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Impact Investing: A Contemporary Approach to Social and Economic Development

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Abstract

Impact investing is a modern investment strategy that seeks to produce both financial returns and quantifiable social and environmental impact. Impact investing combines social responsibility with economic growth, in contrast to traditional investments that are only concerned with maximizing profits. This essay explores the idea, development, goals, and function of impact investing in advancing inclusive development and social entrepreneurship. With particular reference to India, secondary data gathered from journals, reports, and policy documents forms the basis of the study. The study comes to the conclusion that attaining sustainable social and economic development can be greatly aided by impact investing.

Keywords: Impact Investing, Sustainable Development, Social Entrepreneurship, Inclusive Growth, ESG

Introduction

Growing concerns about social inequality, environmental degradation, and sustainable development have caused a significant transformation of the global financial system in recent years. Conventional investment strategies, which mainly concentrate on maximizing profits, have frequently been unable to successfully handle these difficulties. As a result, the need for investment models that strike a balance between financial returns and social and economic responsibility is becoming more widely acknowledged by institutions, investors, and legislators. In response to this need, impact investing has emerged as a modern strategy that purposefully produces both financial returns and positive, quantifiable social and environmental outcomes.

Impact investing helps businesses and projects that tackle important problems like reducing poverty, healthcare, education, financial inclusion, renewable energy, and creating jobs. Impact investing places more emphasis on long-term value creation, sustainability, and accountability than philanthropy. It is essential for fostering inclusive economic growth and social entrepreneurship, especially in developing nations. Impact investing provides a strategic way to achieve balanced social and economic development in nations like India, where rapid economic growth coexists with developmental challenges. The purpose of this essay is to discuss impact investing, its importance, and how it promotes long-term social and economic advancement.

Objectives of Impact Investing

The major objectives of impact investing are:

- To study Role of Impact Investing in Social Development
- To study Role of Impact Investing in Economic Development
- To study Impact Investing Scenario in India

Concept and Meaning 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 are directed towards sectors like renewable energy, microfinance, affordable housing, healthcare, and education. The concept goes beyond philanthropy by ensuring accountability and sustainability.

Role of Impact Investing in Social Development

Impact investing plays a significant role in addressing critical social challenges by directing capital toward initiatives that generate positive and measurable social outcomes.

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Unlike traditional investments, impact investing prioritises societal well-being alongside financial sustainability. Its contribution to social development can be understood through the following dimensions:

Poverty Reduction

Impact investing supports poverty reduction by funding enterprises that create employment opportunities, promote entrepreneurship, and provide access to financial services for low-income populations. Investments in microfinance institutions, affordable housing, and livelihood-based enterprises enable economically disadvantaged groups to achieve financial stability and self-reliance. By focusing on inclusive growth, impact investing helps break the cycle of poverty and improves living standards.

Education and Skill Development

Education is a key driver of social development, and impact investing plays a vital role in expanding access to quality education and skill development. Investments in affordable schools, digital learning platforms, vocational training centres, and skill-development programmes help bridge educational gaps, especially in underserved regions. These initiatives enhance employability, promote lifelong learning, and contribute to human capital development.

Healthcare Accessibility

Impact investing improves healthcare accessibility by supporting affordable healthcare services, medical infrastructure, and innovative health technologies. Investments in primary healthcare centres, telemedicine, low-cost medical devices, and health insurance models enable better healthcare delivery to rural and economically weaker sections. This leads to improved health outcomes, reduced disease burden, and enhanced quality of life.

Gender Equality

Impact investing actively promotes gender equality by supporting women-led enterprises, female entrepreneurship, and initiatives focused on women's education, health, and financial inclusion. Investments targeting women empowerment create economic opportunities, improve decision-making power, and reduce gender disparities. Gender-focused impact investing contributes to inclusive and equitable social development.

Rural and Community Development

Impact investing plays a crucial role in rural and community development by funding projects in agriculture, clean energy, water management, and rural infrastructure. Investments in sustainable farming, renewable energy, and community-based enterprises enhance rural livelihoods, improve basic services, and reduce regional inequalities.

Community-oriented investments strengthen social cohesion and long-term development.

Role of Impact Investing in Economic Development

Impact investing contributes significantly to economic development by directing financial resources toward productive sectors that generate both economic value and social benefits. By supporting sustainable business models and inclusive enterprises, impact investing strengthens economic systems and promotes long-term growth. Its role in economic development can be explained through the following aspects:

Employment Generation: - Impact investing plays a crucial role in generating employment by supporting labour-intensive sectors such as agriculture, manufacturing, healthcare, education, and renewable energy. Investments in social enterprises and start-ups create direct and indirect job opportunities, particularly for youth, women, and marginalised communities. Sustainable employment generation enhances income levels and contributes to overall economic stability.

Entrepreneurship Development: - Impact investing encourages entrepreneurship by providing financial support, mentorship, and capacity-building to innovative entrepreneurs. It enables individuals to establish enterprises that address social and economic challenges while remaining financially viable. By promoting social entrepreneurship, impact investing fosters creativity, risk-taking, and leadership, which are essential for economic progress.

Growth of Micro, Small and Medium Enterprises (MSMEs): - MSMEs are the backbone of economic development, and impact investing provides them with access to much-needed capital. Many MSMEs face challenges in securing traditional financing due to high-risk perceptions. Impact investors bridge this gap by offering patient capital, flexible financing, and technical support. This strengthens MSME growth, productivity, and competitiveness.

Innovation and Productivity: - Impact investing promotes innovation by supporting businesses that develop new technologies, processes, and solutions to address economic and social problems. Investments in clean energy, fintech, agritech, and health-tech improve productivity, reduce costs, and enhance efficiency. Innovation-driven enterprises contribute to sustainable economic transformation.

Inclusive Economic Growth: - Impact investing fosters inclusive economic growth by ensuring that economic benefits reach underserved and marginalised sections of society. By investing in rural areas, low-income communities, and disadvantaged groups, impact investing reduces economic inequality and regional disparities. Inclusive growth strengthens economic resilience and ensures equitable development.

Impact Investing Scenario in India

India has emerged as one of the most promising markets for impact investing due to its large population, diverse socio-economic challenges, and rapidly evolving entrepreneurial ecosystem. The growing demand for sustainable and inclusive development has attracted both domestic and international investors toward impact-oriented investments. The impact investing scenario in India can be understood through the following key factors:

Growing Start-up Ecosystem: - India's rapidly expanding start-up ecosystem has played a vital role in strengthening impact investing. The rise of technology-driven start-ups addressing social challenges in areas such as financial inclusion, education, healthcare, and agriculture has created attractive opportunities for impact investors. These start-ups combine innovation with social purpose, making India a favourable destination for impact investment capital.

Government Initiatives: - Government initiatives such as *Startup India*, *Digital India*, *Make in India*, and financial inclusion programs have significantly supported the growth of impact investing in India. These initiatives promote entrepreneurship, digital infrastructure, ease of doing business, and access to finance. Policy support and regulatory reforms have enhanced investor confidence and encouraged impact-oriented ventures across various sectors.

Focus Sectors of Impact Investing: - Impact investments in India are primarily concentrated in key sectors that address critical developmental needs. These include:

1. Fintech, which promotes financial inclusion through digital payment systems and micro-lending platforms
2. Agriculture, focusing on sustainable farming, agri-technology, and rural livelihoods
3. Healthcare, providing affordable and accessible medical services
4. Education, supporting ed-tech platforms and skill development initiatives
5. Clean Energy, including renewable energy and sustainable infrastructure. These sectors contribute significantly to both social welfare and economic growth.

Challenges of Impact Investing

Despite its growing importance and potential to drive sustainable development, impact investing faces several challenges that hinder its widespread adoption and effectiveness. These challenges affect investors, enterprises, and policymakers and must be addressed to strengthen the impact investing ecosystem.

1. Measuring Social Impact: - One of the major challenges of impact investing is the difficulty in measuring social and environmental impact. Unlike financial returns, social outcomes such as improved quality of life, empowerment, or community

development are complex and long-term in nature. The absence of clear and quantifiable indicators makes impact assessment challenging and limits comparability across investments.

2. Lack of Standard Metrics: - There is no universally accepted framework or standard metrics for measuring impact. Different investors and organisations use varied methodologies, leading to inconsistencies in reporting and evaluation. This lack of standardisation creates confusion among investors and reduces transparency, making it difficult to assess the true effectiveness of impact investments.

3. Regulatory Barriers: - Regulatory and policy-related challenges pose significant obstacles to impact investing. In some countries, unclear regulations, complex compliance requirements, and restrictions on investment structures limit the growth of impact investment funds. Inadequate policy support and slow regulatory reforms can discourage both domestic and foreign investors.

4. Risk Perception: - Impact investments are often perceived as high-risk due to their focus on underserved markets, early-stage enterprises, and innovative business models. This perception discourages traditional investors who prioritise stable and predictable returns. Limited historical data and uncertainty regarding returns further increase perceived risk.

5. Limited Investor Awareness: - A lack of awareness and understanding of impact investing among investors remains a major challenge. Many investors are unfamiliar with the concept, benefits, and potential returns of impact investing. Insufficient knowledge and misconceptions about trade-offs between impact and profitability restrict wider participation.

Findings of the Study

Based on the analysis of secondary data and review of existing literature, the following key findings have been derived from the present study:

Impact investing promotes balanced development

The study finds that impact investing plays a significant role in promoting balanced social and economic development. By integrating financial returns with social and environmental objectives, impact investing ensures sustainable growth that benefits both investors and society. It addresses developmental challenges while maintaining economic viability.

Support to social entrepreneurship

The research reveals that impact investing strongly supports social entrepreneurship by providing capital, mentorship, and strategic guidance to enterprises with social missions. Social entrepreneurs are able to develop innovative solutions to social problems while achieving financial sustainability, thereby strengthening the social enterprise ecosystem.

Strong growth potential in India

The study indicates that India has strong potential for the growth of impact investing due to its large population, developmental needs, expanding start-up ecosystem, and supportive government initiatives. The presence of diverse impact sectors such as fintech, healthcare, education, agriculture, and clean energy further enhance this potential.

Importance of policy support and awareness

The findings highlight that effective policy support, regulatory clarity, and increased awareness among investors are crucial for the expansion of impact investing. Government initiatives, investor education, and standardised impact measurement frameworks can significantly strengthen the impact investing ecosystem.

Suggestions

Based on the findings of the study, the following suggestions are proposed to strengthen the impact investing ecosystem and enhance its contribution to social and economic development:

Develop standard impact measurement frameworks

There is a need to develop uniform and standardised frameworks for measuring social and environmental impact. Clear metrics and reporting standards will improve transparency, comparability, and accountability, thereby increasing investor confidence and credibility in impact investments.

Increase awareness among investors

Efforts should be made to increase awareness and understanding of impact investing among institutional and individual investors. Investor education programmes, workshops, and awareness campaigns can help overcome misconceptions regarding risk and returns and encourage wider participation in impact-oriented investments.

Strengthen government support

The government should play a proactive role by providing policy support, regulatory clarity, and financial incentives to promote impact investing. Supportive policies, tax benefits, and simplified regulations can encourage domestic and foreign investors to invest in impact-driven enterprises.

Encourage public-private partnerships

Public-private partnerships (PPPs) should be encouraged to leverage the strengths of both government and private investors. Collaborative efforts can help scale impact initiatives, reduce risks, and improve the effectiveness of

investments aimed at social and economic development.

Conclusion

By combining financial goals with social and environmental responsibility, impact investing is a modern and successful strategy for attaining sustainable social and economic development. Impact investing ensures that economic growth contributes to social welfare by aligning profit with purpose, in contrast to traditional investment models that only concentrate on profit maximization. According to the study, impact investing is essential for fostering social entrepreneurship, job creation, innovation, and inclusive economic growth. Impact investing has a solid foundation for growth in India thanks to the country's expanding start-up ecosystem, encouraging government initiatives, and rising participation from both domestic and foreign investors. To fully realize its potential, though, issues like impact measurement, a lack of standard metrics, regulatory obstacles, and low investor awareness must be resolved. The long-term viability of impact investing depends on strengthening policy support, creating standardized frameworks for measuring impact, and raising investor awareness. In general, impact investing provides a viable route for long-term societal well-being and balanced development.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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