Impact Investing Shifts into Higher Gear

A dramatic shift is shaking foundations and disrupting convention worldwide. It's felt in lofty financial centers and the halls of political power brokers. It's felt in religious institutions and old dusty houses on remote roads lightly traveled by community-development advocates. The shift portends life-changing possibilities by merging philanthropy's social consciousness with history's tested market principals. It's combining the power of markets and technology and motivating socially minded entrepreneurs and investors to deliver both innovative solutions for big problems and solid financial returns.

Picture the need to support and stimulate productive agriculture in a struggling African economy. With the right capital infusion one coastal flower exporter is able to purchase more flowers from more smallholder farmers. In just a few years the number of African flower growers the exporter buys from increases from to 3,000 from 8,000. As the exporter buys more flowers, many thousands of regional farmers and their communities prosper.[i] Resources are produced through their profitable farming activities. Lives improve, and joy returns as needs are met. All this is the result of J.P. Morgan's purposeful investment in one targeted key player—the exporter. Not only is the exporter returning profits to investors, the investment triggers and sustains exponential local and regional wealth generation and economic growth.

This is impact investing today. It's where investors invest purposefully to generate measurable, beneficial social or environmental impacts *alongside* financial returns; where investment capital is deployed with an expectation of financial return, *and* the investment's measured "success" depends on attaining stated social or environmental objectives. Investors are living a historic "ah-ha" moment, awakening to a long-awaited and profound truth: that good fiduciary investments and good social investments are no longer separate and distinct, but combine effectively to yield greater good. The idea of deploying private capital in ways that effectively serve a public good, while simple, has eluded too many for too long.

Impact Investing 1.0 — The concept has been around for a long time, slowly growing over decades of interaction between investors, entrepreneurs, public-sector leaders, and foundations. But impact investing was originally viewed as requiring a *tradeoff* between profits (absolute returns) and social benefits in which investors accepted lower financial return in exchange for a higher social impact (impact adjusted returns). Since 2000, banks and funds operated on the "double bottom line" philosophy that it was okay to compromise on absolute returns to achieve defined and measured social impact.

That view is taking a back seat now as investment companies are finding that sound impact investing often earns the same return as non-impact investing. The pace of embrace accelerates.

> "At Abacus, we've found that sound impact investing can earn the same return as "non-impact" investing. Indeed, a Mercer Consulting synopsis of 36 papers published between 1995 and 2009 states that the majority of them found that incorporating environmental or social screens had a positive effect on performance—the opposite of what most people believe!"[ii]

What's Driving This Change to Impact 2.0?

Since 2008's economic meltdown impact investing's historically small field has morphed into Impact Investing 2.0—a new level of acceptance and enthusiasm built on a younger generation of socially conscious entrepreneurs armed with the power of the internet and high technology to harness investors, target problems, deliver solutions, and measure results/returns. Socially conscious companies that embed social impact in their business models increasingly attract heavily recruited college grads on a mission to both make a lot of money and change the world. Today's youth clamor to work for companies that are both highly profitable and purposefully, successfully impactful.

The internet has changed the way we think about most things, including investing and perceptions of value and return on investment. The internet has changed the way investment opportunities are presented to investors—it democratizes and socializes investing. It makes wide and instant communication—and collaboration—about investment ideas, opportunities and results possible.

In today's highly connected information-based world we have gained a sophisticated ability to measure and monitor the impact that companies have beyond the bottom line, which has fostered a greater social and environmental awareness. We now, as a culture, see and "get" that what we buy and how we invest our money matters—we understand that our choices have an impact. We understand that we can *have* an impact when we invest. And we want that impact to be "positive." Historically investment imperatives were strictly money profit. Because that was easily measured, tracked, communicated, and understood. Well, now it's far easier to measure, track and understand other aspects of "profit," "benefit," or "impact" from an investment. Information technology tools let us grasp and understand results beyond profit. So, we do. Because we care about the impact we have.

The convergence of these things is energizing the impact-investing realm, giving it new meaning and viability, and opening it to many more applications and minds (supporters), including governments and religious institutions. Suddenly, the feasibility of impact investing as a concept kicked into a much higher gear.

- The Pontifical Council for Justice and Peace (PCJP), Catholic Relief Services, and the Mendoza College of Business, University of Notre Dame convened a two-day Impact Investing symposium at The Vatican in June 2014 exploring core impact-investing concepts, their use in Church missions, and how the Church can promote impact investing—while declaring that impact investing "holds great promise as a tool to serve the poor," and tremendous potential to scale existing efforts.[iii]
- Pope Francis implored Church treasurers to invest endowments to catalyze social change in service to the poor—not merely for economic return—and urged governments to develop frameworks capable of promoting impact-investment markets.
- Financial services companies like JP Morgan Chase increasingly recognize a broad responsibility to invigorate economies and address important social and environmental problems in the communities they serve. They also see catalyzing their client's impact on communities as part of this responsibility.

Even former skeptics like Bill Gates now recognize the significant reach—and potential—of impact investing. "Impact investing is a powerful model with the potential to build markets and drive change for the people who need it most,"[iv] said Bill Gates in a statement confirming his personal fund investment in Unitus, a Seattle- and Bangalore-based fund that invests in companies adopting explicit social goals (including Smile Merchants, low-income dental clinics near Mumbai, and Hippocampus Learning Centers, private kindergartens serving over 6,000 rural and low-income students).

Today, growing numbers of impact investors finance enterprises delivering education, global economic development, preventive health care, adequate housing, and solar grid programs to places and people that really need them. They provide capital for important solutions to world challenges in sustainable agriculture, affordable housing, access to healthcare and energy, clean technology, and other services essential to economic growth. By harnessing market-based financial tools these investments impact local communities—creating jobs, increasing productivity and wealth creation, and lifting millions out of poverty.

Markets have the power—especially if permitted, encouraged, directed, protected and supported—to provide big solutions to the world's big problems. Technology is allowing the creation and delivery of products and services that meet the needs of low-income populations. This changes lives, yields economic development and sustainability for the population, and generates revenue streams for the provider.

The potential power of impact investing is far greater than its current reach. While a recent report from J.P. Morgan and the Global Impact Investing Network (GIIN) finds that impact investments under management are $46 billion and increasing by nearly 20 percent per year, they remain a very small fraction (.02 percent) of the $210 trillion in global financial markets.[v] The Monitor Institute, Rockefeller Foundation and JP Morgan project the growth potential of investing for social and environmental impact to range between $400 billion and $1 trillion.[vi]

Governments can play an important role in unleashing the power of markets, and in enabling impact investors to invest capital and energy for social, economic, and environmental good. For impact investing to expand and reach its full problem-solving potential requires political leadership and proactive government support**.** Government can and should implement policies that support and enable expansion of impact investing's established successes. Smart government policy can effectively leverage private capital markets for social benefit—dramatically improving the results of other government-led social efforts.

Impact investing is coming of age and hitting its stride. Larger pools of capital are available for businesses with both financial and social/environmental goals. Financial, charitable, and religious institutions are innovating in their investment models as they seize the social awareness and initiatives of a younger generation to move positive societal and community change; they are redefining our conception of return on investment. Yet, much more can be done to secure the incredible social benefits possible through the effective deployment of private capital.

[i] Amy Bell, *Why Impact Investing Is An Emerging Paradigm Shift In Philanthropy*¸ Forbes.com, July 30, 2013, http://www.forbes.com/sites/skollworldforum/2013/07/30/why-impact-investing-is-an-emerging-paradigm-shift-in-philanthropy/.

[ii] Brent Kessel, Abacus Wealth, *White House Takes Notice of Impact Investing*, http://abacuswealth.com/white-house-takes-notice-impact-investing/.

[iii] Catholic Relief Services, http://www.investingforthepoor.org/.

[iv] *Bill Gates is putting his own money into a small impact-investing fund focused on India*, http://qz.com/297097/bill-gates-unitus-seee-fund-impact-investing-fund-focused-on-india/.

[v] U.S. Advisory Board on Impact Investing, http://www.nabimpactinvesting.org/executive-summary/.

[vi] (http://www.nabimpactinvesting.org/notes)