

What is Impact Investment?





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As Vision 2030 takes form and markets begin to shift toward a more sustainable model, impact investment has quickly become an influential medium through which ethical investors from all sectors aim to simultaneously positively impact the world around them and maintain probable returns. Despite such a rapid uptick in interest, many lack contextualized knowledge with regard to its core characteristics. What is impact investment, really?

Although there is no universal consensus upon its definition, Impetus Strategy is aligned with The Global Impact Investing Network (GIIN), who define impact investments as “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.”

Believe it or not, this type of investment has roots in the MENA region. Estimated to have taken hold between the years 1500 to 1300 BCE, the practice of Tzedek governed many aspects of life, including ways in which money and resource needed to be ethically invested.

Although the region, and particularly present-day Saudi Arabia, has been at the helm of the above-mentioned practices, it became a mandated and widespread “way of being” after the advent of Islam in the year 609 CE. There are both scholarly rulings and Quranic verses very specifically enforcing the prohibition of interest (riba/الربا) banning of taking interest payments. Islamic jurisprudence further extended to prohibiting investments in harmful products/activities such as alcohol, pork, gambling, and arms.

Islamic finance, however, must not be blindly equated with the aforementioned definition of impact investment. We must take into consideration that a general definition is incomplete without enveloping it in localized context. Although both impact investment and Islamic finance apply both qualitative and quantitative screening criteria, standards between the two may differ. Thus, both Islamic finance and impact investment criteria both aim toward positive impact, but have not the same qualifiers.

It is also important to understand, apart from definition, what constitutes 'impact investment'. The GIIN identifies five core characteristics that are reflected in most impact investors:



Intentionality: It is fundamental for an impact investor to have an intention to create a positive social or environmental impact.



Expectations of Financial Returns: An impact investor should expect a financial return on the investment made. It can either be a "return on capital or, at minimum, a return of capital."



Evidence-based: The decision about investing for impact should be based on evidence - using data where available. It is helpful in maximising both financial returns and social impact.



Impact Measurement: In order to achieve the twin goal of positive social/environmental impact and financial return, rigorous monitoring of investment made is essential. It requires establishing feedback loops to communicate performance-based information and support for multiple teams involved.



Growth of the Industry: It is important to share learnings with others in the impact investment circles. To do this, impact investors follow industry conventions, strategies, and indicators to communicate their performance.

This summary piece is from a series of articles we, at Impetus Strategy, intend to share with researchers, practitioners, and the general public. We aimed to provide an introductory outline of what impact investment is and how is it aligned with the ideals of Islam, rooted in the region, and financially viable option for a sustainable future. Our intention is to create awareness about the impact investment sector in The Kingdom, as well as efficiently and successfully provide our services to all stakeholders including, donors, investors, entrepreneurs, regulators, and governmental entities.

Sources:

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