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Impact Investing – destined for being neglected?

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Problem Description

With this project we tried to find out how to improve a specific form of sustainable investment strategies: Impact Investing.
Impact Investing, not comparable and by far more specific than ESG integration, can be characterized by 3 criteria:

- intention to create a specific social or environmental good;
- the social or environmental performance has to be measured;
- financial return should deliver at least redemption of the amount invested, plus a return up to market return.

From all 7 sustainable investment strategies, impact investing is so important as it could contribute to speed up the transformation to a sustainable economy.
But

- impact investing shows the lowest AuM of all 7 sustainable investment strategies worldwide;
- European impact investing AuM are far lower than in the US, although Europe is the market leader in sustainable investments worldwide.

Objectives

- Reveal explanations, why impact investing is the mostly neglected form of sustainable investments. How could the situation be changed?
- Explain, why the AuM in impact investing in the US are much higher than in Europe. Could Europe learn something from the US?

Part 1: Why is impact investing a niche? How to improve the situation?

This part of the project (Menichetti 2019) delivers insights into the connection between sustainable investment strategies, preferences of supply side and demand side institutions, and the low speed of transformation.
Our results show

- substantial cost disadvantages of impact investing compared to other sustainable investment strategies,
- disadvantages in measuring and comparability of impact – compared to ESG integration,
- stronger standardization and more efficient processes for impact investing's private debt and private equity structures are needed.

Part 2: Why are AuM in impact investing in the US higher? Could Europe learn from the US?

In this part of the project (Ababii & Menichetti 2020) we aimed to explore and compare relevant distinctions in preferences of impact investors in the US with Europe with a survey in part based on a choice based conjoint analysis, which proved

- that European institutional investors favour the impact dimension of investments more than their peers,
- while US investors give a much stronger importance to the financial feature of investments and ask for significantly higher returns.
- attitudes and beliefs of impact investors proved to be aligned with their distinct preferences.
- investors based in the United States proved to be more committed to impact investing than their European peers in terms of types of investments they make, percentage of total funds directed to impact investments, and overall period of engagement and activity in the impact investing sphere.

Results

We approached the problem of low AuM in impact investing from two sides. We analyzed the value chain of impact investing and also compared impact investors across regions, which showed us that preferences could be different.

- Impact investment is (in general) not possible with investments in existing exchange traded traditional companies.
- It is effortful, as firstly new investment possibilities first have to be developed, which secondly do not fulfill the requirements to be listed in traditional stock exchanges. Private equity and debt funds could be a solution (=expensive).
- Impact investors preferences in the US are different from Europe, and that could be a reason why the US show higher AuM in impact investing.

Dissemination

- Menichetti, M.J. (2019). Impact Investing - An acceptable niche existence? In: New Challenges of Economic and Business Development 2019: Incentives for Sustainable Economic Growth, Conference Proceedings, University of Latvia, Riga, 16-18/05/2019, p. 575-586.
- Ababii, C., & Menichetti, M.J. (2020). Investors' Preferences in Impact Investing – A comparison between Europe and the US. Working Paper, November 2020. University of Liechtenstein. This paper should be published in 2021.

Conference Presentations:

- Incentives for Sustainable Growth, University of Latvia, Riga, May 2019.
- 4th Social Impact Conference, Sapienza University, Rome, December 2020.

Next Steps

We currently see two main priorities for our future research on impact investing:

- Creating a value chain in creating impact investing financial products (from original impact project to investable opportunities for institutional and retail investors) with substantially reduced costs.
- Like in ESG integration, a handsome method for measurement and comparability of impact is desperately needed.

Forschungsförderungsfonds

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