

The background of the slide is a collage of geometric shapes in dark blue and black. A central white arrow points to the right, containing the title. Behind the arrow, there is a faint image of a hand holding a pen, and a line graph with a glowing blue line and a data point labeled 27,410.

Investment Spectrum 101



What is the difference between impact investment and social investment?



How does this contrast from responsible, sustainable, and traditional investments?



Where does philanthropy fit in?

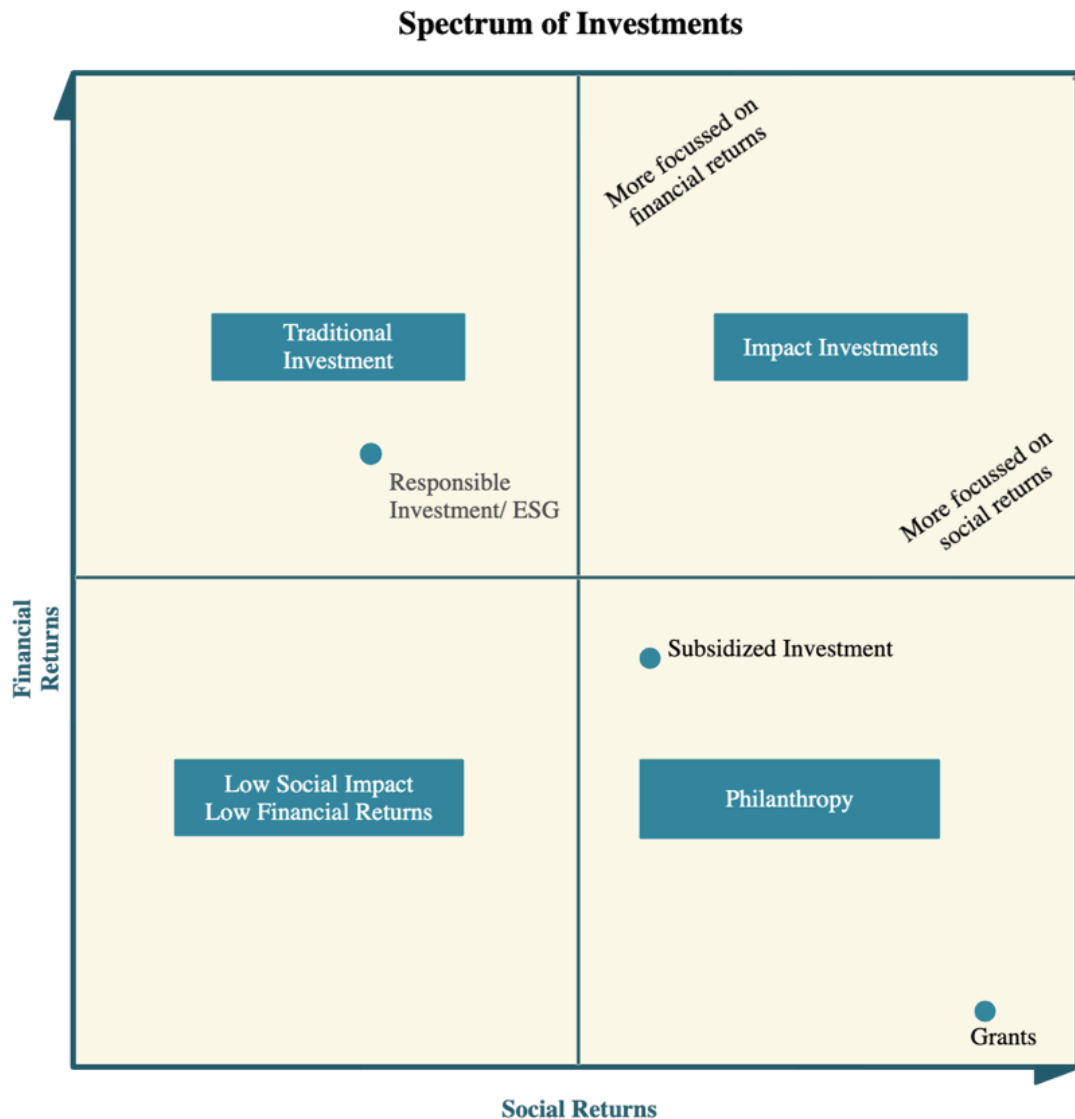
In this article, we will give you a generalized snapshot of the investment spectrum aimed at social and environmental good, and discuss the importance of understanding where both alignment and divergence are present.



To begin, let us go through different types of investment and how they are distinct from one another. Localized, contextual complexities pertaining to how these terms are understood by entrepreneurs and investors in Saudi Arabia are a matter of separate article.

The quadrant below shows the spectrum of investments we are concerned with in this article. On the vertical axis we have financial returns and on the horizontal axis we have social returns expected out of an investment.

Source: Adopted from Arabella Advisors, 2013





Impact Investment:

Investment made with the intention to generate positive, measurable social and environmental impact alongside a financial return.



Social Investment:

Investment made with a focus on social and/or environmental outcomes and some expected financial return. This falls in (right half of) the top right quadrant.



Socially Responsible Investment (SRI):

SRI aims at a business model that emphasizes impact on environment and society, and at the same time, maximization of financial return. It is situated in (bottom right of) the top left quadrant.



Environmental Social and Governance (ESG) Investment:

These are three broader domains consisting of various non-financial indicators showing the impact of the commercial activity on, say, environment, society, and the governance of the company is structured. Investors look for ESG indicators before making the investment decisions. Since financial returns are the major motivation and social returns are secondary, this type of investment falls in (bottom right of) the top left quadrant along with SRI.



Grants:

Grants are purely philanthropic and are made without any emphasis on financial returns. Investors are only interested in the impact grants are creating in the society. They are placed in (bottom right of) the bottom right quadrant.

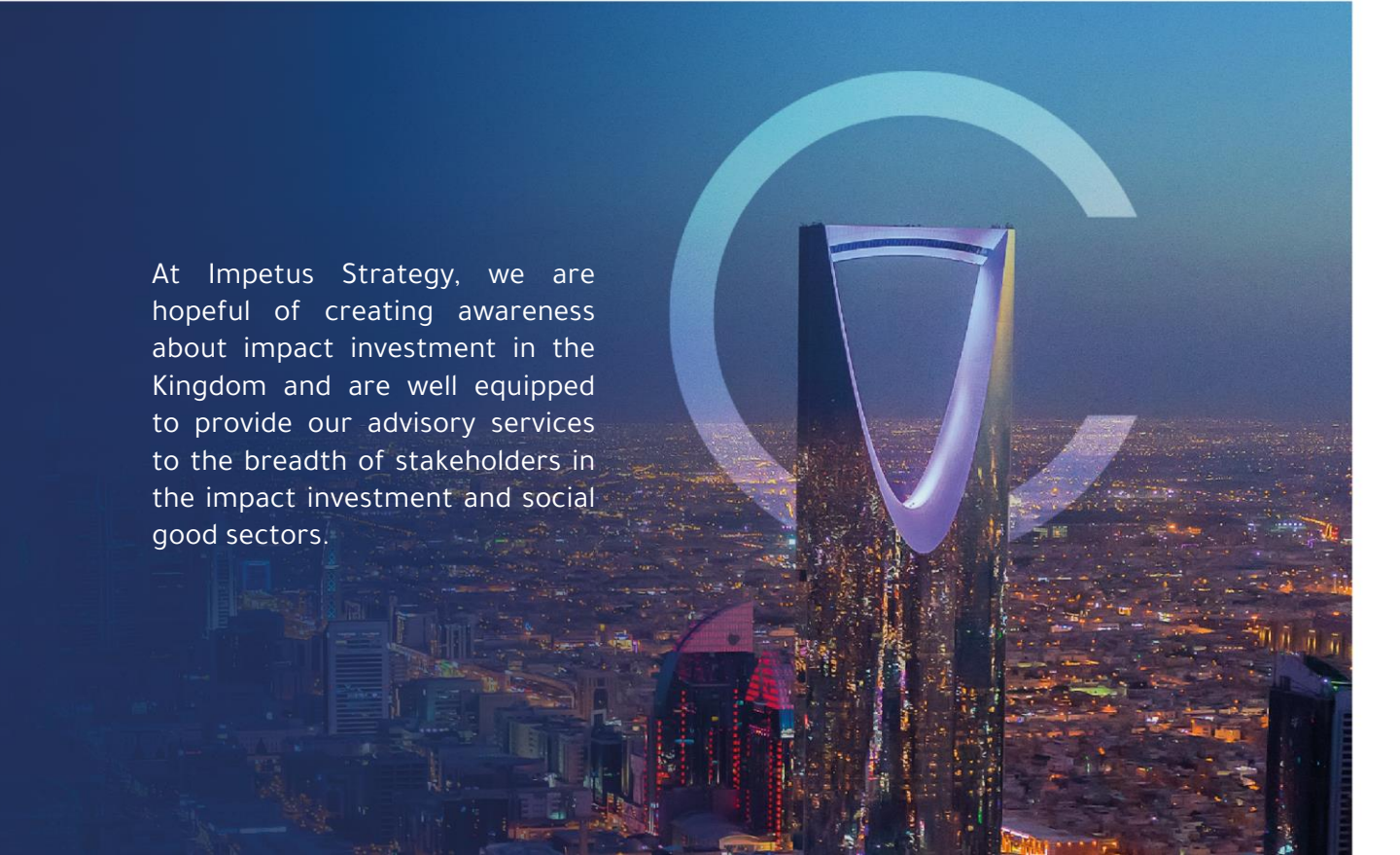


Subsidized Investment:

Investment made in the form of debt relief or tax cut for organisations working to create positive social impact. Though it still falls in the philanthropy quadrant but on the upper left side.

Because the sector of social/impact entrepreneurship in Saudi Arabia is in its infancy, it is pertinent for entrepreneurs and investors to understand the difference between various investment pathways with reference to social and environmental good. Each of the aforementioned pathways will contribute to the realization of Vision 2030 targets, as The Kingdom has invited both the public and private sectors to contribute to its success.

It is important to note that social and environmental issues manifest in a series of complexities. Each manifestation may require a different intervention, which requires applied knowledge and a strategy in-place in order for investors and entrepreneurs to make informed decisions. A microfinance institution providing small loans for, say, housing repairs may be successful with population in the second decile (in income distribution) from bottom but not with the bottom most decile. For bringing social change to the most vulnerable groups, an investor may have to forego financial returns. On the other hand, if the target population is low-income (and not the lowest), it makes sense for an investor to put money in a financially sustainable enterprise. We must analyse each opportunity on a case-by-case basis and be careful not to generalize.

A nighttime photograph of a city skyline, likely Riyadh, with the Kingdom Tower prominently featured in the center. A large, semi-transparent, light blue stylized 'C' logo is overlaid on the image, framing the tower and the text on the left.

At Impetus Strategy, we are hopeful of creating awareness about impact investment in the Kingdom and are well equipped to provide our advisory services to the breadth of stakeholders in the impact investment and social good sectors.



Author:

Mohd Umair Khan

The author has been Consultant (Economic Development and Strategy) with Impetus Strategy



ImpetusStrategy
<https://impetus.sa/>