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Suzanne Clements/Stokesy Next month will be the anniversary of the U.S. Business Roundtable in 2019 calling for a shift from shareholder capitalism to shareholder capitalism. Business leaders have asked us to imagine a transformed world, but the bat virus in Wuhan has had its ambitious plans - and is now transforming the world in a very different way. It pushes the government to the center, pushing business, regardless of its approach to capitalism, aside. No one could reasonably expect a business alone to fix a pandemic. However, some investors under the banner of the impact of investing argue that business alone will be able to fix other big problems of a ailing global economy, such as climate change or women's global literacy without sacrificing commercial returns. This view has received interest from big banks, consulting, business lobbying groups and even former prime ministers. One of the leading champions of investment, Sir Ronald Cohen, believes that it can be a revolution that will save capitalism and solve many of the world's greatest problems. It is a tempting vision of an enlightened post-pandemic economy, and as an investor and economist, we support his ambitions. However, if we really want to reform capitalism, it will not be enough to influence investment in the way it is traditionally conceived. The pandemic is not a simple anomaly; There are deep limits to what a business can do profitably in normal times too. We need to reform the rules that govern how our economy works, and the influence of investors is crucial. Why Impact Investing is not enough there are certainly examples where the impact of investment has been successful in getting both commercial returns and positive impact. But there are those who argue that there is a trade-off between profitability and impact. Who's right? The answer is both. An easy way to clarify this issue is by looking at a typical carbon cost curve that shows the financial costs of investments that would reduce carbon emissions. Below is an updated cost curve recently prepared by the Netherlands Centre for Energy Research. Each bar is a different investment. The width of the bar shows how much gigatonne per year of greenhouse gas emissions that investment will save, and the height indicates the cost per ton saved. For bars below zero line cost in the far left, costs are negative - i.e. it's an investment that is profitable even without a policy change. Bars above zero line value, on the other hand, are investments that come with net costs and will become competitive only if investors are rewarded for the carbon they save. They need policies like subsidies or carbon prices, those who are in the far right really need a very high price for carbon. The left side of the curve shows that there are some some where it is already profitable to reduce carbon emissions. Typical examples are household energy efficiency projects or the best wind power projects. They represent an opportunity for an impact investor (or regular investor) to make good and potentially make a commercial return. However, to limit global warming to 1.5◦C, as agreed by 196 countries in Paris in 2016, we must rely mainly on approaches that sit above the line, such as expanding wind power to some of the loss-making facilities or using carbon capture and storage. To meet the 2050 Dutch Target, which will aim to reduce emissions by 95 per cent from 1990 levels, all investments in the shaded blue area must be financed. The Centre for Energy Research estimates that even with future technological changes in mind, a price of almost 200 euros per tonne will be required to make them profitable. If this price for carbon does not exist, activities above the line remain unprofitable for private investors, even if it provides a positive return to society as a whole. Investing in them without a price on carbon would mean lower returns than investing in business-like technologies. This is a fundamental compromise faced by investors on issues ranging from pollution to plastic in the oceans and women's literacy in sub-Saharan Africa. The key understanding is that if there really were no trade-offs between profit and impact, the cost curves for all these problems would be made solely from investments below the line all the way forward. If that were the case, we wouldn't have to influence investors. Regular investors will already invest in addressing climate change, removing plastic from the oceans and educating women in the world. But there is another problem. Even many of the below-line actions are often not profitable because there are so-called split-incentives, transaction costs, and cost opportunities - economic jargon for the kind of barriers that block investments or involve additional costs for the price of technology. These barriers explain why governments, not markets, have taken the lead with massive schemes to roll out energy-efficient residential LED lighting, for example. Investors are right that it is sometimes possible to overcome these barriers, and sometimes it is possible to marry for competitive profits and social good by addressing actions below the line as they have in small investments in energy efficiency or renewable energy. But their critics are also right that sometimes it may not be enough to sell real conversions. If changed Economists have calculated that meeting the 1.5◦C target will cost about $10 trillion by 2030. In other words, if private investors try to solve climate change alone, they will have to settle for a loss of about $1 trillion a year. Of course, much more $10 trillion will be saved by addressing climate change, but because the rules of the game do not reward carbon mitigation, private investors are struggling to capture that value. To make this activity profitable for investors, the IPCC estimates that we will need a carbon price of $135 to $5,500 per tonne. Let's hope he's at the bottom end. This is a new uncomfortable truth about the impact of the investment age: there are simply not enough below-the-line options to invest in, and much of what we have to do will be unprofitable without changing the rules. The same truth applies to the many other social and environmental problems that we urgently need to address, from pollution to poverty to poor public health. Our governments have spent almost three decades ignoring the IPCC and other climate change experts. We cannot spend another decade - even a year - ignoring these economic realities. Let's turn to the rules that govern how our economy works. While the Business Roundtable called for a shift to stakeholder capitalism, the fact remains that the rules of the game firmly perpetuate shareholder capitalism and largely ignore stakeholders. As we have argued before, businesses should look for profits given the less profitable, usually muscled out more profitable over time. Under today's rules, some harmful investments offer inflated profits because investors do not have to pay for the damage they cause, such as carbon emissions or the health effects of air pollution. Meanwhile, many decent investments are unprofitable because investors are not rewarded for related benefits, such as improving health by reducing air pollution. To achieve Sir Ron Cohen's revolution, in which investment does not require a reduction in impact profits, our only choice is to change these rules. We already know what we have to do: Raise the line with carbon prices, subsidies or regulations, so more action is falling below it and attracting investment. Economists agreed that this is a way to combat external factors - whether carbon emissions, ocean plastics or illiteracy - for more than a century. When investors pay the cost of their inputs and are rewarded for the value they create, the gap between investing and the impact of investing disappears. In other words, once external factors have been internalized, all investments become an impact of investment. A baker can profit from a feeding community, a builder can profit from a housing community, and a forester can profit from sequester emissions for the community. It was Adam Smith two and a half centuries ago: when individual incentives are consistent with what creates economic growth for society as a whole, the invisible hand is free to work on its magic. Future Investment Impact What Does It Mean for Impact Impact We believe that they have three crucial roles to play. The first is to make the most of the current rules of the game, by discovering opportunities that have fallen below the line or finding smart ways to overcome barriers that block below the investment line. The world's first Tesla battery utility in southern Australia is a good example of investment on an innovative frontier. It has shown that the technology is ready to be profitable, opening the floodgates for battery projects around the world. More than ever, we need bold innovators to navigate the path for others to follow. Second, in encouraging philanthropists to strive higher. Mike McCreless calls it a work on the border of efficiency: when looking for this impact, always look for the most profitable way to achieve it. Yields can often fall away from commercial rates, but when they are much better than they can be given the limits of the rules, every dollar has a greater impact. The Swiss Development and Cooperation Agency SDC and Roots of Impact have made similar arguments in the development of a framework for promoting social impact (SIINC). It is the impact of investing as smarter and more effective than philanthropy. Finally, perhaps the most important role for investors to impact is in lobbying for rule changes. Investor influence can be a powerful voice urging governments to internalize external factors and thus turn all investment into an impact investment. New incentives, whether it be the price of carbon or some other mechanism, greatly expand the horizons for marriage social returns with profitability. At the same time, they greatly expand opportunities for private sector innovators and smart philanthropists. With a more nuanced view of how the impact of investing fits into our economic system, we might have a chance to implement Sir Ronald Cohen's revolution: a world where profit and influence go hand in hand. hand in hand. capital investment meaning in hindi. capital investment meaning in malayalam. capital investment meaning in tamil. capital investment meaning in english. capital investment meaning in urdu. capital investment meaning in kannada. capital investment meaning in telugu. capital investment meaning in business

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