Money & Mission – the transition from ethical investment to social impact investment

It's not really possible to understand social impact investing without first looking at ethical investing. Ethical investing all started with the churches – in fact the Jewish concept of Tzedek, which dates back to around 1,500 bc, talks about the responsibility of ownership, and how it needed to prevent any harm. This is effectively the start of socially responsible investing. One thousand years later the Qur'an enshrined the philosophy of sharia – compliant finance, where money is a medium of exchange as opposed to an asset for accumulation over time. Then along came the Quakers in the 18th century who forbid members to invest in the slave trades. Finally, the Methodists in America decided to enter the stock market at the turn of the 20th century, but with the proviso to exclude companies involved with gambling or alcohol. So the faiths were effectively the first ethical investors and their negative screening, or list of excluded opportunities, was interpreted as a form of advocacy. Many congregations followed, in particular during 1970s and 1980s in the USA and the UK when they decided, like the Quakers and Methodists before them, to ensure that their capital was not invested in certain companies which were a direct contradiction of these congregations' missions - companies for example that manufactured armaments, which would be a huge issue for many congregations who are themselves huge investors. Other factors, such as the use of Agent Orange in the Vietnam war and the situation regarding apartheid in South Africa drove investors to demand that their fund managers employ ethical standards for investment.

Over the years this negative screening evolved into specialised fund managers actively seeking out opportunities that satisfy the social, environmental and ethical demands of these congregations. Other investors such as charitable foundations and discerning individuals began to take note, often having been exposed for investing in companies that countered their own philosophies. A whole slew of products under the ethical investing umbrella, which matched differing commitment levels and return expectations to differing investor demands, became available. Some platforms used screening criteria such as environmental, social and governance (ESG) factors, where fund managers look for evidence of responsible structures, practices and policies such as respect for and promotion of human rights, climate change and resource depletion and board diversity and structure. ESG platforms are not sector specific, but will avoid some opportunities as outlined above and employ negative screening techniques.

Socially Responsible Investments and Impact Investments are effectively a sub set of ESG Investing. SRIs actively seek and select opportunities according to very specific guidelines that are value – matched to the original investors, for example choices may be politically motivated, or come from a faith-based position. An SRI investor may look for a pharmaceutical opportunity, but shy away from organisations involved in birth control on religious grounds. The organisation may well pass the ESG screening with flying colours, but would fail the value – match of the SRI screening.

Impact investment is the newest and most non –traditional, radical form of investment as the returns are measured in social and environmental deliverables as well as financial ones. Social impact investors are more open to risk, and value the benefits to society as a valid return even if the financial return is not as pronounced as more traditional types of investments.

Vita's Green Impact Model is the very essence of a social impact investment as it passes all the ESG screens, delivers on the sustainable development goals (SDGs), is values-driven and has significant, measureable and verifiable social and environmental impact and well as delivering respectable returns back to the investor.

Ends