ERNOP Research Note

Academic articles on philanthropy through a practitioner lens

Full article

Who has a seat at the table in impact investing?

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This article describes the current design and limits of the impact investing field and highlights the main changes needed to deliver the positive impact it aims to achieve.

The authors advocate three entwined evolutions: incorporating vulnerable communities, having a systemic-change approach and addressing structural inequalities.

Impact investing aims to deliver a positive impact. Yet, the practices of the main players are derivated from mainstream finance and not tackling structural inequalities. It's still time to meet this purpose by giving a voice to vulnerable stakeholders, which will favour a systemic-change approach, thus being able to address structural inequalities.

#ImpactInvesting #Inequality #Change #Sustainable #Finance

Background & Context

- Impact investing aims to **mobilize investment capital to areas and organizations with the most need and ability to generate positive social and environmental impact**. The practice is **distinct from social and responsible investments, which consider or minimize negative impacts** on different stakeholders.
- This article explores **to what extent the design in itself of the impact investing field may alter its capacity to achieve positive impact**. The investment allocation process and criteria are mainly decided by investors and stakeholders, whose background, ability and legitimacy to understand the needs of beneficiaries, and evaluate the social and environmental impact of such investments, is questionable.
- By examining **who is sitting at the decision-making table in impact investing players**, the article raises the governance issue and how that influences the existing financial tools, organizations and institutional bodies. As a result, impact investing is missing changing failing or unfair systems by not addressing structural inequalities.
- The authors' answer is to develop the **mechanism of Giving Voice** i.e. **inclusive participation of vulnerable stakeholders in the decision-making process**.
- Timing opportunity: it's still time to examine and reorient how the field is being shaped as it has not yet reached its maturity.

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Take aways & Learnings

- The current impact-investing field **is designed top-down by investors and other powerful stakeholders**, who determine where to allocate capital and how to measure the investments' positive impact.
- As its ambition is to address social and environmental challenges not yet addressed by mainstream finance, the impact investing field is **faced with the paradox of following a many the same rules as mainstream finance**. That hampers engagement of beneficiaries, social and philanthropic organizations, and **exposes it to criticism**.
- Impact-investing field mostly **fails to change unequal and unfair systems,** as it's **currently not designed to aim at systemic issues**, such as structural inequalities. The reason lies mainly **in multilevel players not incorporating beneficiaries**, i.e. vulnerable stakeholders, in the decision-making process.
- **Not giving a voice** to vulnerable stakeholders results from organizational-focused management and **translate in organizational-impact approach**: priorizing outputs and (sometimes) outcomes with short-terms and easily measured impact metrics, whereas **giving a voice results** from issue-focused management and **translate in systemic-impact approach**: priorizing outcomes and achievements with **building-up capacity in addressing structural inequalities**.

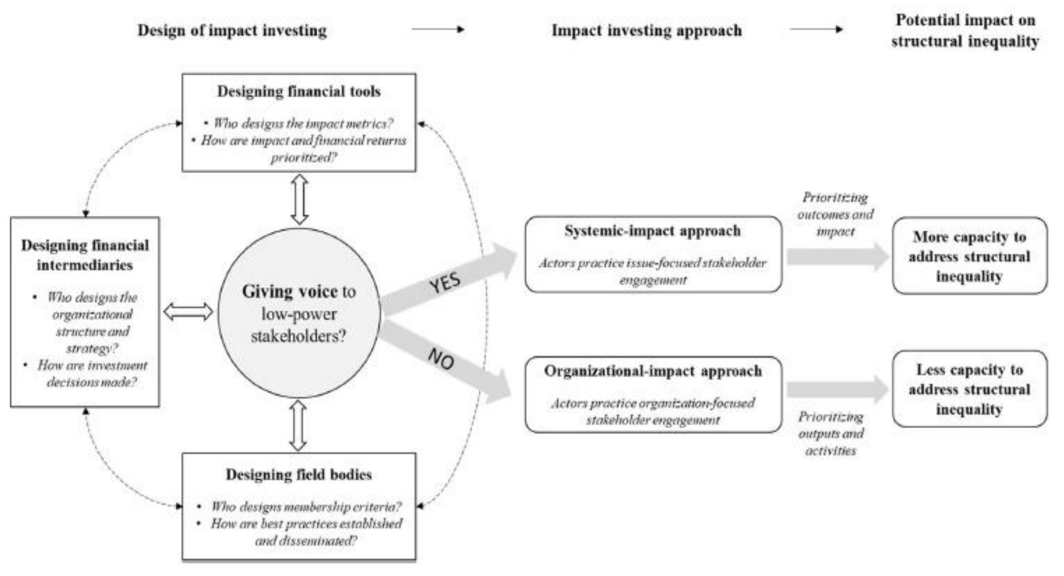

Fig. 1 Process model of giving voice in impact investing

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