

Sustainable future growth on the base of impact investing in BRICS countries

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Abstract. Impact investing is a new developmental paradigm in Brazil, Russia, India, China, and South Africa (BRICS), and its effective implementation is a fundamental factor in securing stable and innovative economic development at the national level. With impact investing, investors look to generate positive social and environmental impacts alongside financial returns. The current study reveals the innovative mechanisms of impact investing, namely, financial and economic tools and new business technologies. It also explores the diverse ways in which impact investment capital can be leveraged in BRICS countries. The results indicate the advantages and problems inherent in impact investing, as well as the main directions in which this type of investing can develop. The current study examines the development of impact investing in BRICS countries. It also touches upon the role of impact investing in the development of their economies and identifies the main problems inherent in implementing impact investing there.

1 Introduction

The main driver of economic growth today is technological innovation bankrolled by venture investors; however, in the future, further economic development will be impeded by economic and social problems. In 2009, three international organizations—namely, the Rockefeller Foundation, J.P. Morgan Foundation, and United States Agency for International Development—founded a new project called the Global Impact Investing Network (GIIN). According to GIIN, impact investments are those made in companies, organizations, and funds with the intention of generating positive social and environmental effects alongside financial returns [1].

This growth was witnessed at the Davos World Economic Forum of 2012, where another new organization was founded to deal with the development of impact investing [2]. According to a recent report by GIIN, more than 1,340 organizations established over 13,000 deals in 2018, plan to eventually invest in more than 15,000 deals, and currently manage US\$502 billion in impact investing assets [3]. According to the Global Steering Group for Impact Investment, by 2030,

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the global market for impact investing is projected to grow to US\$300 billion in venture capital and US\$800 billion in social impact bonds (SIBs) [4].

Impact investing is a new way of investment and wealth management that is quite separate from the traditional financial model. It combines social and fiscal values and, as such, represents the progressiveness of society. We additionally define “impact investing” as involving innovative mechanisms (e.g., financial and economic tools and new business technologies) that are directed to the achievement of social or environmental effects, in tandem with positive financial outcomes. Additionally, Arjalies emphasizes that “impact investing has become a sort of Research & Development for finance” [5], and we fully agree with this statement. Impact investing constitutes an innovative form of investment, and the financial and economic tools within its sphere include SIBs, development impact bonds, green bonds, angel investing, venture capital, and microfinance. Positive impacts come in many forms, from job creation and employability enhancements to serving low-income consumers in terms of housing, education, accessible healthcare, or more inclusive finance [6]. Thus, in addition to creating financial returns, impact investing can help create jobs and expand the provision of goods and services.

The BRICS countries are interested in developing their impact investing facilities. The main directions of impact investing include sustainable agriculture, renewable energy, new energy, energy efficiency, biomaterials, new materials, environmental pollution mitigation technology, water resources and water treatment, clean technology, information and communication technology, financial services, microfinance, manufacturing, healthcare, education, food and beverages, housing, infrastructure, sustainable transportation, and conservation. The results of the current study identified various innovative mechanisms of impact investing, including financial and economic tools and new business technologies.

2 Materials and methods

The methodological and theoretical basis of the current study comprises the statistical analysis methods, analytical grouping, an abstract logical assessment method, and expert evaluation.

The empirical basis of the study—which allowed us to draw reliable conclusions and make recommendations and proposals regarding the development of impact investing in BRICS countries—comprises data from the national statistical bodies of BRICS countries, the approaches and developments undertaken by GIIN, data regarding the Mainstreaming Impact Investing Initiative, and publicly available sources (e.g., the BRICS Information Portal, the Impact Investing Latin America Knowledge Platform, the South African Impact Investing Network, various impact investing foundations, reports and papers from various institutions, materials from foreign periodicals, and official websites). In developing this case study, we leveraged information from impact investing venture companies and various impact investing funds within BRICS countries.

To determine how impact investing can affect a country’s economic growth, we carried out regression analysis. The regression coefficient was calculated as per:

$$Y = \beta_1 X_1 + \beta_0, (1)$$

where Y is the volume of GDP of the country, in US\$ billion;

β_1 is the regression coefficient of the first-factor indicator (X_1);

β_0 is the free sign that determines the volume of GDP (Y) in cases where the factor sign (X_1) equals 0; and

X_1 and the first-factor indicator indicate the volume of impact investments in the country, in US\$ billion.

The smallest squares method and matrix method were used to solve the regression equation. Additionally, multiple steps came into play when analyzing and determining the presence, direction, and shape of impact investing development in a country. Such analytical

steps included analytical grouping, time-series comparisons, and the construction of linear graphs.

3 Discussion. Indicators of impact investing in BRICS countries

Research into impact investing helped us reveal the main types of impact investors; these include banks, financial institutions (advisors), pension funds, insurance companies, institutional foundations, investment companies, family offices, and individual investors. Fund managers and other intermediaries play a vital role within the impact investing ecosystem, as they work to effectively channel capital between investors and investees.

We identified the main motivations driving impact investors. Their general mission is to make a positive social and environmental impact through investments; achieving this mission means committing themselves to being responsible investors, finding effective ways to achieve goals, developing opportunities to access the burgeoning sectors of certain economies and geographic regions, pinpointing investments that are relatively financially attractive, and diversifying investment portfolios.

Researchers at the Australian Advisory Board of Impact Investing believe that impact investing is about more than just money: it is “a means of unlocking serious problem-solving capacity through data, collaboration, [and] applying new tools to existing problems and established tools to different problems” [7]. Our analytical results confirm that impact investing contributes to problem resolution in the areas of welfare, affordable housing, employment, healthcare, education, renewable energy, environmental pollution prevention, waste disposal, and services that promote financial inclusion, *inter alia*.

The motivations behind impact investing are diverse, and so indicators thereof are likewise diverse. For example, the metrics of impact investing in BRICS countries include the following.

1. In the social sphere:

- Healthcare: the number of people receiving medical service in rural areas, the number of hearing-impaired children receiving assistance, etc.
- Education: the number of children attending school, the number of talented young people from disadvantaged families, the number of libraries, etc.
- Finance: the number of small and medium-sized enterprises (SMEs) whose activities look to create jobs and reduce poverty, the number who can access financing, the volume of credit they can access, etc.
- Rural entrepreneurship: improving the standard of living of the rural population (e.g., increase the incomes of rural residents and the number of jobs, etc.).

2. In the environmental sphere:

- Environmental protection: the degree to which carbon dioxide emissions are reduced, etc.
- Water and energy waste: the degree to which waste has been reduced.
- Recovery technology: the degree to which energy costs have been reduced, reductions in the volumes of water used, etc.
- Bioenergetics: the volume of agricultural waste that can be converted into bioenergy, the quantity of reduced carbon dioxide emissions, etc.
- Sustainable agriculture: volume reductions in chemical fertilizer and pesticide use, the number of jobs provided, etc.

In Brazil, the main impact investors are closed-end and open-end impact funds, business accelerators and incubators, family companies, and development banks. For example, the Oikocredit Microfinance Fund has lent BRL207 million (€43 million) to 65,000 micro-entrepreneurs [8]. In Brazil, the priority foci of impact investing are education, healthcare,

financial services, renewable energy, environmental pollution mitigation, and waste disposal.

In Russia, unlike other BRICS countries, impact investing is only in its infancy. One of the first Russian companies involved in the development of impact investing is the “Our Future” Fund of Regional Social Programs, which is included in the GIIN. During its nine years of operation, the fund supported 172 social projects across 49 regions in Russia.

India has been hailed as a model of innovative development; its aims have been to provide India’s most impoverished people with innovative services, and to protect the environment. The current study determined the main problems inherent in developing impact investing in India: a dearth of information regarding impact investing opportunities, an insufficient number of effective investment consultants, insignificant participation on the part of pension funds in impact investing, weak skills in the area of business technology development, low liquidity among impact investing companies, a shortage of high-class managers, and weak state support.

In China, impact investing is just one of the components of a new push to develop the national economy. The current study determined the main problems inherent in developing impact investing in China: a lack of information on impact investing opportunities, an insufficient number of effective financial managers, insignificant participation on the part of large institutional investors, poor development of essential impact-investing infrastructure, a deficiency of capital, a shortage of high-class managers, weak state support, a limited range of impact investing instruments, and low corporate liquidity.

In South Africa, the resolution of social and environmental problems should be the main focus of impact investing.

4 Results. Impact investing and its effect in resolving social and environmental problems

To confirm the first hypothesis, we analyzed the application of impact investing in BRICS countries; this analysis generated the following results. The social results of impact investing were split among social welfare, rural development, improving the living standards of low-income people, employment, small business development, healthcare, and education.

One example of a social result, in education, derived from the June 2015 launch in India of SIBs (Rajasthan), which raised US\$300,000. The goal of the investment was to enroll 15,000 school-age girls who had been excluded from government primary school education and ultimately to improve their literacy and numeracy skills [9].

In terms of environmental projects, the goals of impact investing included environmental protection and climate awareness, renewable energy, environmental pollution mitigation, waste disposal, green energy (including solar power), energy efficiency, emission reductions and low-carbon consumption, natural resource conservation, sustainable energy, sustainable agriculture and land use, and water resources and treatment.

One example of an environmental result—in energy efficiency and environmental pollution mitigation—was engendered by a program fronted by the Rockefeller Foundation in India (i.e., Smart Power for Rural Development), which sought to establish electrical infrastructure in India’s rural villages to spur economic growth. This innovative model helps disperse environmentally clean energy to telecommunication companies (which have otherwise used expensive and polluting diesel fuel), small agricultural enterprises, agro-industrial firms, and villagers.

Thus, one can see that impact investing is a new and significant investment paradigm that looks to create both financial returns and positive social and environmental effects.

To confirm the second hypothesis, let us determine, as an example, the effects of impact investing on GDP of BRICS countries. We calculated a high correlation coefficient (0.7127), which points to the very real and positive prospects dovetailing from the development of

impact investing, for example, in India. We obtained the following linear regression equation: $Y = 604.4975 X_1 + 1495.3660$. Our analysis of the linear regression model revealed that in India, a US\$1 increase in the volume of impact investing will, on average, lead to a US\$604.5 increase in India's GDP. In Brazil this indicator was US\$23, in Russia – US\$35, in China – US\$209, in South Africa – US\$13. In this way, the results of linear regression analysis confirm the positive effect of impact investing on growth in GDP of BRICS countries.

5 Conclusions

The current study uncovered the main obstacles to the development of impact investing in Brazil, Russia, India, China, and South Africa (BRICS). These are as follows: a) lack of information on the opportunities and advantages that can derive from impact investing; b) an insufficient number of effective investment intermediaries (investment consultants, financial managers, etc.); c) insignificant participation in impact investing among large institutional investors (pension funds, insurance companies, etc.) that possess considerable investment capital and experience; d) poor development of essential infrastructure—namely, infrastructure by which to assess the efficiency and financial risks of impact investing, the standards and classifications of impact investing transactions, etc.; e) deficiencies of capital: the target groups that benefit from impact investing are small enterprises in rural and depressed areas as well as low-income population segments; meanwhile, solutions to environmental and social problems demand considerable financial investment; f) weak skill sets vis-à-vis the development of business technologies among most impact investing participants; g) a shortage of high-class managers among venture social companies; h) low liquidity among those companies taking part in impact investing (exiting from the capital of social companies is difficult, and frequently impossible); i) relatively weak state support; j) limited range of impact investing instruments.

Based on my findings, we put forward a number of recommendations with regard to the expansion of impact investing in BRICS countries, as follows: a) promote the high efficiency of impact investing, and disseminate information relating to the results of such investing; b) increase the involvement of large institutional investors in impact investing; c) stimulate the participation of investors (both foreign and domestic) in impact investing through the creation of tax benefits, custom preferences, etc.; d) support successful venture business people by facilitating large-scale funding via impact investing; e) carry out training for, and provide assistance to, impact investing participants as they strategically plan their activities; f) create conditions conducive to opening the impact investing sector: this will allow for better cooperation between investors and the companies that require investment; g) carefully examine environmental and social problems, as well as the market's research requirements; h) effectively allocate and manage all capital put into impact investing; i) expand financing opportunities to a greater number of financially disadvantaged people; h) further develop microfinancing in support of small and medium-sized enterprises; k) promote the use of financial and economic tools and business technologies; l) continue to introduce in BRICS countries peer-to-peer platforms that focus on impact investing; m) create a technique by which to assess the efficiency and financial risks of impact investing; n) create a special impact investing foundation that can finance the main social and environmental projects in BRICS countries and thus help resolve their economic problems

Further research on the implementation of impact investing is promising, especially in a number of specific areas; these include intra-BRICS cooperation, contributions to improvements in these countries' social and environmental positions and their economic growth, and driving cooperation vis-à-vis digital impact investing in BRICS countries.

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