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Impact Investing Trends in Russia and Tourism

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Abstract:

The idea of this paper is to develop an understanding of the impact investing industry in Russia. At this stage of the impact investing development in Russia, such research is timely and important task for its further growth and promotion. It is essential aim to analyze impact investing prospects in the tourism sector and perform comparative analysis of investment between different sectors of the economy and countries in the field of impact investing. This research is intended to contribute as a view to future impact investment to develop these trends in Russia. The key issues studied include the current trends and challenges in impact investing in Russia and ways of the expansion the favorable ecosystem for the impact investing industry in the country.

Keywords: tourism industry; impact investing.

JEL Classification: L83; G2; O10; Z32.

Introduction

In recent years, there is a growing interest in impact investing as an approach to expanding capital with social or environmental challenges as well as financial return goals. According to the Organization for Economic Co-operation and Development impact investing is a new way of investment activity addressing social and economic challenges, including new models of public and private partnership that can fund, deliver and scale innovative solutions from the ground up (OECD).

Modern studies refer to these investments as “an emerging asset class” designed to create positive impact beyond financial return (Morgan 2010). There are some features in the terminology of impact investing. Thus, social entrepreneur or enterprise can be defined as entrepreneur or organization that implements a double or triple a business model. Similarly, socially responsible investing (SRI) differs from impact investing by the following features: SRI describes investing in companies that benefit strong environmental and social governance (ESG) policies and avoid investment in businesses involved in industries such as alcohol, tobacco, gambling, weapons and others, at the same time, impact investing describes making investments that imply to create positive impact beyond financial return, in addition to ESG policies (Morgan 2010). Finally, social performance indicates organizations' direct inputs, outputs, and business activities that are developed to have a positive social or environmental effect, while, social impact means a broader set of outcomes, such as increased income and assets for the people with low incomes, improved basic welfare for people in need, and climate change mitigation (Morgan 2010, Swarbrooke 2010, Aronsson 2010).

Defining impact investing it is important to note the main business sectors for impact investments:

- basic needs: agriculture; water; housing;
- basic services: education; health; energy; financial services (Morgan 2010).

As it can be seen from this field of sectors, impact investing is aimed at solving social problems in society. In different countries, this range of problems may vary within various industries and fields of activity. For example, in Nepal, according to the report of the Global Impact Investing Network (GIIN), impact investing covers the following industries: transport; tourism and hospitality; energy; infrastructure; financial services; agriculture. Interestingly, transport and tourism are two sectors that are currently receiving about 78% of impact investment in Nepal (GIIN and Dalberg 2014). In Brazil, education (84%), financial services (89%) and healthcare (63%) are popular sectors in terms of number of capital transactions, which coincides with those areas where Brazil is currently facing the most serious problems of the population with low incomes (Aspen Network of Development Entrepreneurs 2014).

Similarly, the distribution of impact investment by sector reflects areas of investor interest. Globally, impact investing allocations by various sectors are the following (number of investors participated in the survey – 203):

- microfinance – 21%;
- energy – 13%;
- housing – 11%;
- finance services (excluding microfinance) – 10%;
- healthcare – 7%;
- forestry and timber – 7%;
- food and agriculture – 6%;
- education – 4%;
- manufacturing – 2%;
- ICT – 2%;
- infrastructure – 2%;
- WASH – 1%;
- arts and culture – 0,4%;
- ‘other’ sectors (including services, waste management and recycling, tourism, transportation, community facilities, sustainable consumer products, and multi-sector investments) – 14% (GIIN 2017).

The basic concept of impact investing is based on the impact investing ecosystem (Table 1). In general, the impact investing industry provides opportunities for both investors (the supply side) and social entrepreneurs (the demand side). Considering the supply-side of the industry in the global context, the most common type of social investors is: total financial and specialized institutions; pension funds; private foundations with special programmes; foundations funded by family businesses; individual investors (GIIN 2017). There are the two broad aspects of the impact investment ecosystem: the macro investment climate and the legal support available for investors and social enterprises. The key regulators should play an important role in the impact investing industry in terms of creating a legal environment, encouraging greater transparency and taking actual steps to help develop the market. Successful examples of state support include the following:

- state support for the demand-side of impact investing industry: supporting social delivery enterprises through information and promotion assistance, investment availability programmes, supply support and other initiatives;
- state support for the supply-side of impact investing industry: providing tax benefits, guarantees, subsidies and joint participation in impact investing funds (OECD).

Table 1. Impact Investing Ecosystem

The supply side	Channels of capital	The demand side
Investors/Financial sector	Intermediaries, local governments, key regulators	Social entrepreneur/enterprise

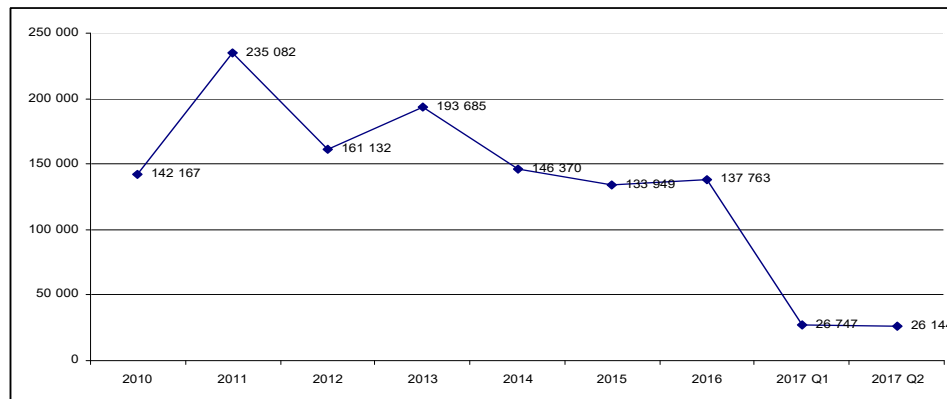
Source: based on data of OECD; GIIN

In addition, ecosystem development includes creating intermediaries such as wholesale banks, exchanges or other channels to facilitate links between supply and demand for the impact investing ecosystem. Also among the large intermediaries, it is possible to define such international platforms as the Global Impact Investing Network (GIIN); United Nations Principles of Responsible Investment (UNPRI); the Aspen Network of Development Entrepreneurs (ANDE); Social Venture Network (SVN); Investors' Circle/SJF Institute; Toniic. For example, the status of a member of the GIIN allows a company to participate in private events, conferences, discussions and presentations, obtain information about current trends from industry leaders and experts, participate in training programs and seminars, build relationships and communicate with other members of the network.

1. Overview of the Russian Social Investment Ecosystem

The macro analysis of the impact investment ecosystem must start with the global and national economy as an important factor of industry performance. Given the importance of a global economy, the industry results across countries also vary. In general, the global environment in 2014-2016 was unfavorable for the Russian economy. According to Bank of Russia, the macro investment climate in Russia as a part of the impact investment ecosystem due to increased volatility the global financial markets and political events remained, on the whole, rather unfavourable. The economic sanctions caused the ruble exchange rate fluctuations, growing inflation, a slowdown in economic activity and a reduction in foreign capital investment (Figure 1). In 2016, investment activity stayed rather weak. Among the factors that limited growth in fixed capital investment were the conservative investment policy of companies and a high debt burden in a number of sectors (Bank of Russia. Annual Report 2016).

Figure 1. FDI inflows in Russia (millions of US dollars; 2010-2016, 2017 Q1-Q2)



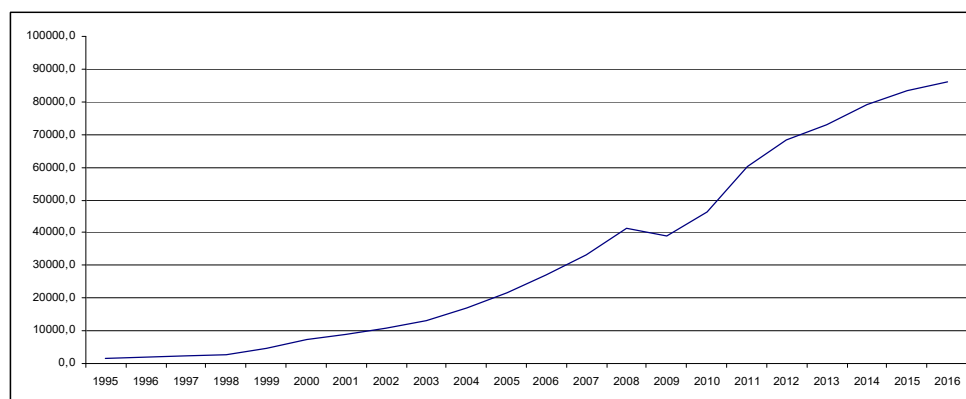
Source: based on data of Bank of Russia

Dynamics of FDI inflows in Russia over the last few years shows a gradual withdrawal of foreign capital from the investment market. On the one hand, this trend can be called a negative in the context of the macro environment analysis. On the other hand, it shows good potential for the domestic supply-side development in the impact investing industry in Russia. Nevertheless, in order that potential would be implemented Russia needs the active efforts of the key regulators to attract impact investors and create a legal and information support for impact investing industry.

In 2016, the decline of the Russian economy slowed down, unemployment remained at a low level and the second half of the year saw the transition to recovery growth. The slowing decline in demand shows positive shifts in sentiments of consumers, investors, and producers. The contribution of gross capital formation to GDP dynamics (Figure 2) was positive for the first time since 2012: the growth rate was 1.5% (Bank of Russia. Annual Report 2016).

The scope of the Russian impact investing associates with the social problems and the future prospects and challenges facing this emerging trend in Russia. Social entrepreneurship is a new trend in Russia and shows that a part of society is willing to be involved in social decisions, by creating business models with a long-term social impact.

Figure 2. Gross domestic product in Russia (billion rubles, 1995-2016)



Source: based on data of Federal State Statistics Service of Russian Federation (Rosstat)

Given the structure of services provided in Russia, it should be noted that social spending in the country is minimal in comparison with other service sectors, including tourism (Yakunin *et al.* 2016). For example, over the past three years the average range of services provided per capita in Russia has been as follows (see Figure 3):

- social services for elderly people and persons with disabilities – 110 rubles;
- wellness services – 735 rubles;
- services of cultural organizations – 960 rubles;
- travel services – 1064 rubles;
- services of hotels and similar accommodation facilities – 1316 rubles (Rosstat).

Figure 3. Social and tourism services per capita in Russia (rubles)



Source: based on data of Federal State Statistics Service of Russian Federation (Rosstat)

Exploring country-specific impact investing activity in Russia, it may be noted that a small number of players from both supply and demand sides, and the intermediaries characterizes the Russian ecosystem.

In particular, from the supply-side, there is one significant player on the market. One of the key players among impact investors in Russia is Fund Our Future (the Fund) that was founded in 2007 to promote social entrepreneurship in Russia. Many of the projects of the Fund focus on the problems of people with low incomes and people with disabilities. The tourism projects are also found in the portfolio of the Fund, but their function is to facilitate the lives of those who need help and support (Table 2).

Table 2. The projects of Fund "Our Future" in the tourism sector

The name of the project	The purpose of the project	Target audience	Funding (rubles)	Return period (years)
1. Specialized travel company for disabled people	organization of specialized tours for people with disabilities that use wheelchairs	people with disabilities in wheelchairs and their families	1 725 000	4
2. Providing tour services for persons with disabilities	improving the quality of life of people with disabilities, guided tours and excursions for disabled people	people with disabilities	4 200 000	4

Source: based on data of Fund Our Future. Annual Report 2016

The Fund provides interest-free loans for social entrepreneurs. Currently, the investments of the Fund amounted to 366,5 million and this has supported 150 projects in 48 regions of the country. The Fund uses the following criteria in the process of project evaluation:

- social impact;
- entrepreneurial approach;
- financial stability;
- financial return;
- innovation;

- development opportunity (Fund Our Future. Annual Report 2016).

Fund "Our future" became the first Russian company, which is a member of the GIIN and represents both Russia and Eastern Europe in this community. In addition to development of social entrepreneurship and charity projects the Fund conducts financial and consulting support, organizes outsourcing centers and a national competition of projects "Social entrepreneur" and supports the educational programme "Create your social business!" that developed by the Center of youth entrepreneurship HSE{Startup}.

It should be noted that in addition to the social funds, also there are the following sources of impact investing in Russia: government grants of the Ministry of economic development; impact investing of big companies that support social initiatives and projects; crowdfunding.

One of the challenging areas of the impact investing industry in Russia is the demand-side. There are successful social projects in Russia, for instance, the company Cocco Bello Honey that hires mostly old people and is the winner of the national competition Social Impact Award.

However, the main problem in Russia is the level of awareness and community involvement in social entrepreneurship. Survey conducted by Research group ZIRCON and national omnibus "QUART" has shown that awareness of the Russian population of social entrepreneurship during the monitoring period (8 years) remained practically unchanged. As shown in Table 3, from 15 to 33% of respondents state they are known or heard something about social entrepreneurship and a clear majority (85%) in October 2016 shows a lack of information or awareness in social business and impact investing.

Table 3. Awareness of social entrepreneurship in Russia (the proportion of respondents, by percentage of total respondents; number of respondents participated in the survey – 1600)

	Know/ heard something	Heard now for the first time/ Difficult to answer
June 2008	30	70
December 2008	26	74
June 2011	25	75
September 2012	33	67
October 2013	29	71
June 2015	29	71
October 2016	15	85

Source: based on data of ZIRCON, QUART

Another interesting result of this study is the opinion of the respondents on the possible participation of private and public sectors in solving social and environmental problems. For instance, the majority of respondents believes that the public organizations should take responsibility for solving social problems and only from 3% to 8% (in different years) of respondents consider that social problems should be solved mainly by private organizations (Table 4).

Table 4. Possible participation in the solution of social problems (the proportion of respondents, by percentage of total respondents; number of respondents participated in the survey – 1600)

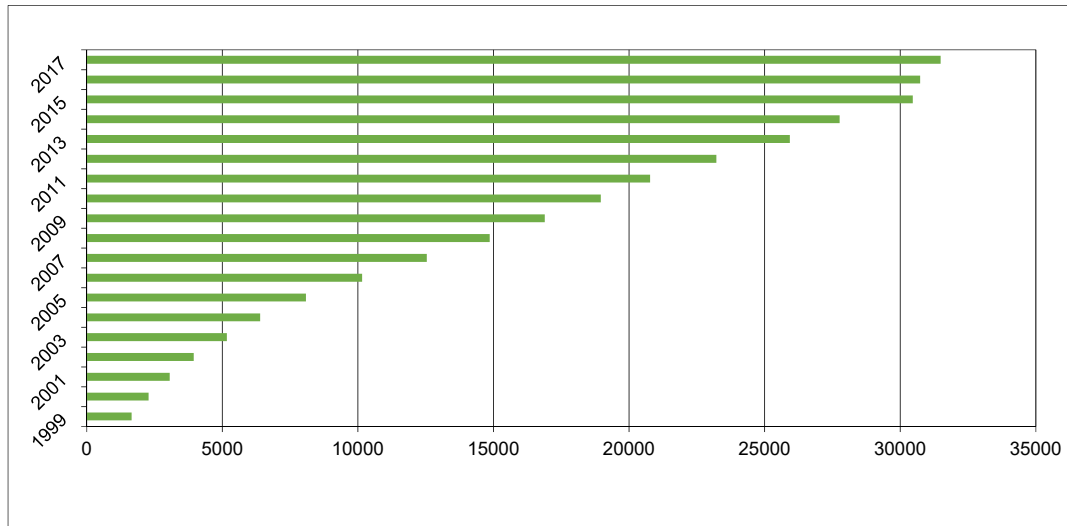
	The following organizations should be engaged in the solution of social problems			Difficult to answer
	public organizations	public and private organizations	private organizations	
June 2008	62	27	8	3
June 2011	61	32	5	3
September 2012	48	41	4	7
October 2013	59	28	6	8
June 2015	68	25	3	4
October 2016	55	37	4	5

Source: based on data of ZIRCON, QUART

Nevertheless, Russia has a huge potential for development of impact investing and social entrepreneurship. This potential lies in the basis of the Russian socio-economic problems. For example, official statistics indicates that there is a growing gap in income between different segments of the population in Russia. Firstly, over the past three years the number of people with incomes in the country less than the subsistence minimum increased by about 3%. Secondly, since 1999 in Russia there is a steady increase in income per capita (Figure 4). Thus, the statistical data has shown differences in incomes, the emergence of very rich people and poor people. On the one

hand, this leads to a deterioration of social problems, and, on the other hand, this creates favorable opportunities in social entrepreneurship for the population with economic problems in the country. In turn, this creates enabling conditions for the impact industry development, especially for the investor diversification, the emergence of new players and development of crowdfunding.

Figure 4. Average money income per capita in Russia (rubles)



Note: 2016 - 2017 Preliminary data

Source: based on data of Federal State Statistics Service of Russian Federation (Rosstat)

In Russia, there are a number of organizations that are involved in the intermediary activity to provide legal and information support for impact investors and social enterprises, specifically, investment platform StartTrack, Impact Hub Moscow and Social Impact Award. For instance, Impact Hub Moscow is a member of Impact Hub that has 77 branches in 48 countries. Many entrepreneurs and investors have already engaged in events of Impact Hub Moscow. Interestingly, Impact Hub Moscow is a social enterprise too and knows how difficult it is to balance between financial sustainability and increased social contribution. Social Impact Award is the largest programme in Europe for the development of social entrepreneurship. The project selection criteria of Social Impact Award are the following factors:

- social impact;
- innovation;
- implementation;
- team.

Finally, the public sector in Russia includes the following regulators: Council on social entrepreneurship of Chamber of Commerce and Industry of the Russian Federation, Bank of Russia, and Ministry of Economic Development of the Russian Federation. These structures have made efforts to create an enabling environment for investment. For example, over the past few years in Russia, they developed and adopted the following legislative acts relating directly or indirectly to the impact investing: the Law on public-private partnership in Russia; the Law on contract system in the procurement of goods, works, services for state and municipal needs; the project and public discussion of the Law on social entrepreneurship in Russia; the Law on public procurement; the Law on social services.

Conclusions and recommendations

Tourism performs a related function in the delivery of social services helping people with disabilities to feel comfortable. However, it can be noted a small number of social projects in tourism sector presented in Russia. If to compare the number of such projects in Russia and, for example, in France, it is obvious to note the difference in few times.

One issue that emerged strongly throughout the impact investing trends in Russia is a lack of a well recognized investment framework. More work is needed to better understand how investors use impact in the investment decision-making process and allocate capital for generating social and environmental benefits. It is important to analyze future investor demand and challenges, prospects for growing the impact investing market in Russia.

The impact investing industry goes through several stages of development. At the initial stage the state's assistance and recommendations for stakeholder engagement are important. The key stakeholders in the impact investing industry are listed below. There are supply-side actors (nonprofit and for-profit social funds; charitable foundations; family offices; development finance institutions; investment banks; development agencies; major corporations; pension funds; sovereign wealth funds; intermediaries for investors) that include a range of organizations engaged in placing capital in impact investments and the demand-side actors (social entrepreneurs; small- and medium-sized enterprises; microenterprises; microfinance institutions; nonprofit housing projects; urban revitalization projects; green energy businesses; sustainable agriculture initiatives; water systems; health care facilities; intermediaries for investees) that cover the institutions, enterprises and projects that receive these investments (Jackson and Harji 2012).

International experience and the best foreign practices show that the impact investing industry can be most effective and sustainable if the key stakeholders are identified to promote and engage in the development of the activity. It is important to identify stakeholders and provide recommendations on how to engage these audiences. From such points, a stakeholder matrix and stakeholder mapping are essential components for effective stakeholder management in the impact investing industry (Table 5).

Table 5. Stakeholder-analysis grid for the impact investing development in Russia

		Power of the Stakeholder over the impact investing development in Russia			
		Unknown	Little/no power	Moderate degree of power	Significant power
Effect of the impact investing development on the stakeholder	Unknown				
	Little/no power		Social Impact Award	GIIN, Impact Hub, OECD	StartTrack, Impact Hub Moscow
	Moderate degree of power			Key regulators, e.g. Bank of Russia, Ministry of Economic Development of the Russian Federation	Local governments
	Significant power		Population in Russia with low incomes and people with disabilities		Investors, e.g. Fund Our Future; Social enterprises, e.g. Cocco Bello Honey

Source: based on (Carpenter and Sanders 2009)

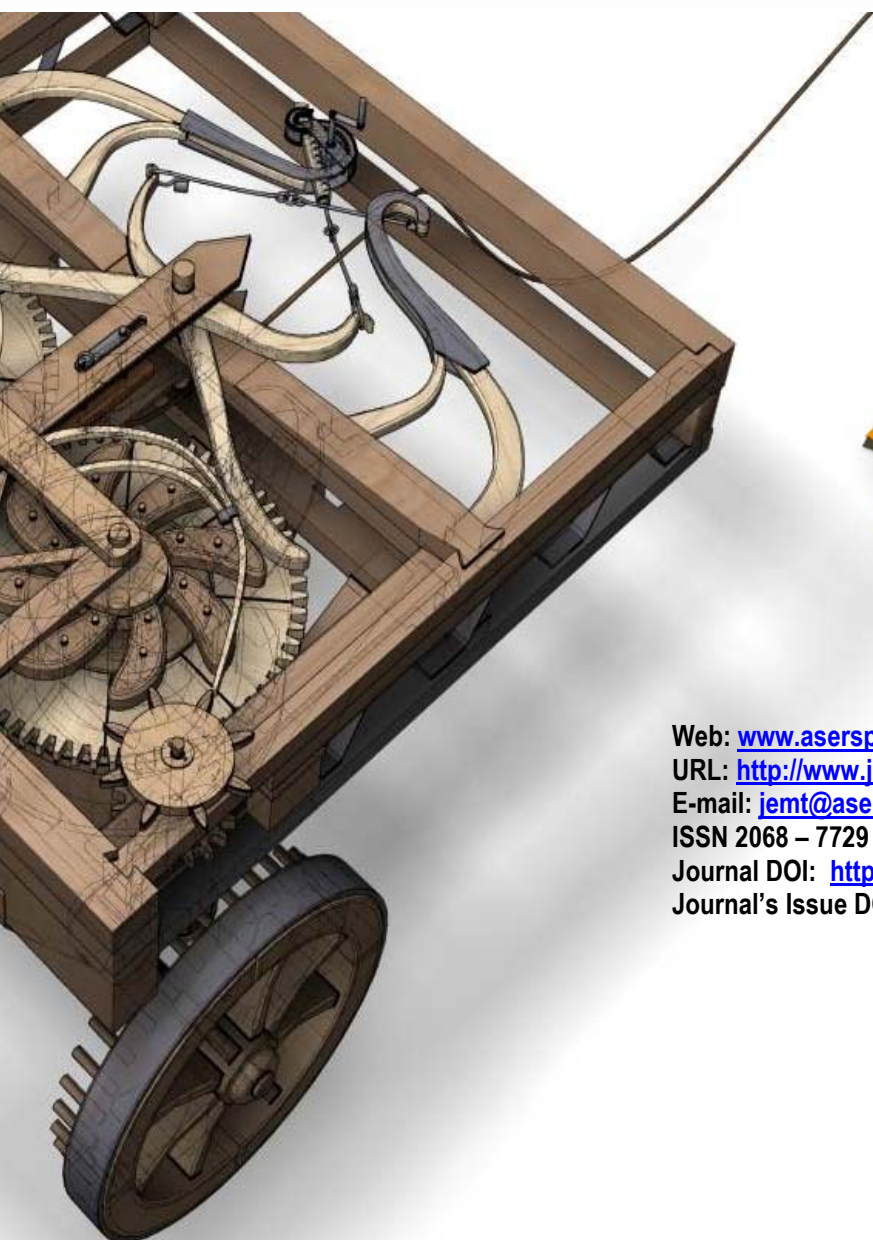
The impact investing industry in Russia is at an early stage of development characterized by a minimum number of players as on the supply side and the demand side. In this connection it is necessary to increase the number of investors and social entrepreneurs through the optimization of the promotion efforts. As the results of the survey have shown, the promotion efforts that encourage the social entrepreneurship are not effective enough and the promotion efforts in the field of impact investing in Russia are mostly aimed at a narrow audience. The main focus will be on enabling more people and organizations to participate in the market for impact investing, from social enterprises to investors. It is also important to determine drivers and challenges for future participation of stakeholders in the field of the impact investing industry in Russia and to assess their impact.

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