

COVID-19 Impact Policy Response (Part II)

GSG Working Document

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Introduction

Following the publication of our first COVID-19 response working document on 27 March the GSG engaged in conversations with representatives from its National Advisory Boards (NABs), partner organizations and other key stakeholders, including DFIs, international NGOs and policymakers around the world.

This paper aims to present the evolution in the thinking and design of adequate impact-driven responses to the crisis. In doing so, we aim to build on the initial identification of initiatives presented in our previous note and at the same time reinforce our action-driven approach towards tackling the consequences of the unprecedented crisis caused by the pandemic.

The first section discusses a basic framework identifying relevant opportunities to deploy specific impact instruments best suited to tackle key issue areas, across the different phases of the crisis.

This is followed by a short reference to differential implications for middle and low-income economies, which are addressed in further detail in a separate data annex.

The last section reflects on the specific role of the GSG and its global organization in response to the crisis and the need for a reinterpretation of impact in the current context.

IMPACT RESPONSES TO THE COVID-19 CRISIS: PHASES, INSTRUMENTS, ISSUES

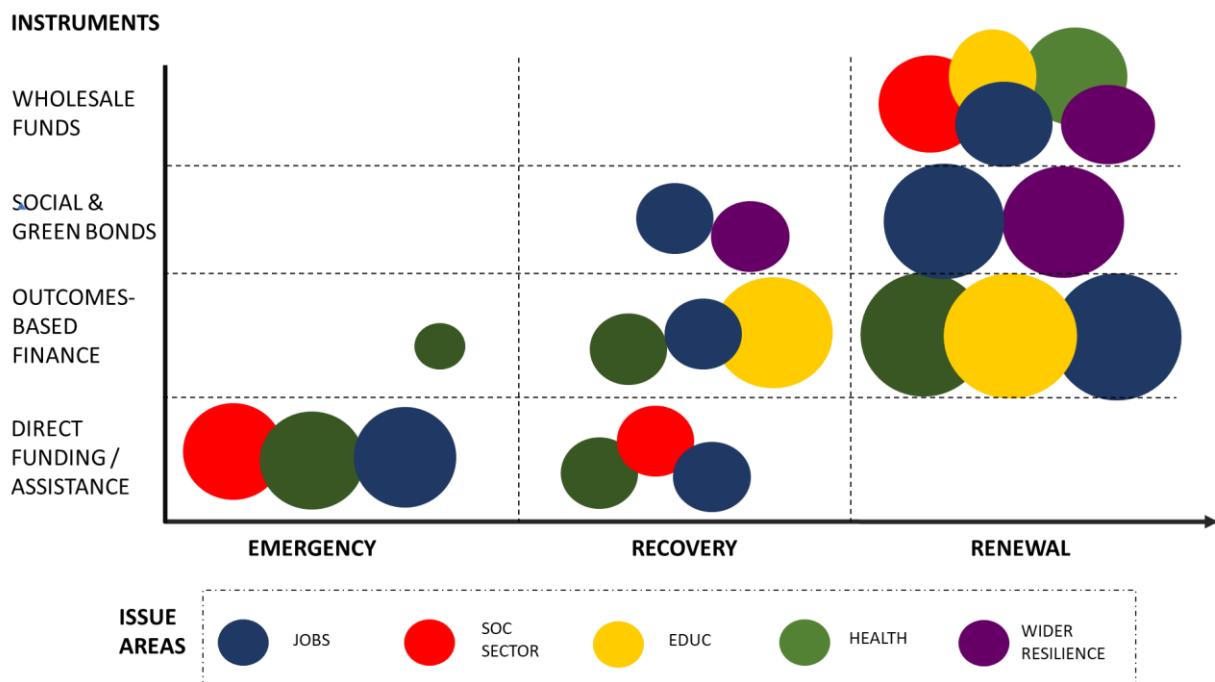
All around the world the dramatic consequences of the crisis will require urgent response during an initial *emergency* phase. From an impact standpoint, this needs to be focused on the survival of social sector organizations and small businesses, the protection of vulnerable people and, of course, the saving of human lives through the peak of the pandemic.

This phase will be followed by a *recovery* period, which is just now starting in some of the Asian countries where the virus hit first, will take longer to kick-off in the US and Europe, and at some time will occur in Africa, the Middle East and Latin America where the pandemic started at a later date.

In the longer-term, following assumed successful deployment of impact capital and impact-based solutions, we would enter a *renewal* phase when impact assumes a central role in our economies alongside profit, every business and investment decision takes it into account, and this process leads us towards impact economies as the backbone of a new global order.

In general terms, we see great potential for impact-investment-driven solutions from the *recovery* phase onwards, notwithstanding specific opportunities for the deployment of impact capital during *emergency*. Through all the phases we also note a greater role for impact capital in certain issues areas, that are suited to specific instruments.

The graphic below depicts this basic logic. It is not meant to be an exhaustive, rigid framework but rather a useful means to target our efforts through the coming months. The framework looks at the 3 connected vectors of i) the different phases of the crisis, ii) (illustrative) impact instruments available, and iii) critical issue areas. As mentioned later, the image will vary by country, and the picture for emerging markets will be very different to that for developed ones.



During *emergency*, the focus must be on rapid responses to contain the immediate effects of the crisis. These responses go beyond the obvious pressure on health systems and the tragic loss of lives to the severe economic impacts derived from the halt in activity due to the containment measures adopted by most governments around the world. In particular, and as discussed in our previous note, we see a clear need to call for greater assistance to social sector organizations and small businesses, as a way of protecting jobs but also as a critical condition for a successful recovery in the coming months. If we allow firms to go out of business and jobs to be lost, the recession will be deeper and the recovery slower and more difficult. In the same sense, losing social service providers during this “survival” phase will mean we will not be able to count on them in dealing with the widespread social consequences of the crisis in coming months.

During this first phase we see some scope for impact investment instruments but a greater need for direct funding and assistance from governments and philanthropists. DFIs also have an important role to play in emerging markets where pre-crisis fragility (weaker health systems, extensive labour and urban informality, lower fiscal and financial capabilities) means greater exposure and less local ability to cope with the shocks – it is clear that the future will not be business as usual for development agencies, as the CGD rightly [suggests](#).

Despite this general appraisal, there is a definite need to start working on impact solutions now, and we see distinct opportunities to deploy pay for success and outcomes-based financial vehicles for the delivery of urgently needed solutions in the health space. A recent [op-ed from our Chair Sir Ronald Cohen](#) calls for an ambitious initiative to foster innovation in providing effective COVID-19 testing by pumping up to \$10bn in capital through *Innovation Bonds* backed by governments. Other organisations have called for outcomes-based prizes and awards to stimulate innovation by universities and research institutions.

During the *recovery* phase we will face severe issues in health, education and the labour market, across all countries - from industrialized economies to developing ones. Aside from the immediate effects, medium and long-term consequences will grow out of this phase if we do not act on time and at the required scale.

As an example, the hundreds of thousands of delayed non-life-threatening health treatments and interventions during the pandemic will likely result in aggravated conditions, permanent ramifications and possibly (otherwise avoidable) non-COVID-related deaths over the months to come. Supporting impact ventures that deliver affordable access to and/or help distribute treatment will, therefore, be critical.

In this same sense, with roughly 70% of the world's children currently not attending school due to the lockdown it would not be unreasonable to expect a surge in school dropouts once containment conditions are relaxed. This will especially affect middle- and low-income economies, where drop-out rates are already high.

The high long-term societal costs of low educational attainment are well known, as are those of chronic health conditions. Outcomes-based financing mechanisms are powerful means of leveraging private capital at scale to deliver more and better solutions in the health and education sectors. Models from leading outcome-funds like the [EOF](#) in Africa and the Middle East can pave the way for replication across geographies and issue areas. The time is now to make our governments adopt pay-for-outcome models, which will necessarily assume different configurations across markets but will unite us in rejecting poor commissioning of inputs, which hinders innovation and scalability.

Job creation is another issue area where outcomes-based finance can drive more and better results for society. As efforts are underway to cope with the tragic consequences of the crisis in the labour market, the impact movement needs to stand up for the more vulnerable groups across economic sectors, including young, migrant and refugee workers and of course women, who invariably face greater unemployment, poorer labour conditions and take on a disproportionate share of unpaid work in their households. Pay-for-success models have been successfully used in different job creation programmes across developed as well as emerging countries. Whilst this has been mostly through [SIBs and DIBs](#) there are valuable principles that can be leveraged for the design of ad hoc outcomes-based interventions to aid recovery efforts. Specific opportunities in re-skilling of mid-career workers should be a priority, especially as the scope for tele-work is lower in traditional, non-tradeable sectors where productivity and wages are lower. The transition to an increasingly digital economy can exacerbate pre-existing disparities if workers with lower (or non-digital) skills are not supported in the transition to higher-skill jobs.

During the recovery phase we also see great potential to attract large pools of private capital through issuing government-guaranteed social bonds to support programmes in other critical sectors. Those best suited to benefit from this instrument could be grouped under the "wider resilience" label.

The crisis is already proving that most of our societies are not ready to cope with its consequences, for which "building back better" to create future resilience is paramount. Investment in health, education, job creation and all other issue areas mentioned in this note should be understood to be a necessity in building more resilient societies.

Under "wider resilience" we can include a wide range of issue-specific initiatives, from the creation of liquidity and other facilities to support the productive sector, especially smaller enterprises, to ambitious programmes for the urbanization of densely populated slums and informal settlements in Latin America, Africa and South East Asia – where millions live without access to basic services including potable water, sewage or electricity. These and other long-standing problems will be put to the test yet again when the next crisis hits. We simply cannot

afford *once again* not to be ready for it. Recent issuance of [social bonds backed by Swedish investors](#), including COVID-specific bonds to support economic activity in Africa, are an encouraging indication of growing momentum to tackle this.

The use of outcomes-based finance and social bonds can be spurred across a wide range of issue areas during both recovery and the longer-term phase, by impact capital wholesalers, wherever they exist.

Whilst these and other efforts may seem far down the line (especially as we are entering or have already entered the peak of the health crisis in most countries), our global impact movement needs to exert efforts now if we are to see meaningful results in the future.

Some of the instruments identified will take time to launch, and advocacy for effective public policies will require ongoing efforts from our NABs.

INTERNATIONAL ASYMMETRIES

In our previous note we noted the need to pay attention to the differences in response capacity between developed and emerging economies. In the latter group, as well as in many middle-income countries with mixed features (e.g. relatively sophisticated financial and business sectors coupled with extensive inequality), different structural characteristics make effective responses more complex. These are related to both weaker government and private sector capacities and to the prevalence of long-standing issues in the pre-crisis scenario. To just give an example, the stimulus and bailout packages, launched or under preparation, across most central economies are simply not an option for governments struggling under fiscal stress and debt crisis in several emerging and middle-income countries. Similarly, outcomes-based solutions that work neatly in industrialized economies must be tailored to fit poorer data environments in less developed markets (for which valuable precedents and lessons exist).

The technical annex to this paper provides a data-centred overview of some of these unique characteristics of low- and middle-income countries. These includes i) weaker health and education systems, ii) limited (fiscal – monetary) response capacity from governments, iii) extensive informality in the economy (both amongst businesses and in the labour market), iv) concentration of economic activity in low-value / low-productivity / non-tradeable economic sectors, v) extensive urban informality and vi) international dependency.

WHAT IS NEXT / OUR ROLE

The complexity, depth and breadth of the challenges created by the crisis can be intimidating, and lead to lack of focus, dispersed and uncoordinated efforts or even sometimes, paralysis. For this reason, we at the GSG must remain strategic, building on our unique strengths and coordinating our efforts with those of other international organizations in the impact space.

Momentum for closer cross-organization cooperation already exists. We can achieve more through each agency doing what they do best and collaborating to achieve greater impact. Agencies in our sector trust us to be the convening organization.

As for the GSG, it is through our rich organization of NABs spanning over 30 countries that we will drive meaningful change in our societies, advocating for country-specific policies and capital mobilisation, but also strengthening much needed international cooperation at a time when most governments are increasingly looking inwards.

As independent, trusted players in their respective markets, our NABs are in a unique position to act collectively and through their members to agitate, orchestrate action and drive innovation that brings concrete solutions. In doing so, they can rely on the support of our

central executive team and, most importantly, on the power of our platform for cross-learning and collaboration.

Our NABs' understanding of their local realities (both in terms of country development and impact market maturity) is crucial to help us reflect about the *meaning* and *nature* of impact at this extraordinary time. Just to give an example: as hundreds of thousands of jobs are lost each week, should we broaden our thinking to consider the protection of employment in any given economic sector, region, country, city area to be place-based "impact"? Probably so.

We hope that this note can help us to reflect together on how we can inspire action across markets. We remain ready to support each of our NABs as they explore important initiatives for their countries.

Developing recovery and renewal policies and actions will demand us to think radically and to innovate and adapt our approaches to the new reality. Our success will fasten the shift to impact thinking, leading the transition to the new paradigm of risk-return-impact.

DATA ANNEX

The data presented in this section aims to provide an initial, non-exhaustive and merely illustrative approximation to the potential prioritization of issue areas across regions and countries.

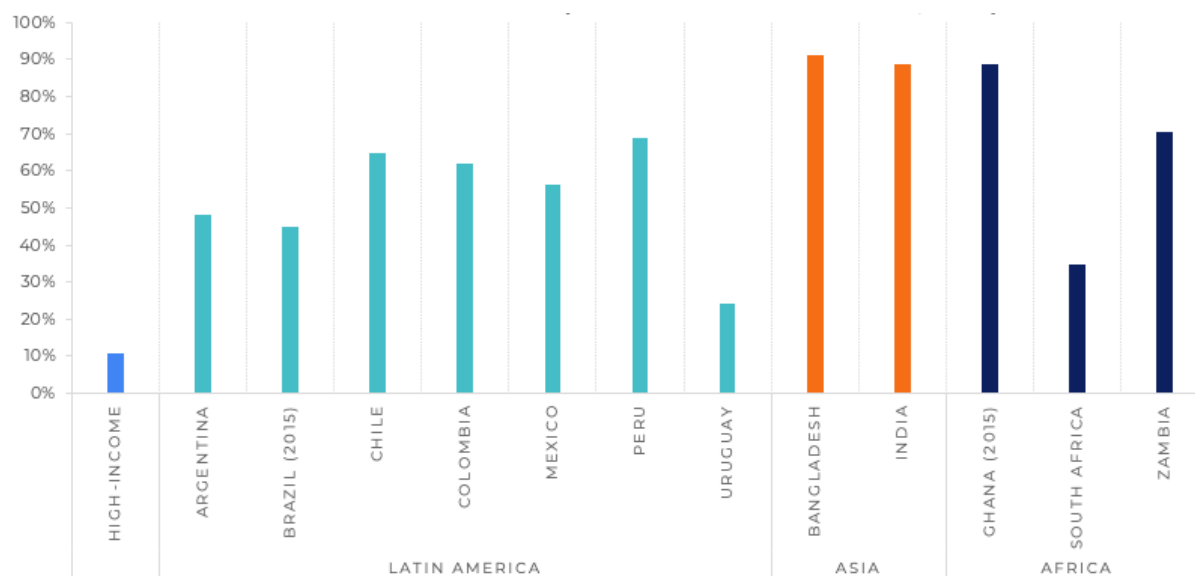
This will be important, as per the framework presented in this working document, to better identify, design and drive impact policy initiatives with the greatest social transformation potential. The stark disparities between developed, middle income and emerging markets should be taken as a call to mind local contexts and tailor solutions to the needs and realities of different countries and regions.

NAB members and partners looking at specific countries should go beyond the country-level analysis to consider regional dynamics within their countries – not addressed in the overview below.

1. LABOUR MARKET

Economic contraction will hit hardest in labour markets with greater levels of informality, where jobs are unstable and workers unprotected against shocks (chart 1.1). In countries where female labour force participation is much lower than that of men the gender implications can be particularly concerning (chart 1.2). With micro and small enterprises employing over 80% of (formal and informal) workers in countries like Peru and Bangladesh, but also in industrialized economies like Italy and Japan, consistent policies to support such companies during the “survival” phase and to help them recover later on will be critical (chart 1.3).

Chart 1.1. Informal employment (% of total employment, 2017)



Source: ILOSTAT 2017 - México: Instituto Nacional de Estadística y Geografía

Chart 1.2 Gender gap in labour force participation (% of population over 15 years old, 2017)

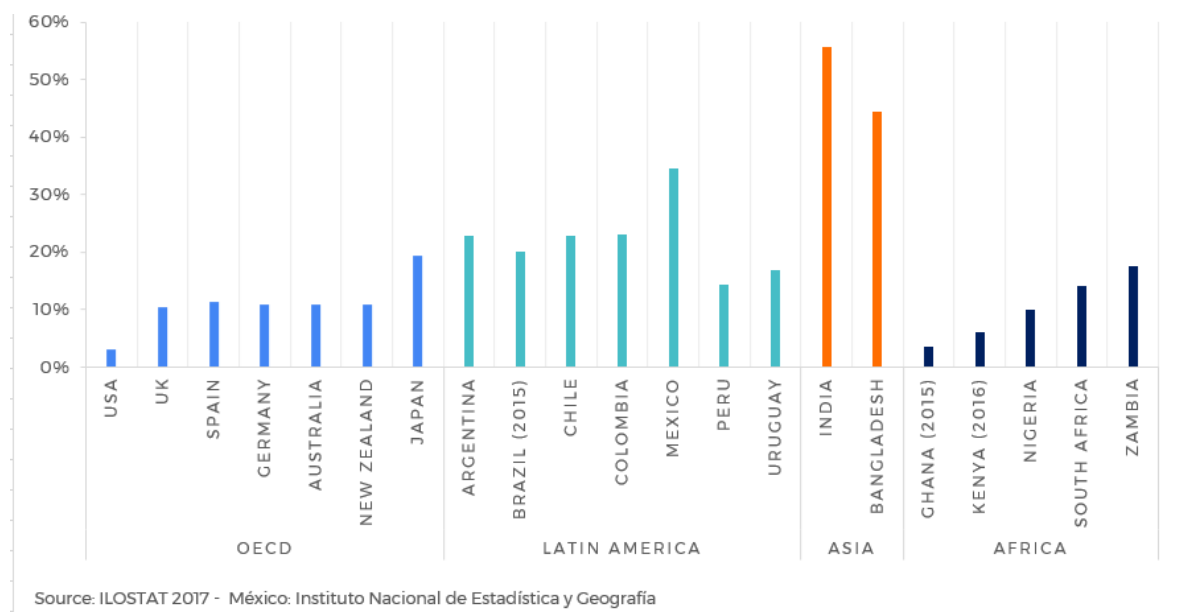
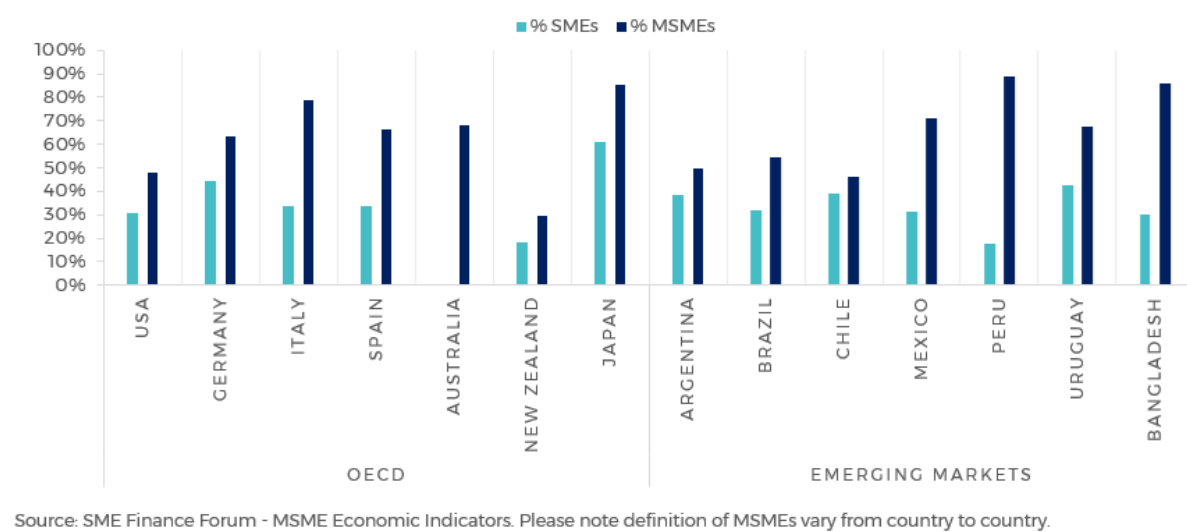


Chart 1.3 Jobs by company size (% of total formal jobs, latest year available)

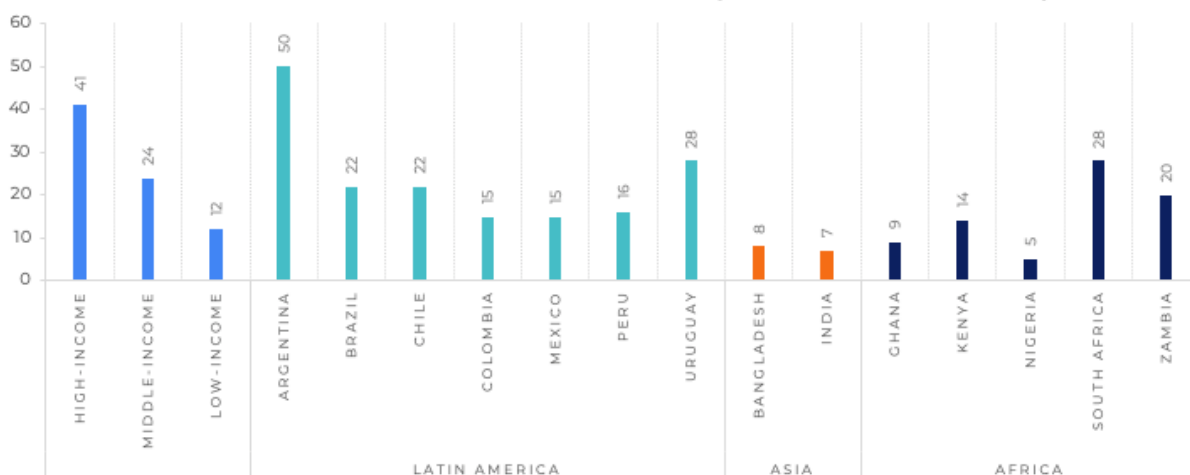


2. HEALTH

Countries with poorer health infrastructure will not only face greater difficulties in dealing with COVID-19 cases, but also to cope with increased pressure on their health systems in the medium to long-term (chart 2.1). Structural weaknesses are reflected, for example, in the incidence of communicable diseases in total deaths - 20 times higher in low income countries than in developed ones (chart 2.2). This can be partly explained by staggering differences in government health expenditure between industrialized and emerging economies (chart 2.3).

Government health spending in low income countries is negatively correlated with out-of-pocket (OOPE) expenditure by individuals – defined as direct payments made to (public or private) service providers for concepts not covered by health plans (Chart 2.4). High OOPE in middle- and low-income countries can be indicative of weaknesses and inefficiencies in the health systems, but also of potential for better market-based or public-private solutions where a demand already exists. The greatest share of OPPE is in medicines, with high costs typically resulting in patients delaying or interrupting treatments.

Chart 2.1. Hospital beds per 10.000 population (latest year available)



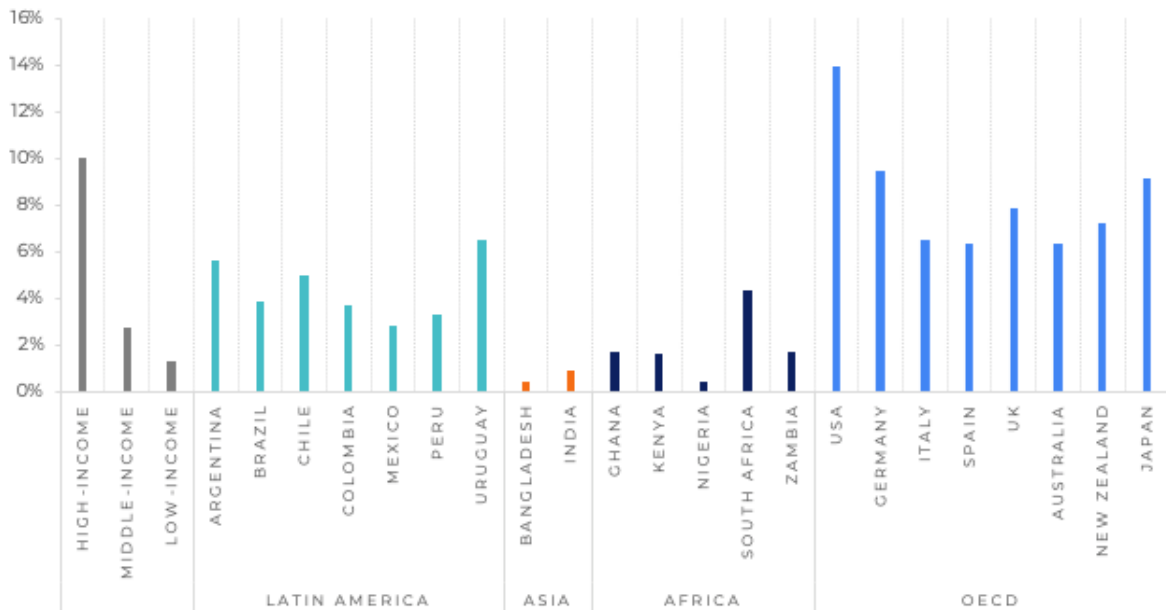
Source: World Health Organization (WHO)

Chart 2.2 Deaths by communicable diseases (% of total deaths, 2016)



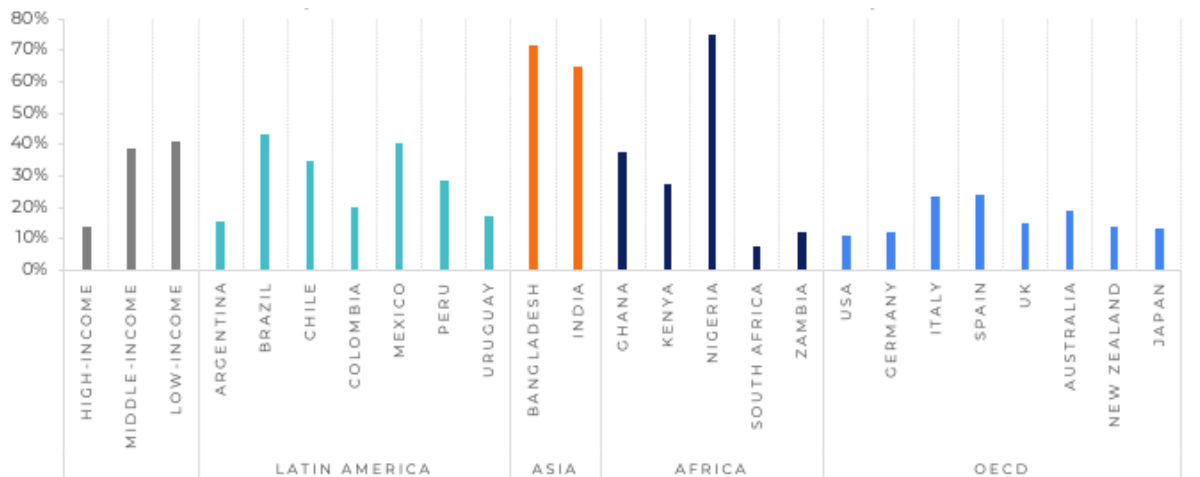
Source: World Bank/World Development Indicators (WDI). Communicable disease: an infectious disease transmissible (as from person to person) by direct contact with an affected individual or the individual's discharges or by indirect means (as by a vector).

Chart 2.3. Domestic general government health expenditure (% of GDP, 2018)



Source: World Bank/World Development Indicators (WDI).

Chart 2.4. Out-of-pocket expenditure (% of total health expenditure, 2018)



Source: World Bank/World Development Indicators (WDI). Total health expenditure: public (government) and private. Out of pocket expenditure is the total of out-of-pocket payments (OOPs), direct payments made by individuals to health care providers at the time of service use, as percentage of the total health expenditure in a country.

3. EDUCATION

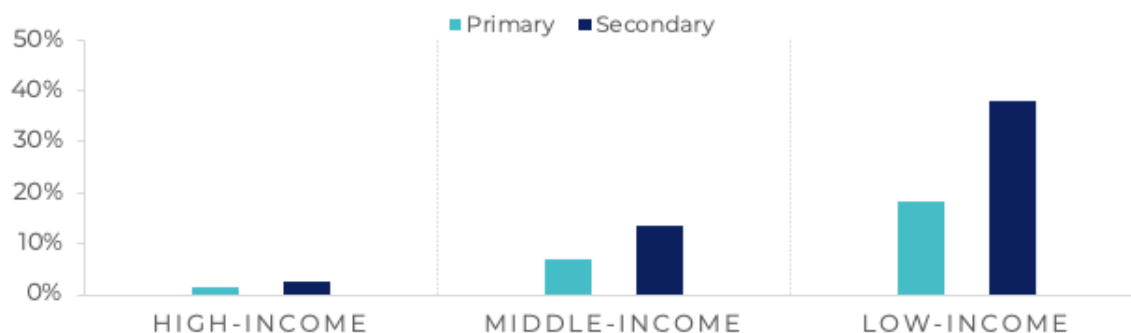
Whilst enrolment rates do not show major variations across income-level groups for primary education, they do differ greatly for secondary education (Chart 3.1). Worryingly, secondary education drop-out rates reach almost 20% in middle income countries and as high as 40% in low income economies (Chart 3.2). The fact that governments across all income levels allocate a relatively consistent percentage of public expenditure to education may be indicative of potential for “better” outcomes-based spending in middle- and low-income countries (Chart 3.3).

Chart 3.1. School enrolment by level of education and gender (% , 2017)



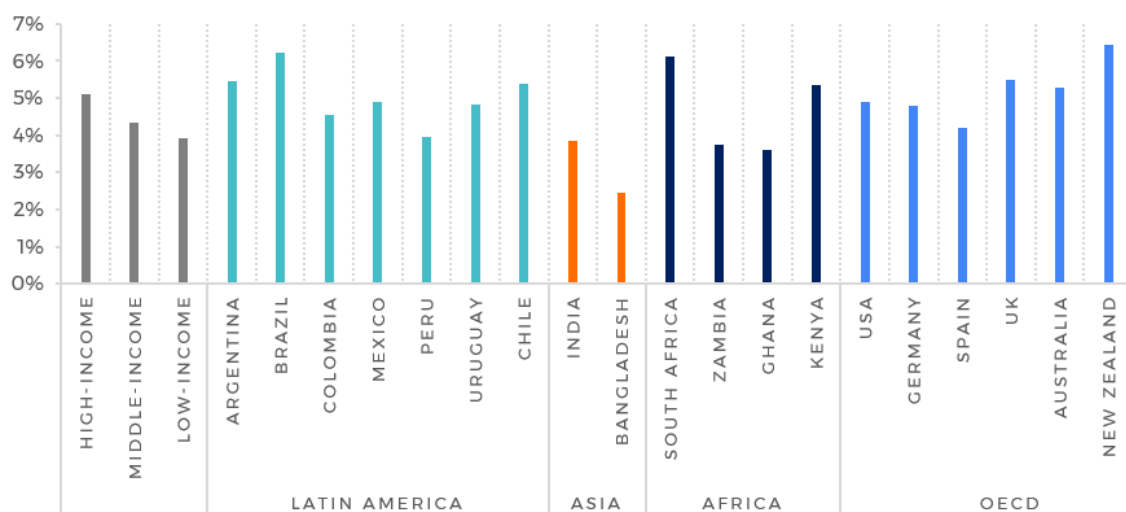
Source: Unesco Institute for Statistics (UIS)

Chart 3.2. Drop-out rate by level of education (% , 2017)



Source: Unesco Institute for Statistics (UIS)

Chart 3.3. Government expenditure on education, total (% of GDP, 2018)

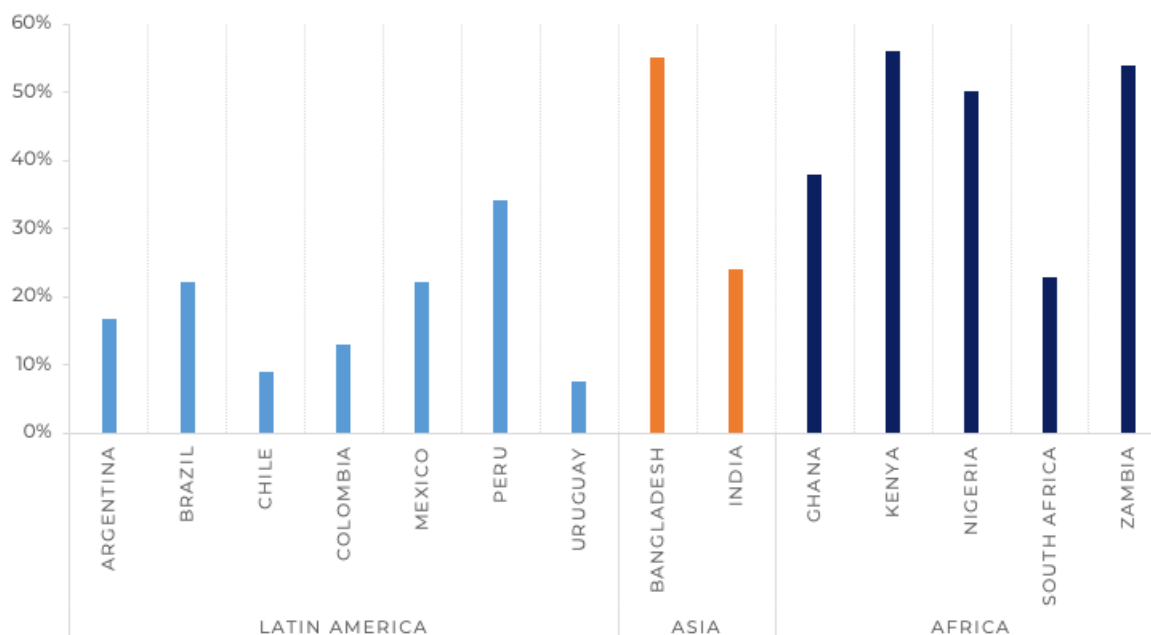


Source: World Bank/World Development Indicators (WDI)

4. URBAN INFORMALITY

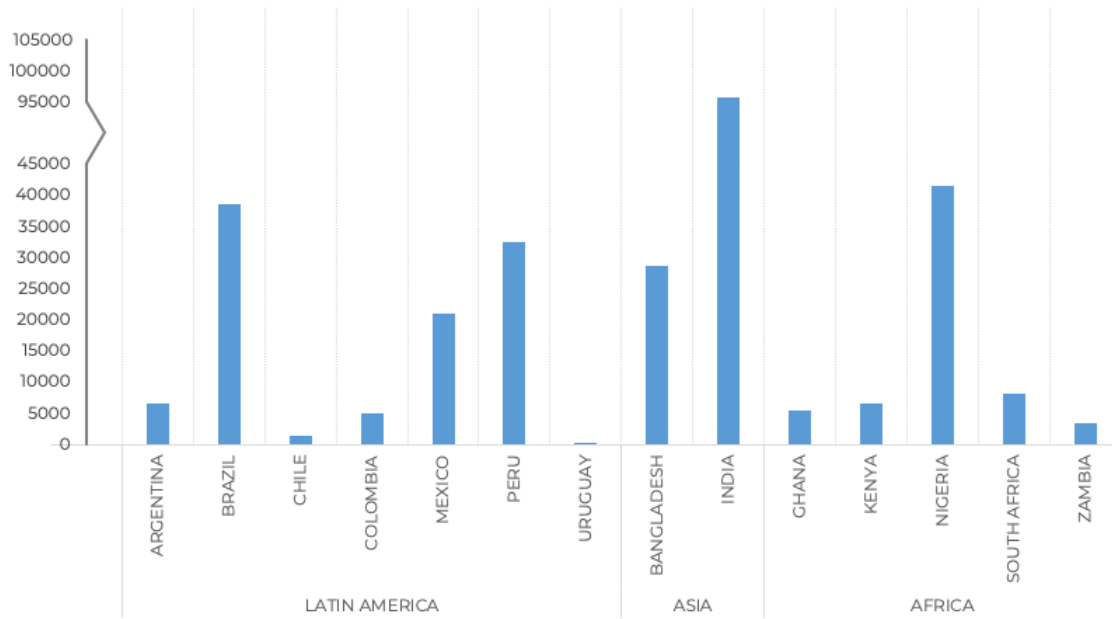
Urban informality (slums and settlements lacking access to basic services, amongst other deficits) is a major issue in several middle- and low-income countries - whilst practically non-existent in advanced economies. In some of the main countries in Latin America over 20% of the urban population live in informal settlements and slum areas (Chart 4.1). In India and Bangladesh, as well as in some African countries, this ratio can exceed 50%, affecting millions of people (Chart 4.2).

Chart 4.1. Urban population living in slum area (% of total urban population, 2014)



UN Habitat: (<https://data.worldbank.org/indicator/en.pop.slum.ur.zs>)

Chart 4.2 Urban population living in slum area (thousands, 2014)



UN Habitat: (<https://data.worldbank.org/indicator/en.pop.slum.ur.zs>)