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Six essential dimensions for impact investing

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Impact investing aims to generate social and environmental impact alongside financial returns. However, the exact definition and the concept itself are not always clear, which affects the use and potential of impact investing.

In this article, the authors provide a way to understand the concept of impact investing and introduce critical questions to facilitate discussions regarding whether a case can be described as impact investing.

The article presents an approach to understanding impact investing via six dimensions, examining its implementation, and raising key questions. The six dimensions are intentionality, additionality, contribution, materiality, measurability, and attribution. Practitioners can use these dimensions to describe different sub-clusters of how the term ‘impact investing’ is used in research and practice.

#ImpactInvesting #BusinessEthics #Impact #Foundations

Background & Context

- The term impact investing was first used in **2007**, during a Rockefeller Foundation meeting. They proposed that focusing on impact investing **can help attract new sources of capital** to support the charitable sector and the government facing environmental and social challenges.
- **Impact investing includes four key actors. (1) Investors** are the original source of the invested capital. **(2) Fund managers** manage the funds and the portfolio. **(3) Investees** can be assets, the portfolio companies, or projects. **(4) Beneficiaries** are target populations that impact investing aims to help.
- Impact investing refers to providing **financial and non-financial resources** to enterprises and investment funds with **the intention to generate positive, measurable social and environmental impact** alongside a financial return.
- The **impact** (i.e., the outcome) of an investment is a social and/or environmental **change targeted at the beneficiaries**.
- Despite the academic attention, **a clear definition of the concept of impact investing is absent.** The authors advance the literature by proposing a way to describe the concept, focusing on how the term is used in research and practice.

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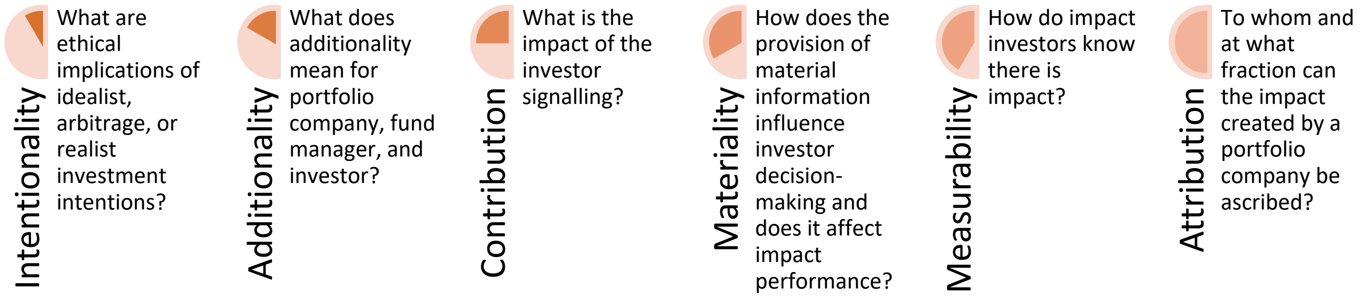
Take aways & Learnings

- To improve our understanding of the concept of impact investing, the authors suggest **describing impact investing via six dimensions**:

1. **Intentionality** refers to the **intentional expectation** of social or environmental impact alongside a financial return. For instance, if a company created a social impact as an unintended side effect, it should not be considered impact investing.
2. **Additionality** refers to if the impact would have also happened without intervention. For instance, if **a company can create an opportunity that others cannot**, then it counts as impact investing.
3. **Contribution** refers to **signalling that impact matters** (e.g., integrating impact in decision-making) and engaging actively. **Communicating** that impact matters can push investees to measure and manage the impact and report their impact contribution.
4. **Materiality visualizes a company's sustainability engagements** (e.g., direct or indirect effects on environmental or social goals) rather than narrowly focusing on the financial considerations of shareholders. It is expected to encourage discussions on what is considered relevant impact information.
5. **Measurability** focuses on **documenting the outcomes**, which requires a well-defined impact goal.
6. **Attribution** refers to the **person/organization key for the change** (e.g., how much of the outcome can be contributed to someone).

- Practitioners can use the six dimensions to **identify if a particular case can be described as 'impact investing'.** The questions in Figure 1 can be used to guide discussions about impact investing.

Figure 1. Key questions while considering the boundaries of impact investing.



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