

A COMPARATIVE ANALYSIS OF IMPACT INVESTMENTS : INDIA AND WORLD

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Abstract: There is a buzz about Impact Investment everywhere in the world specifically in the Development Sector and India is not apart. So, this paper aimed to study the Impact Investments in India and World from 2010 till 2016. According to the Global Impact Investors Network Impact Investment are parallel investment to Venture Capital where the former deals with Social and Environmental Impact with Financial Return and later deals with Financial Return only¹ The Indian Impact Investment Market was valued at \$1 billion investments in 2015 and it can grow to \$6-8 billion by 2025.² It is growing at 15 percent CAGR from last 6 years. India is becoming one of the largest destinations in the impact investment world where 50+ Impact Investors are active and they have invested a cumulative investment of \$4.1 billion in 350+ social enterprises³. In this study, the data of Impact Investments has been taken from 2010 till 2016 to compare the market of India & the World and used the Descriptive Analysis tool. Further, this study focuses on the level of impact investment in different sectors in Indian as well as global context. The present study also put an insight to analyze the proportion of deal types of impact investment for the year 2010 and 2016.

Keywords: Impact Investment, Social Entrepreneurship, Comparative Analysis

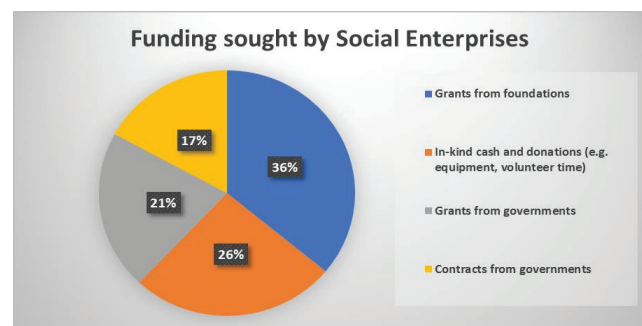
INTRODUCTION

“The purpose of life is not to be happy. It is to be useful, to be honorable, to be compassionate, to have it make some difference that you lived and lived well.”

Ralph Waldo Emerson

The words of Mr. Emerson are very powerful, it means that one can achieve greater heights if one gives value to others' and their own life. According to the Global Impact Investors Network Impact Investment are parallel investment to Venture Capital where the former deals with Social and Environmental Impact with Financial Return and later deals with Financial Return only. This is a win-win situation for all stakeholders, Investors get financial return and social impact, Social Enterprises gets funds and professional handholding, Society gets rid of Social problems. What a beautiful paradigm, which nobody can beat. Unfortunately, as per the estimate it says that 85 percent of impact investment

is invested by the foreign investors, and Indian investors are still not investing much on social ventures. As per one research conducted by British Council⁵, most of the social enterprises are dependent on grants either received from Foundations or Governments. So, it becomes very important to look for investment with the professional approach.



Source: British Council - A Survey of the Social Enterprise Landscape in India

The “impact investing” term was first introduced by The Rockefeller Foundation⁶, where they introduced the term for the investments done with the purpose of achieving financial return alongside social/environment impact.

According to Annual Impact Investor Survey 2018 conducted by Global Impact Investing Network, the worth of impact investment is \$228 bn and to manage the continuously growing business, impact investment professionals are required to handle all activities. Impact Investment is the hottest area of discussion amongst the investment community. There are good mix of foundations which are willing to use their funds for achieving social or environmental goals such as 82 years old - Ford Foundation in New York City or 32 years Old - Sasakawa Peace Foundation in Tokyo⁸. According to The GIIN’s 2018 Annual Impact Investor Survey⁹ there are 229 impact investment institutions such as financial, developmental, foundations, family and other institutions are managing over \$228 billion in impact investing assets.

According to Amit Bhatia, global CEO of Global Steering Group for Impact Investment the problems which cant be solved by government and philanthropy, Impact investment has the potential to solve such. If a country like India, the government wishes to lift poverty and other social problems, it has to uplift impact investment¹⁰. It is growing at 15 percent annually from past 6 years and the most active investors are Lok Capital, Caspian Investment Advisors, Unitus Seed Fund, Omidyar Network, Accion, Elevar Equity, Intellegrow and Omnivore Partners. Global investors are also bullish to put money into South Asia, primarily in India.¹³ So, there is a critical need to study about Impact Investment in the Indian scenario.

REVIEW OF LITERATURE

Dutt, et al. (2014) attempted to capture the Impact Investment Journey in India and development of impact investing ecosystem. It further argued that Impact Investing is not new to Indian value system as Social Entrepreneurship has a long root in India. Mudaliar, et al. (2016) has conducted the interview from 62 respondents to understand the Impact Investing Trends. This report also provided insights about the recent changes and future of Impact Investing

Markets. Some key highlights from the reports were that Impact Investment industry is growing at very high rate, the investments are done across globe and the performance is satisfying the investors. Chandrasekaran, et al. (2016) has attempted to study the Philanthropy and impact investment activities in India. This study was supported by MacArthur Foundation. This study did extensive review of literature of philanthropists and impact investors. It also conducted interviews of philanthropists, impact investment professionals, industry professionals, practicing professionals and professionals of other institutions. Natu and Sing (2016) has done survey of 258 social enterprises to provide the landscape in India. This study was conducted by British Council under its Global Social Enterprise Program where 28 countries across 4 continents were included. It was found that Social Enterprises are growing very fast and it is most dynamic sector in India which is helpful job creation, women empowerment and is able to address the challenges of social exclusion across nation. The findings were classified under Economic Value and Employment. Bouri (2017) has provided the landscape for the Impact Investment in South Asia covering Bangladesh, India, Myanmar, Nepal, Pakistan & Sri Lanka. The status, trends, opportunities and challenges were discussed in this report. For this report the partnership was established with Dalberg Global development Advisors and support received from UK Aid from the UK Government through Department for International Development’s Impact Program. Pandit and Tamhane (2017) has provided the valuable evidence about impact investing and framework for implementation of impact investing in India and across globe. This reports also supported the need for impact investments to deal with social problems in the ways which other traditional investments cannot. Akhilesh and Chakraborty (2018) collected the data from GIIN Annual Impact Investment Surveys from 2013 to 2018. It provided the sketch of Impact Investment ecosystem and growth forecast till 2020. This study not only provided the financial data but also estimated the number of lives impact investments has touched.

Research on Impact Investing is very nascent across the world and the same holds true for India. After due Review of Literature, it was found that there are very less research and articles available which focused on Indian Impact Investment Market. So, there is a clear need to conduct research on Impact Investment in India.

OBJECTIVES OF STUDY

1. To study the relationship between the impact investment and GDP in Indian context.
2. To study the proportion of deal type of impact investment for the year 2010 and 2016 in Indian context.
3. To analyze the sector wise status of impact investment in India and world.
4. To study the relationship of impact investment of India and world.

DATABASE AND RESEARCH METHODOLOGY

The study is based on secondary data. The impact investment data is collected from the McKinsey Report 2017 and the Indian GDP data is collected from www.statista.com from the year 2010 till 2016. The impact investment data is analyzed for only 5 years because of its availability at the data of impact investments at global level. The charting technique is used for comparative analysis. To check the relationship between different variables correlation is used. The logarithmic trend line is fitted for next 5 years to see the trend of the investments. All the analysis performed with the help of Microsoft Excel.

ANALYSIS AND INTERPRETATION

Impact Investments - India & World

Correlation	India	World
India	1	
World	0.685153183	1

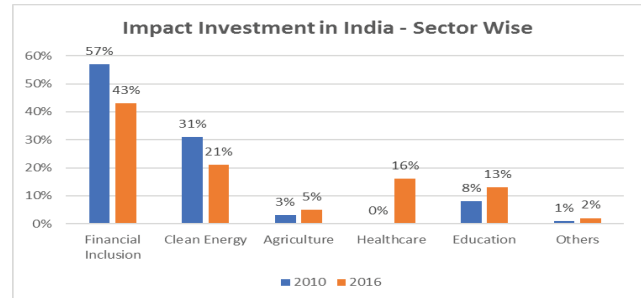
It is observed that there is strong positive correlation .68 between Impact Investments in India and the World. The world is moving multifold in Impact Investing space, so there are high chances of Impact Investing growth in India.

Impact Investments, India & Indian GDP

Correlation	India	GDP in current prices (\$ Mn)
India	1	
GDP in current prices (\$ Mn)	0.672576836	1

It is observed that there is strong positive correlation .67 between Impact Investments in India and Gross Domestic Product in current prices. India is achieving various highs under the current government policies and is very favorable for supporting Entrepreneurs and Impact Investors.

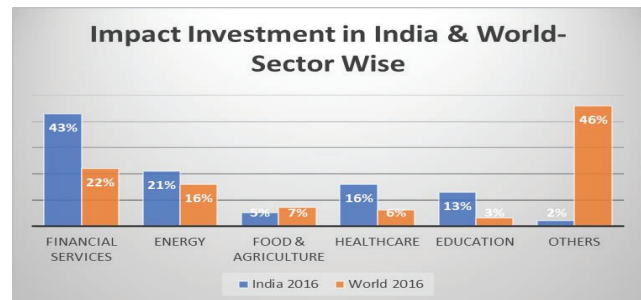
Sector Wise Comparison of Impact Investment in India 2010 & 2016



Source – VCC Edge, McKinsey Analysis

There is a decrease in share of Financial Inclusion & Clean Energy in Impact Investments from 2010 to 2016, whereas there is an increase in Agriculture, Healthcare, Education & Other sectors. It is a positive change since Agriculture, Healthcare and Education are the important pillar to change the economy and social status.

Sector Wise Comparison of Impact Investment in India & World for the year 2016

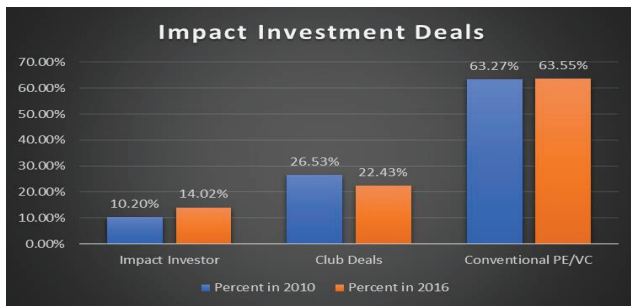


Source – VCC Edge, McKinsey Analysis

In India most of the Impact Investments are done in Financial Services and across globe impact investments were made in other sector which includes Housing, Water & Sanitation, Forestry & Timber and Others.

Deals in Impact Investments in India for 2010 and 2016

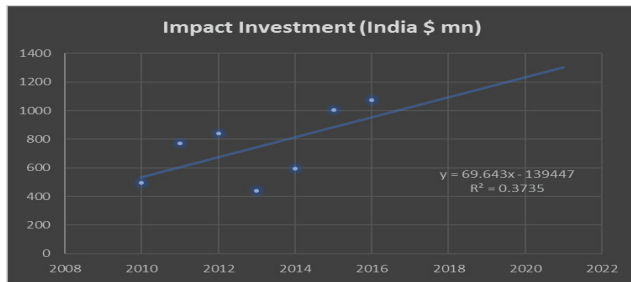
Deals	Percent in 2010	Percent in 2016
Impact Investor	10.20%	14.02%
Club Deals	26.53%	22.43%
Conventional PE/VC	63.27%	63.55%



Source – VCC Edge, McKinsey Analysis

In India, there is a shift from Club Deals to Impact Investment Deals from 2010 to 2016. Whereas the conventional PE/VC deals remains almost equal. It is understood that there is an upward movement for Impact Investment deals in India.

Fitting of Trend line and forecasting for next 5 years



Source – VCC Edge, McKinsey Analysis

The future of Impact Investment in India is very bright, and it can touch approximately \$ 1.5 bn.

CONCLUSION

The major finding of the study shows that there is a strong positive relationship between the Impact Investment India and the world (.68). Even there is also very strong positive relationship between Indian Impact Investments and its GDP (.67). India is the fastest emerging economy of the world so the Impact Investments also have great scope in India. When the impact investment in India

has been compared sector wise, There is a decrease in share of Financial Inclusion & Clean Energy in Impact Investments from 2010 to 2016, whereas there is an increase in Agriculture, Healthcare, Education & Other sectors. It is observed that in India majority of Impact Investments are done in Financial Services and across globe it done in other sector which includes Housing, Water & Sanitation, Forestry & Timber and Others. It is seen that in India majority there is a shift from Club Deals to Impact Investment Deals from 2010 to 2016. Whereas the conventional PE/VC deals remains almost equal. It is observed that by 2021 the Impact Investment in India can touch \$ 1.5 bn. So, it can easily be said that the world of investments are moving in favor of Impact Investments. In nutshell, the Future of Impact Investment is great in India.

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- 3 <https://yourstory.com/2016/11/impact-investing-india-to-grow-mckinsey-research/> visited on 30/9/2018
- 5 https://www.britishcouncil.in/sites/default/files/british_council_se_landscape_in_india_-_report.pdf Visited on 1/1/2019
- 6 <https://www.rockefellerfoundation.org/blog/bringing-scale-impact-investing-industry/> visited on 18/11/2018
- 8 <http://knowledge.wharton.upenn.edu/article/from-backstreet-to-wall-st-ep-09/> visited on 15/12/2018
- 9 <https://thegiin.org/research/publication/annualsurvey2018> visited on 23/11/2018
- 10 <https://economictimes.indiatimes.com/markets/expert-view/impact-investing-can-be-next-growth-and-job-engine-for-india-amit-bhatia-global-steering-group/articleshow/66957317.cms> visited on 15/12/2018
- 13 Global Impact Investing Network's (GIIN) sixth annual survey, May 2016 visited on 30/9/2018

ANNEXURE A

Impact Investment (Value in \$ Mn)		
Year	India	World
2012	840	8000
2013	438	10600
2014	593	10600
2015	1002	15200
2016	1072	22100

Source – VCC Edge, McKinsey Analysis

ANNEXURE B

Impact Investment & GDP Value in \$ Mn		
Year	Impact Investment	GDP in current prices (\$ Mn)
2012	840	1827640
2013	438	1856720
2014	593	2039130
2015	1002	2102390
2016	1072	2273560

Source – VCC Edge, McKinsey Analysis & Statista.com

ANNEXURE C

Impact Investment India Sector Wise (Percentages)		
Sector	2010	2016
Financial Inclusion	57%	43%
Clean Energy	31%	21%
Agriculture	3%	5%
Healthcare	0%	16%
Education	8%	13%
Others	1%	2%

Source – VCC Edge, McKinsey Analysis

ANNEXURE D

India Sectors 2016			World Sectors 2016		
Financial Services	Financial Inclusion	43%	Financial Services	Micro Finance	12%
				Other Financial Services	10%
Clean Energy		21%		Energy	16%
Agriculture		5%		Food & Agriculture	7%
Healthcare		16%		Healthcare	6%
Education		13%		Education	3%
Others		2%	Others	Housing	22%
				Water & Sanitation	6%
				Forestry & Timber	4%
				Others	14%

Source – VCC Edge, McKinsey Analysis

ANNEXURE E

Value (In \$ bn)	2010	2016
Impact Investor	0.05	0.15
Club Deals	0.13	0.24
Conventional PE/VC	0.31	0.68
Total	0.49	1.07

Source – VCC Edge, McKinsey Analysis

ANNEXURE F

Year	Impact Investment (India in \$ Mn)
2010	493
2011	772
2012	840
2013	438
2014	593
2015	1002
2016	1072

Source – VCC Edge, McKinsey Analysis