

IMPACT INVESTING: -AN OVERVIEW OF HISTORY

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ABSTRACT

Impact investing has emerged as a significant investment approach that aims to generate financial returns while creating measurable social and environmental impact. This paper examines the historical evolution of impact investing, tracing its roots from ethical and socially responsible investing to its current role in promoting sustainable development. The study highlights key milestones such as the rise of microfinance, the formalization of the concept in the early 2000s, and the influence of global initiatives like the United Nations Sustainable Development Goals. The paper also discusses the growth of impact investing globally and its relevance in addressing challenges such as poverty, climate change, and financial inclusion. The findings suggest that impact investing has become an important tool for aligning capital markets with long-term societal goals.

Keywords: Impact Investing, Sustainable Development, Ethical Investing, ESG, Social Finance

Introduction

In recent decades, the global financial system has undergone a significant transformation due to increasing awareness of social inequality, environmental degradation, and climate change. Traditional investment approaches, which primarily focus on maximizing financial returns, have often failed to address these challenges. As a result, investors are increasingly seeking investment strategies that combine profitability with social responsibility.

Impact investing is one such approach that aims to generate measurable social and

Environmental benefits alongside financial returns. It bridges the gap between philanthropy and conventional investing by channeling capital into projects and enterprises that contribute positively to society. This paper attempts to study the historical development of impact investing and analyze its growing importance in the modern financial landscape.

Objectives of the Study

The main objectives of this research paper are:

To understand the concept and meaning of impact investing

- To study the historical evolution of impact investing
- To examine the global growth of impact investing
- To analyze the role of impact investing in sustainable development
- To identify the challenges faced by impact investors

Research Methodology

This study is based on descriptive research design.

The research relies entirely on secondary data, collected from:

Academic journals

Reports published by Global Impact Investing Network (GIIN)

World Bank and United Nations publications

Books and reliable websites related to sustainable finance

Concept of Impact Investing

Impact investing refers to investments made with the intention of generating positive, measurable social and environmental impact alongside financial returns. These investments can be made in both emerging and developed markets and across various sectors such as healthcare, education, renewable energy, agriculture, and financial inclusion.

Unlike socially responsible investing, which often focuses on avoiding harmful industries, impact investing actively seeks to support projects that create meaningful change.

Historical Evolution of Impact Investing

Early Roots: Ethical and Socially Responsible Investing

The foundations of impact investing can be traced back to ethical investing practices adopted by religious groups centuries ago. These investors avoided businesses involved in activities such as slavery, alcohol, gambling, and weapons manufacturing. During the 1960s and 1970s, socially responsible investing gained momentum due to civil rights movements, environmental activism, and opposition to the Vietnam War. Investors began screening companies based on ethical and social criteria.

Growth of Microfinance in the 1990s

A major milestone in the history of impact investing was the rise of microfinance institutions. The establishment of the Grameen Bank by Muhammad Yunus in Bangladesh demonstrated that providing small loans to low-income individuals could generate both social impact and financial sustainability. This success challenged the belief that socially driven investments could not be profitable.

Formalization of Impact Investing (2000–2010)

The term “impact investing” was formally coined in 2007 by the Rockefeller Foundation. This period marked a transition from passive ethical screening to proactive investment strategies aimed at creating measurable impact. Foundations, development finance institutions, and private investors began establishing impact-focused funds.

Institutional Support and Global Expansion (2010–Present)

The establishment of the Global Impact Investing Network (GIIN) in 2010 played a crucial role in promoting standards, research, and impact measurement. The adoption of the United Nations Sustainable Development Goals (SDGs) in 2015 further accelerated the growth of impact investing by providing a global framework for sustainable development. Today, impact investing has become a mainstream investment strategy across the world.

Global Growth of Impact Investing

Impact investing has witnessed rapid growth over the last decade. Institutional investors, venture capital firms, and governments have increasingly adopted impact-focused strategies. Sectors such as renewable energy, affordable housing, healthcare, and education attract significant impact capital. Emerging economies benefit greatly from impact investments due to their focus on inclusive growth and development.

Impact Investing in India

In India, impact investing has gained prominence due to challenges such as poverty, unemployment, and limited access to basic services. Impact investments in India focus on areas like microfinance, clean energy, agriculture, healthcare, and education. Government initiatives such as Startup India and increased ESG awareness have further supported the growth of impact investing in the country.

Importance of Impact Investing

Promotes sustainable and inclusive economic growth

Encourages responsible business practices

Supports innovation and social entrepreneurship

Aligns financial markets with long-term societal goals

Challenges of Impact Investing

Despite its benefits, impact investing faces several challenges:

Difficulty in measuring social and environmental impact

Lack of standardized reporting frameworks

Risk and return uncertainty

Limited awareness among traditional investors

Future Scope of Impact Investing

The future of impact investing appears promising due to increasing ESG integration, supportive government policies, and growing investor awareness. Technological advancements and improved impact measurement tools are expected to strengthen investor confidence and expand the market further.

Conclusion

Impact investing has evolved from ethical investing practices into a structured and globally recognized investment approach. By combining financial returns with social and environmental objectives, it offers a powerful solution to many global challenges. Although certain limitations exist, the growing support from institutions and governments indicates that impact investing will continue to play a vital role in sustainable development.

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