IMPACT INVESTMENT: A SMART STRATEGY FOR SUSTAINABLE DEVELOPMENT GOALS ACHIEVEMENT

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ABSTRACT

The relevance of the study is due to the fact that impact investment and the creation of blended value provides a holistic approach that allows to create and develop more effective solutions to social and environmental problems than with uncoordinated actions of civil society institutions, the state and the commercial sector. The growth in the scale, breadth and public recognition of the emerging transformative investment market is changing and making traditional systems of entrepreneurial, investment and charitable activities adapt and creates more and more new opportunities not only for profit but also for achieving sustainable development goals. The research uses analytical materials and annual reports of the Global Impact Investing Network (GIIN), empirical data from the Association of Impact Investors of Russia and the Russian Fund for Regional Social Programs "Our Future". Based on retrospective, comparative and content analysis of theoretical sources, we characterize the genesis and evolution, international experience of use, types of impact investments in relation to sustainable development goals, the concept and approaches to determining blended value. Using statistical methods of data processing we obtain numerical characteristics of the development dynamics and the structure of the impact investment market in regional, national, and industrial contexts. We identify the leading countries and the most promising sectors for impact investments for sustainable development. Also, we identify the main problems and obstacles to the spread and application of impact investment practices. The results of the study can be used by government bodies of various levels and business entities of various sizes to determine potential areas of development and investment in achieving sustainable development goals.

Keywords: *impact investment, blended value, sustainable development goals, strategy*

1. INTRODUCTION

At the beginning of the 20th century, growing social contradictions and tensions in society led to the fact that countries with different socio-economic systems were forced to take on additional social responsibility, introducing pension systems, health care, providing guarantees of free education, social services and insurance. By the end of the 20th century, the state as an institution had taken a dominant position in the social sphere. The launch of the credit mechanism to ensure consumption growth has led to a sharp increase in the debt burden in almost all countries of the world over the past 50 years. States, on the one hand, are faced with growing social needs of citizens, and on the other – have less and less financial capacity to provide for them.

Equally important is the acceleration of social change processes, to which the state often cannot find an adequate response. The need to increase the role of the private sector in solving urgent social problems is largely related to this. Over the past few decades, there has been a realization that the private sector can better address current social and environmental issues than the existing public system. This fact facilitated the beginning of a dialogue about the role of social entrepreneurs in society. The involvement of private investors in financing social enterprises has already been established in a few advanced countries, and these investments are designated in the world practice as “impact investments” (Mulgan, Reeder, Aylott, 2011).

2. RELATIONSHIP BETWEEN IMPACT INVESTMENT AND SUSTAINABLE DEVELOPMENT GOALS

2.1. Genesis and Evolution of the Concept of "Impact Investment"

The concept of impact investment has a significant impact on the formation of the modern techno-economic paradigm, and officially dates back to 2007, when the Rockefeller Foundation established the "Impact Investing Initiative» (see Figure 1).

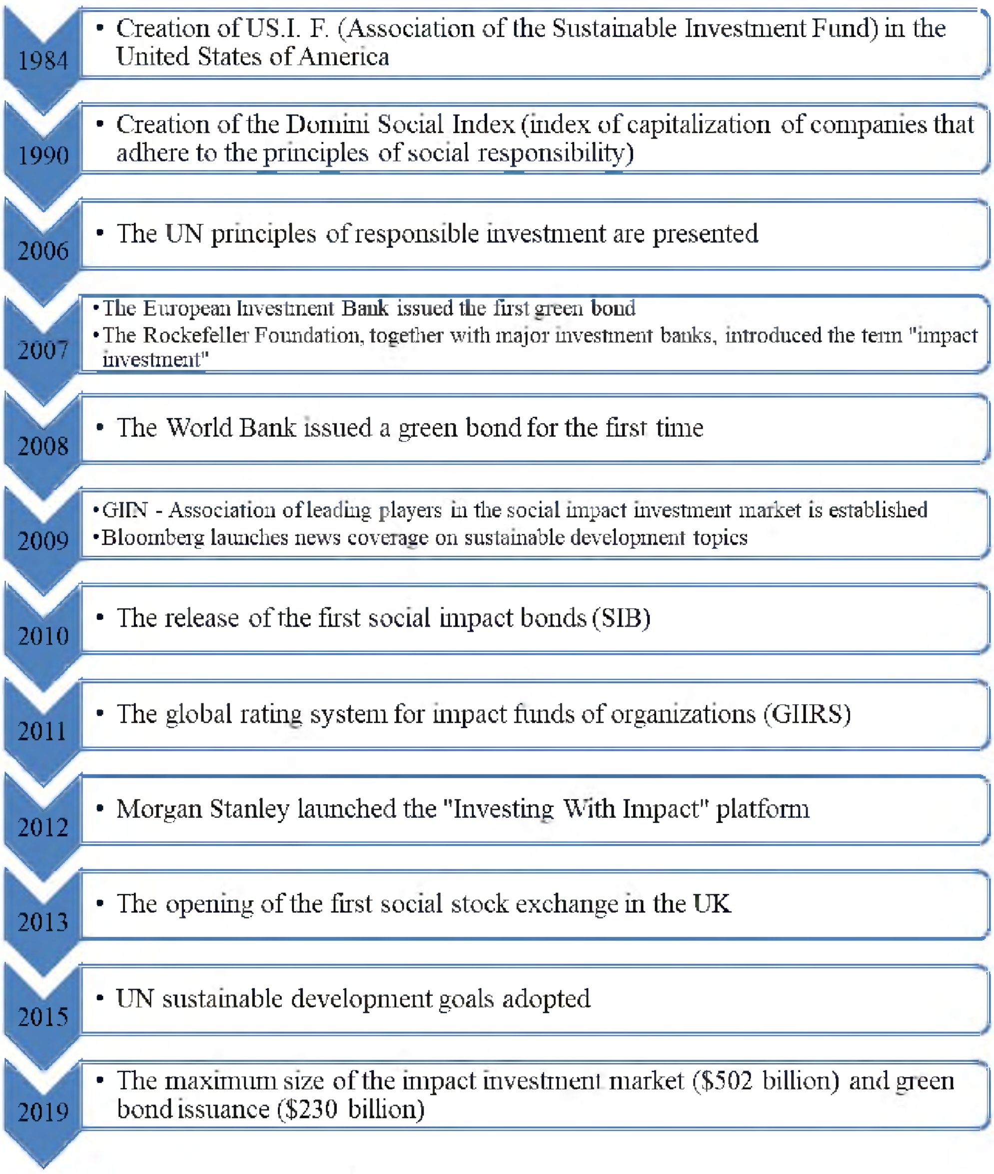

Figure 1: Milestones in the Development of Impact Investment
(Source: Allman, 2015; Wilson, Silva, Ricardson, 2015)

Not only individual projects, but even government Impact Investment programs are implemented in Australia, Brazil, the Netherlands, India, Mexico, etc. The most notable trends in impact investment today are the emergence of social investor networks that develop common sector standards and form platforms for social investor communication and partnership. An example of such a network is the GIIN (Global Impact Investing Network), which started working in 2009 and unites more than 1000 funds and organizations engaged in social investment. The organization currently has 197 member organizations around the world. Among them are KPMG, McKinsey & Company, Moody's Analytics, Nesta, Rockefeller Philanthropy Advisors, Shell Foundation, Social Finance - U.K. and U.S., The Social Investment Business Group, U.S. Agency for International Development (USAID), Ernst & Young, IMB Foundation. The network member status allows you to participate in closed events, conferences, discussions and presentations about the latest research and software in the field of social investment, get information about current trends from industry leaders and experts, participate in training programs and seminars on methods and tools for social impact assessment, establish contacts and communicate with other network members (Calderini, Chiodo, Michelucci, 2018).

2.2. Sustainable Development Goals

In 2015, the world leaders of the UN member states approved the 2030 Agenda for Sustainable Development and the 17 sustainable development Goals (SDGs), thereby confirming their commitment and readiness to achieve them. The SDGs have opened a new era for partnerships between government, business, international organizations, and civil society to combine potential and efforts to ensure sustainable economic growth and social well-being. The sustainable development goals have provided an opportunity for the entire world community to determine a more sustainable path for development and have become a truly ambitious goal. However, according to preliminary estimates, it will take 5-7 trillion USD to achieve them (). The volume of government funding and the size of international technical assistance for development (about 150 billion USD per year) underline the ambitious nature of the task. Achieving the SDGs is impossible without the active participation of the business community and private capital, which amounts to about 256 trilllon USD. Only 1.5% of this capital would be able to cover the deficit of financing for sustainable development. According to a study conducted by the Organization for Economic Cooperation and Development, investing in the sdgs would increase the value of businesses by $ 12 trillion by 2030, while providing employment for 380 mlllion people (Chava, Roberts, 2008). The sustainable development goals define not only the framework conditions for government action, but also represent huge investment opportunities, new markets, and new sources of income for businesses.

2.3. SDGs as Metrics for Evaluating Impact Investments

The global network of impact investors defines social impact investments as investments that generate a positive and measurable social/environmental impact along with financial returns, the so-called "triple criterion» (Dufour, 2019). The main classification tool for impact investing is a matrix, which is a 3×3 table, based on the previously developed concept of a triple criterion (Triple bottom line, TBL or 3BL): planet, people, profit, derived in 1994 by the American economist and entrepreneur John Elkington (Mitchell, 2017). The main difficulty in studying the impact investment market remains the lack of clear criteria. Until now, some confuse social impact investment and charity. These concepts sometimes really intersect. For example, when we talk about charity and impact investment tools, because an impact investor can deliberately go for a negative financial result if it is possible to achieve a more significant social or environmental impact and use grants as a tool. But if the goal of charity is only a social or environmental effect, as well as an impact on the company's image, then the impact investor is focused on achieving both social, environmental, and financial results (*see Table 1*).

<table>
<tr><th colspan="7">Impact investment</th></tr>
<tr><th>Traditional investment</th><td>Responsible investment</td><td>Socially responsible investment</td><td>Sustainable impact</td><td>Focus on the social consequences</td><td>Venture charity</td><td>Traditional charity</td></tr>
<tr><td colspan="5">Striving to get market returns</td><td></td><td></td></tr>
<tr><td></td><td colspan="5">Management regarding sustainable development goals and ESG factors</td><td></td></tr>
<tr><td></td><td></td><td colspan="5">Search for solutions with the highest level of social impact</td></tr>
<tr><td></td><td></td><td colspan="5">Need for impact measurement</td></tr>
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Table 1: Place of Impact Investments in the System of Investment Concepts
(Source: Dufour, 2019; Mitchell, 2017)

Over the past few years, market participants have formed conditional criteria for impact investment, because many countries have not yet adopted a law on social entrepreneurship and social investment. If there is no law, there are no generally accepted criteria. For this reason, companies, funds and private investors have long not considered it necessary to allocate the amount of social impact investments in their reports. And the lack of data made it impossible to analyze and evaluate the size and impact of the impact investment market. Over time, market participants began to think that they needed to find an adequate way to structure and analyze impact investments. The "UN Sustainable Development Goals" were chosen as a reference point. Thus, focusing on one or several sustainable development goals and objectives at once justifies the belonging of specific investments and their results to the sphere of impact investments. Thus, the emergence and development of impact investment has led to the introduction of new standards for evaluating investment projects, but there is no generally recognized assessment methodology in the market now. For the most part, direct quantitative results (gross indicators) are measured, such as the number of beneficiaries, the number of jobs created, etc. The Impact Reporting and Investment Standards (IRIS) - are developed by GIIN and contain 400 standard indicators for various industries, including agriculture, education, health, energy, environment, financial services, housing, water resources and waste disposal. The UN Sustainable Development Goals (SDGs) are a standard set of 169 indicators for 17 goals that measure direct quantitative results. For example, SDG 1 "Health and well-being" includes indicators such as the number of people who received better medical services, the reduction in the cost of standard medical services, and others. The use of SDGs indicators as metrics for assessing social and environmental impacts is growing every year. Some researchers go further and include in the impact measurement system an assessment of the impact of the achieved effects on the lives of all beneficiaries (Nicholls, Daggers, 2016). For example, in the project to create rehabilitation simulators for people with disabilities, in addition to the number of people who received the opportunity to exercise on simulators, a larger-scale effect of improving motor activity and increasing the ability of such people to normal life for 5, 10, 20 years is also measured. More than 2000 active impact investors and organizations in the market are working to eliminate the measurement barrier as part of the Impact Management Project. The goal is to analyze the practice of impact measurement, coordinate between participants, and then improve the unified system for measuring and managing impact. Currently, new technologies are being actively introduced to assess the impact of the project, such as optimization of data used in analysis (lean data-Acumen Foundation), blockchain, and others (*Dufour, 2019*).

3. THE IMPACT INVESTMENT MARKET

3.1. Market Size and Segmentation

Most investors in the market are relatively small organizations, while some investors manage very large investment portfolios (for example, large American financial groups, *see Figure 2*).

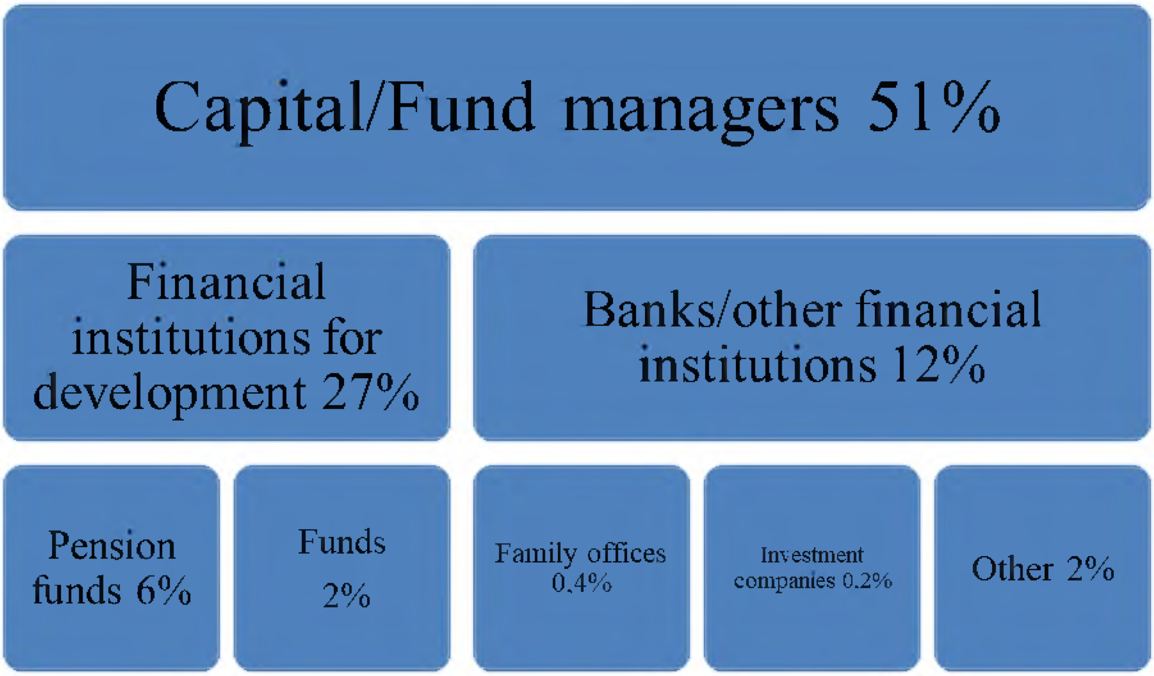

Figure 2: Assets under Management by Type of Organization
(Source: Impact Investment: The Invisible Heart of Markets, 2014; Sizing the Impact Investing Market, 2019)

According to a survey of 266 GIIN investors, the most promising areas of impact investment are distributed as follows (there were several possible answers, *see Table 2*).

Direction	Share
Food and agriculture	58%
Energy	47%
Health	42%
Financial service	40%
Education	40%
Construction	39%
Microfinance	31%
Water, sanitation and hygiene	24%
Information and communication technologies	24%
Infrastructure	19%
Production	18%
Forestry	16%
Arts and culture	7%
Others (commercial real estate, retail, community development, multi-industry distribution)	51%

Table 2: Distribution of Impact Investments by Direction
(Source: Insight into the Impact Investment Market, 2011; Annual Impact Investor Survey, 2019)

3.2. Barriers to Market Development

Among the common barriers to market development are:

- a strong view that impact investment returns are always below market value;
- lack of understanding of social impact, poor social impact measurement skills;
- using the image of a social / environmental enterprise for the purpose of unfair promotion ("greenwashing" or "impact washing").

Barriers to the development of the impact investment market have regional characteristics. Investors working in the US and Canada see a big problem in the lack of government support for the impact investment market. Investors in Western Europe point to the lack of quality data and research on social/environmental effects as a constraint on the development of impact investments. Investors operating in South-East Asian markets note the broadest set of barriers: lack of capital, low level of social and environmental impact measurement, and lack of qualified professionals (*Annual Impact Investor Survey, 2019*).

4. FEATURES OF IMPACT INVESTMENT DEVELOPMENT IN DIFFERENT COUNTRIES

In the UK, the state plays a crucial role in the development of impact investment, performing not only a regulatory, but also a stimulating function. In the USA, impact investments are not separated from the general block of responsible and sustainable investment (ESG investments). 25% of assets managed by professional market participants in the United States relate to sustainable responsible investment and impact investment. Impact investments in Australia are mainly directed to environmental projects (96% of the volume of impact investments in the country). In recent years, support for domestic green bonds and investment in green infrastructure from the pension sector has been increasing in Australia. In addition, the government is increasing its attention to green finance opportunities in the Asia-Pacific region. Recent research shows an active growth of the impact investment market in Canada (*Wiggan, 2018*). From 2015 to 2017, the impact investment market increased from \$8.15 billion to \$14.75 billion. Experts attribute this dynamic to an increase in demand for investments with social impact in all asset classes, including in public markets, where impact investments are becoming more prominent. Almost 90% of individuals who own large amounts of capital (high net worth individuals) are interested in impact investing. The German impact investment market is developed mainly by private organizations. Impact investments are supported and promoted by a small number of large funds, such as BMW Stiftung Herbert Quandt and BonVenture. However, the number of institutional investors is increasing. Germany's largest private banks, Deutsche Bank, HypoVereinsbank and DekaBank, are developing their own impact investment programs and products. The concentration of a significant amount of capital in China has led to a high demand for impact investments. In 2018, China ranked second in the world for issuing green bonds, demonstrating significant progress in this area over 3 years. Leading financial market players, including Ehong Capital, NPI Impact Fund, Xinh-Yu Fund, Avantage Ventures, SA Capital and Tsing Capital, have demonstrated the viability of impact investing, which has affected its popularity.

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Country	Features of impact investment
UK	• investing funds from inactive accounts • the creation of specialized organizations • introduction of tax incentives • the access of social enterprises to the procurement
USA	• high diversity of market participants • certification of public good corporations • support for local communities • generally accepted reporting standards
Australia	• use of pension funds • priority for the development of green bonds
Canada	• development of intermediary platforms • targeted preparation for investment
Germany	• obligations of large companies on financial reporting at the EU level • development of social, ethical and green banks • creation of regional development banks
China	• rapid development of the Chinese green bond market • high degree of maturity of the impact investment market
Japan	• the largest social investors are pension funds • strategy for creating a comprehensive ecosystem of impact investments
South Korea	• special legal infrastructure for social entrepreneurs • active participation of the state in the development of the market • a wide range of support measures for social enterprises
India	• special solutions for expanding the impact investment market
Singapore	• sustainable and social exchanges • regional hub of impact investments
Russia	• the state as the largest social investor • stimulating the development of social entrepreneurship in the regions within the framework of corporate social responsibility programs • solving problems of individual social groups • a narrow set of tools to support • lack of universal social investors

Table 3: Features of Impact Investment Development in Different Countries (Source: Annual Impact Investor Survey, 2019; Castellas, Ormiston, Findlay, 2018; Wiggan, 2018)

The development of impact investment in Japan is associated with an unprecedented aging population, an economy led by sustainable corporations, and a developed non-profit sector that has accumulated extensive experience in disaster relief, elderly care, and health care. In Japan, sustainable investment increased 4-times from 2016 to 2018. In 2018, 18% of all assets under professional management accounted for sustainable investments. This made Japan the third largest center for sustainable investment after Europe and the United States. South Korea is characterized by the most active involvement of the state in the development of the impact investment market among Asian countries.

In 1997, the Asian crisis occurred, which caused hundreds of thousands of people in South Korea to lose their jobs. As a result, an active discussion was launched on the idea of borrowing the European system of social enterprises, which would solve the issue of employment and the provision of quality services at the expense of the third sector. India has a huge potential for developing the impact investment market due to its high population and unmet needs for socio-economic services for a large proportion of the population, mainly in rural areas. Reduced public investment in priority sectors such as primary education, health, housing, water, hygiene, etc.has contributed to the growth of the entrepreneurial social sector. Singapore's location and reputation as the financial and intellectual center of the Asian region have made it important for the development of impact investment in Asia. Despite the fact that Singapore does not attract a large amount of impact investment, it is home to a large number of regional investment companies operating in Asia. Singapore is home to the Asian Venture Philanthropy Association (AVPN), which is a significant platform for promoting and improving the effectiveness of social investment in Asia. Russia also has a number of impact investors who choose different models, directions and tools for investment (*see Table 3*).

5. CONCLUSION

Impact investment as a technology for financing sustainable development projects, which brings a lot of innovations and creates incredible value for businesses, investors and states, has already received international recognition and is actively developing at the present time. Over the past few years alone, the market for sustainable investment has grown significantly and today 23 trillion USD of global resources are invested in accordance with environmental, social and management standards.

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