CHAPTER 1

Impact Investing: Innovation or Rebranding?

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Abstract

In recent years, individuals and organizations in both private and public sectors at national and international levels have been seeking lasting solutions to daunting global challenges, from climate change to unprecedented levels of youth unemployment. In their search, many have embraced Impact Investing as a new investment strategy that brings together the worlds of profit-making and social and environmental problem-solving. Despite the increasing interest in Impact Investing, scholarly work in the field remains scarce. While a myriad of practitioner contributions exist, a dearth of academic research on Impact Investing persists. Yet bodies of literature that have emerged over the years focus on the broader trend of "positive" investment classes that closely resemble Impact Investing, including socially responsible investments (SRI), social entrepreneurship, sustainable investments (related to environmental, social, and governance investments (ESG); microfinance; and ethical investments. A consensus on Impact Investing's definition eludes scholars and practitioners alike; likewise, debates continue over how, and in what ways, Impact Investing represents a distinctive and innovative investment strategy that sets it apart from other forms of positive investment as well as institutional investment. This chapter intends to shed light on the concept of Impact Investing, providing greater conceptual clarity, encouraging the burgeoning interest in Impact Investing among scholars, and helping to foster research in this area by offering insights into Impact Investing's key features and actors, related practices, opportunities and challenges that together constitute the uniqueness of Impact Investing.

Keywords

Impact Investing; Social Impact Investment; Socially Responsible Investment; Microfinance; Social Entrepreneurship; Ethical Investment

INTRODUCTION

As a global community, we face daunting social and environmental problems, from persistently high levels of greenhouse gas emissions, deforestation, and pollution, to increasingly frequent epidemics and rising youth unemployment, inadequate access to clean water, sanitation, and health care. Addressing such problems sustainably—both immediately and over the long term—will require trillions of dollars of funding. Against a backdrop of economic turbulence, austerity measures on public budgets, and a burgeoning youth population, a new investment strategy that brings together the worlds of profit-making and social and environmental problem-solving is garnering global attention: Impact Investing.

Emerging on a global scale over the past 20 years (Ormiston et al. 2015), *Impact Investing* refers to an investment strategy that intentionally aims to achieve both financial returns and positive social and environmental impacts (O'Donohoe et al. 2010; Rodin and Brandenberg 2014; Vecchi et al. 2016). According to its proponents, Impact Investing promises to offer an innovative way to bring the resources of the world's financial markets to its seemingly intractable problems (Clarkin and Cangioni 2016).

For years, Impact Investing has been met with enthusiasm by practitioners who have produced a vast array of studies and reports on the subject (Höchstädter and Scheck 2015; Vecchi et al. 2016). Likewise, it has become a priority issue on the agendas of governments and international, bilateral, and multilateral institutions alike. Yet it has received scant attention among scholars, with few studies published in academic books and peer-reviewed journals (Emerson and Spitzer 2007; Höchstädter and Scheck 2015; Moore et al. 2012; Nicholls 2010). The limited scholarly literature has left the field of Impact Investing with a substantial degree of ambiguity and lack of consensus regarding its definitions and terminology. Consequently, Impact Investing's distinctiveness from related forms of investing remains unclear. Similarly, Impact Investing's unique strategies, principles, practices, and objectives are often muddled (Clarkin and Cangioni 2016; Höchstädter and Scheck 2015).

This lack of clarity prompts the research question that forms the scope of this chapter: *Is Impact Investing truly a new concept and an innovative investment strategy, making its mark in a significant way?* That is, does it merely represent a rebranding of similar forms of alternative, socially conscious investment, such as socially responsible investment (SRI), venture philanthropy, social enterprise investment, or microfinance practices?

This chapter aims to present a better understanding of the concept of Impact Investing with the purpose of contributing to the existing knowledge base, encouraging further academic research, and supporting practitioners. To that end, this chapter examines existing works of scholars and practitioners who have contributed to discussions and debates regarding the foundations of Impact Investing, its definition, framework, opportunities, constraints, and empirical research.

The next section of this chapter presents the methods used to conduct a comprehensive literature review that produced three thematic discussions. The following section provides an overview of Impact Investing's origins, philosophy, and practices, with the aim of clarifying the concept of Impact Investing. The next section traces the growth of Impact Investing and the response from the world of investment. The following section explores the key features of Impact Investing in greater detail, highlighting what it shares with other forms of positive investing and what sets it apart. The conclusion outlines suggestions for future research directions in the field of Impact Investing.

METHODOLOGY

To assess the current state of the field of Impact Investing, a comprehensive review of the existing literature relevant to Impact Investing was conducted, utilizing content analysis techniques. The literature review utilized the approach provided by Cooper (1988, 1998), Cooper and Hedges (1994), and Hedges and Cooper (1994), which emphasizes two main elements of the literature review: (i) report, describe, and clarify existing primary research on impact investing; and (ii) summarize research findings. Given that the term *Impact Investing* is relatively new, the dearth of academic research, and the fact that the Impact Investing discourse is primarily driven by practitioners, the present study draws upon both academic and practitioner contributions (Höchstädter and Scheck 2015).

Keyword searches were conducted in Google, Google Scholar, and major scholarly databases, including ProQuest, Web of Science, EBSCO, Academic Search Complete, and Business Source Complete. A variety of fields were considered in the searches, including management, finance, entrepreneurship, international development, and sociology. Keyword searches included "Impact Investing," "impact investment," "social entrepreneurship," "social enterprise investment," "social finance," and "social impact investment." Using the keyword "Impact Investing," for example, yielded over 1.5 million results in Google, and 6,390 results in Google Scholar. Narrowing the keyword search in Google Scholar to titles of articles yielded 558 results. The term "Impact investment" yielded similar results (see Table 1.1). Practitioner contributions included various reports and case studies from government agencies, investment firms, foundations, and consulting firms. Furthermore, numerous reports appeared from organizations that provide services and resources to the social sector, such as the Global Impact Investing Network (GIIN), the Rockefeller Foundation, United Nations Development Program (UNDP), and JP Morgan.

This comprehensive review of existing literature addresses areas of similarities and inconsistencies in the diverse understandings of scholars and practitioners engaged in a critical analysis of the discourse, tracing noteworthy debates and prominent voices. It attempts to map the range of practices embraced under the Impact Investing umbrella, including the micro and macro levels; public, private, and public-private joint initiatives; and the use of asset classes. A total of 58 scholarly and practitioner references

TABLE 1.1 Keyword Search Results.

Key Word / Source	"Impact Investing"	"Impact investment"
Google	1,540,000	615,000
Google Scholar	6,390 (anywhere in article) 558 (titles only)	8,180 (anywhere in article) 308 (titles only)

Source: Author. Haifa Ben Abid

were analyzed and a references analysis table constructed that highlights key statements and text extracts for each reference in order to assess the scope of literature, key themes, and foci.

IMPACT INVESTING: CLARIFYING THE CONCEPT

The History of Impact Investing: The Birth of a New Term

The term *Impact Investing* was reported to be first coined in 2007 at a meeting hosted by the Rockefeller Foundation (Bugg-Levine and Emerson 2011; Hummels 2016), which consisted of a gathering of like-minded people with different backgrounds, including philanthropy, the private sector, private-public partnerships, venture capital, financial markets, among others. Thus, since its inception, this investment strategy has been predominantly driven by practitioners (Freireich and Fulton 2009; Höchstädter and Scheck 2015; O'Donohoe et al. 2010). However, according to Hummels (2016) the practice itself has existed for much longer: "Investors, intending to create positive social or environmental outcomes while generating a financial return, had been around for decades. They simply operated in the margins of the financial system and remained more or less unnoticed." Similarly, Bugg-Levine and Goldstein (2009, p. 32) noted that Impact Investing has its underpinning in SRI:

> The seeds for Impact Investing were sown in the last quarter of the twentieth century with the socially responsible investment and corporate responsibility movement . . . what we see now is simply its latest iteration that links economics with the social and environmental aspects of the human experience. (p. 32)

The increasing popularity that Impact Investing is enjoying (Vecchi et al. 2016) stems from the massive efforts by the pioneers of this industry, which have been deployed to promote and streamline the concept over the last decade (Freireich and Fulton 2009; O'Donohoe et al. 2010). These pioneers have worked unrelentingly to put theory into practice by establishing a framework, a formal network, and a dedicated market for this nascent industry that has historically been characterized as "a small, disorganized, under-leveraged niche for years or even decades" (Freireich and Fulton 2009, p. 5).Despite claims that Impact Investing finds its underpinning mainly in praxis with bare theorization, scholars have expressed interest in the subject for years (Arosio 2011; Emerson and Cabaj 2000). Scholarly interest in investment geared toward social and environmental impacts is not a recent development (Arosio 2011). For instance, more than a decade ago, Emerson (2000) challenged the prevailing wisdom that financial returns and social returns were mutually exclusive (Clarkin and Cangioni 2016). Emerson and Cabaj (2000) proposed the possibility of investing in ways that combine financial returns and social and environmental impact, using the concepts of *socioeconomic value* and *social return on investment* (SROI). More recently, several renowned universities have included Impact Investing in their curricula (Höchstädter and Scheck 2015), and others have created dedicated platforms to generate knowledge, share experiences, and support impact investors, such as the Impact Investing Lab at the SDA Bocconi School of Management in Italy.

Challenging a Bifurcated System: Positive Impacts and Returns

Historically, the worlds of finance and philanthropy were bifurcated, separating profit-making from social and environmental problem-solving, respectively (Bugg-Levine and Emerson 2011). We have long relied on governments and community organizations to meet evolving social needs, while leaving markets, private capital, and the business sector to seek and deliver financial returns (Moore et al. 2012). However, this binary system is breaking down as Impact Investing has begun to bring funds from the financial world to address social problems (Harji and Jackson 2012; O'Donohoe et al. 2010). This move brings the potential to offer substantially larger amounts of funds to addressing social problems in the future (Freireich and Fulton 2009; Ormiston et al. 2015), signaling a booming industry (Bugg-Levine and Emerson 2011).

The innovation of Impact Investing lies partly in how, as a new investment concept, it has carved out a funding niche situated between philanthropy and mainstream financial investments (Nicholls 2010; Ormiston et al. 2015). As such, it offers a source of funding that can complement, rather than supplant, the efforts of governments and philanthropic organizations (Freireich and Fulton 2009; Harji and Jackson 2012; O'Donohoe et al. 2010). Complex global problems require multifaceted solutions and new alliances. Impact Investing is seen as an emerging instrument of financing development that offers novel means to harness financial capital to address social and environmental crises, with investors, governments, and philanthropists working cooperatively in unprecedented ways (Bugg-Levine and Emerson 2011). These new cooperative partnerships reflect how Impact Investing has "resonated as well with a new set of investors who have sensed a desire to integrate their investment and philanthropy but previously lacked the language to articulate it" (Bugg-Levine and Emerson 2011, pp. 8–9).

Types of Impact Investing: Financial-First versus Impact-First

Impact Investing has numerous variations, resulting in two broad categories: "financial-first" and "impact-first" (Ormiston et al. 2015). Financial-first impact investors, typically institutional investors, make investments with the aim of obtaining financial returns that are market-competitive and also have a social/environmental benefit. Conversely, impact-first impact investors, typically including foundations and family offices, pursue investments with high social/environmental impact, accepting below-market financial returns (Freireich and Fulton 2009; Harji and Jackson 2012; Ormiston et al. 2015). The defining feature of Impact Investing is this double objective: financial returns and positive social and environmental impacts. It could then be said that Impact Investing is a way of diversifying the value of an investment; thus, diversity represents a core characteristic of Impact Investing (O'Donohoe et al. 2010; Ormiston et al. 2015; Payne and Cook 2014). In various ways, diversity is the source of strength and competitive advantage for Impact Investing and may well be the driver of its success in the future.

Philanthropic organizations often engage in *mission-related investments* (MRI) or *program-related investments* (PRI), which tend to consistently prioritize social impacts over financial returns. Conversely, Impact Investing emphasizes "blended value" by aiming to achieve both substantial financial returns and measurable social impacts (Bugg-Levine and Emerson 2011; Ormiston et al. 2015). Yet Impact Investing is a flexible investment strategy that allows for prioritizing one over the other through impact-first or finance-first strategies. The chosen strategy will depend on the type of entity—whether an institutional investment firm or charity—its fiduciary and legal constraints and responsibilities and intended impact goals (O'Donohoe et al. 2010; Ormiston et al. 2015). As Ormiston et al. (2015, p. 356) explained, "investors' expectations regarding risk, return, and impact vary according to their intentions."

Although a broad array of configurations of financial-first and impact-first Impact Investing strategies exist, thus far, a much greater emphasis has been placed on financial-first investments, often with expectations of market-rate returns. While financial-first investments are clearly more appropriate for certain entities, given their needs and constraints, an emphasis on market-rate returns increases the risk of mission drift because institutional investors are wooed by the Impact Investing industry in ways that could undermine the integrity of Impact Investing and its core tenants. As a result, Impact Investing at times seems to fall prey to rebranding as commercial funds are repackaged in order to capitalize on its increasing popularity even if they do not technically qualify as such (Bolis et al. 2017). A continued expectation of near- or at-market returns will certainly incentivize rebranding efforts and undermine the distinguishing features of Impact Investing that set it apart from most institutional investment strategies.

Impact Investing and Similar Practices: Where Do the Differences Lie?

Impact Investing is closely related to a variety of investment strategies that seek to generate both financial and social value via investments, referred to as "positive" investment classes (Harji and Jackson 2012; Hebb 2013a and 2013b; Höchstädter and Scheck 2015; Scarlata and Alemany 2012). In this rapidly changing field, a proliferation of such positive investment classes and strategies has taken place in recent years, including SRI (Richardson 2013; Richardson and Peihani 2015; Robb and Sattell 2016), ethical investment (Richardson 2009), microfinance (Agbeko et al. 2017; Agbola et al. 2017; Banerjee et al. 2015; Fenton et al. 2017; Ngoasong and Kimbu 2016), corporate philanthropy (Gautier and Pache 2015), corporate social responsibility (Cochran 2007; Ramasastry 2015; Sharma 2015), business and human rights (Ramasastry 2015), innovative finance (Keohane 2016), Village Savings and Loan Associations (VSLAs) (Brunie et al. 2014; Ksoll et al. 2016), Pay for Success (PFS) financing (Godeke 2013), among other forms of private sector participation in social impact projects (Wentworth and Makokera 2015).

The distinctions between Impact Investing and these other forms of positive investment can be blurred, a point of debate among practitioners and scholars (Harji and Jackson 2012; Höchstädter and Scheck 2015). Ethical investment and SRI are essentially synonymous approaches; in fact, what we now call SRI was originally called ethical investment and refers to integrating social values in financial investments (Revelli 2016). According to Ormiston et al. (2015, p. 353), while Impact Investing shares similarities to SRI and ethical investment in particular, it sets itself apart from these classes by seeking "to achieve clearly defined and measurable social impact as opposed to simply avoiding negative externalities and focusing on high level environmental, social and governance (ESG) factors." Given this, Impact Investing "can thus be viewed as an evolution from socially responsible investment, though there is some overlap between the two fields" (Ormiston et al. 2015, p. 353). Other scholars consider Impact Investing as one form of SRI, such as Robb and Sattell (2016, p. 3), who use the term SRI to "describe sustainable investing, program-related investing, Impact Investing, and similar strategies that favor projects or shares of companies based on perceived social good."

The line dividing Impact Investing and microfinance is similarly blurred. In fact, given Impact Investing's emphasis on both intent and measurement of social impacts, as well as its preference for deploying capital in the form of debt rather than equity, it often prioritizes investments in financial services, particularly microfinance (Jafri 2018). Modern microfinance institutions (MFIs) first emerged in the 1970s in Bangladesh as a solution to the problem of credit constraint among poor people by providing financial services for those without access to traditional formal banking, mostly in the form of loans to individuals, groups, and small businesses (van Rooyen et al. 2012). Globally, more than 800 million people live in extreme poverty, defined as living on less than USD $1.25 a day (United Nations Development Program 2016). Such people, including farmers and would-be entrepreneurs, are credit constrained due to collateral and other reasons. Without collateral, such as property that can be pledged as security for repayment of a loan, banks are generally unwilling to offer loans.

Theoretically, microfinance promises to eradicate poverty by allowing market forces to operate, which, in turn, enables the poor to invest in their future and bring themselves out of poverty (Donou-Adonsou and Sylwester 2016; Miled and Rejeb 2015). By reducing credit constraints, microfinance aims to enable clients to increase their incomes, repay their loans, and accumulate financial wealth. By providing microloans to entrepreneurs to start social enterprises or other small businesses, impact investors promote financial development and poverty reduction among the world's poor, while earning financial returns on the interest of the loans.

Measuring the actual impact of microfinance initiatives on poverty reduction has proved challenging (Banerjee et al. 2015; Miled and Rejeb 2015; Samer et al. 2015), a problem that Impact Investing has also faced (Jackson 2013b; Reisman et al. 2018; Wieland 2016). A large part of the challenge stems from the fact that the Impact Investing industry lacks comparable financial and impact data and a harmonized set of methodological procedures to collect and analyze data. According to Bolis et al. (2017), very few organizations "have datasets that include detailed information on both financial performance and impact performance, sufficient, for example, to compare financial performance against impact approach, enterprise type, etc. This is partly due to the difficulty of standardizing impact metrics and the cost of collecting data" (p. 15).

Evaluations of microfinance initiatives have revealed mixed results in terms of impacts on beneficiaries (Agbola et al. 2017; Banerjee et al. 2015; Miled and Rejeb 2015; van Rooyen et al. 2012). Likewise, assessments of Impact Investing–funded projects have found that the fiscal requirements, including rate of return and time horizons, are often not totally well matched to the needs of social enterprises and other social programs, negatively affecting outcomes (Bolis et al. 2015).

Impact Reporting and Investment Standards (IRIS),[1] a comprehensive system for impact measurement and management developed by GIIN, has made significant progress in providing consistent measuring and management of the impacts of investments, enabling investors to minimize negative effects and optimize positive effects (GIIN 2020).

IMPACT INVESTING: A RESPONSE TO A CHANGING INVESTMENT ENVIRONMENT

Twenty-First Century Investing: Features of the New Investment Environment

Given that Impact Investing aims to achieve both financial returns and social/environmental impacts rather than achieving one at the expense of the other, it has thus far proven capable of attracting substantial funding from the private sector (Carragher 2013; Freireich and Fulton 2009; Harji and Jackson 2012; Jackson 2013a; Runde and Rice 2016; UNDP 2016). Bugg-Levine and Emerson (2011) noted that the conditions that enabled the Impact Investing movement to emerge are the same conditions that continue to foster its growth, stating that "the forces that set off the first ripples of the impact investing movement continue to grow" (p. 11).

Changing Demographics: Investment Practices Among Millennials

The changing demographics are an integral feature of this new investment environment. Specifically, the entrance of Millennials—the cohort of individuals reaching young adulthood in the early 21st century—into the workforce are fueling the Impact Investing movement given that the priorities of many

[1] Available online through https://iris.thegiin.org/

Millennials seem to fit the ethos of Impact Investing well. According to a survey of 5,000 Millennials spanning 17 countries, 71 percent of respondents expressed interest in making impacts for the benefit of society or in working for organizations and companies that care about the environment and society (Rodin and Brandenburg 2014, p. 669). Evidence suggests that among the young and wealthy, there exists a great willingness to invest in society (Harji and Jackson 2012). As Harji and Jackson (2012, p. 771) explained, "this era has been the generation of unprecedented wealth, and the next cohort of wealthy individuals wants to approach things differently, combining their business activities with their commitment to society." The authors continued:

> In 2011, some USD $212 trillion existed in the world's financial stock (comprising equity market capitalization and outstanding bonds and loans) and in the next 40 years, some estimate Generation X and the Millennials could inherit up to USD $41 trillion from baby boomers . . . Unlocking even a small percentage of this capital would expand dramatically the resources available to address the world's biggest social and environmental problems. (parag. 771)

Runde and Rice (2016) have made similar observations:

> One of the trends driving interest in Impact Investing is generational—30 percent of Millennials believe that the number one priority of business should be to improve society. Traditionally, thinking around profit versus social good has been bifurcated, but this generation has a different view on social and corporate interests. (parag. 7)

Pointing to a 2015 study conducted by Morgan Stanley, Runde and Rice (2016) noted that the study "found Millennials to be twice as likely to both invest in companies or funds that target specific social/environmental outcomes." Relatedly, the numbers of millionaires and billionaires have increased dramatically in the decade, up 50 percent and 200 percent, respectively, between 2008 and 2014 (Runde and Rice 2016). The significance of these dual trends for the future of Impact Investing is clear. As Runde and Rice (2016) put it:

> This latest generation of high net worth individuals includes entrepreneurs like Mark Zuckerberg, Pierre Omidyar, and Jean and Steve Case . . . who are intent on transforming the world. For these

> individuals, impact investment represents a new way to leverage their massive wealth and innovative thinking to deliver social good. (para. 8)

A Nascent Industry: Upward Trends and Institutionalization

A Global, Multibillion-Dollar Market

Private institutional investors are taking notice of these trends among Millennials. The largest of such investors have begun to integrate Impact Investing into their operations by assigning teams exclusively dedicated to the investment strategy (Runde and Rice 2016). For example, in 2015, "Goldman Sachs purchased the impact investment firm Imprint Capital. Morgan Stanley, BlackRock, and UBS have also recently established impact investment units" (Runde and Rice 2016).

Hence, it is no surprise that Impact Investing is now a booming, multibillion-dollar industry (Bugg-Levine and Emerson 2011; O'Donohoe et al. 2010; Saltuk et al. 2015; Vecchi et al. 2016). Yet, according to Ormiston et al. (2015, p. 355), "it is difficult to get an accurate indication of the size of the global market for impact investment, as little information on transactions is made publicly available, and there are various views as to what is or is not impact investment." Thus, figures vary markedly. The GIIN aimed to address these gaps in knowledge by conducting the first rigorous analysis and estimate of the size of the Impact Investing market (Mudaliar and Dithrich 2019). Based on the study's findings, GIIN estimates that over 1,340 organizations currently manage USD $540 billion in Impact Investing assets worldwide (Mudaliar and Dithrich 2019). The study also highlights the market's diversity with regard to types of investors, which include family offices, foundations, banks, and pension funds "who are based in every region of the world and investing worldwide" (Mudaliar and Dithrich 2019, p. 3). The authors of the study describe the market's key characteristics and players as follows:

> Over 800 asset managers account for about 50% of industry assets under management, while 31 development finance institutions (DFIs) manage just over a quarter of total industry assets. Most Impact Investing organizations are relatively small, with about half managing less than USD 29 million each, yet there are also many large players managing over USD 1 billion each. (Mudaliar and Dithrich 2019, p. 3)

The market potential is even larger. Over USD $13 trillion in professionally managed assets (one in four dollars) now consider sustainability principles (US SIF Foundation 2018).

Mechanisms for Institutionalization

Despite the fact that Impact Investing strategies have been around for decades, Impact Investing is still considered a nascent industry (Bugg-Levine and Emerson 2011; Nicholls 2010; Ormiston et al. 2015). This demonstrates that, for emerging investment strategies, the process of becoming institutionalized and mainstream can be long and slow. Developing the support infrastructure needed to facilitate Impact Investing activities and improve the legitimacy of the industry takes years of coordinated efforts by a wide range of actors.

However, significant progress to establish such infrastructure for the Impact Investing industry has been made in the last decade. In 2009, the GIIN was launched with the objective of increasing the scale and effectiveness of Impact Investing around the world through a large portal of activities to define and develop the relevant infrastructure for industry growth (O'Donohoe et al. 2010). Launched in cooperation by J.P. Morgan, the Rockefeller Foundation, and the United States Agency for International Development (USAID), the GIIN is "tasked to develop the critical infrastructure, activities, education, and research that would increase the scale and effectiveness of Impact Investing" (O'Donohoe et al. 2010). Now, GIIN arguably represents the core, constitutive element of this new infrastructure.

Beyond the GIIN, other key components of Impact Investing's support infrastructure have emerged in recent years (Ormiston et al. 2015). They include metrics such as IRIS and Global Impact Investing Rating System (GIIRS), both of which aim to "establish common standards for impact measurement and benchmarking" (Ormiston et al. 2015, p. 354). Additionally, new databases, such as ImpactBase and Impact Assets 50, have emerged in order to ease "the task of unraveling the landscape of impact investment funds and products" (Ormiston et al. 2015, p. 354).

Instruments such as social impact bonds[2] (SIB) have also been set up as a part of the emerging Impact Investing industry (Jackson 2013b). An increasingly popular Impact Investing instrument, SIBs are commonly used to fund social enterprises and development projects (Arena et al. 2015, 2016; Burand 2012; Demel 2012; Leventhal 2012; Park 2018). According to Park (2018, p. 1),

[2]See Chapter 14, "Social Impact Bonds: Promises and Results," by Maria Basílio.

social bonds are "debt securities sold to investors whose proceeds are used to finance projects with a defined social benefit such as affordable housing, education, food security, and access to healthcare."

Such instruments, which together form Impact Investing's support infrastructure, ease the entry for new impact investors by reducing risk and uncertainty. They do so largely by providing a track record and common standards. Yet much more work is needed in order to further institutionalize and streamline Impact Investing. Institutionalization remains one of the central challenges facing the industry (Harji and Jackson 2012; UNDP 2016).

KEY FEATURES OF IMPACT INVESTING

A Sense of Community: The Impact Investing Culture

One striking feature of Impact Investing, which brings together a broad base of stakeholders, is its distinctive investment culture marked by a sense of community among investors (Bugg-Levine and Emerson 2011; Ormiston et al. 2015). This feature is seemingly due both to its nascent status as "market building" and to its social/environmental impact component. Ormiston et al. (2015) found that relying on established networks and reaching out to create new ones was one of the four main strategies that early adopters of Impact Investing have employed to address its formidable challenges. In that study, such early adopters spoke of hosting events, bringing industry leaders together, reaching out, hiring consultants, asking for advice, and passing on investments that were not a good fit for them that might be a good fit for another organization. Together, these activities demonstrate a clear sense of community among Impact Investing investors and a culture of learning and cooperation.

Because Impact Investing is still a new investment strategy and thus still building a solid support infrastructure, interested parties recognize the need to take it upon themselves to actively help establish this infrastructure. That is, this community, created by impact investors and their networks, is constitutive of the support infrastructure. This strategy reduces risks by ensuring that impact investors are better informed, are making educated decisions, and are sharing risks with other investors through pooling their money together. Such risk reduction contributes to the ease of entry, a key factor to engage in Impact Investing as a new investor (Ormiston et al. 2015).

Compatibility with Existing Models and Practices: Portfolios, Industry Standards, and Investment Priorities

Another key feature of Impact Investing is its high degree of compatibility with existing investment models. At least, this is the view of one of the two schools of thought regarding Impact Investing's location in investment portfolios. This school purports that Impact Investing can be situated across the range of asset classes rather than representing its own distinctive asset class (Harji and Jackson 2012; Höchstädter and Scheck 2015; O'Donohoe et al. 2010; Ormiston et al. 2015). This means that Impact Investing can simply constitute a certain proportion of an existing portfolio, one way of mitigating risk with this new investment strategy. It also means that Impact Investing can be held to the same expectations and standards for returns, as discussed earlier, and for due diligence requirements (Ormiston et al. 2015). Such compatibility with existing investment models eases entry for new Impact Investing investors who do not need to deviate radically from their current investment practices. Rather, they are "adding value"—or "blending value" to use Bugg-Levine and Emerson's (2011) term—to their investments by simply considering social and environmental impact *in addition to* financial returns, applying the same methods used by existing investment models for developing portfolios and decision-making.

Flexible Investing for Broad Investor Interests and Needs

Given that Impact Investing holds two objectives simultaneously—financial returns and social/environmental impacts—a diversity of investors can find value in Impact Investing. Different investors have different needs, requirements, and priorities, and Impact Investing is flexible enough to match such diversity (O'Donohoe et al. 2010; Ormiston et al. 2015). For instance, institutional investors generally have more constraints regarding fiduciary responsibilities, required by law, and thus need to prioritize "financial-first" investments. Conversely, philanthropic organizations generally have more leeway to prioritize "impact-first" investments, although they, too, face legal constraints regarding the source of the investment, namely, whether endowment-based or not (Ormiston et al. 2015). Regardless of the priorities and constraints, both types of entities can find value in Impact Investing, since, again, Impact Investing does not pit financial returns against social/environmental impacts. It simply becomes a matter of priority: whether financial-first, impact-first, or an even distribution of both. Greater institutionalization and wider acceptance of Impact Investing will hinge in part on its ability to recognize that different entities face differing constraints and to identify ways for Impact Investing to respond to those constraints effectively and meet these entities' unique needs.

Refining the "Good" Return: Financial and Social Considerations

Given these distinctive features, Impact Investing is arguably a paradigm-shifting investment strategy with the potential to influence the entire field of investment. In particular, Impact Investing redefines the meaning of a "good return" and investment value (Bugg-Levine and Emerson, 2011). For Impact Investing, the value of investment is not limited to the financial realm but extends to social and environmental realms as well. Yet such an extension does not suggest that financial objectives should be compromised. In fact, a study by Ormiston et al. (2015) based on interviews with leaders of companies engaged in Impact Investing practices as early adopters found that one of the key strategies that these leaders and their companies used to navigate the unique challenges posed by this new form of investment was to maintain a "financial-first" approach, holding to the same standards and expectations for returns as institutional investments. With such a strategy, the social and environmental impacts become an "added value" (Ormiston et al. 2015).

Impact Investing shows that investment does not need to be a zero-sum game, where financial returns are compromised for the sake of social and environmental impact, or vice versa. Rather, a single investment can have double returns in two forms: financial and social/environmental (O'Donohoe et al. 2010). Financial returns and positive social/environmental impact can co-exist, and together enhance the overall value of the investment (Bugg-Levine and Emerson 2011). This occurs partly though supporting the mission and values of an organization, which, especially in cases of philanthropic organizations, cannot be captured solely by financial investment. The inclusion of social/environmental impact can also provide competitive advantage to investment portfolios, distinguishing them from the rest of the field (Ormiston et al. 2015).

Helping Investors "Walk the Walk": Aligning Mission, Values, and Investments

Impact Investing also offers a way to meet changing market demand. Increasingly, individuals and organizations seek positive social/environmental impact with their investments above and beyond financial returns (Freireich and Fulton 2009; Jackson 2013a; Ormiston et al. 2015; UNDP, 2015).

This trend demonstrates that one way that companies and organizations maintain their credibility, integrity, and loyalty of their clients and customers is to go beyond financial returns; they must "walk the walk," so to speak. If their missions and values claim a commitment to making social/environmental impacts, they must demonstrate it with their actions. That is, the positive social/environmental impact becomes a source of capital that is *distinctive* from financial capital, one that could be called "impact capital." A certain class of investors has shown clear interest in generating such impact capital, beyond financial capital. By demonstrating that the two objectives can be met within the same investment strategy, there is huge potential to win over institutional investors, who have historically been risk averse and have tended toward the *status quo* of focusing solely on financial returns (Ormiston et al. 2015).

A Prudent Entrepreneurial Spirit: Experimentation and Mitigating Risks

While impact investors are drawn to Impact Investing because of their desire to align mission and values, many of the early adopters maintain an entrepreneurial spirit that is reined in by caution and legal and other institutional constraints (Ormiston et al. 2015). Yet the observation that such early adopters, who have been quite successful in their Impact Investing endeavors, are not necessarily cavalier should be well received by the investment community as an encouraging sign that Impact Investing does not necessarily mean high risk or low returns on investment. Rather, by holding firmly to an entrepreneurial spirit, impact investors are able to recognize new opportunities, enter into novel ways of doing business, and experiment, while maintaining their responsibilities and keeping focused on their core business. In this sense, Impact Investing is, paradoxically, shifting paradigms without radicalism.

IMPACT INVESTING: LEVERAGE FOR DEVELOPMENT?

According to the United Nations (UN), achieving its sustainable development goals (SDGs) may require infusions of USD $1.5 trillion to USD $3 trillion annually (United Nations Conference on Trade and Development, 2014). While the funding available through governments and philanthropists may amount to billions in grants, loans, aid, and other sources of funding, it still falls far short of the needed resources to fulfil the SDGs (Rodin and

Brandenberg 2014). Through its seemingly simple dual commitment to social impacts and financial returns, Impact Investing represents a new and distinctive set of investment strategies and practices, one that is particularly effective at gathering support for economic development issues, even as Impact Investing's application goes well beyond development and developing countries.

The potential to leverage Impact Investing for development is massive. A growing body of research documents and analyzes the nexus between Impact Investing and development as Impact Investing has been used to fund an array of development projects in recent years (Bolis et al. 2017; Farley and Bush 2016; Jafri 2018; Jones and Turner 2014; Lindenberg and Pöll 2015; Ngoasong, et al. 2015). According to Jafri (2018, p. 2), impact investors can play a critical role in realizing development initiatives because they "fill the void in enterprise finance created by regulatory constraints on banks" and "accommodate the demand for yield by facilitating the entry of global capital into poor countries."

Within the set of strategies and practices that characterize Impact Investing lies an incredible range of configurations, some of which are much better suited to development projects than others. These configurations reflect investors' priorities and enterprises' needs regarding impacts and returns. Many such configurations are theoretical as of yet, demonstrating the broad potential for combining social impact with financial returns. This range of possibilities has been represented as a spectrum, with impact-first at one end and financial-first at the other (Bolis et al. 2017). This spectrum allows for Impact Investing to, at times, bear closer resemblance to philanthropy, such as when an investor agrees to less than a 100 percent return on his or her investment. At the other end of the spectrum, Impact Investing reflects typical institutional investments, prioritizing market-rate returns over the degree of social/environmental impact.

While financial-first strategies have been popular with impact investors, often because they more closely mimic institutional investments in terms of expectations for near-market returns and are considered lower risk than impact-first investments, many financial-first strategies are not a good fit for development projects. This is especially the case when financial-first strategies have expectations of near-market or at-market returns, which often are not appropriate goals for many social enterprises aimed at development and poverty reduction, in the short term, long term, or both. However, near-market return goals are appropriate for certain types of social enterprises, based on a variety of important factors, namely product or service and the enterprise's level of maturity. More research is needed in order to identify when near-market returns are possible for development projects and which impact-first configurations and configurations that balance financial-first and impact-first—those that would be located in the middle of this spectrum between financial-first and impact-first—would be better suited for many development projects (Bolis et al. 2017).

In their Oxfam report, Bolis et al. (2017) argued that as the potential for Impact Investing for economic development has garnered attention in the media and in academic literature, the promise of achieving market-rate returns has been overemphasized and even exaggerated. The expected rate of return for many social enterprises focused on economic development is often well below market-rate returns. Many development ventures could greatly benefit from Impact Investing but under different terms, such as lower financial returns or longer time horizons.

Social enterprises represent the organizational form that is arguably best suited for using Impact Investing for economic development projects, given the natural affinity between social enterprises and Impact Investing. Social enterprises, by definition, aim to address social/environmental problems using a for-profit business model that lends itself well to Impact Investing. Given the important role that social enterprises can play in economic development initiatives, there is need for greater clarification of the unique features and requirements of social enterprises and to adopt and adapt investment strategies and practices that are best suited to this type of enterprise. Rather than asking how social enterprises can achieve market-rate returns, we ought to ask how investors can best invest in social enterprises[3] so that they can achieve maximum impact and financial sustainability.

Because social enterprises include social impacts as part of their missions, they cannot compromise their commitment to the specified social impacts even if doing so would increase the rate of return; this is precisely what distinguishes them from other enterprises. As such, they are best served by investors who equally share their commitment to achieving social impacts, even at the expense of financial returns. Otherwise, a "mismatch," as Bolis et al. (2017) called it, can emerge between expectations, priorities, and outcomes.

Thus, the best way forward to leverage Impact Investing for development is to go beyond the emphasis on financial-first Impact Investing strategies that expect near- or at-market returns to further investigate other Impact Investing configurations—namely, impact-first strategies and especially

[3]See Chapter 26, "The Importance of Scale in Social Enterprises: The Indian Case," by Vikram Raman.

those that balance financial-first and impact-first—that may be more suited to the needs of economic development projects. More research is needed,[4] both to theorize as well as to document new experiments at the intersection of social impacts and financial returns in order to provide more empirical evidence regarding the extent to which Impact Investing can and does generate meaningful and measurable economic development outcomes, such as poverty reduction.

CONCLUSION

Is Impact Investing an innovation or a rebranding? In recent years, at both national and international levels, individuals and organizations concerned about creating sustainable solutions for pressing global and daunting local challenges paid increasing attention to Impact Investing as a fitting investment philosophy and a set of practices. It is clear from this review of the literature that Impact Investing shares some features of SRI, microfinance, and other "positive" forms of investment, with its "blended value," offering both financial returns *and* positive social and environmental impacts. However, such similarities do not mean that Impact Investing is merely a rebranded version of these other positive investment classes. Rather, Impact Investing does offer an innovative approach to investment that is resonating with new and established investors alike. Part of its innovation is its flexibility and compatibility with existing investment models and instruments, offering the world of investment a bridge between old and new paradigms. Impact investing thus reflects a new era of investment in the twenty-first century, further encouraged by the fact that it resonates with the ethos of high-net-worth youth entrepreneurs seeking to do good beyond doing well.

Nevertheless, Impact Investing faces serious challenges, such as measuring social and environmental impacts accurately and transparently and developing a robust infrastructure that can support this nascent industry and its growth. These considerations suggest future directions for research in this area. There is also a need for greater interrogation into Impact Investing's potential as a driving force for economic development. These and other considerations regarding the potential and future directions of Impact Investing will be valuable to scholars and practitioners alike, as we work collectively to clarify and shape this phenomenon to the greatest benefit for our global society.

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[4]See Chapter 6, "Gender Lens Investing: Co-Creating Critical Knowledge to Build a Credible, Durable Field," by Edward T. Jackson and Elsa de Morais Sarmento.

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