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Impact Investing Gets Personal

Impact investing is a big deal – not just in developing and emerging markets, but throughout the Western world as well – now, more than ever before.

Why? Because financial pressures on companies and individuals have been growing for years, and recent geopolitical and climate-related events are making a bad situation worse. Traditional local funders like commercial banks and community development institutions face weakening balance sheets and uncertain access to capital for on-lending. Government stimulus efforts can be slow and spotty.

Can impact investors help bridge the gaps, and fill the needs? It remains to be seen, but some exciting innovations are bubbling up – new ways of reaching more people to address urgent funding needs.

First, let's step back and consider some numbers. The Global Impact Investing Network (or The GIIN), estimates there are over 3,000 organizations around the world managing over $1 trillion worth of impact investments. However, if one takes into account ***all*** global investors seeking environmental, social and governance (ESG) impact – a much broader category of focus – this number swells to around ***$30 trillion***.

Of course, it's not just about the numbers. All impact/ESG investors are motivated by an overriding factor: a desire to know that their money is making a difference.

Until now, this has been a rather murky exercise. Typically, these investors rely on periodic "impact reports" generated by fund managers supported by a host of consultants, monitors, and evaluators.

Moreover, most impact and ESG investors have been far removed from the positive results generated among end beneficiaries, such as local businesses, schools, consumers, and so on. To investors, the end beneficiaries are often remote and faceless.

Happily, some recent initiatives are turning this scenario on its head. Impact investing is starting to get personal and go retail.

A case in point are career impact bonds (CIBs), championed by Social Finance, an international NGO. CIBs help underserved populations get access to high-quality career training based on student-centered "income sharing agreements". Under a CIB, an impact investor provides funding to a training entity to cover training costs and support. A student enrols, studies, and after graduating, repays the training costs based on a certain percentage of their income (with a cap) over an agreed timeframe. Those who do not graduate have no financial obligation. Amounts repaid by graduates are allocated between the impact investors and the trainers, helping to align motivations and incentives.

Another interesting initiative has been launched by Honeycomb Credit, a US-based crowdfunding firm, designed to help small business access much-needed credit for operations and growth. Its "loyalty bond" product is a funding instrument that acts a bit like a customer gift card for a particular retail establishment. Essentially, you can buy a loyalty bond today for, say $100, and when the bond "matures" in two years time, you receive $130 in purchasing value to spend at the establishment. In this way, consumers become the "impact investors", helping to support local business and relieve pressure on the financial system.

Are these innovations a blip or the start of a new trend? Inevitably, new and diverse funding approaches will continue to grow in creativity to fill gaps and weaknesses in traditional funding channels. And many of these new approaches are likely to have impact results that are more immediate and personal.

Stay tuned!