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Impact investing in action: A framework for sustainability

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ABSTRACT

The Sustainable Development Goals (SDGs) are a set of goals designed to be a "blueprint to achieve a better and more sustainable future for all." Despite being meticulous about achieving the SDGs, India's overall SDG score is 61.9 out of 100. While multiple models and frameworks have been developed, a new concept that has gained currency is impact investing. Content analysis of academic journal articles was employed to analyze the terminology, definition, and similarities and differences in the use of the term impact investing. Impact investing helps to benefit society and the environment without the need to sacrifice financial returns. It attempts to address the global challenges of access to energy, potable water, basic hygiene, nutrition, health, and education by exploring innovative commercial solutions. The degree of sustainability achieved through impact investing depends upon the efficiency of the multidisciplinary team formed to conduct the due diligence to achieve the social and financial goals by paying equal attention to risk, value addition, impact, and investor expectations. This study builds a case for India, suggesting the execution strategy of impact investing as an answer to India's sustainability conundrum.

Contribution/Originality: This study provides direction for scholars interested in impact investing research by analyzing past studies to identify gaps in the current research. This study is unique as it is the only study to propose impact investment as a solution to India's sustainability problems.

1. INTRODUCTION

Achieving the Sustainable Development Goals (SDGs) is a tall order. The targeted year 2030 is drawing closer, while many agendas remain unfinished. In India, $5-$7 trillion annually is the amount needed to achieve the ambitious SDGs, and there is a financing gap of $565 billion. Indeed, sustainability has become the buzzword of the decade, and governments, organizations, and individuals are collectively trying to achieve them, intending to do well and to do good simultaneously. Sustainability is defined as a long-term viable solution that makes any endeavor enduring and diverse. Hence, sustainability can be viewed in terms of three major categories: social sustainability, environmental sustainability, and economic sustainability. Environmental sustainability focuses on conserving natural resources, protecting the environment from indiscreet exploitation, and finding innovative solutions to make up for the detriment that has already been caused to it. Economic sustainability is concerned with the development of long-term economic resources by creating new jobs, markets, products, and income. Social sustainability highlights the need for a sustainable society characterized by equitable access to wealth, resources, nutrition, healthcare, education, housing, and more. The concept of sustainability is often understood as a philanthropic initiative funded by a grant or endowment. However, it is time to change this perspective of sustainability as philanthropy, as there are several novel ways of funding and achieving sustainability. Impact investors are emerging as a prominent genre of investors who fund sustainability projects.

The term impact investing was coined by the Rockefeller Foundation in 2007, when it invited global leaders in philanthropy, finance, and development to discuss the need to build an investment universe capable of delivering social and environmental impacts (Jackson, 2013; Peralta, 2018). Impact investing is a purpose-driven investment strategy that aims to have a positive social or environmental impact in addition to financial returns. "Impact investing is an exciting and rapidly growing industry powered by investors who are determined to generate social and environmental impact as well as financial returns" (The Impact Programme: Annual Report, 2013). Weber (2016) noted that impact investing is based on two common principles: the investments must deliver a mix of social and financial returns, and these social and financial returns must have long-term viability, in accordance with the principle of sustainability. Any business that is genuinely impact-conscious becomes more appealing to customers and investors, enjoys a better positioning to access latent demand, and is less likely to be taxed as it can offset the harm that it might cause. This, in turn, can boost profits and lower long-term financial risk. The popular investment strategy of triple-bottom-line investing also aligns with impact investing, which means that the investment means to benefit people, the planet, society, the environment, and financial returns. Sabir, Latif, Qayyum, and Abass (2019) highlighted the importance of financial markets in achieving sustainable economic growth.

Although the literature on impact investing is plentiful, there exists considerable ambiguity regarding the concept of impact investing. The gap lies in its definition, terminology, types, measurement or evaluation, and risk. The current study will help address the gap in the literature and increase the understanding of impact investing and how it can help to achieve social and environmental sustainability. The models presented in this research will help investors make better decisions when selecting an appropriate investment strategy for impact investment. It will also help investors explore the benefits of impact investing by explaining that it is possible to do societal good and achieve financial gains simultaneously. Finally, the authors build a strong case for impact investing in India by discussing the performance of impact bonds, an instrument for impact investing.

2. LITERATURE REVIEW

2.1. Definition and Terminology

Höchstädter and Scheck (2014) noted that there is a substantial level of agreement among researchers on the broad definition of impact investing, which is an investment strategy that aims to create a positive social or environmental impact in addition to financial returns. Hence, the definition of impact investing consists of two core elements, the financial returns component and the non-financial (social and/or environmental) impact component (Agrawal & Hockerts, 2019; Nilsson, Jansson, Isberg, & Nordvall, 2014). The financial component mostly consists of the return on investment (ROI), which attracts investors to invest in social ventures that provide returns that are sometimes at par or below, or in some cases exceed the market return (Shaikh, 2022). The social and environmental component aims at providing access to clean water, electricity, nutrition, basic healthcare, reduction in carbon emissions, waste management, pollution control, etc. The social impact sometimes translates to cultural changes such as a reduction in crime rates, changes in food habits, de-addiction campaigns, etc. The environmental impact is mostly focused on finding innovative solutions to conserve natural resources and protect the environment.

2.2. Types of Impact Investing

There are three key approaches by which impact investments gain exposure. The first approach is direct investment, where the investor can generate the greatest impact by channeling the investment directly to the investee. This is often looked at as the most exciting approach. Here, the investor has the option of working directly with the entrepreneur and overseeing the growth of a small or medium-sized enterprise. For instance, an impact investor can provide debt financing to a social enterprise that finds solutions to bring clean water to poor communities. The second approach is to draw direct impact investments to diversify the risk and return options, which makes impact investing funds more easily accessible. Regions like Sub-Saharan Africa are privy to this form of impact investing. The third approach to impact investing is pooling several impact investing funds, which further broadens the risk and return considerations. At present, there are not many impacts investing funds. In this approach, the impact is indirect as the investment reaches the investee after passing through at least two sets of intermediaries. Hence, the measurement of the impact is also more difficult.

3. DATA AND RESEARCH METHODOLOGY

3.1. Data

There is inadequate academic research precedence in the area of impact investing. This is attributable to the fact that the impact investment discourse is driven primarily by practitioners; thus, the academic literature is largely missing. The current study is based on secondary data. A systematic search of the literature on the open-source research databases EBSCO host and Google Scholar yielded academic contributions. The search took place in April 2021, and it included all contributions published prior to April 1, 2021. There were no publication year restrictions because impact investment is a new field, and the term is new. The study excluded academic journal articles written in foreign languages such as Russian and Spanish as the initial search yielded a list of non-English journal articles from the EBSCO host.

Because the purpose of the literature review was to investigate the use of the term "impact investing," the search term "impact investment" was used to search the title, topic/subject headings/terms, and abstract. To produce a usable list, the various searches were combined, and the data was manually cleansed. The analysis excluded publications that had no obvious connection to the concept of impact investment. To ensure a comprehensive list, the titles listed in the references of the identified academic papers were also screened for the search term "impact investing," but no additional peer-reviewed academic contributions were identified. The final sample of 15 academic contributions was used for further analysis. The practitioners' literature was sourced from the GIIN website. The publications in the research section of this website included research by third parties as well as publications authored by GIIN. GIIN offers a compilation of research that provides credible information from various types of institutions on the impact investing industry, and thus the literature drawn from the GIIN website was assumed to be relevant, credible, and diverse.

3.2. Methodology

Using content analysis, the contributions of academics and practitioners were analyzed in terms of terminology, definitions, and similarities and differences in the use of the term impact investing. For this purpose, the contributions were first screened for paragraphs that described impact investing in general terms so that someone who was not knowledgeable in the field would understand what impact investing is and is not. This description often consisted of a separate section or formed part of a glossary. The same process was repeated to explore the impact investing process.

To assess the overall awareness of the term impact investing, data was collected from Google Trends. Google Trends is a subsidiary of Google that analyzes the popularity of search queries in Google Search across different regions and languages. The website records the data to compare the search volume of various queries over time.

The short-tailed keyword was used, and the data was collected and analyzed in Microsoft Excel using descriptive statistics and data visualization techniques; a line graph was plotted to show the overall trend to date since the year 2004. The geographical concentration of impact investing companies was studied using data collected from the open-source research database Impact Space. The data was sorted according to geographical region and plotted in a graph.

4. FRAMEWORK

4.1. Process of Impact Investing

The process of impact investing is divided into five steps, namely, environment analysis, opportunity recognition, due diligence, decision-making, and measurement of returns, as summarized in Figure 1.

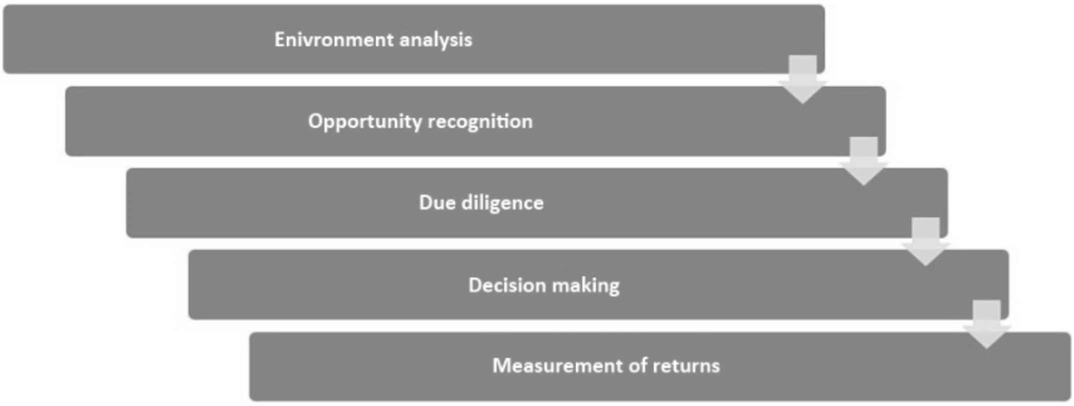

Figure 1. The process of impact investing.

4.1.1. Environment Analysis

This step involves an analysis of both internal and external investment environments, which can have a bearing on investment opportunities. The internal environment includes stakeholders such as public investors, development finance institutions (DFIs), corporations, foundations, beneficiaries, high-net-worth individual investors, and institutional investors. Multiple stakeholders add complexity to the situation, requiring robust people, regulations, and process management. Other researchers may want to study the processes, regulations, and templates used to communicate with various stakeholders. They need to look at how stakeholders impact societal and financial outcomes and under what circumstances. To understand the dynamics of multiple stakeholder engagement, researchers could conduct qualitative studies of boardroom meetings (ethnographic or using minutes of meetings). The external environment includes the legal structure, entrepreneurial ecosystem, macroeconomic variables, location, and government tax incentives. These external environmental factors form the basis of the institutional context. The government's role in legitimizing impact investment is critical. Most importantly, researchers need to study how governments can facilitate the development of innovative socio-economic solutions. Social impact bonds (SIBs) are one such innovation. Future research could investigate how governments can engage in SIB development by conducting both conceptual and pilot studies of government-sponsored SIBs, especially in developing countries where public spending is inefficient. Researchers could also engage in comparative studies on how different governments affect investment and social entrepreneurship. Comparative studies at the institutional level would unravel issues and best practices on how governments engage in the development and implementation of impact investment funds. Most investment firms were initially founded in developed economies and later began operations in developing economies. Most of the funding for impact investments in developing economies comes from developed economies. While, in theory, institutional voids are great social entrepreneurial opportunities in developing economies, they represent great market risks in practice. Therefore, researchers could study how to manage the impact of investment risks in developing economies while maximizing social mission returns.

Scholarship on impact investment effectiveness as a function of funding options, context, and location could unravel the risks and opportunities surrounding investment impact. Researchers could study why investment in developing economies is heavily dominated by capital from developed economies and why capital from developing economies is not channeled into investment impacts (Agrawal, 2018).

4.1.2. Opportunity Recognition

The effectuation and empathy elements directly impact social entrepreneurs' ability to identify social opportunities among social enterprise investors. As an investor, the social opportunity recognized by the social entrepreneur can be transformed into a sustainable business model. Recent work on impact investor decision-making methods provides some ideas on how social and business goals influence the decision-making process and recognition of opportunities, yet our understanding of impact investor social opportunity recognition and its effect on due diligence is emerging. Some sectors such as microfinance and business models at the bottom of the pyramid attract a higher capital impact, while other sectors such as food and hunger, and sanitation attract less. Based on this, scholars need to unravel the context of the sector to help them understand why certain sectors attract greater social opportunities than others and hence greater investment impact.

Opportunity recognition can be divided into two phases: the sourcing phase and the selection phase (Annual Impact Investor Survey, 2017). Funds must (1) market themselves well and pitch their unique offering to potential investors to clinch the deal and (2) have a strategic intent to identify future investments. It is here that the market profile and the reputation of the fund have a significant impact on the quality of its incumbent inquiries and referrals. To make an impact, it is essential to have a strong business network with stakeholders (financial advisors, bankers, and supply chain partners) and a perceivable local presence. Concerning the second point, funds can adopt different approaches to pursue potential deals. These may include paying for referrals or formalizing partnerships with local incubators. The fund management team must articulate a clear and sustainable strategy for identifying investors. A fund should consider all deals for a period of 12 months, including time spent with the company to ensure they are ready for investment. To manage its pipeline, a fund should, for example, record every encounter it has with a potential investable firm in its internal fund database. At the conclusion of each month, a report is issued to the entire team detailing how many touchpoints each team member has had. The team member who has the most touchpoints is then eligible for a reward. While this is simply one approach, all funds should establish a model that corresponds to their corporate DNA in order to track contract sourcing and pipeline development (Johnson & Lee, 2013).

The selection step oversees networks, relationships, and collaborations with local intermediaries in order to establish a healthy investment pipeline. A well-established process is equally crucial for the thorough and efficient examination of possible investments. Fund managers must analyze the impact potential of their investing firms and how that potential corresponds with their own impact aims. According to the 2017 GIIN survey, State of Impact Measurement and Management Practice, over three-quarters of respondents utilized impact data to pre-screen investments or report due diligence (76%) and inform investment selection or portfolio allocations (74%). Also, 45% of respondents utilized this information to inform portfolio modelling and strategy. Finally, regardless of the process, it is critical that a fund manager maintains a robust pipeline that matches a clearly defined investment strategy and impact goals, includes a wide array of potential businesses, and follows a clear process to identify future opportunities and track current relationships. Each fund has a unique relationship with its investment committee (IC), and each IC has varied expectations of the fund. The IC assists the fund in making a transaction selection decision, eventually authorizing the final due diligence and budgeting process. The IC frequently requests more information than the fund first provided. Fund managers should thoroughly understand their IC's criteria so that the IC can provide appropriate advice on transaction specifics and approve them before making a final capital commitment.

4.1.3. Due Diligence

The success of impact investment is closely linked to social investment enterprises' social and commercial success. The selection of the right social enterprise is an essential step in the field's legitimacy. Surprisingly, regarding the selection of social enterprises, very little work has been published that provides clarity on the decisions and actions of impact investors. Researchers could clarify the understanding of how different investment firms select projects and invest in firms (with different impact motivations) (Agrawal, 2018). Impact investments have, by definition, combined objectives to achieve financial and social returns. As a result, the team responsible for selecting and monitoring these investments will need an interdisciplinary skillset to assist in achieving both financial and social goals.

Another aspect of the impact investment process to explore is the team's ability and depth, including both in-house staff and external consultants who oversee the impact investments. Typically, those charged with overseeing the organization's investments (e.g., ICs, staff, investment consultants) are distinct from those who oversee its programmatic efforts, creating a separation between those seeking to generate financial returns in the institution and those charged with generating social returns. Impact investment, by its nature, requires both disciplines to assess whether a given investment opportunity meets the social and financial returns expectations of the organization. Therefore, an organization that moves forward with impact investment will need to ensure that the team that it is putting together to collectively implement these investments has the multidisciplinary skillset to successfully execute the allocation. Furthermore, this broader skillset is not only a prerequisite for successful impact investment, but it could also be a competitive advantage. Indeed, a multidisciplinary impact investment team can leverage the organization's intellectual capital and networks to assist the investor, while also providing the team with an information edge relative to "conventional" investors who do not have the same degree of specialized knowledge. Conducting robust due diligence on potential investment firms is an important component of successful fund management. To achieve this objective, funds should have a predetermined process and a strategy that they can formulate simultaneously while they are developing their investment strategy. Due diligence is the only opportunity that a fund has to collate information about potential investors to make an informed decision before investing. Due diligence has four core functions: (1) a tool for managing risk, (2) an opportunity to delineate ways of adding value and enhancing an investor's impact, (3) a way of identifying the social or environmental impact of a business, and (4) a mechanism of responding to the expectations of the partners.

- The fund may, during due diligence, ask the potential portfolio company key questions and survey potential risks. For a pipeline company, a fund must evaluate multiple risk aspects. Partners primarily invest in portfolio companies through funds to manage their risk and add value to their underlying investments. The role of the fund is to identify as many risks as possible in advance and then mitigate these risks through the investment structure. Funds can design a standard due diligence questionnaire that addresses the different forms of risk.
- Adding value to a portfolio company begins with due diligence, as the risk identification process can also unravel the potential for an improved rate of return. Similarly, the fund manager can build a strong relationship with the entrepreneur during the risk management process and start his role as the firm's trusted confidante. The fund manager may also identify an expert consultant's potentially beneficial roles. Strategies for risk management can also add value by improving the company's reputation, transparency, or both.
- Experienced impact partners expect that during due diligence, funds put impact screening mechanisms in place. Screening the impact helps to ensure accountability for the fund's impact-oriented mission. Screening impact investor companies helps fund managers locate opportunities to allocate their time to building relationships with prospective investors. Some funds create an "impact task force" from their internal fund management team and partner network to screen potential investments. This process can reduce the

pipeline's impact risk and help allocate the fund manager's time and resources. The impact task force rejects companies that lack a strong social impact thesis, helping to ensure that impact remains an integral part of the fund's investment decisions. Once a fund identifies a promising investor, it presents its business model and change theory to the impact task force to show how well the business aligns with the social impact objectives of the fund. The committee then reviews business growth scenarios, risks, anticipated impact, and potential challenges. The impact committee and fund manager discuss the future investment to address the uncertainties surrounding the assumptions of impact. If the investment has been found to have adequate impact potential, then financial due diligence follows.

- The due diligence approach of a fund is an acid test for partners that indicates the professional quality of the fund's practices. Specifically, investors are looking for funds with consistent policies and due diligence procedures that are used throughout the procurement process. Such an approach indicates that the fund has a reasonable understanding of its unique market, industry, and operations and that the fund is endeavoring to identify, manage, and mitigate the ensuing risks of all types.

4.1.4. Decision Making

As impact investment is adopted by a wider set of investors and intermediaries, an important and intriguing challenge is the creation of decision-making environments that support and foster outcome-efficient decisions. However, before making prescriptions, it is important to examine how the findings of experimental studies, which rely on relatively low stakes due to limited research budgets, can be generalized to higher stakes (Matthew Lee, Adbi, & Singh, 2018). While there is no reason to doubt the presence of such "supply-side" challenges in impact investment, a study conducted by Matthew Lee et al. (2018) suggested that impact investors, policymakers, and companies involved in the field of impact investment should also consider behavioral challenges related to impact investment decisions. A growing body of charitable research provides documentation of behavioral limitations to the achievement of "effective altruism" that maximizes social benefits. Similarly, M. Lee, Adbi, and Singh (2019) suggested that many individuals are motivated to achieve both financial and social benefits in the context of impact investment decisions but fail to make results-efficient allocation decisions. They concluded this using the context of a simple experimental task relative to real-world investment decisions, with a very limited set of investment options, all of which were associated with well-defined and risk-free results.

Researchers have contributed to the broader literature on decision-making and behavioral economics by addressing the relatively unexplored question of how decision-makers navigate the joint optimization of financial returns and social benefits and the corresponding outcome space and efficiency boundary. Some empirical research also provides suggestive evidence that failures to make outcome-efficient decisions in impact investment are related to coarse thinking and categorical cognition. In this context, existing beliefs and preferences about investment option categories, such as "for-profit enterprises," "charities," and "social enterprises" may inhibit the ability to aggregate the results of "pure" and "hybrid" investment options. Findings show that the suppression of categorical cognition by removing categorical labels increases the effectiveness of allocation decisions. An intriguing matter for future research is to explain why individuals struggle to combine items in the presence of categorical cognition. More broadly, some studies expand on the growing literature that examines how individuals struggle with multi-attribute goal decisions and highlight some of the challenges designers and organizations seeking to participate in the emerging investment market impact face in investment decisions. Categories enable individuals to manage cognitive load effectively but may inhibit decision-making in new practices such as impact investment. This should be taken into account by designers of impact investment decisions, possibly by limiting indications (such as labels) that could activate categorical cognition and thus threaten to decrease efficiency.

4.1.5. Measurement of Returns

Three-quarters of the world's mid-cap and big corporations have agreed to report on environmental, social, and governance issues. This reporting, however, is often limited to information on processes and pledges and is largely silent on the actual impact. Over the last two years, organizations such as the Rise Fund, a $2 billion impact investment fund managed by TPG Growth, and the Bridgespan Group, a global social impact consulting firm, have attempted to bring the rigor of financial performance measurement to the assessment of social and environmental impact. Through trial and error and years of collaboration with experts in the field, the partnership between Bridgespan and Rise has developed a technique to determine the financial value of the social and environmental good resulting from each dollar invested – before any money is committed. As a result, social-impact investors, whether firms or institutions, can assess the predicted return on an opportunity. The new statistic developed is known as multiple money impact (MMI). Performing an MMI calculation is not a trivial task. Any company that wants to use it must first decide which initiatives, goods, and services are worth the effort. Rise, as an equity investor, undertakes a qualitative evaluation of possible investments to pre-screen deals that are unlikely to pass the MMI threshold. Companies that have a social mission and a possibly demonstrable impact are invited to participate in the MMI assessment stage. Rise will invest in a company only if the MMI calculation suggests a minimum social return of $2.50 for every $1 invested. Using this statistic, businesses can create their own thresholds. To be clear, this approach requires multiple assumptions and choices, excluding any claim that this method may offer a final figure. This technique, nevertheless, gives useful recommendations on whether an investment will have a substantial social impact or not (Addy, Chorengel, Collins, & Etzel, 2019). The model in Figure 2 demonstrates how to calculate returns using the MMI method:

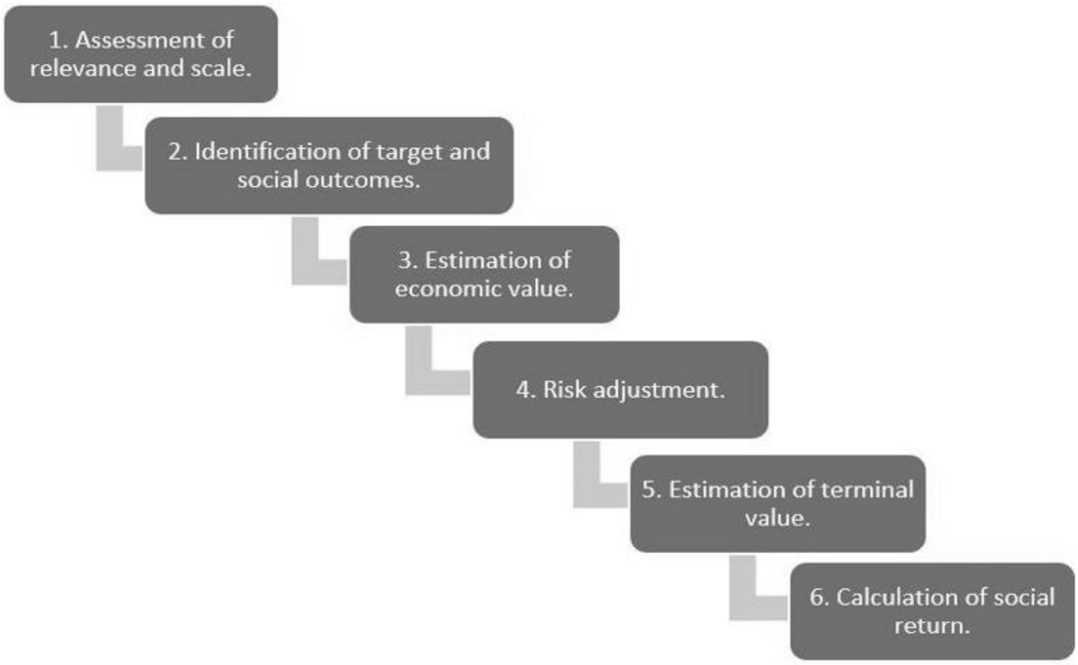

Figure 2. Model explaining the measurement of returns using the MMI method.

1) Relevance and scale: Investors should first assess the relevance and scale of a product, service, or project. Home appliance manufacturers may desire to invest in energy-saving products. Expanding into low-income neighborhoods may have social benefits for a health clinic. Scale refers to how many people the product or service will reach and how profound its impact will be.
2) Target and social outcomes: The second phase in the MMI calculation is to identify the desired social or environmental objectives and assess whether existing research supports their achievement and measurement.

Investors can measure a company's influence using a wide range of social science research to support their choice. In a 2010 randomized controlled experiment, AlcoholEdu students had an 11% drop in "alcohol-related occurrences" such as dangerous behavior, embarrassing behavior, or feeling awful about drinking. A total of 239,350 fewer incidents. Alcohol causes about 0.015 percent of college student mortality in the US, according to the National Institutes of Health. Rise believed that AlcoholEdu would prevent 36 deaths by engaging 2.2 million pupils over five years. Less drinking may save lives, which are relatively easy to value. However, alcohol reduction helps both society and individuals.

3) Economic value estimation: Social impact investors must discover an "anchor study" that reliably translates target results into economic terms. Retailers, banks, telecom corporations, and governments use Cellulant, a regional African mobile payment platform. Cellulant created a dishonest seed and fertilizer subsidy program with the Nigerian Agriculture Ministry. The company's cell phone app let farmers pick up subsidized items from local businesses, decreasing grafting. However, corruption and mismanagement cost the program 89% of its resources. The Cellulant app currently delivers 90% of the promised help. They had to assess the economic impact on farmers receiving subsidized seed and fertilizer. A trustworthy study contrasted the results of one season for farmers in the subsidy scheme and similar farmers who did not participate. Participating farmers earned $99 more that season by increasing corn yields. To choose an anchor study, numerous factors must be considered. For instance, rigidity: Did the study analyze earlier studies to draw its conclusions? Was a randomized controlled trial used to compare groups with and without an intervention? Both research methods should take precedence over observational or case studies.

Table 1. Impact realization index of impact investing.

Index component	Score	Relative probability	Cumulative probability
Quality of anchor study	30	0.3	0.3
Link to the product or service	30	0.3	0.6
Context	10	0.1	0.7
Country income group	10	0.1	0.8
Product or service similarity	10	0.1	0.9
Projected usage	10	0.1	1.0
Total	100	1.0	

Source: Harvard business review (2020).

4) Risk adjustment: While researchers have shown that social science research can be used to monetize social and environmental advantages, the risk of using study findings that are not directly relevant to a certain investment opportunity is acknowledged. As a result, to reflect the quality and relevance of the research, the social values produced from the anchor study must be adjusted. This is accomplished by producing an index of "impact performance." Six risk categories are assigned values, and the sum is utilized to calculate an impact-probability score out of a possible 100 points. Table 1 presents the realization index of impact investment, which is composed of six components, as well as the relative and cumulative likelihood of performance for each index component. Two of the index components are concerned with the quality of the anchor study and whether it is directly tied to the product or service. These account for 60 of the available 100 points. Anchor studies that are based on a meta-analysis or a randomized controlled trial receive the highest marks, while observation studies receive lower marks. The AlcoholEdu study fell into the first group, whereas Haven and a financial literacy program fell into the second. Establishing a link between an anchor study and the desired outcome of a product or service may necessitate the formulation of hypotheses, and the risk increases with the number of hypotheses. However, both AlcoholEdu and Haven relied on studies that were not clearly linked. AlcoholEdu believed that its instruction would result in fewer unfavorable situations involving alcohol,

resulting in lower alcohol-related fatality rates. Haven's anchor study posited that sexual assault prevention training would lead to fewer assaults and consequently fewer of the effects of those assaults.

The remaining four index components, each with a maximum score of 10, are context (Does the study's social environment correlate with the project's social environment? For example, are they both urban or rural?), country income group (Are the study populations and the project in the same World Bank nation income bracket?), product or service similarity (How comparable are the study population and the project's population? Is the product or service in both, for example, given to the same age group?), and expected use (Is there a danger that the product or service will not be used as planned once purchased? Consider the high drop-off rate of a fitness subscription).

When applying the index to EverFi's programs, Rise calculated impact-probability scores of 85%, 55%, and 75% for AlcoholEdu, Haven, and the financial literacy program, respectively. It then modified its anticipated monetary impact to $164 million for AlcoholEdu, $348 million for Haven, and $77 million for the financial literacy program. The risk-adjusted impact of all three programs was $589 million, down from $931 million. The impact-realization index attempts to capture the most critical risk factors, while it fails to capture any impact threat or all the risk nuances between anchor studies and a company's offers. Making improvements is always beneficial because it allows a company to remain competitive.

5) Estimation of terminal value: In finance, terminal value is used to evaluate the monetary value of a company. It goes beyond an explicit projection term and accounts for a significant portion of a company's entire expected value. It is, nevertheless, a new notion in the realm of social investment, with an emphasis on quantifying the current or historical impact. It is worth noting that for several initiatives, the societal benefit (such as safer water) does not outlast the program (e.g., dispensing chlorination tablets). Many initiatives, such as solar panel installation, may have a longer-term impact because the installed panels will save energy for a long time after they are placed. As a result, estimating a terminal value makes sense in some situations. Rise assumed that their predicted total impact of $159 million for 2021—the last year of their investment—would also be generated in each of the following five years, estimating the terminal value of EverFi's post-ownership programs from 2022 through 2026. This amount was then compounded by 20% per year to reflect hypotheses about the number of users graduating from the programs and the probable duration of the training's influence. As a result, the three initiatives had a terminal value of $477 million, which was the five-year residual value that Rise could claim. Rise added that amount to the risk-adjusted impact of $589 million made during the investment's holding term for a total impact of around $1.1 billion.

6) Calculation of social return: The final stage of generating an MMI differs for firms and investors. Businesses can simply divide the projected worth of a social or environmental benefit by the overall investment. Assume a corporation invests $25 million in developing-country rural people's eyewear, and its research yields a social benefit estimate of $200 million based on enhanced customer productivity and income. The corporation would earn a multiplier by simply dividing $200 million by $25 million. As a result, every dollar invested in eyewear would yield $8 in societal benefit. The MMI represents this as 8X. However, investors must go a step further to account for their partial ownership of the companies in which they are engaged. Assume Rise invests $25 million to acquire a 30 percent interest in a company with a $500 million social value. It can only claim credit for the portion of that value represented by its stake: $150 million. Rise divides $150 million by its $25 million investment and achieves $6 of social value for every $1 invested—a 6X MMI.

Rise put up $100 million for a 50% stake in EverFi. It reduced its portion of EverFi's estimated $1.1 billion risk-adjusted social value to $534 million and divided that amount by its investment to arrive at an MMI of around 5X. The primary benefit of calculating an MMI is that it allows for direct comparisons of investment alternatives. However, it is vital to note that the number is not an exact multiple, such as the price-earnings multiple of a traded stock. Despite the rigor of a specific MMI calculation, other analysts may depend on a different, equally legitimate anchor study that yielded a different result. Instead, the MMI should be used as a measure of direction, and all the calculations should be transparent. Others who understand the assumptions can help refine them to generate more robust numbers. Sensitivity analysis can also be used to examine differences in MMI under various assumptions.

5. IMPACT INVESTING: BUILDING A CASE FOR INDIA

The Indian microfinance industry had its genesis in the 1970s and was hailed as a hero until the farmer suicides in Andhra Pradesh raised question marks about its performance. This gave rise to a pivotal moment of reckoning for the Indian impact investing sector. With interest rates rising as high as 25% and high returns on investments being made by private equity funds, the conflict between the twin objectives of profitability and development became obvious, and impact investing was regarded as a viable option to address the profitability and development imbroglio. India's first impact investing initiative came in 2001 with the establishment of Aavishkar. This was India's first for-profit impact fund, alongside Acumen, a non-profit impact fund.

A recent GIIN survey revealed that the impact investing sector in India managed to garner $2.52 billion between 2010 and 2016, with more than $1.1 billion being invested in 2016 alone. A survey of Indian social enterprises revealed that 57% of organizations in the social sector reported access to debt or equity as a major constraint to their growth and sustainability. However, the cumulative assets under impact investing in India are meager compared to those invested in corporate social responsibility, socially responsible investing, and environmental, social, and corporate governance. The concept has yet to gain currency in India. However, about 30 firms are registered with the Impact Investors Council (IIC) in India, and this number indeed holds a promise that the field shall quickly evolve.

5.1. Impact Bonds

Impact bonds are one impact investing instrument, essentially a type of payment-for-success contracting. They aim to achieve development outcomes for a predefined group of beneficiaries. The financial returns of impact bonds are linked to the achievement of development outcomes. They thus offer a lot of flexibility and benefit to the government, as the government can transfer the financial risk of a program to the private sector by only paying for a program when pre-agreed outcomes are achieved. Impact bonds are at a nascent stage of adoption and implementation in India. However, the education and healthcare sectors are privy to the favorable execution of impact bonds in India. They have been able to link socially desirable goals to measurable economic returns. This is especially useful in India's healthcare sector as India has one of the lowest public health expenditures as a percentage of gross domestic product (GDP) in the world. Since 2009, it has been a meager 1.02% of GDP, whereas most low-income countries can boast a better figure of 1.4% of GDP. It is here that impact investing can boost development in a way that is equitable, efficient, and sustainable. Moreover, India has emerged as an active player among developing countries with three contracted deals and many more in the design stage supporting the Quality Education India initiative.

5.2. Utkrisht Impact Bond

Utkrisht Maternal and Newborn Health Impact Bonds were the second Development Impact Bonds (DIB) to be launched in India. Launched in November 2017 in Rajasthan, the DIB strives to improve the quality of the private healthcare infrastructure and services and thus reduce maternal and neonatal mortality rates. It has an ambitious target of saving the lives of around 10,000 women and newborns over five years. The Hindustan Latex Family Planning Promotion Trust (HLFPPT) and Population Services International (PSI) have joined hands as service providers and plan to add around 440 facilities to help the cause, as well as work towards accreditation. Palladium is the designated intermediary organization that will work in close coordination with the providers, while the UBS Optimus Foundation has provided $3 million of upfront capital for the services. In addition to that provided by the UBS Optimus Foundation, HLFPPT, PSI, and Palladium have provided 20% of the upfront capital. Outcome payments shall accrue to the United States Agency for International Development (USAID) and Merck for Mothers if the service providers meet the target of creating an infrastructure for accreditation. The total potential outcome payment is $18,000 per facility, out of an outcome fund of $8 million.

5.3. Educate Girls Development Impact Bond

Launched in Rajasthan in 2015, the Educate Girls DIB was the first DIB in the education sector. Educate Girls was the designated service provider, and the Children's Investment Fund Foundation (CIFF) was the outcome funder. The DIB targeted students enrolled in 166 public schools in the Bhilwara district. The idea was to identify the girls who did not attend school and persuade them to enroll. The UBS Optimus Foundation, the investor, provided an upfront capital corpus of $270,000 and received an IRR of 15% from CIFF, the outcome funder.

The program was a tremendous success as it enrolled 768 out-of-school girls and benefitted 7,300 children through learning interventions. An evaluation by IDinsight revealed that the program overwhelmingly outperformed its targets as 92% out-of-school enrolment was achieved against a target of 79%. The learning intervention target was, however, underachieved with only 4,365 grade improvements against a targeted 5,592. According to the terms of the DIB, 80% of the outcome payment was linked to the achievement of learning outcomes, and only 20% of the outcome payment was linked to the enrolment of out-of-school girls. However, Educated Girls made significant changes to its program design and delivery to ensure better learning outcomes. The DIB achieved huge success in the course of three years before it closed in 2018.

5.4. Quality Education India Development Impact Bond

Launched in September 2018, the Quality Education India DIB is an extension of the learnings of the Educate Girls Project. It had an ambitious target of improving the learning outcomes of 300,000 students enrolled in grades 1-5 in Delhi and Gujarat. The targets had to be achieved over four years.

The chief outcome funder was the Michael and Susan Dell Foundation (Annual Impact Investor Survey, 2017). The foundation is supported by a consortium of funders, including the Tata Trust, British Asian Trust, Mittal Foundation, Comic Relief, and British Telecom. Similarly, multiple service providers have been roped in to provide different interventions to improve learning outcomes, including Gyan Shala, the Society for All Round Development (SARD), the Kaivalya Education Foundation (KEF), and Pratham Infotech. Gyan Shala operated in Gujarat, while SARD was active in Delhi. KEF dedicated itself to leadership development training for principals and numeracy teachers at 216 schools in Ahmedabad. The learning software infrastructure was managed by Pratham Infotech. The UBS Optimus Foundation, the investor, provided upfront funding of $3 million. Gray Matters was the agency responsible for evaluating the learning outcomes. It used an assessment tool designed especially for this DIB.

6. CONCLUSION AND RECOMMENDATIONS

6.1. Conclusion

Impact investing helps to do good in society and the environment without the need to sacrifice financial returns. Hence, it is an excellent way of promoting a sustainable environment and society. Since the industry is in a nascent stage of development, it is often confused with philanthropy, corporate social responsibility, and developmental finance. The key differentiator among these concepts is the presence of a clear intent to achieve both social and financial returns. Though the social returns can be measured using the MMI, the actual estimation is subjective due to the number of assumptions made in each situation, as the targeted beneficiaries are different in each case. There appears to be little awareness among retail investors regarding impact investment as an asset class with good risk diversification benefits. The study showed that the majority of investors are small organizations and institutional investors. Even though most impact investment targets are in Africa, most impact investment companies are based in the United States.

The achievement of sustainability through impact investing depends upon the efficiency of the multidisciplinary team charged with conducting the due diligence to achieve the social and financial goals while paying equal attention to risks, value addition, impact, and investor expectations. The field is still considered to be short of its potential—even though it is estimated to be worth US$502 billion—both in terms of the scale and sophistication of the investment activity impacts. Multiple specialists have asserted that the crucial factor restricting impact investment growth is a lack of high-quality hybrid investment alternatives with important, well-defined social advantages. The government's function in legitimizing impact investing is critical as stringent policies can hinder the outcome. Though governments and non-profit organizations are usually open to sharing information to contribute to the public welfare by upholding their responsibilities to taxpayers and other stakeholders, comparable behavior from impact investors is not necessarily encouraged in the private sector.

6.2. Recommendations

Cohen (2018), also known as "the father of social investment," envisioned a world that only moves in a forward direction, and where the inequality among people is ever shrinking. He added that where natural resources are regenerated, there is a sense of shared prosperity among people that allows them to unlock their full potential. People can benefit society by not just minimizing the harm they do but also by doing measurable good through impact investing.

The reason for the rising popularity of impact investing lies in the strong diversification benefits it offers. These opportunities might be unrelated or have a low correlation to the changes in the financial markets. Moreover, it is a growing market of at least US$502 billion. According to a study by Cambridge associates in 2014, between 1998 and 2004, impact investments performed on par with non-impact funds, thereby proving that financial returns need not be sacrificed for social returns. Hence, if an investment were made in emerging market impact funds in that period, it would have significantly outperformed the average of non-impact funds. Therefore, whether we are looking at opportunities to bring clean energy to emerging markets, provide healthcare facilities to poor communities, or boost sustainable development, impact investing is the future.

Some recommendations to maximize the benefit of impact investing include the increased promotion of impact investing instruments among retail investors to maximize the reach and impact generated; the establishment of lean databases to make evaluation and comparison easy, in a similar way to public equity instruments; pro-impact investment government policies regarding foreign direct investments and, hence, the expansion of investment horizons; increased transparency between facilitators and investors; the development of robust risk management and impact measurement tools to reduce cognitive biases in decision-making and, hence, encourage rational decisions; finally, more international and regional conferences should be conducted to identify and resolve the key barriers to impact investing and to check the current progress.

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