

FinancialQuotient

What is impact investing?

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WHAT DOES IT MEAN?

Impact investing refers to a type of investment made in enterprises or funds with the intention of generating both financial returns and environmental and/or social impact for investors.

Called impact investors, they can be individuals or institutional investors such as development finance institutions, foundations, endowments, pension funds or insurance firms.

The funded enterprises may include social enterprises, charities, microfinance or other financial services that are tackling environmental and/or social issues related to financial inclusions, energy, housing, healthcare, environment, food and education. Financial instruments under impact investing can span different asset classes such as private equity, venture capital, public equities, debt, syndicated loans, real assets and others.

WHY IS IT IMPORTANT?

Although impact investing has been steadily growing in recent

years, it is still significantly lagging behind because of the huge funding gap faced.

According to Global Impact Investing Network's (GIIN) 2017 survey, the estimated assets under management of impact investing stood at US\$114 billion (S\$153 billion) based on 208 respondents who are either large or frequent impact investors. In contrast, the United Nations Conference on Trade and Development estimated a gap of US\$2.5 trillion in key sustainable development sectors in developing countries in 2014.

While the Asia-Pacific region is home to 330 million people who live on less than US\$1.90 a day, only about 12 per cent of the assets under management of impact investing last year was invested in this region, according to GIIN.

Although impact investors may accept below-risk-adjusted market returns given the environmental and social impact achieved, most of these projects are found in developed countries rather than emerging economies where the dire need is greater.

Indeed, the majority of impact investors admit that some projects

would never be able to reach the level of the market return.

The GIIN survey found that more than half of impact investors come from for-profit fund managers who are still expecting market returns. Impact investors in Asia are mostly investing in microfinance and other financial services, most of which are still expecting market returns.

Recent research shows that impact investing is still at the early stage here and in Hong Kong, and there are still a lot of market dysfunctions. The public can become more educated about impact investing before participating in it, while the capacity builders such as foundations, social enterprises and researchers need to step up.

IF YOU WANT TO USE THE TERM, JUST SAY:

"Impact investing is an alternative but important consideration for investors who care about the environmental and social impact of their capital investment."

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