The purpose of this paper is to give a comprehensive overview of the impact investment field. Impact investing is on the rise as it allows one to receive financial returns while also attending to some of our largest social and environmental problems. To give a proper review, this paper discusses the current state of impact investing, the six dimensions that compose impact investing, the Framework of Action based on impact investment research, recommendations to enhance the field of impact investing, and case studies which detail real examples of impact investments. Since impact investing is relatively new, reports like this one are crucial in order to explain impact investing, and encourage more investors to become involved.

Keywords: Social Impact, Impact Investing, Financial Return, Social Return, Double Bottoms.
Introduction

Social impact investments are investments made with the dual objective of generating positive social and environmental impact, while also achieving financial returns (Rodin & Brandenburg, 2014). Because impact investments are made with an expectation of financial return, they are different from philanthropy. Therefore, impact investing is unique in that these investments can pursue financial returns while also addressing social and environmental issues (Bugg-Levine & Emerson, 2011). There is no suggestion for impact investing to replace typical philanthropy like donations and grant-giving; however, in order to solve the increasingly complex social and environmental challenges we face, there is a need for more investors to take this dual approach to investing (Rodin & Brandenburg, 2014). In both emerging and developed markets, impact investing is made to better its targeted locations. Impact investing enables limited public resources to gain higher amounts of private capital in order to be utilized to solve social and environmental problems (The Rockefeller Foundation, 2011). Therefore, impact investing to assist development spurred from the recognition that solely donating to governments and nonprofits will not create long-term economic growth or a drastic reduction of poverty (Bugg-Levine & Emerson, 2011). With impact investing, funds are dispersed to vulnerable people themselves, for example, through loans or money for their businesses. While single donations can only last so long, impact investing provides continued support to projects that are working to help those in poverty achieve financial independence.

There are three stockholders in Impact investing: the funds, the investors, and the investees (Clark, Emerson, & Thronley, 2011). The funds are the equalizer, or the medium that acquires the high capital from the investors, and then disperses it to the companies that need it, in order to help these investees reach their social impact goal. The investors provide capital to funds. Impact investors are a diverse group of individuals and institutions, who utilize business models through investment strategies in order to support new solutions to social and environmental problems (Rodin & Brandenburg, 2014). Investors may include: individuals, development institutions, philanthropic foundations, governments, banks, as well as other organizations. Furthermore, some investors have a financial-first intent, which means their primary goal is the financial return, while other investors have an impact-first intent, which means their main goal is to have a social or environmental impact (Rodin & Brandenburg, 2014). Impact investors also differ by the size of their funds and their appetite for investment risk (Rodin & Brandenburg, 2014). The investees are the recipients of capital from funds. These are the companies being invested in who are attempting to make a social or environmental difference through various businesses (Clark, Emerson, Thronley, 2011). Along with the three stockholders, there are also two innovations: platform innovation and financial innovation. Platform innovation is the “tool” that gives the investors the means to come up with the capital. The financial innovation is the “tool” that gives the investors the means to provide the capital to the investees. (Clark, Emerson, Thronley, 2011).

Although impact investing has seen continued growth, there are still many challenges and necessary improvements. Impact investing leaves an investor with many questions, such as: which practices can give the best outcome, what strategies are the best to use, and how can one achieve optimal performance. With that in mind, impact investing is still a fairly new concept. Although the concept is very clear, impact investment is viewed as “an evolving and different animal,” which many are still unsure how to tackle, since there is not a wide range of information available on the subject (Clark, Emerson, & Thronley, 2012). Therefore, continued research on this field and papers like this one are vital, so that more can learn about impact investment, which will hopefully create more impact investors.

Impact Investing Today

Both the impact investment field and community have seen rapid growth (Rodin & Brandenburg, 2014). In fact, the amount of impact investment capital has gone up steadily, along with the amount of products and platform for investors (The Rockefeller Foundation, 2012). Possibly the first form of impact investing is microfinance, which involves making small loans to the world’s poorest people in an attempt to eradicate poverty (Rodin & Brandenburg, 2014). This practice began in Latin America and Bangladesh during the 1970s and 1980s. In 2006, microfinance gained global attention when Muhammad Yunus was awarded with a Nobel Prize, which attracted even more impact investors (Rodin & Brandenburg, 2014). The continued rise of microfinance also portrays the substantial growth of impact investing, as microfinance has assisted more than 100 million clients with more than $50 billion in loans (Bugg-Levine & Emerson, 2011).

Furthermore, the trend of impact investment has continued to substantially grow since its introduction to the field. In fact, the financial crisis of 2008 led to the largest impact invest-
ments ever made (Rodin & Brandenburg). As of 2011, about 60 new impact funds were created, which is approximately double the amount created in 2010, and approximately triple the amount created in 2009 (Clark, Emerson, Thronley, 2011). According to JP Morgan and Global Impact Investment Network (GIIN), Impact investing is predicted to grow 12.5% to reach $9 billion in 2013 (J.P. Morgan, 2013). However, a gap still exists between the demand for funds and the philanthropic resources available. In upcoming decades, Generation X and Millennials could inherit up to $41 trillion from Baby Boomers. Unlocking even a small amount of this capital would dramatically increase the resources available to address the world’s biggest social and environmental problems, with assistance from impact investing (Rodin & Brandenburg, 2014).

According to The Rockefeller Foundation, when you look at impact investing in a supply and demand perspective, most of the suppliers are coming from the global north, with the majority of investors coming from the United States. The areas in most demand are in the global south. However, in order to expand impact investing, it is important to look at social and environmental problems that exist in other parts of the world also, including even the powerful global north (The Rockefeller Foundation 2012). Other areas are in need of change in order for impact investing to further its success. As of right now, there is a lack of “investment-ready projects.” For example, more projects need to be created that provide affordable goods and services to low-income communities unreached by existing commercial businesses (Bugg-Levine & Emerson, 2011). Projects that organize supply chains which allow poor individuals to benefit from trade, as well as projects that offer support for the delivery of public goods by governments and nonprofits, would also be promising for impact investors (Bugg-Levine & Emerson, 2011). Furthermore, it is essential for there to be more organizations with global networking and partnerships in developing countries (The Rockefeller Foundation, 2012). For future impact investment, research finds that six areas most promising for impact investors are: health care, affordable housing in emerging markets, education, agriculture, distributed utilities, and restructured social spending (Bugg-Levine & Emerson, 2011).

**Six Dimensions of Impact Investing**

After conducting research in the impact investment field, the Rockefeller Foundation (2012) examined the field’s progress over the past four years in terms of six main dimensions of the impact investing industry. Reviewing these six dimensions provides a clear view of the field’s achievements, as well as challenges.

The first dimension of impact investing is the unlocking capital dimension. In 2011, about 2,200 impact investments were created with a net worth of $4.4 billion (Rockefeller Foundation, 2012). Although this is a huge step in the right direction, there are still challenges that need to be met when it comes to unlocking capital. One challenge is obtaining a distinct understanding of what the investor wants, while another challenge is to coordinate capital with demand.

Continuing with capital, the next dimension is the aspect of placing and managing capital. Though placing capital has seen some constant progress in terms of global development of intermediaries; it has been found to be much more challenging to place and manage capital than to raise capital. In order to make it possible to proceed in placing and managing capital, there is a need for the production of more products for large investors to invest in, and to strengthen existing products with a main focus of creating social stock and exchanges.

The next dimension is regarding the demand for capital. As of right now, there is still a high demand for investment-ready projects needed in its targeted areas. In order to overcome the lack of investment-ready projects, there needs to be a larger variety of ideas beyond microfinance and affordable housing.

Furthermore, the dimension of assessing impact is the most active area of impact investing. Although it has not yet been perfected, impact investment has made many gains due to the simple fact that there are tools to measure the social, environmental, and financial performance of various impact investing ventures. Providing measured evidence regarding the performance of impact investments likely encourages new investors to become involved with impact investing. However, modifications need to be made, such as a broadening of measurement tools.

The next dimension has to do with creating and enabling the environment of impact investing. The government plays various important roles when it comes to impact investing. For example, the government can promote impact investing through providing appropriate guidelines and taxation. However, there are still challenges, such as the need for high government to make sure organizations work together instead of working against each other.

The last dimension of the impact investment industry is building leadership. In recent years, the amount
of impact investing organizations has grown substantially, and these organizations have become key performers in the advancement of impact investing. In order to continue this growth, existing leaders need to create a pathway for new individuals entering impact investment, in order for them to be successful as well. Thus far, impact investment leadership has mainly been from those in the field who are charismatic, but who have fairly limited agendas. However, for impact investment to continue its steady growth, leaders will need to use more of a collaborative approach to utilize more skills than charisma alone (Rodin & Brandenburg, 2011). It is crucial for there to be a more diverse set of leaders in this field, so that different agendas and impact goals will be represented (Rockefeller Foundation, 2012).

Framework for Action

The United Nations Global Compact and The Rockefeller Foundation worked together to create the “Framework for Action” to promote interest in investors, corporations and policy makers, and to entice them to explore social impact investing. The focus of the Framework for Action is primarily to provide services to those who are in poverty-stricken locations, create a positive impact in poverty-stricken locations, and place focus on developing and emerging areas. There are three specific steps that the Framework for Action outlines: prioritizing the rational, defining a strategy, and choosing an approach. This Framework was made to explain how to approach social impact investing. (United Nations Global Compact, & The Rockefeller Foundation 2012).

Rational: The rational is the goal of the framework; it is the goal that the investor, corporation, or policymaker wants to accomplish. Today, low-income emerging areas have a large market potential due to their size, increasing purchasing power, and the demand they represent. As infrastructures are built, organized businesses will be able to have more success, leading to more opportunities (United Nations Global Compact, the Rockefeller Foundation, 2012). According to the United Nations Global Compact and The Rockefeller foundation, this will create “sizable long-term opportunities, strategic value, and better business environments” (2012).

Strategy: The strategy is what the investor, corporation, or policymaker is going to do to achieve their rational, otherwise known as the goal. This is the point where they must come up with various strategies in order to find which strategy will best fit their goal. Along with these different strategies are different opportunities and challenges that must be carefully evaluated. The timing and size of its intended engagement must also be determined. The stakeholder can go with a more aggressive strategy in which their goal is to invest early in hopes of greater gains. The second strategy that the stakeholder can use is a more passive one, in which they would make small investments over a long period of time (United Nations Global Compact, the Rockefeller Foundation 2012).

Approach: The approach is the last step in the framework; this is the “how.” Meaning, the investor, corporation, or policymaker must decide what approach to use in order to reach their goal. This is the stage when the goal of impact investment is intended to be achieved (United Nations Global Compact, the Rockefeller Foundation 2012).

Opportunities and Directions

Impact investment has been described as moving from an “uncoordinated innovation” phase into a “marketplace-building” phase. Impact investing has transformed from an era of trying to organize and establish its “initial infrastructure,” to an era where the primary focus is on putting their plans into full effect, known as an “implementation era.” However, many leaders believe impact investing also needs more acceleration and execution in order to reach its full success (The Rockefeller Foundation, 2012).

The Rockefeller Foundation performed an interview regarding impact investments with over 100 impact investing leaders from 11 countries. As a result of these interviews, the Rockefeller Foundation compiled a list of recommendations for impact investing. These recommendations are in an effort to assist impacting investment in reaching an acceleration and execution era (The Rockefeller Foundation, 2012). The first recommendation is regarding unlocking more capital. In order to accomplish this, it is important to make the business stronger for bigger institutional investors in both public and private areas. For unlocking more capital, it is also recommended to place an emphasis on education and research in order to branch out from individual portfolios to multi-investment portfolios, so that investors can be attracted to the idea of holding both impact-first and financial-first investments. Finally, encouraging foundations to continue to make both “strategic and cultural shift” changes that are devoted to their companies’ mission is another strategy for unlocking more capital.

The next set of recommendations discusses placing and managing more capital. It is first recommended to create new, and strengthen old, in-
termediaries that will make investments in under-developed markets easier. Furthermore, it is suggested to widen the variety of products that address a large number of investors, make products available in order for easy distribution, and offer proof of “comparable product performance.” It is also important to generate new options that can produce comparable returns, in both financial and impact dimensions.

The interviews then progressed to recommendations regarding how to strengthen the demand for capital. One strategy for strengthening demand for capital is to “co-sponsor new research on emerging, hybrid, scalable enterprise models” in poverty-stricken and new power economies. Also, it is recommended to find more money productive approaches to better the management capacity of social entrepreneurs.

It is also important to assess impact more effectively. In fact, J.P. Morgan and GIIN conducted a survey of impact investors and found the largest barrier to growth in the impact investment fields was a lack of data on prior performance (Rodin & Brandenburg, 2014). Making more data available on the successes of impact investing will persuade more investors to become involved in the field. Furthermore, the flaws revealed by collected data would help to shed light on the areas of impact investment that need improvement.

The experts also discussed strategies for improving the enabling environment. To do so, it is recommended to advance the production and application of feasible knowledge devices, which include research and tools, directed toward governments that are involved in social impact investing, through the advancement of the supply of capital, policies that direct capital, and policy’s that enhance demand. It is also recommended to create an easy way for other governments to communicate their experiences with other impact investing supporting governments. In order to further improve the enabling environment, it is recommended to develop “publicly funded safety nets,” which will display what can happen when an impact investment is not executed well.

Finally, the last set of recommendations is focused on renewing and broadening industry leadership. In order to enhance leadership in the impact investment field, it is recommended to organize multiyear grant funds. This would further the growth of the public goods framework that is necessary for an adequate ecosystem, along with applying practical results, expectations, and timelines. Partnering up with educational institutions and creating professional development/graduate programs for existing fund managers, new entrants, and entrepreneurs who have interest in the impact investment opportunities is another strategy for broadening industry leadership. Furthermore, there is a need for curriculum development, interschool collaboration, role modeling and meaningful mentors in order to best prepare the next set of leaders (Rodin & Brandenburg, 2011).

**Case Studies**

**DBL Investors**

DBL Investors, a founding network member of the Global Impact Investor Network (GIIN), is a top tier venture capital firm that is based in San Francisco, California. Created in 2008, DBL has 25 portfolio companies. Their main goal is for all of its portfolio companies to create a double bottom line approach. Their first bottom line refers to achieving the goal of obtaining top tier venture capital returns, while the second bottom line indicates the improvement of social, environmental, and economic conditions.

**Rational:** DBL Investors create a double bottom line approach by improving the local tax base and surrounding environment and condition. It primarily targets low and moderate income areas, which traditionally have poor investment capital.

**Strategy:** In order to best achieve their goal, DBL investors team up with companies who focus on clean technology, health care, information technology, and sustainable products and services. DBL investors also encourage their portfolio companies to plant themselves in low-income communities.

**Approach:** DBL investors work together with their portfolio companies to ensure that as a whole, they can achieve their double bottom line approach. To achieve that goal, they work with each company separately in order to find what practices work best for them. Some examples of double bottom line practices include: better educating their employees so that they can help them move up on the financial ladder, employing people in their local communities, and traveling to local schools to educate and guide young students.

**Impact:** As of December 2012, DBL investors’ portfolio companies have created over 6,000 decent-paying jobs with health-care benefits and retirement plans. A “green corridor” has been created along a major highway in California. A green corridor is a pathway, for example a bike trail, that connects to other areas. This effort has created a healthier, more environment-friendly, and safer mode of transporta-
tion. Many of its portfolio companies have made an impact on low-income communities, such as Revolution foods which provide nutritious foods to schools. In 2011, DBL Investors closed with over $200 million in funds which resulted in top quartile financial returns.

**Sinens En-tech**

Sinens En-tech is the leading company in technology fields of high temperature condensed water recovery. Its service is widely used in areas of oil refinery, petrochemical, steel, metallurgical, electricity, coal, pharmaceuticals, textiles, and fertilizer industries. Its technology has led to great improvement in water saving and the reduction of CO2 emission.

**Rationale:** China is currently suffering its worst drought in sixty years. One main reason for this is the increasing demand from industry. However, the country has only used one-fourth of the global average amount of water per capita. In the particular fields of high-temperature condensed water recovery, previous technologies lack effective methods of preventing steamed water from being contaminated from metal and organic contaminants which lead to large amounts of wastewater. Therefore, the demand of energy efficient technology is high.

**Strategy:** Sinens En-tech’s innovative procedure of treating used steam saves the steps of cooling and heating before and after the purification, thus directly dealing with steam of high temperature, which reduces energy costs and creates steam that is ready for reuse. This product has advantages of energy cost reduction, high security, waste residue prevention over other competitors and has cost advantages over others.

**Approach:** In order to reach various demands, Sinens En-tech makes its equipment with cross-platform ability, so that the equipment can be adjusted to various areas and industries.

**Impact:** By operating 24 hours a day, 350 days a year, Sinens En-tech equipment saves about 840 thousand tons of water and 8 thousand tons of coal. After adopting Sinens En-tech’s steam treatment technology, Sinopec Tianjin Branch Company has saved approximately 3 million tons of water and lessened carbon dioxide emissions by 78,600 tons since November 2004. Sinens En-tech helped its clients to save up to 25 million tons of water, as well as 252 thousand tons of coal. The financial return is also significant as Sinen’s system pays for itself within 7 to 9 months and will create annual savings of more than one million dollars per year.

**Avantage Ventures Impact Fund**

Avantage Ventures Impact Fund is a social investment and advisor company that is based in Asia. Their main headquarters is located in the Cayman Islands, along with offices in Hong Kong and Beijing. Avantage Ventures Impact Fund or AV Impact Fund, strongly believes that healthcare, education, clean energy, rural development, and disenfranchised communities are the top five key development sectors that are in most need.

**Rationale:** Avantage Venture Impact Fund devotes its resources to key development sectors in China and other countries in South East Asia. They look for areas that are in dire need of critical products and services.

**Strategy:** In order to reach their goal, AV Impact Fund partners up with high potential entrepreneurs. These are entrepreneurs who are equally devoted to focusing on speaking up about areas that are in need of both social and environmental help by using innovative business models. AVIF also strives to deliver returns that embrace both sustainability and risk reduction.

**Approach:** AV Impact Fund exposes their investors to investment opportunities early on. They also provide capital and management support. To fully fulfill their goal, they use a five step strategy when looking for and nurturing investees. In their first step, they look for organizations that have social impact goals, and organizations that are socially responsible. Their second step is to search for a “triple bottom line enterprise,” meaning that the organization is socially, environmentally and financially viable. Their third step is to actually invest in companies that they feel will have a positive social impact. Their fourth step is to provide advice to their investees by combining “public sector commercial methods” with “private sector commercial principles.” Their last step is to promote the flow of capital into social enterprises.
References


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