiveness are analytically distinct but practically intertwined. While targeted improvements in one dimension may occasionally generate unintended frictions in another, such as maturity clauses increasing accounting complexity, there is also the chance for positive interdependence.

For example, standardized, legally vetted SAFE templates could not only reduce access barriers but can also enhance investor acceptance by improving expectation alignment and reducing negotiation friction.

Regulatory clarification can further strengthen accessibility and signal institutional maturity, thereby increasing investor trust and market acceptance. These interconnections suggest that coordinated interventions can create reinforcing effects across dimensions. Sustainable SAFE adoption therefore depends not only on mitigating trade-offs but also on actively leveraging these synergies through systemic ecosystem design.

Figure 9. AAE-Framework – Version 2 (Extended with Suggestions)



Own illustration.

The visual framework presented above builds upon the empirically validated AAE-Framework Version 2 by systematically integrating targeted suggestions. While the upper section of the figure retains the core interpretive mechanisms across the three analytical dimensions **Accessibility**, **Acceptance**, and **Effectiveness** the lower section introduces practical suggestions derived from the findings discussed in Chapter 7.

The suggestions are directly linked to the underlying mechanisms, aiming to mitigate specific structural, behavioral, or governance-related barriers observed in the Portuguese SAFE financing context. However, suggestions were not assigned to every single mechanism individually. In some cases, a single intervention addresses multiple mechanisms where contextual or functional overlap exists. This reflects both the interdependent nature of the dimensions, and the multi-causal structure of the challenges identified.

8. Conclusion

This thesis set out to examine how SAFE contracts influence early-stage financing dynamics in Portugal, structured along three core dimensions: Accessibility, Acceptance, and Effectiveness. Based on six expert interviews, the empirical findings validated and refined the initial conceptual framework into a mechanism-based understanding of SAFE funding within Portugal's institutional and market context.

8.1 Answer to Sub-Research Question 1: Accessibility

Sub-question: *Can early-stage startups in Portugal structurally access SAFE funding under current legal and market conditions?*

The findings show that while Portugal lacks statutory codification and standardized SAFE templates, these legal gaps do not prevent startups from accessing SAFE funding. Enforceability relies on general civil law principles, supported by specialized legal counsel. Founders frequently leverage incubator networks, mentoring, and pre-adapted templates to navigate legal complexity. However, accounting ambiguity creates additional regulatory uncertainty, particularly regarding equity vs. liability classification. Overall, SAFE accessibility in Portugal is pragmatically functional but structurally incomplete, highly dependent on legal expertise and ecosystem support structures.

8.2 Answer to Sub-Research Question 2: Acceptance

Sub-question: *How do key stakeholders in Portugal's early-stage startup ecosystem perceive and adopt SAFE contracts as a financing instrument?*

SAFE contracts are broadly accepted as pragmatic financing instruments within Portugal's early-stage funding environment. However, acceptance is strongly behavior dependent. Investors assess founder competence based on SAFE literacy, clause realism, and negotiation preparation. Valuation deferral, while technically inherent to SAFE contracts, carries no signaling value on its own but supports trust-building when embedded into transparent funding strategies. Contractual integrations such as caps, discounts, maturity dates, and valuation floors are commonly negotiated to balance risks. Thus, acceptance is conditional on founders' ability to structure and negotiate SAFE terms professionally.

8.3 Answer to Sub-Research Question 3: Effectiveness

Sub-question: *How do founders and investors pursue and align their goals under SAFE contracts to ensure effective governance?*

The absence of formal governance rights under SAFE contracts creates theoretical agency risks but does not lead to widespread opportunistic behavior in practice. Founders maintain investor confidence through voluntary transparency, frequent operational updates, and proactive communication. Investors institutionalize reporting obligations via side letters without demanding board seats or voting rights. Reputational enforcement within Portugal's relational startup ecosystem strongly deters opportunism, while contractual safeguards (e.g. maturity dates) limit conversion flexibility. However, stronger contractual restrictions may trigger classification challenges regarding the Accounting of SAFE funding, revealing an effectiveness-accessibility trade-off that requires careful contractual balancing.

8.4 Overall Synthesis

Main-question: *How do SAFE contracts operate as financing instruments in the Portuguese startup ecosystem across legal accessibility, contractual acceptance, and governance alignment?*

Across all dimensions, the study shows that SAFE funding in Portugal operates as a hybrid model balancing legal informality with ecosystem-based governance substitutes. While structural regulatory gaps exist, relational trust, professional contracting, and ecosystem support allow founders and investors to pragmatically adopt SAFE instruments. The refined V2 framework developed in this thesis empirically specifies the mechanisms through which Portuguese startups and investors navigate legal, behavioral, and agency-related complexities under SAFE financing structures.

8.5 Theoretical Contribution

This study adds to the emerging understanding of how SAFE contracts operate within early-stage startup financing in Portugal. While most existing studies focus on SAFE usage in mature venture capital markets such as the United States, this research provides an in-depth exploration of how startups and investors in an emerging European ecosystem adopt and adapt SAFE instruments despite legal and regulatory uncertainties. The findings show how practical contracting solutions, relational trust, and professional support structures enable actors to navigate these complexities in the absence of fully codified regulations. The refined V2 framework developed through this study offers a structured model that can help inform future discussions among founders, investors, legal advisors, and policymakers who aim to further develop SAFE-based financing practices within Portugal's entrepreneurial ecosystem.

8.6 Limitations

Despite its contributions, this study faces several limitations. First, the empirical analysis is based on a relatively small sample of six expert interviews, which, while sufficient for exploratory insights, limits the generalizability of the findings across the entire Portuguese startup ecosystem. The qualitative nature of the research also introduces potential subjectivity in data interpretation, despite efforts to ensure consistency through structured analysis and cross-validation. Second, the availability of peer-reviewed academic literature specifically addressing SAFE financing in non-US, emerging European or even Portuguese contexts remains limited. As a result, theoretical discussions in this study occasionally draw on related literature from comparable financing instruments such as convertible notes to supplement the conceptual foundation. Third, the integration of theoretical frameworks was necessarily adaptive, as established theories like agency theory, signaling theory, and Information asymmetry offer only partial coverage for the specific contractual and relational dynamics observed in SAFE financing. Consequently, the theoretical embedding remains exploratory rather than fully comprehensive. Fourth, as the study relies on self-reported data from participants, there is a risk of response bias, particularly concerning sensitive topics such as governance dynamics or contractual negotiations. Fifth, given the fast-evolving nature of startup financing instruments and legal frameworks, some insights may become outdated as regulatory developments, market practices, or international harmonization efforts advance. Finally, the focus on the Portuguese context may limit the applicability of the findings to jurisdictions with different legal systems, market structures, or ecosystem maturity levels.

8.7 Future research

Despite these limitations, the findings provide valuable exploratory insights into the adoption and adaptation of SAFE instruments in the Portuguese context and highlight avenues for future research. While the identified mechanisms suggest potential intervention points, the systematic development and evaluation of corresponding design artifacts remain subject to future research. Such extensions could translate the explanatory insights into validated, prescriptive models that inform practice-oriented design solutions.

8.8 Contribution to Sustainable Development Goals (SDG)

This thesis contributes directly to two United Nations Sustainable Development Goals: SDG 8 – *Decent Work and Economic Growth* and SDG 9 – *Industry, Innovation and Infrastructure*. The study investigates how alternative financing instruments, specifically SAFE (Simple Agreement for Future Equity) contracts, can support entrepreneurship and innovation in Portugal's emerging startup ecosystem.

SDG 8 focuses on promoting inclusive and sustainable economic growth, productive employment, and decent work. The thesis shows that SAFE contracts reduce entry barriers for early-stage ventures by simplifying legal and financial requirements. Based on interviews with founders, legal experts, and investors, the study demonstrates that SAFEs allow startups to access capital without incurring immediate debt or giving up equity, facilitating broader entrepreneurial participation. This is particularly relevant in Portugal, where traditional funding channels remain limited or exclusive.

SDG 9 emphasizes the need to build resilient infrastructure and foster innovation. The thesis illustrates that while SAFE contracts are not yet institutionalized in Portugal, their growing adoption offers a promising pathway for startups to secure early-stage funding. This funding enables ventures to pursue foundational innovation tasks, such as building minimum viable products (MVPs), developing product–market fit, and scaling technological capabilities, which are critical to advancing national innovation capacity. SAFEs thus help redirect financial resources toward value-generating activities rather than administrative or legal overhead.

Within these broader goals, the study aligns specifically with SDG Targets 8.3 and 9.5.

Target 8.3 calls for policies that support entrepreneurship, creativity, and innovation. The thesis contributes to this target by demonstrating how SAFE contracts function as practical tools for enabling business creation, particularly among early-stage founders. Unlike traditional instruments, SAFEs reduce negotiation complexity and avoid early equity dilution, offering a low-friction route into the entrepreneurial economy. The research also highlights the role of ecosystem actors such as incubators and legal advisors, who informally guide founders through SAFE adoption and thus compensate for the lack of legal codification. These support mechanisms help build relational trust between founders and investors, reinforcing the viability of SAFEs in semi-formal institutional settings.

Target 9.5 aims to enhance scientific research and technological capacity, especially in developing economies. The thesis can help startups use SAFEs to fund product

development, technical validation, and early market experimentation. These activities form the bedrock of innovation-driven growth and are often underfunded in Portugal's current venture environment. By enabling flexible capital deployment, SAFE contracts support experimentation and learning in high-risk environments. This contributes not only to individual startup success but also to the broader innovation infrastructure of the country.

SAFEs could promote economic inclusion by allowing founders to retain greater control and autonomy during formative business stages. At the same time, the increasing use of SAFEs, particularly in innovation-oriented sectors, may stimulate job creation and foster entrepreneurship in undercapitalized regions.

The research proposes performance indicators to evaluate these contributions. These include the number of startups using SAFEs; the proportion of SAFE-funded ventures engaging in R&D; founder perceptions of fairness and empowerment in early-stage fundraising; and the institutional uptake of SAFE templates among accelerators and incubators. These indicators can serve as benchmarks for policymakers, ecosystem stakeholders, and researchers seeking to align startup financing with sustainable development outcomes.

In conclusion, this thesis demonstrates that innovative financial mechanisms such as SAFE contracts can contribute to the SDG agenda if the challenges can be understood. By improving access to capital, enabling early experimentation, and supporting entrepreneurial inclusion, SAFEs represent a viable tool for fostering sustainable and innovation-led economic development in Portugal. The findings have implications not only for local stakeholders but also for broader policy efforts aimed at advancing SDG-aligned startup ecosystems in similar institutional contexts.

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Appendix

Appendix A

Table 2. Search Strings

Database	Search String	Number of Papers Found	Date of Search	Assessment of Search Results
Scopus	("Startup") AND ("Entrepreneurship") AND ("Funding") AND ("finance")	54	12.03.2025	Justification: This search string served as an initial broad exploration of the literature related to startup financing and entrepreneurship. The aim was to obtain a general overview of the field of entrepreneurial finance in order to identify key terms, frequently cited sources, and potential entry points for more specific searches. Reflection: As expected, the results were diverse and provided a helpful foundation for contextualizing SAFE funding within the broader domain of startup finance. However, no direct contributions to SAFE were identified, which indicated the need for a more specific approach.

Scopus	("simple agreement for future equity") AND ("finance")	5	12.03.2025	Justification: This highly specific search targeted scholarly literature explicitly referring to SAFE funding as an independent financial instrument. The addition of "finance" was intended to limit the results to financial topics and to avoid irrelevant technical or legal discussions. Reflection: The number of search results was low, as anticipated. This confirms the current state of research: SAFE funding is still underrepresented in academic discourse. Nevertheless, a few of the retrieved papers were highly relevant and form the foundation for the SAFE-specific analysis in the theoretical part of the thesis.
Scopus	("simple agreement for future equity" OR safe OR "SAFE financing") AND ("startup financing" OR "early-stage funding" OR "entrepreneurial finance" OR "seed funding" OR "pre-seed financing" OR "early stage capital" OR "startup capital")	272	16.03.2025	Justification: This extended search string was designed to capture different formulations and variations of the SAFE term while narrowing the context to early-stage startup financing. The goal was to identify contributions that discuss SAFE in relation to seed, pre-seed, or early-stage financing or compare it with other financing models. Reflection: While the number of results was significantly higher, their content was heterogeneous. Many results did not specifically address SAFE but rather general financing topics. However, through targeted screening and snowballing methods, several relevant sources were identified.

	("simple agreement for future equity" OR "SAFE financing" OR "Convertible Notes" OR "Convertible Loan" OR "Convertible Share*" OR "Convertible Bond*") AND ("startup financing" OR "early-stage funding" OR "entrepreneurial finance" OR "seed funding" OR "pre-seed financing" OR "fundraising" OR "early stage capital" OR "startup capital" OR "Mezzanine")	57	20.03.2025	Justification: This final search string broadened the SAFE-related terms to include functionally similar instruments such as convertible notes and convertible loans. This allowed SAFE to be explored not in isolation but in comparison with other well-established early-stage financing mechanisms. The second half of the string ensured relevance to early startup stages and capital-raising contexts. Reflection: This string represented the most balanced combination of specificity and thematic breadth. The 57 papers retrieved provided a solid basis for the literature review. The inclusion of related instruments underlines the fact that SAFE remains a niche topic, which in turn supports the relevance and timeliness of the current thesis project.
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Appendix B

Interview Guide

This interview is part of my Master thesis on SAFE funding in early-stage startups in Portugal. I'm exploring how startup founders, investors, and legal professionals perceive and use SAFEs. Your responses will help evaluate and refine a conceptual framework that links legal access, market acceptance, and post-funding effectiveness. Your responses will be anonymized.

Warm-up (Optional)

1. What is your typical role in early-stage startup financing (e.g. founder, investor, legal advisor)?
2. Have you worked with SAFEs before? In how many cases and at which stage (e.g. pre-seed, seed)?

ACCESSIBILITY – Structural Readiness

3. How clear and usable do you find SAFEs in Portugal from a legal and practical point of view? (Legal awareness, enforceability, legal gaps)
4. What resources or institutions (e.g. templates, accelerators, advisors) have supported—or made it harder—to use SAFEs in your experience? (Templates, institutional support, knowledge gaps)

ACCEPTANCE – Perception & Interpretation

5. In your experience, do certain contractual terms—like valuation caps, discounts or MFN clauses—make investors more comfortable using SAFEs? (Trust formation, perceived risks, reliance on personal ties)
6. Do investors interpret the use of SAFEs—e.g. low or high valuation cap—as a signal of anything? Or is it just a pragmatic choice? (Signal interpretation, perceived founder quality, investor heuristics)

EFFECTIVENESS – Post-Funding Alignment

7. How well are investor interests protected during the SAFE period before conversion? Do governance concerns come up? (Control rights, founder discretion, misalignment)
8. What kind of follow-up communication, reporting, or safeguards have you seen used in SAFE deals? (Transparency expectations, use of side letters, clarity of terms)

Closing Reflection (optional)

9. From your experience, what would need to improve for SAFEs to work better in the Portuguese ecosystem?

Appendix C

Interviewee Overview

To contextualize the qualitative insights presented in this thesis, the following anonymized profiles provide an overview of the six expert interviewees, grouped by professional role and SAFE-related expertise.

Founder A: FinTech entrepreneur with extensive experience in SAFE-based fundraising. Has successfully completed four SAFE rounds and offers detailed insights into contract negotiation, the use of standardized templates, and peer-driven knowledge sharing within the startup ecosystem.

Founder B: B2B SaaS founder who has conducted two SAFEs. Emphasizes the importance of professionally structured SAFE contracts for building investor trust and reports a steep learning curve in navigating legal and financial terms.

Founder C: Tech entrepreneur in the field of artificial intelligence, currently preparing for the first SAFE round. Provides a forward-looking perspective on contract clarity, legal preparation, and SAFE literacy as prerequisites for effective fundraising.

Legal Advisor A: Senior legal expert with over 20 years of experience in startup and growth financing. Advises both founders and investors on structuring SAFE contracts and highlights the challenges of adapting international templates to the Portuguese legal environment.

Legal Advisor B: Corporate lawyer with extensive experience in reviewing and executing early-stage SAFE deals. Has supported more than 15 transactions and provides insights into legal uncertainties, tax treatment, and the need for standardized contracting practices.

Investor A: Venture capital partner focused on technology-driven startups across different development stages. Utilizes SAFEs primarily in bridge funding scenarios and underscores the relevance of contractual clarity, cap structures, and reporting obligations as tools for building investor confidence.

Appendix D

Interview Transcripts

All interviews were transcribed verbatim with minor corrections for readability, such as filler removal and punctuation.

The interview guide served as a thematic orientation. Based on the semi-structured design, the wording, sequence, and depth of questions were flexibly adapted to allow interviewees to elaborate on aspects most relevant to their experience.

Interview 1: (Interview, Founder A, 2025)

ACCESSIBILITY

Interviewer: Did legal uncertainty affect your decision to use or avoid SAFEs?

Founder A: Honestly, no, not really. For us, the SAFE was just the natural choice at that stage. I mean, everyone I talked to in the ecosystem was using them—especially post-money SAFEs. There might be some legal grey zones, sure, but I never felt that was a reason not to use it.

Back in 2021, when we raised our first SAFE, there was still some uncertainty. But now, I'd say the ecosystem has caught up—more founders, more angels. There are some Angels from the U.S moving to Portugal. They might raised awareness since they are Familiar with SAFEs.

I think if you're a founder in Portugal today, and you're aiming for a tech-driven, VC-backed path, using SAFEs is almost expected. We did talk to a legal advisor to double-check the terms, but it wasn't about enforceability—it was more like, 'Are we missing anything critical?' It didn't feel risky. To me, the bigger risk would have been delaying funding because of contract details.

Interviewer: Were you offered guidance or templates by any ecosystem players (e.g. incubators, mentors)?

Founder A: Yes. We were part of a known Incubator in Lisbon, and they gave us access to a whole toolkit, including SAFE templates. Not just the YC version, but also ones with some light localization. They added jurisdiction clauses and a few clarifications around conversion terms. Nothing fancy, just enough to feel more suitable. Honestly I can not tell you in detail what it was.

Also, we had a couple of mentors—people who had raised with SAFEs before—and they walked us through the trade-offs. One of our angel investors even shared the side letter they typically use.

So, no, we didn't feel like we were navigating in the dark. The ecosystem has matured a bit. Founders through incubators now have access to good examples and people who've done it before. That makes a huge difference.

What was missing, maybe, was an official local guideline or legal endorsement. Everything we got was informal—peer-to-peer. It is not comparable with the explanation from YC.

In the end we trust the advice because it comes from people who've done it. It's not abstract—it's from someone who's raised €500k on this exact SAFE structure. I am not a lawyer so I probably don't have the typical critical reflection as I should have.

Looking back, I'd say the legal side of SAFEs wasn't really a blocker—it's more about having the right people in your corner. The incubator gave us a practical template, but our confidence came from founders and angels who had used the same tools successfully. That kind of trust in peer knowledge is what makes you comfortable moving forward—even if you're not 100% sure about every legal nuance.

ACCEPTANCE

Interviewer: Have you ever chosen SAFE terms to Signal confidence or flexibility to investors?

Founder A: Honestly, the first reason we went for a SAFE was pragmatic. We needed funding, but we felt a full valuation at that point wouldn't do justice to our potential. We had early traction, but we were still building, and locking in a low valuation that early just didn't feel right. So a SAFE gave us the flexibility to grow a bit more before pricing the company.

Of course, we did spend time thinking about the cap. It's not something you just drop in without a conversation. Initially, we had a number in mind—based on what other startups in our space had done—but one of our lead investors suggested a slightly more conservative cap. After some back-and-forth, we agreed. It felt fair, and it showed we were open to aligning with our backers.

You can always push for higher caps, but at the end of the day, your goal is to get the right investor to choose you—not the other way around. Being realistic and fair signals that you're serious and grounded. I think that was the strongest signal we sent at that point.

Raising money itself is a signal—regardless of the instrument. I'm not sure a SAFE sends a fundamentally different signal than a priced round. But using a SAFE, and using it thoughtfully, shows that you're moving fast, know the game, and can balance founder needs with investor offers.

Interviewer: Did investors ever request specific terms (e.g. valuation caps, discounts) as a condition for accepting a SAFE?

Founder A: Yes, definitely. The valuation cap is pretty much always on the table. Investors aren't trying to control every detail, but they want to see that the numbers make sense. In both of our SAFE rounds, the cap was actually where the conversation started. One of our angels even said, 'Let's make sure this reflects where you really are—not where you hope to be in 18 months.' That stuck with me.

Most angels were reasonable. As long as the cap aligned with our traction and revenue expectations, they were on board. I never had anyone walk away over minor points like a discount or an MFN clause. But those things do come up—they're part of the dance.

What really surprised me was how little appetite there was for customizing. Most investors seemed relieved when we offered a clean, standard post-money SAFE. They'd say things like, 'I've used this exact structure before—it works, let's move.' The more familiar the contract, the less legal back-and-forth. That made everything faster and just... smoother.

EFFECTIVENESS

Interviewer: How did you manage expectations from investors while still having full control before conversion?

Founder A: Honestly, it wasn't a big issue. From day one, we were super clear about where we were and where we wanted to go. The investors knew it was an early-stage SAFE—so no board seats, no voting rights yet. But they also knew they'd be kept in the loop. I think when you're upfront and communicative, you don't need formal control to build trust.

We made sure to share updates every 6–8 weeks, not because we had to, but because it just felt right. And honestly, they appreciated that. We didn't get pushback or pressure to add governance clauses or anything.

Interviewer: Did you feel pressure or obligation to voluntarily update investors, even without a formal reporting clause?

Founder A: Yeah, definitely. Not pressure like they asked for it, but more like—if someone believes in you early, you want to show them what you're doing with their money. We'd send short updates: here's our monthly MRR, new clients, key hires—nothing fancy. But it made the investors feel part of the journey, and that's important.

It wasn't just about being polite. We also wanted their feedback. A couple of times, investor input helped us catch something early. So, in a way, the updates were a two-way street.

Closing Refelction

Interviewer: From your experience, what would need to improve for SAFEs to work better in the Portuguese ecosystem?

Founder A: To be fair, things are already going in the right direction. It's not the U.S., sure—but it works. Founders and investors are getting more comfortable with SAFEs, and deals are happening. That said, having a clear, shared playbook like YC's would be super helpful.

Just something simple, local, and trusted—so everyone knows exactly what they're signing up for. No grey zones, no hidden traps. You want it to be fast, transparent, and founder- and investor-friendly. A guide like that would make life easier for everyone, especially first-time founders.

Interview 2: (Interview, Founder B, 2025)

ACCESSIBILITY

Interviewer: Did legal uncertainty affect your decision to use or avoid SAFEs?

Founder B: Not really. I wouldn't say we had a deep understanding of all the legal nuances back then. For us, SAFEs were just what everyone around us was using, so we assumed it was a safe and accepted option.

We didn't dive too deeply into the regulatory specifics — we checked the basics with our lawyer, but mostly to make sure we weren't missing anything obvious. I never questioned whether SAFEs were enforceable in Portugal; we just trusted that if so many others were using them, it would work for us too. Looking back, I realize now that there are grey zones, but at the time, it was more about moving forward and getting the deal closed than about analyzing every legal risk."

Interviewer: Did legal uncertainty affect your decision to use or avoid SAFEs?

Founder B: At the time when SAFEs first came up for our round, I have to admit: I didn't really understand how they fully worked. I knew they were popular and seemed like a simpler way to raise early funding, but I wasn't fully aware of all the mechanics — especially around conversion and the long-term implications.

Fortunately, through our incubator we had access to very solid legal support. Our legal advisor was quite clear: 'Before you sign anything, make sure you fully understand what a SAFE really is.' That triggered a much deeper conversation where we went through the actual mechanics — valuation caps, conversion triggers, dilution effects. I realized then that it's not as straightforward as it looks on the surface.

Even so, I saw the pragmatic advantage: it allowed us to close the round quickly without negotiating a fixed valuation too early. And I was reassured because several founders I trusted had already used SAFEs successfully. So while I didn't fully grasp every detail upfront, I relied both on professional advice and the experience of others to move forward confidently.

ACCEPTANCE

Interviewer: Have you ever chosen SAFE terms to project confidence or flexibility to investors?

Founder B: Yes, absolutely. Once we fully understood how the mechanics worked — especially around valuation caps — we became very conscious of how our terms would be interpreted by investors.

We didn't want to appear naive by just picking a high cap because 'others did it'. At the same time, we also didn't want to set it too low and signal that we lacked confidence. Eventually, we positioned the cap slightly below where some peers were aiming, but we could clearly justify it based on our traction and pipeline.

To me, showing investors that you understand the SAFE mechanics and approach the cap realistically signals that you're financially literate and focused on long-term alignment. That actually built a lot of trust in our conversations.

Honestly, once I grasped how these small adjustments affect dilution later on, I saw the cap negotiation as much more than just a valuation issue — it's a trust-building moment.

Interviewer: Did investors ever request specific terms (e.g. valuation caps, discounts) as a condition for accepting a SAFE?

Founder B: The cap was definitely the central point in every SAFE discussion. Investors weren't dogmatic about it, but they all wanted to feel that their early risk was being recognized fairly.

Discounts barely got discussed, but one thing that did come up was information rights. A couple of angels, especially those with experience outside of startups, asked for simple side letters to ensure they'd stay informed between rounds.

I didn't see these requests as a lack of trust — more like a way to stay engaged and have visibility during the higher-risk early stages.

Overall, once we offered a clean, post-money SAFE with these small adjustments, negotiations moved very quickly. The familiarity with the YC structure helped reduce friction, but investors appreciated that we had taken the time to fully understand and fine-tune the details rather than just blindly following templates.

EFFECTIVENESS

Interviewer: How did you manage expectations from investors while still having full control before conversion?

Founder B: Of course, technically we had full control under the SAFE — no board seats, no voting rights. But we were very aware that this also means the responsibility is entirely on us to build trust.

Let's be honest: if we really wanted to, we could have hidden information or delayed updates. The legal structure wouldn't stop us. But that's not how you build a sustainable reputation, especially in a small ecosystem like Portugal.

Your early investors are the people who will speak for you in the next funding rounds. Many of them are well-connected, and word travels fast. So from the beginning, we made it a principle to keep them involved. Not because we had to — but because it's smart long-term alignment.

We shared monthly updates — not just financials, but also key product decisions, challenges, team dynamics — basically giving them full visibility. That openness reassured them and positioned us as serious founders in the eyes of the broader investor community.

Interviewer: Did you feel pressure or obligation to voluntarily update investors, even without a formal reporting clause?

Founder B: I wouldn't call it external pressure — no one demanded it. But internally, we saw it as part of being a professional founder.

You have to realize: these people trusted us very early, often with very little more than a vision deck. If you start hiding when things get messy, you burn bridges you might need later. Especially in Portugal, where most investors know each other quite well.

In a way, consistent updates weren't just about transparency for the current investors — they were part of our fundraising strategy for future rounds. Showing that you handle investor relations

professionally makes follow-on investors much more comfortable. Imagine you are struggling and need to raise some money between the next Funding round. Your SAFE Angel can help you out, so better have a good relationship with them.

Closing Refelction

Interviewer: From your experience, what would need to improve for SAFEs to work better in the Portuguese ecosystem?

Founder B: We've definitely come a long way — SAFEs aren't some mystery tool anymore, at least not for people who are actively involved in fundraising. Most founders, angels, and some VCs know how to handle them pretty well.

But I do notice that outside of this core funding community, the understanding still varies a lot. For example, incubator staff, early mentors, or people who support startups but aren't directly involved in financing sometimes don't fully grasp how SAFEs work. I've even had people confuse it with the idea of simply 'saving money' because of the name.

Right now, most deals still involve legal advisors who know how to structure SAFEs properly, and that works — but it also creates a kind of dependency. The ideal would be a system so simple and standardized that you wouldn't need extensive legal work for every small round. The moment legal teams get involved, many less experienced founders or first-time investors feel intimidated and hesitate to engage.

Especially for very early rounds, like raising small tickets from family, friends, or first-time angels, having accessible SAFE frameworks — with clear language, practical templates, and educational resources — could lower the threshold dramatically. Not everyone has easy access to experienced legal advisors via incubators or personal networks, and that keeps some people away from using SAFEs altogether.

If we want SAFEs to truly democratize early-stage funding here, we need to make them approachable not just for experienced founders, but for the broader community that could help fund the next generation of startups.

Interview 3: (Interview, Founder C, 2025)

ACCESSIBILITY

Interviewer: How clear and usable do you find SAFEs in Portugal from a legal and practical point of view?

Founder C: I think it's quite clear what needs to be done. But that doesn't mean it's entirely frictionless. You definitely need a good template as a starting point, but you can't just copy-paste it and sign. Once you go into real negotiations, many details come up that need adjustments. For that, having a legal advisor is absolutely essential.

Interviewer: What resources or institutions have supported—or made it harder—to use SAFEs in your experience?

Founder C: The main resource is really the legal advisor. I wouldn't feel comfortable signing anything without his review. He helps us understand every clause and points out where certain terms could create problems down the road. Luckily, we have a good relationship with our lawyer — we can call anytime and clarify doubts. Without that support, I wouldn't feel properly protected. The truth is: SAFEs seem simple, but the devil is always in the details, especially once investors start negotiating.

ACCEPTANCE

Interviewer: Did investors ever request specific terms (e.g. valuation caps, discounts) as a condition for accepting a SAFE?

Founder C: Yes, cap negotiations are basically always on the table. But honestly, it really depends on the type of deal. There are investors who care much more about discounts, especially if they expect only moderate growth. In that case, a discount gives them a nice entry point once the valuation rises. On the other hand, if as a founder I'm expecting very high growth, I naturally try to avoid putting a tight cap in the contract — but exactly then, investors insist on having one to protect themselves. You could say: it always depends on the company, the forecasts, and how much bargaining power you have. The more promising your numbers, the more intense these discussions become.

Interviewer: Have you ever chosen SAFE terms to project confidence or flexibility to investors?

Founder C: For founders, SAFEs definitely offer flexibility because you can close funding without immediately fixing your valuation. But you still need to be careful — your terms send a signal. If you're too aggressive, it might scare investors off; if you're too soft, you give away too much early.

The negotiation always needs to find the sweet spot between founder flexibility and investor protection. Overall though, I would say that SAFEs are well accepted here, but they are never just “standard forms” — there’s always a bit of tailoring depending on the deal.

EFFECTIVENESS

Interviewer: How did you manage expectations from investors while still having full control before conversion?

Founder C: At the end of the day, it’s all about trust. Even though investors don’t sit on the board during the SAFE period, they expect you to keep them informed. And let’s be honest: if you really wanted to, you could run the company in a way that’s not fully transparent — but that would hurt you badly in the long run. If you burn your early investors, your reputation is gone, and word spreads fast, especially in a small market like Portugal. I know cases where founders misaligned with their investors, spent the money irresponsibly, and now they struggle to raise follow-on rounds. So for us, it’s natural to provide regular reports and stay transparent. You need your early investors to support you down the road.

Interviewer: Did you feel pressure or obligation to voluntarily update investors, even without a formal reporting clause?

Founder C: Definitely. Even if it's not written down as a formal obligation, you feel responsible to keep your investors in the loop. They trusted you very early — that deserves open communication. If things go wrong and you stay silent, you not only damage that relationship but also future funding opportunities. No one wants to back founders who disappear when things get tough.

Closing Reflection

Interviewer: From your experience, what would need to improve for SAFEs to work better in the Portuguese ecosystem?

Founder C: Having a unified SAFE version for Europe would definitely help — at least that’s what I hope for. There are initiatives trying to move in that direction, but it’s complicated because every country has its own legal framework. For example, as far as I know, SAFEs as we know them don’t really exist in Spain. So even though there are efforts to connect the Portuguese and Spanish ecosystems more closely, it’s difficult when such fundamental funding tools are built on entirely different legal foundations. If some really smart lawyers could solve this and create a structure that works across borders, that would make life much easier. But honestly, whether that’s realistic? I’m not sure.

Interview 4: (Interview, Legal Advisor A, 2025)

Interviewer: What is your typical role in early-stage startup financing?

Legal Advisor A: I primarily advise both startups and investors throughout the negotiation and structuring of financing rounds. This includes drafting contracts, adapting SAFE structures to the Portuguese context, and ensuring that all legal protections are properly defined.

Interviewer: Have you advised on the drafting or negotiation of SAFE contracts? In which contexts?

Legal Advisor A: Yes, frequently — though mostly in transactions involving institutional investors. In family, friends, or early angel rounds, founders sometimes attempt SAFEs without lawyers, but that's risky. In professionally managed rounds, no SAFE should be executed without legal advice.

ACCESSIBILITY

Interviewer: How clear and usable do you find SAFEs in Portugal from a legal and practical point of view?

Legal Advisor A: The YC SAFE is widely used as a reference point, but it's not directly applicable under Portuguese law. Every SAFE requires adjustments. We always need to adapt clauses for local enforceability and regulatory consistency. That's why in practice, no SAFE deal happens here without legal counsel.

In theory, SAFEs are designed to simplify early-stage fundraising. In reality, they often become surprisingly complex because investors usually push for additional protective clauses. Many investors even prefer to use their own SAFE templates, which give them stronger legal positions.

Interviewer: Do you see any institutional effort to formalize or standardize SAFE usage in Portugal?

Legal Advisor A: No formal standardization exists. There's no Portuguese equivalent to the YC SAFE for local law. Every founder needs access to legal expertise. Without that, many founders avoid SAFEs altogether because the perceived legal complexity is too high.

ACCEPTANCE

Interviewer: In your experience, do certain contractual terms—like valuation caps, discounts or MFN clauses—make investors more comfortable using SAFEs?

Legal Advisor A: Absolutely. The valuation cap is fundamental. Investors always calculate the cap themselves to ensure they're properly rewarded for their early risk-taking. Especially in Portugal, where there aren't that many globally successful startups yet, investors are very conscious of protecting their downside. They need those few successful "gems" to offset many failed investments — and the terms reflect that.

In riskier deals, investors often demand stronger protection by combining several mechanisms: cap, discount, sometimes even a pre-money cap combined with a maturity date. These structures are very common when the perceived risk is higher.

The contract structure heavily depends on market dynamics. In years when capital is more abundant, terms get a bit softer. But when capital tightens or there's high competition among strong startups, investors demand much stricter provisions.

Interviewer: Do you believe investors interpret specific SAFE terms as implicit signals about founder quality or intentions?

Legal Advisor A: Generally, SAFEs are not seen as a red flag. Investors are used to them. However, many still prefer equity because it gives more immediate control and clarity. Only startups with strong traction or exceptional founders can meaningfully negotiate SAFE terms in their favor. In most cases, it's the investor who defines the terms and the founders adapt.

EFFECTIVENESS

Interviewer: How well are investor interests protected during the SAFE period before conversion? Do governance concerns come up?

Legal Advisor A: Until conversion, investors have very limited formal alignment with founders under SAFEs. That's exactly why many prefer equity when possible. Equity provides immediate shareholder rights and oversight.

There's also a distinction: when SAFE investors already hold some equity in the company — maybe from earlier rounds — governance tends to be easier and more flexible. If they don't yet hold equity, they often demand much stricter contractual safeguards.

Interviewer: What kind of follow-up communication, reporting, or safeguards have you seen used in SAFE deals? Have you drafted or reviewed side letters or other contractual add-ons aimed at improving transparency during the SAFE period?

Legal Advisor A: Yes. It's quite common to include quarterly reporting obligations through side letters. These give investors ongoing visibility during the SAFE period, without formal control rights like board seats. Such reporting helps build trust and ensures alignment while the SAFE remains outstanding.

Closing Reflection

Interviewer: From your experience, what would need to improve for SAFEs to work better in the Portuguese ecosystem?

Legal Advisor A: A Portugal-specific, properly localized SAFE model would be very helpful. Right now, everything relies on legal teams customizing the YC template for each case. That adds complexity, especially for less experienced founders. SAFEs were designed to simplify — but once investors start adding multiple protective clauses, they can become quite complicated. Without good legal access, many founders avoid SAFEs entirely.

Interview 5: (Interview, Legal Advisor B, 2025)

Warm-up

Interviewer: What is your typical role in early-stage startup financing?

Legal Advisor B: I work as a legal advisor, primarily advising startups and investors. My role is to review contracts and ensure that SAFE agreements are aligned with the Portuguese legal framework.

Interviewer: Have you advised on the drafting or negotiation of SAFE contracts? In which contexts?

Legal Advisor B: Yes, I have advised mostly on early-stage financing rounds. I usually represent startups, helping them structure and negotiate SAFE agreements.

ACCESSIBILITY

Interviewer: How clear and usable do you find SAFEs in Portugal from a legal and practical point of view?

Legal Advisor B: In Portugal, SAFEs are not specifically regulated. The basic legal mechanisms that SAFEs rely on exist under general law, but there are no specific statutory provisions that govern them. We typically start with the Y Combinator SAFE template and make necessary adjustments. We try not to alter the template too much, but some legal adaptations are always required.

Interviewer: Do you see any institutional effort to formalize or standardize SAFE usage in Portugal?

Legal Advisor B: At this moment, there is no official or standardized SAFE documentation in Portugal. If such a standard existed, SAFEs would likely be used even more widely. Currently, the Y Combinator template serves as the primary reference point, but everyone adapts it individually based on their legal needs. We adapt the clauses to make it bulletproof in Portuguese context.

ACCEPTANCE

Interviewer: In your experience, do certain contractual terms make investors more comfortable using SAFEs?

Legal Advisor B: The complications usually arise during negotiations. Many investors attempt to over-engineer SAFE contracts by adding numerous additional clauses, which often undermines their simplicity. This includes the insertion of maturity dates, which are not part of the original SAFE model but are requested by investors who are concerned about the timing of the next priced round. Investors want to ensure that conversion eventually happens.

Valuation floors are also common in Portugal. Investors sometimes request veto rights over taking on additional debt. While such clauses can be legally included, I generally advise against adding these provisions as they distort the SAFE's structure.

Investors typically prefer to include valuation caps and discounts. More experienced investors also tend to request MFN clauses. Some investors also propose progressive discounts that decrease over time, which adds further complexity to the original SAFE structure.

In most cases, SAFEs convert with the valuation cap. It's important not to set the cap too high to avoid problems in potential down rounds but that is more important for the founder.

Interviewer: Do investors interpret the use of SAFEs as implicit signals about founder quality or intentions?

Legal Advisor B: The negotiation process goes beyond purely economic terms; it is largely about trust. Founders essentially have to "sell" the company to investors. The use of a SAFE itself can serve as a signal of a founder's experience and professionalism. If founders demonstrate a clear understanding of how SAFEs work and are prepared to negotiate the terms seriously, it signals to investors that they are competent and committed. I don't think raising a safe is used as a signal in first place.

EFFECTIVENESS

Interviewer: How well are investor interests protected during the SAFE period before conversion?

Legal Advisor B: Many founders lack experience and legal knowledge. If they enter negotiations without proper legal advice, they often end up with unfavorable terms. Investors usually know exactly what their rights are and may use this knowledge to negotiate in their favor. That is why legal guidance for founders is essential.

There are inherent risks for investors, especially if the SAFE never converts due to the absence of a maturity date. However, investors enter into SAFEs fully aware of these risks. One cannot expect to enjoy all the benefits of a priced round without accepting the downsides of a SAFE. While SAFEs carry certain risks, these are generally balanced by their advantages.

Interviewer: What kind of follow-up communication, reporting, or safeguards have you seen used in SAFE deals?

Legal Advisor B: Investors commonly negotiate for reporting obligations. While they typically do not seek governance rights, they often require regular updates on the startup's financial and operational status. Quarterly reports covering cash flows or operational updates and other key metrics are standard practice. These information rights are often formalized through side letters attached to the SAFE agreement.

Closing Reflection

Interviewer: From your experience, what would need to improve for SAFEs to work better in the Portuguese ecosystem?

Legal Advisor B: Overall, better education for all market participants would be beneficial.

Standardization of SAFE contracts would also help significantly. Currently, there is no specific accounting rule in Portugal for SAFEs. According to IRS 32, SAFEs should be classified as equity

if there is no repayment obligation. However, if interest or maturity dates are included, they may be treated as liabilities. This accounting uncertainty creates inconsistencies.

The Y Combinator template itself recommends classifying SAFEs as equity. We generally succeed in convincing accountants to do so, but occasionally, some insist on classifying them as debt. From a regulatory perspective, it is better to argue that SAFEs are equity. Structurally, SAFEs resemble shareholder loans and carry inherent equity risk. To preserve their equity nature, it is advisable to avoid unnecessary triggers and allow conversion only with management board approval.

Interview 6: (Interview, Investor A, 2025)

Warm-Up

Interviewer: What is your typical role in early-stage startup financing?

Investor A: I've been involved in startup financing for quite a while now. We operate as a growth-oriented investor and get involved across different stages — from pre-seed occasionally up to Series D. SAFEs come into play mostly in bridge funding situations when startups need interim capital between priced rounds.

Interviewer: Have you worked with SAFEs before? In how many cases and at which stage?

Investor A: Yes, I've worked with SAFEs many times — whenever there's a gap to bridge, whether pre-seed, seed, or even later stages. They're quite flexible tools for these situations, though not without their complexities.

ACCESSIBILITY

Interviewer: How clear and usable do you find SAFEs in Portugal from a legal and practical point of view?

Investor A: Overall, SAFEs are quite practical because they reduce the complexity compared to full equity rounds. The documents are usually short — maybe under 10 pages — and we avoid lengthy shareholder agreements in the early stage. That's helpful for speed, which is why founders often like SAFEs. For us as investors, it's acceptable because it gives us a foot in the door early.

However, even if the document is short, it doesn't mean you can just sign and go. We always involve legal advisors to work through the terms. Without a lawyer involved, I wouldn't feel comfortable moving forward — too many nuances can easily be overlooked.

Interviewer: Were you offered guidance or templates by any ecosystem players (e.g. incubators, mentors)?

Investor A: Honestly, most of us refer back to the YC template as a starting point — it's the most widely known. But rarely is it used without adjustments. The Portuguese legal environment requires certain adaptations, and often you'll find side letters added to handle more specific investor protections or reporting needs.

ACCEPTANCE

Interviewer: In your experience, do certain contract terms like valuation caps, discounts or MFN clauses make investors more comfortable using SAFEs?

Investor A: Absolutely. These terms are the essential negotiation tools when structuring a SAFE. Typically, we negotiate valuation caps also floors, combined with discounts. This provides balance despite the simplicity of the main document.

We often apply cap and floor ranges — usually around plus or minus 25% depending on the company's stage and projections of course it always depends on the company. A maturity date is almost always included, often set for up to 24 months. If milestones are achieved earlier, sometimes the floor valuation applies at conversion. These structures give investors some downside protection, especially if the growth path doesn't fully materialize.

Additionally, it's quite standard that we request quarterly reporting obligations through side letters. This allows us to stay informed, even though we don't have board seats during the SAFE period. It's about transparency and early visibility into potential risks.

Interviewer: Do investors interpret the use of SAFEs itself as a signal? Or is it just a pragmatic choice?

Investor A: For us, the SAFE itself is not a green nor a red flag — but the motivation behind raising via SAFE matters. If a founder uses a SAFE simply to postpone valuation discussions without having a clear plan for reaching the next priced round, that's concerning. SAFEs should always be part of a broader fundraising strategy — a bridge toward an upcoming priced round, not an instrument for indefinite delay. If founders raise a SAFE "just to avoid valuation," it signals hesitation, which makes us cautious. And Founders I am expecting that they have a legal advisor. I can not negotiate and educate at the same time. If Founders don't have a clear understanding for the tool, it's a sign for us to step away. In that way the quality of the founders is sending the signal. SAFE are not more or less complex than other fundraising tools. If they don't understand them it's a bad signal.

EFFECTIVENESS

Interviewer: How well are investor interests protected during the SAFE period before conversion? Do governance concerns come up?

Investor A: There's limited protection, to be honest. But it has positive benefits for investors and founders that's why SAFE contracts make sense as already mentioned. Dilution can easily get out of hand if follow-on rounds are not properly structured. That's why maturity dates and caps are so important and clarity is needed. SAFEs are attractive for Investors if they can invest to good terms but it can also be a very strong tool for Founders. If there is money needed to reach Important milestones for the next priced round, they will secure a stronger position in their funding round.

In some cases, we ask for symbolic shareholding — for example, taking one regular share — simply to appear on the cap table from the beginning. It doesn't give us formal control, but it does give some minor additional comfort and visibility while we wait for conversion. This is also mainly important that the raised money is not appearing as Liability.

Interviewer: What kind of follow-up reporting or safeguards have you seen used in SAFE deals?

Investor A: Like I mentioned earlier, most of these protections happen through side letters. Quarterly reporting is quite common — founders update us on KPIs, financials, and operational developments. That way, we stay informed and can intervene early if needed. Formal governance rights don't exist under SAFEs, so this kind of transparency becomes very important.

Closing Reflection

Interviewer: From your experience, what would need to improve for SAFEs to work better in the Portuguese ecosystem?

Investor A: Actually, I don't think SAFEs are inherently complicated — but they're often made more complex than necessary. If negotiations get too detailed, at some point it becomes more logical to simply do a priced equity round instead. SAFEs work best when they stay simple, short-term instruments to bridge to a proper round.

One thing that sometimes worries me is when founders see SAFEs as a cheap way to raise money without realizing that they still carry risks for both sides. Ideally, everyone involved should clearly understand that SAFEs are not a permanent substitute for proper priced funding — they're a tool for specific situations.

Appendix E

Use of Large Language Models (LLMs)

To improve linguistic clarity and stylistic precision, large language models (LLMs) supported the revision process of this thesis. These tools were applied solely for editorial refinement (e.g., grammar, flow, readability). All conceptual reasoning, interpretations, and academic judgments remain the sole responsibility of the author.