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Impact Investing: why private sector capital is vital in the climate fight

Maddyness is collaborating with environmental publication Ours to Save to bring readers fresh perspectives on sustainability. In this article, Jack Isaacs talks about investing 'to generate positive, measurable social or environmental impact alongside a financial return.'

The fight against climate change has been one of few things to have benefited from the COVID-19 lockdown. The Global Carbon Project has shown that carbon emissions may see an overall reduction of 7% in 2020 and, in certain countries, were down by an average of 26% during the peak of the pandemic. These are good statistics but Rome wasn't built in a day and climate change won't be conquered in 2020.

The cumulative cost of repairing the environmental damage committed in the last century will be far more than whatever global governments have left in their coffers in the aftermath of a global lockdown. In a world where nothing comes for free and the public sector is running low on cash, impact investors are waiting patiently on the sidelines.

The Global Impact Investing Network defines impact investments as,

> *‘investments made with the intention to generate positive, measurable social or environmental impact alongside a financial return.’*

In simpler terms, whilst traditional investors focus solely on maximising profits, impact investors apply the same criteria to their investments but with the added objective of solving a social or environmental issue. Before delving into how impact investing can help in the climate crisis, we must first consider where it fits amongst the conglomerate of other technical terms thrown around by the financial sector to demonstrate its commitment to a fairer and cleaner planet earth.

The Bridges Spectrum of Capital, developed by one of the UK’s leading impact fund managers, conveys this better than most:

On the far left of the table above we have those who focus solely on maximising profits, with no regard for the social or environmental impact of their investment decisions.

Sustainable/responsible investors are those who’ve realised that investing in organisations that perpetuate environmental and social degradation may not be great for business or their reputation. They use Environmental, Social and Governance (ESG) factors to reduce the likelihood of making unethical investment decisions and to ensure that they maintain a fair working environment within their own ranks.

Finally, we have impact investing, which has a spectrum all to itself. This ranges from ‘financial first investors’, who seek to make at least a market-rate of return alongside creating a social or environmental impact, to ‘impact first investors’, who are willing to make some financial sacrifice in order to address a societal challenge. My expectation and hope is that with time and the correct motivation, investors and businesses alike will continue to shift right across this table, to a point where impact investors are the only constituents.

How does all this equate to fighting climate change? The most important players when it comes to making a positive environmental impact are not the investors themselves, rather their investees.

For example, Bowery Farming raised more than $172.5M from several investors for their smart, indoor farms that save water, reduce pesticides and improve access to locally grown produce. Organisations such as these have the potential to generate large-scale returns, whilst providing an alternative to the existing unsustainable behaviours within the agriculture industry.

Additionally, impact-first investors such as Social and Sustainable Capital have demonstrated the potential for creating positive environmental impact at a more local level. An investment in the Plymouth Energy Community allowed for a community owned solar farm to be built on local derelict brownfield land.

Not only has this generated enough renewable energy for 1000 homes annually but the rental payments will help to support regeneration activities in the local area. High impact organisations would be severely limited in their ability to operate sustainably without investments such as these.

Climate change has numerous causes and presents an abundance of issues for the natural world. There is no one size fits all solution. Consequently, different solutions need to be financed in different ways. Governments have a toolbox with which to fix social and environmental issues but have thus far been reluctant to use all their tools.

Government funding, private sector capital and philanthropy are all financing methods with their own benefits and limitations and will all be needed in the fight against climate change. The private sector will play a fundamental role in this fight, where for-profit businesses can provide solutions at a scale that is simply out of reach within a government or philanthropic budget.

If there's one thing that can be said about capitalism, it's that it is very good at creating capital. That capital needs to be directed towards solving both climate change and the mounting social issues that continue to grow following COVID-19. Impact investing facilitates that need.

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