Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

# Demystifying Impact Investing

Devanshi Agiwal[1,] Koushik Chatterjee[2] and Dr. Kathakali Bandopadhyay[3]
[1] B.com (Evening), St. Xavier's College (Autonomous), Kolkata
[2]Prof-in-charge, Dept. Of Business Law, B.Com. (Evening)
[3]Department of Geography, Subarnarekha Mahavidyalaya, Jhargram

## Background of the study

Impact investing is a relatively new investment approach that seeks to generate positive social and environmental impact alongside financial returns. The concept of impact investing emerged in the early 2000s, as investors began to explore ways to use their capital to create social and environmental value in addition to financial returns.

The origins of impact investing can be traced back to the socially responsible investing (SRI) movement, which emerged in the 1960s and 1970s. SRI focused on excluding certain types of companies, such as those involved in tobacco or weapons, from investment portfolios. However, impact investing takes this concept further, by actively seeking out investments that have a positive impact on society and the environment.

The term "impact investing" was first coined in 2007 by Rockfeller Foundation. Since then, the field has grown rapidly, with an increasing number of investors and institutions interested in using their capital to make a positive impact.

Today, impact investing encompasses a wide range of investment strategies and asset classes, including private equity, venture capital, debt financing, and public equity. The goals of impact investing vary, but may include reducing poverty, promoting sustainable agriculture, expanding access to healthcare, or addressing climate change.

For instance,

- The automobile companies that do not participate in the race to produce electric vehicles will have to bear the brunt of not being environmentally responsible.
- Walmart has begun to focus on strengthening their employee policies, labour relations, et cetera because it results in a better corporate image and hence higher revenue.

Therefore, these are the instances that have contributed to the rising traction of impact- based investing all around the world. “Making money while doing good” is the basic question and whether it is possible or not is a big question mark.

## LITERATURE REVIEW

### Jonathan and Jules (2021)

They derived, both theoretically and practically, there are investors who consider investing in ESG-unfriendly companies more effectual than ESG-unfriendly companies. He also provided an implication by stating that investing in socially high-cost firms will increase the stake of the investors which will lead to an increase in their rights of control thereby giving them the liberty to remould the firm’s corporate policies into ESG-friendly policies. A few institutional investors have adopted to stay consistent with its policy to engage with companies that are ESG-friendly in order to earn long-term financial returns. In addition to this, **Krueger,**

Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

**Sautner and Starks (2020)** study the responses of institutional investors and discover that they prefer engaging rather than divesting to be more useful in order to direct climate change.

**Roundy, Holzhauer and Dai (2017)**

In their paper debunked the distinction between Impact Investing and Socially Responsible Investing. The researchers through their paper shed light on Impact Investing and to derive its position in the domain of early-stage venture investing.

**Treslstad (2016)**

He elaborated in his paper that Impact Investing has a broad scope which has become an increasingly discussed topic for both the investors and the government officials. This paper also discusses about the evolution of the newly-found field and it also highlights a few definitions to bring more clarity to a complex yet sustainable investment strategy. Moreover, the paper focused on two dominant nodes on the Spectrum of Capital: the fiduciary and the philanthropic and how the middle of Spectrum of Capital was filled in by an emerging concept called "Impact Investing." The paper further gives a detailed analysis on the factors which the impact investors consider while making an investment decision.

**Clarkin and Cangionin (2015)**

In their paper collected primary data and on summarizing the findings estimated that in the upcoming decade, this emerging asset class will reach between USD 400 billion and USD 1 trillion and is expected to earn profits between USD 183 and 667 billion over a decade. On the basis of the primary survey, it was also reported that 48% of the sample were interested in the impact investing products but only 12% had actually experienced it. Their study further gives a scope to the scholars to conduct cross-country comparisons and longitudinal studies.

**Wood, Thornley and Grace (2012)**

Their paper focuses on the impact investment by institutional asset owners in pension funds, endowments, etc. and the role of policy makers in supporting them to deliver a positive social impact. The paper is geographically restricted to the United States. Besides, there are studies on fiduciary duty and socially responsible investment emphasizing on the importance of ESG factors on can play on portfolios on the long-term basis. Their research showed that for policy development, the focus of policymakers should be on the ESG factors.

## RESEARCH QUESTIONS

- What is the concept, history, progress, benefits and risks associated with Impact Investing?
- To what extent are individuals of India aware about the concept of Impact Investing?

## OBJECTIVES OF THE STUDY

The objectives framed for this study are as follows:

- To understand the concept and evolution of impact investing.
- To analyze and understand the progress of impact investing funds in India.
- To assess the mindset and understanding of people when it comes to impact investments.
- To gain insights into the benefits and risks of impact investing through SWOC analysis.

## RATIONALE OF THE STUDY

The rationale for impact investing is grounded in the belief that financial returns and positive social and environmental outcomes can be achieved simultaneously. This approach recognizes that traditional investing practices have often failed to take into account the social and environmental

Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

consequences of investment decisions. Impact investing seeks to fill this gap by considering the full spectrum of risks and opportunities associated with an investment, including its impact on society and the environment.

There are several reasons why impact investing has gained momentum in recent years. First, investors are increasingly aware of the need to address pressing social and environmental challenges, such as poverty, climate change, and inequality. Second, advances in technology and data analysis have made it easier to measure the social and environmental impact of investments. Third, there is growing evidence that companies that prioritize social and environmental responsibility tend to perform better in the long term.

In addition, impact investing can help to fill funding gaps in areas that have traditionally been underserved by the mainstream financial system, such as small businesses, social enterprises, and community-based organizations. By providing capital and other resources to these entities, impact investors can help to support economic development and promote social and environmental progress.

Overall, the rationale for impact investing is based on the idea that investments can be a force for good in the world, generating both financial returns and positive social and environmental outcomes.

## RESEARCH DESIGN

The research design is a conceptual framework around which the survey is undertaken. Here, a part of research undertaken is a **Descriptive Research** as it describes the conceptual understanding and evolution of Impact Investing. It also brings into light the various factors that drive impact investing. The study also portrays the comparable analysis of impact investments across nations, specifically, European Union, Western Countries and Asia. The other part is **Analytical** in design as it analyses the prevailing awareness of “Impact Investments” in India.

## SAMPLE SIZE

The sample size is **150**. Data has been collected and analysed on the basis of the responses. The research was conducted with the aim of getting respondents from all across India.

## PERIOD OF STUDY

The period of study was more than **a week.** Data collection was started on $1^{st}$ March,2023 and was analysed on $15^{th}$ March, 2023.

## SAMPLING TECHNIQUE

The research has been conducted by using **Convenience Sampling** technique. This is a method of non-probability sampling in which a sample is taken from a portion of the population that is nearby.

## DATA COLLECTION

- **Primary Data-** The data is collected by circulating a questionnaire designed solely for the purpose of conducting the research. It was circulated to all the people of all age groups without any biasness to know the awareness of the citizens towards impact investing.
- **Secondary Data-** The data includes reference from previously published research papers, journals, books and articles. Not only did it helped me to gain a conceptual understanding of the topic but also it helped me to understand the evolution and the factors that drive impact investing.

Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

In simpler terms, an investment strategy known as Impact investing aims to generate positive social and environmental impact alongside financial returns. The main goal of impact investing is the use money and investment capital to achieve positive social outcomes.

The prime objective of impact investing is to reduce the negative effects of business activity. Because of this, impact investing is at times regarded as a subset of philanthropy. Initially, a major part of impact investing was taken up by institutional investors, that includes, banks, pension funds, hedge funds and other fund managers.

Moreso, impact investing attracts the youth, say millennials and GenZ, who want to return to the society. Therefore, impact investing is likely to grow as these investors gain more knowledge about the markets. Impact Investing was first coined by Rockfeller Foundation in the year 2007. Since then, it has become a more widely used investment strategy. Popular sectors targeted by impact investing are:

- Affordable housing
- Community development
- Education
- Environment
- Health
- Sustainable cities
- Small business
- Workforce development

In a survey conducted by The Global Impact Investing Network (GIIN) in 2020 and found that majority of investors engaging in impact investing seek market-returns. In addition, more than 88% of impact investors told that their portfolios were performing beyond their financial expectations.

A recent report published by Impact Investors Council (IIC) shows a glorious investment opportunity for asset managers engaging in growth-stage impact enterprises with strong fundamentals. Furthermore, an analysis by IIC has also reported that equity impact investments in India have impacted 500 million lives generating an overall IRR of 30% (approximately) with a holding period of 5.2 years.

In short, impact investing is a type of socially responsible business strategy that aims to reduce the negative effects of traditional business practices.

## EVOLUTION OF IMPACT INVESTING

Impact investing, as the term suggests, is a flourishing growth area based primarily as an extension of philanthropic activity of making positive social and environmental impact over sound financial gains.

The term first minted in **2007** by the Rockfeller Foundation. Impact investing is inclusive of private sector investors financing their investment capital to the companies in the form of debt or equity having a strong adherence to Corporate Social Responsibility.

Impact investing not only focuses on climate change and environmental issues, rather everything has a positive impact on humans and the planet is taken into account.

Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

Social equality, religious freedom, environmental concerns, and ethical business practices are all included in this.One of the first effective advancements in the direction of impact investing is the Methodist Church's policy to avoid investments in commodities like alcohol, tobacco, or gambling-related products.

In addition to this, the idea of impact investing was further developed by the Quakers in **1898**. They enhanced the idea of the Methodists of not investing in businesses that violated their religious beliefs. The group promised not to put their money into the slave trade or in a war. They make investments on the basis of their virtues, which are referred to as social and moral quotient of impact investing.

After the Quakers, who invested on the basis of their moral values, there was another group from Boston. In **1928**, the Boston based group created the first impact investing funds. The objective of the fund was to steer investor's money away from ventures engaged in sex trade, alcohol, tobacco, or other illegal activities while investing money into profitable endeavours.

While all these tasks were taken up on a limited scale initially, they turned out to be more popular post the Vietnam War fights. In due course of time, investors increasingly sought out investment opportunities that reflected their preferences and concerns about the society as a whole.

***Today, the idea of 'Impact Investing' of has subsumed under 'ESG' trends.***

According to the Global Impact Investing Network (GIIN), the size of the impact investing market is anticipated to expand to $823.83bn in the year 2026 at a 18.1% CAGR.

**PROGRESS OF IMPACT INVESTING IN INDIA**

Considering anything that the deadly Corona Virus taught us was that the world can no longer ignore the environmental and social issues. Poverty, human rights, climate change, and gender inequality are some issues that are rapidly gaining prominence in mainstream business decisions. This ideal shift towards people, planet and profits is a positive result of the growing realization that socio-environmental issues have an impact on people's lives regardless of their socio-economic status and geographies. One of the basic solutions to deal with the above-mentioned problems is impact investing.

In India, fortunately, there has been an outstanding growth in impact investment initiatives over the last 10 years. In a report published by Impact Investors Council (IIC), it has been stated that over 600 impact ventures have had an impact on 500 million lives in India. Over $9 billion in capital was generated by this activity.

Since 2010, investments have contributed a total of $5.2 billion to impact investments. However, when investments reached $1 billion in 2015, it marked a turning point. These investments have increased by doubling demand, which has led to investments reaching $17.6 million in 2016. These investments rose to $ 354.41 billion in 2021 and is expected to increase to $ 823.83 billion in 2026.

**INITIATIVES UNDERTAKEN BY THE INDIAN GOVERNMENT**

The policy initiatives undertaken by the Indian Government are also facilitating progress of impact investing in India:

1. **Atal innovation mission:** Atal innovation mission was launched in 2016 with the intention of providing businesses with infrastructure and technical support to produce beneficial social and environmental outcomes.

Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

2. **Social Stock Exchange (SSE):** Social Stock Exchange (SSE), an innovative platform, was built to bridge the gap between investors and social entrepreneurs who work to facilitate environmental sustainability as well as social welfare.
3. **Samridhi Fund:** The Samridhi Fund, which was set up by the Small Industries Development Bank of India (SIDBI) and aims to assist social entrepreneurs who are commercially viable. Early-stage investors may be encouraged to assist the growth-stage businesses developing novel business strategies, products, and technologies that have a high likelihood of scaling up if the government-backed funds are made available.

## SWOC ANALYSIS OF IMPACT INVESTING

1. **STRENGTHS**
    - **Aligning investor's financial goals with their values and beliefs**: Impact Investing truly helps an investor to make a significant difference. It allows each and every investor to achieve their financial objectives by adhering to their values and beliefs. For say, if an investor is interested to bring in environmental change, making an investment in companies that are rampant polluters helps the investor's financial goals to be in line with his/her values and beliefs.
    - **Long Termism**: In the long term, companies committing to environmental and social concerns generate higher returns than companies following traditional investment practices. Moreover, the investors associated with these companies earn sufficient returns and the world gets a solution for the major problems, that's an added benefit for the society.

In addition, companies aiming for social and environmental change are doing really well with an annualised return of 5.46%.

2. **WEAKNESSES**
    - **Higher risk:** There exists a higher risk in the case of impact investments due to a handful of reason. There may be situations when the investment might not achieve the pursued impact, for instance, investments are not well-designed or well-executed. There can also be a situation where the investee company is involved in a scandal and is not making any social or environmental impact, this is when the risk of negative publicity on the investor's part arises. There can be a risk of mission drift eventually leading to financial losses for investors and obliterate the beneficial effect that was initially intended.
    - **Limited Options**: Applying the filters of environmental and social concern often limits one's choices in the investment universe. In the impact investing universe, there are possibilities that an entire industry for instance liquor industry or tobacco industry will be dropped out of the portfolio leading to a negative performance of the investor's portfolio.
3. **OPPORTUNITIES**
    - **Ensures better outcomes in emerging markets**: Impact Investing tends to be more profitable in developing and emerging countries, rather than developed countries. The reason being, the availability of more capital in developing countries helps in achieving a positive social and environmental impact compared to the developed countries. Moreover, impact investing becomes the new normal, we

Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

would be able to see a systemic change in the financial markets globally and not only in the emerging markets.

- **Sense of Philanthropy**: Impact investment can be an extension to traditional philanthropy by providing sustainable funding for social and environmental initiatives. Investments in social enterprises and impact funds can not only generate sound financial returns but can also support the social causes ensuring better societal outcomes.

4. **CHALLENGES**

- **Measurement of social/environmental impact**: It is really difficult to measure an investment's social and environmental impact. The methodology that can be used for measurement are very few which makes measurement of impact difficult. This becomes a challenge because the comparison of investment portfolios and assess risks becomes difficult and not to forget, it becomes more difficult to draw conclusions out of the comparisons made.
- **Relatively new concept:** Impact investing is a relatively new field (being coined in the year 2007) due to many assumptions have been built up. One such prejudice is that impact investing is about small investments generating very low returns. In addition to this, impact investing is restrictive in terms of the ethical requirements due to which a very few investors want to engage in such practices so it's assumed that it results in relatively lower returns.

Despite the challenges, impact investing has the positively to provide sound financial returns alongside bringing a positive social and environmental impact.

**RESPONDENT'S PROFILE**

It is very crucial to understand the composition of the respondent before understanding their perception. Thus, here follows a detail analysis of the respondents:

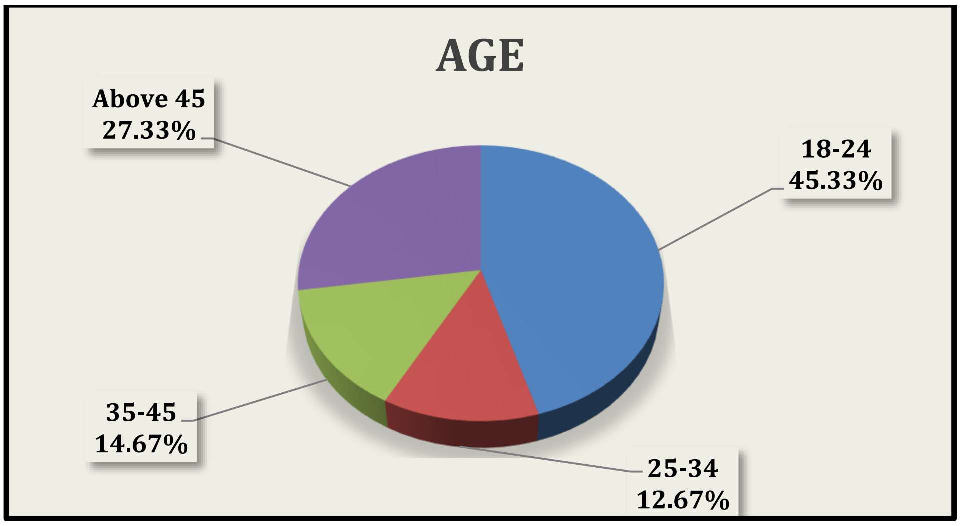



**Figure1: Age Structure of the respondents**

Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

- We learn from the "Pie Chart" above that the age group of '18-24' forms the majority with 45.33% respondents whereas the others merely add up to 54.67%. Hence, we can assume the major part of the results of this survey to be the opinion of the youth.

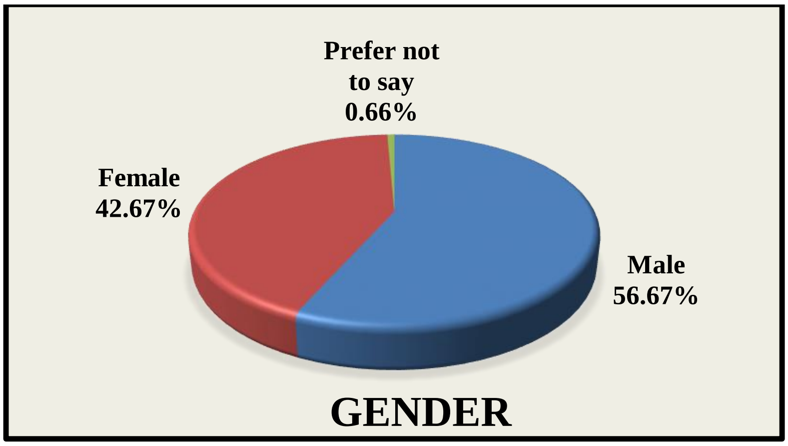



**Figure 2: Gender of the respondents**

- Coming to the gender composition, it is found that males constitute 56.67% of the strength whereas females constitute 42.67% of the same.

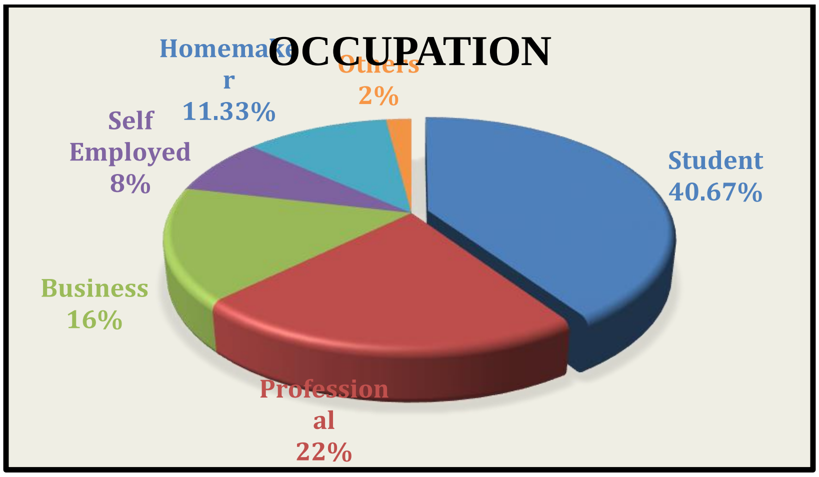



**Figure 3: Occupation of the respondents**

- The graph above depicts the occupation of the respondents with 'Students' having a share of 40.67%, showing a greater percentage of youth yet again. Whereas people from the 'Professional' and 'Service' backgrounds combine a share of 46%. 'Others' include officers, consultants, etc.

Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

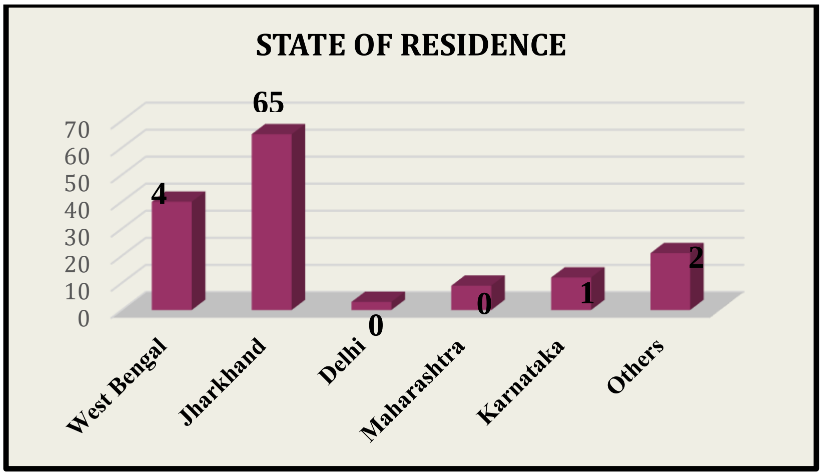
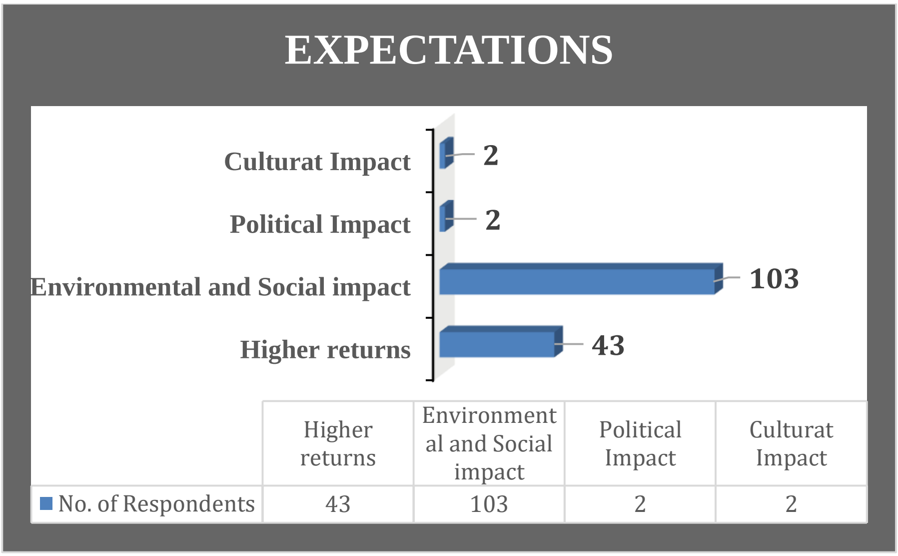



**Figure 4: State of residence of the respondents**

- From the data collected, a major part of the respondents is from Jharkhand with a 43.33% share followed by West Bengal which forms a distant second with 26.67% share.

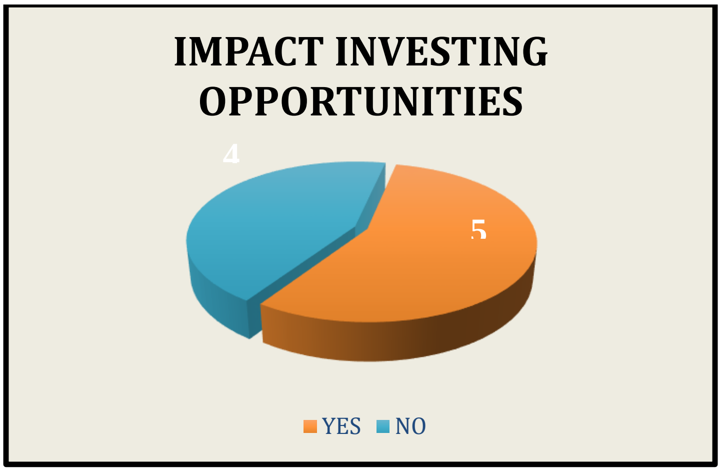
## OBSERVATION I: UNDERSTANDING OF IMPACT INVESTING




- The respondents were asked regarding their understanding of Impact Investing. A majority of the respondents (68.67%) opined that impact investing is undertaken for environmental and social impact. A small yet significant group of respondents (28.67%) also believe that impact investing is undertaken for the generation of higher returns.
- A minor part of respondents (2.66%) has an opinion that impact investing has a cultural and political impact. Now it is to be noted that Impact investing is undertaken to generate positive environmental and social impact alongside a financial return, it is not undertaken for higher returns and for cultural impact or political impact.

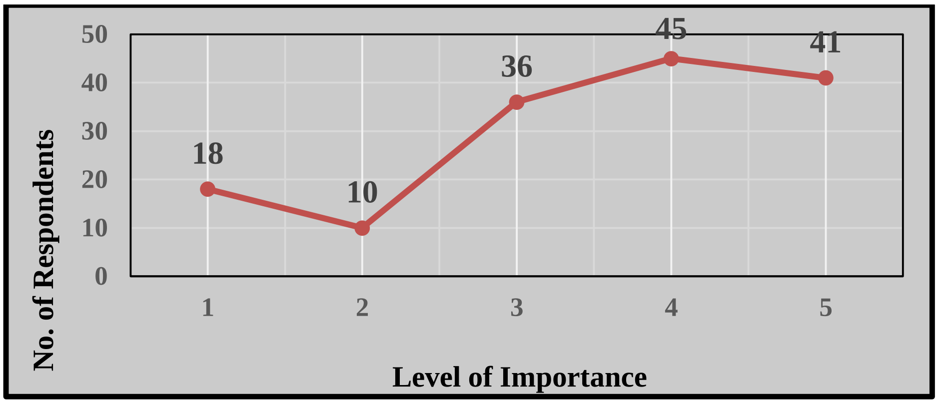
Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

**OBSERVATION II: DIFFICULTY IN FINDING IMPACT INVESTING OPPORTUNITIES**




- From the data displayed above, 56% of the respondent's faced difficulty in finding impact investing opportunities. Whereas, the remaining 44% respondents didn't face any challenges while searching for impact investing opportunities.

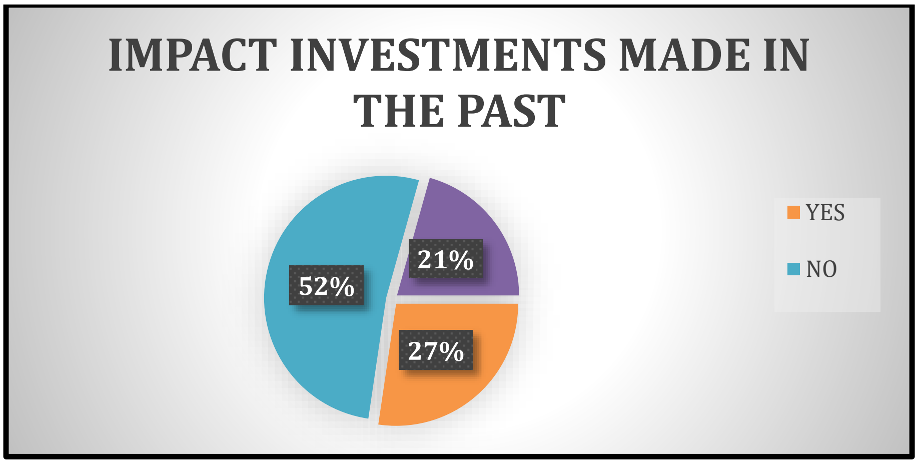
**OBSERVATION III: IMPORTANCE FOR INVESTORS TO FIND INVESTMENTS ACCORDING TO THEIR BELIEFS AND VALUES**




- The respondents were asked about how important is it for the investors that the company they invest in align with their beliefs and values, and for that they were to select a number from 1-5, with '1' being 'Least important' to '5' being 'Most important'. 18.67% of the respondents are in the range of 1-2 which means they consider finding investments according to their beliefs and goals not that important whereas 57.33% of the respondents fall in the 4-5 bracket, which means they consider investing according to their beliefs and values. 24% are neutral to the idea.

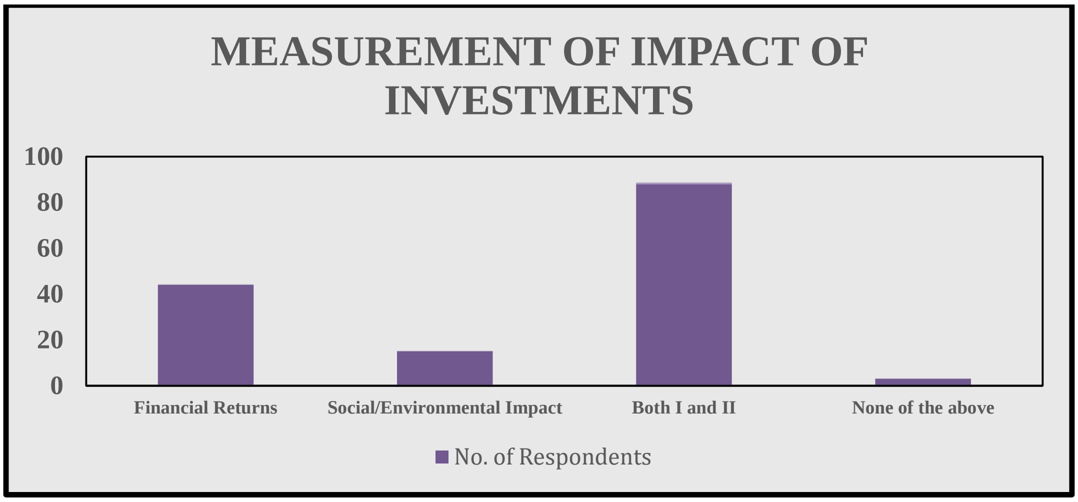
Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

**OBSERVATION IV: WHETHER THE IMPACT INVESTMENTS ARE MADE IN THE PAST**




- To understand the prevailing awareness of "Impact Investments", the respondents were asked whether they have made impact investments in the past. A majority of respondents (52%) haven't made impact investments. 27.33% respondents have made impact investments in the past. 20.67% of the total respondents have accepted that they aren't aware whether the investments made by them fall under the criteria of impact investing.

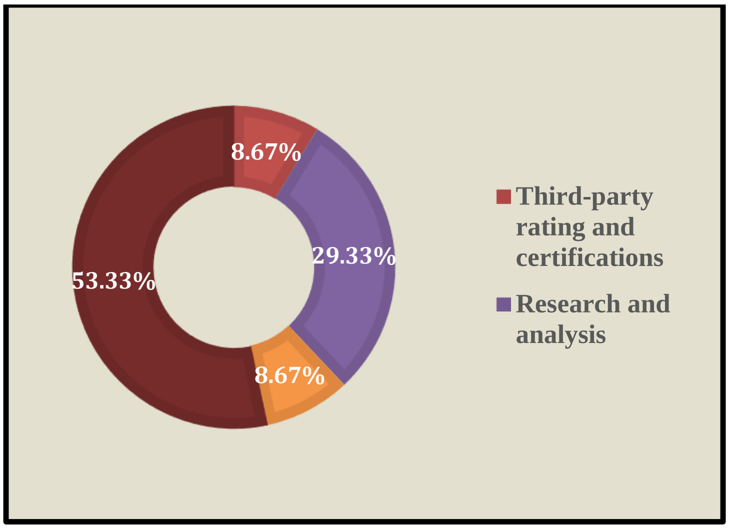
**OBSERVATION V: MEASUREMENT OF IMPACT INVESTMENTS BY INVESTORS**




- The graph above helps us understand that a greater majority of respondents (58.67%) believe that the investors measure their investments on the basis of the social and environmental impact as well as the financial returns. Whereas there are a considerable number of respondents measure the impact of their investments by consider financial returns or social/environmental sustainability.

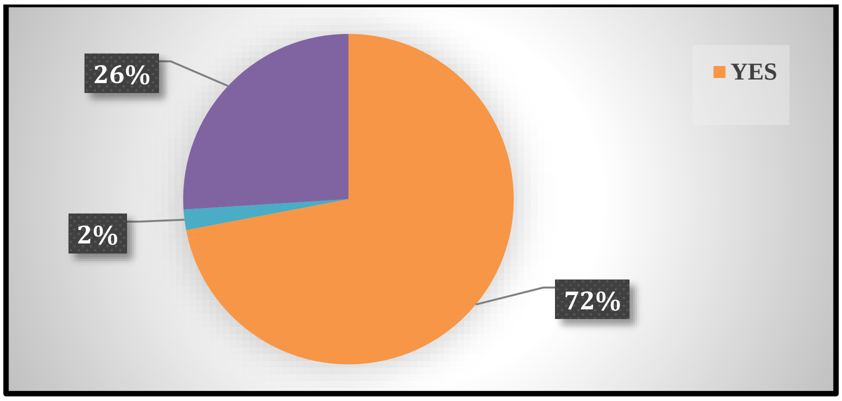
Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

**OBSERVATION VI: PROCESS TO EVALUATE THE SOCIAL AND ENVIRONMENTAL IMPACT OF AN INVESTMENT**




- The 'Pie-chart' above helps us understand that a great majority of 53.33% of respondents evaluate the social and environmental impact of their investments by the following methods:
    - Third-party ratings and certifications
    - Research and Analysis
    - Personal experience

**OBSERVATION VII: DO THE INVESTORS BELIEVE THAT IMPACT INVESTING CAN HELP ADDRESS THE SOCIAL AND ENVIRONMENTAL CHALLENGES**




- We can understand from the 'pie chart' above that a majority of respondents (72%) believe that impact investing can help address the social and environmental challenges, irrespective of the financial generations that is generated by impact investments. 26% of the respondents feel that impact investments may or may not address the environmental and social challenges.

**CONCLUSION**

Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

Through this research work, I intended to make clearer and easier to understand the concept of Invest Impacting, and awareness of Impact Investing among the people of our country, i.e., India. The research is based on primary data and secondary data. The primary data was collected through an electronic survey questionnaire which was circulated among the target audience through various social media networks. The secondary data was collected through published research papers, journals, books and articles.

After proper evaluation and analysis of data collected through the electronic survey questionnaire, I arrived at the following conclusions for the project:

- Undoubtedly, the awareness of impact investing among Indian population's is increasing, but it has not yet attained its peak. There continues to be a demand for education on impact investments among India's population.

- We have also found out that understanding of impact investing in India varies among individuals. Majority of the individuals understood that impact investing is in line with the environmental and social impact whereas some individuals consider impact investments as those investments generating higher returns, having a cultural impact or political impact. Thus, it can be very well understood that the entire framework of Impact Investing is backed by the primary objective of environmental and social impact.

- There are a large number of investors who consider that the investments should be according to their beliefs and values.

- Out of all investments made by the investors in the past, there are some people who have made impact investments and there are some who have not. Also, there are a group of people who are not sure whether they have made an impact investment in the past or not. Thus, it can be very well understood that there is a lack of awareness of impact investments among some people in India.

- A large number of respondents consider that the impact of impact investments can be measured by both, social and environmental impact and financial returns. Therefore, it can be concluded that while making an impact investment, the investor apart from looking at the investment's impact also considers the financial return that the investments are generating.

- Impact Investing has gained global recognition in the last few decades, however there is still a sizable chunk of the population unaware of the concept. Impact Investing is yet to be emerged as a Global Finance Mainstream.

## RECOMMENDATIONS

- In my opinion, the world is realizing the importance of mobilizing capital to important resources due to which the demand for Impact Investing will gather more momentum. Hence, the failure of the firms to effectively tackle these issues may cost them their existence in the long-run.

Scotopia: A multidisciplinary biannual e-journal
ISSN: 2455-5975
Website: https://scotopia.in/

- The relevant authorities must undertake appropriate measures to create awareness about the impact investing and encouraging hem to invest in those areas that are generating environmental and social returns along with financial returns.
- While there are various agencies publishing the returns, there should be an establishment of an independent rating agency to provide environmental and social ratings to the listed companies, and thereby making these disclosures reliable.

**BIBLIOGRAPHY**

Jonathan and Jules (2021). "The Impact of Impact Investing"
Krueger, Sautner and Starks (2020), "The importance of climate risks for institutional investors"
Roundy, Holzhauer and Dai (2017), "Finance or philanthropy? Exploring the motivations and criteria of impact investors"
Treslstad (2016), "Impact Investing: A brief history"
Clarkin and Cangioni (2016). "Impact Investing: A primer and review of literature
Wood, Thornley and Grace (2012), "Institutional impact investing: practice and policy"
**https://www.msci.com/**
**https://thegiin.org/**
**https://www.mckinsey.com/**
**https://www.cfainstitute.org/**
**https://finance.yahoo.com/**
**https://www.investopedia.com/**
**https://finbold.com/**
**https://theimpactinvestor.com/**
**https://www.impactinvest.org.uk/**