

# Towards an Impact-driven Response to the COVID-19 Crisis

## GSG Working Document

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### Introduction

As a consequence of the worldwide COVID-19 outbreak we are facing an unprecedented health, social and economic crisis, with severe implications for development – once again, the worst hit will be the most vulnerable in our societies. As early responses to the pandemic emerge in several countries, we are not seeing an impact focus from governments who are starting to take action. The GSG believes there is a both a need and an opportunity for its global community of NABs and partners to take a leading role in responding to the crisis, particularly by focusing efforts on (impact) policy advocacy. These can be relevant across the different phases of the crisis, from emergency response during the immediate “survival” phase to longer-term enforcement of a new economic order that optimizes risk, return and impact.

This short paper is aimed at launching a structured, joint effort within our community by calling our members to help advance policy-led initiatives within and across markets.

We hope that the ideas introduced in this note can help us work with our governments to create maximum social impact through their stimulus measures. We cannot afford to emerge from the current crisis with even greater inequality and social unrest, for which embracing impact and social justice as overarching guiding principles is a must.

The first sections provide a brief characterization of the socio-economic implications of the crisis. This is followed by a set of (non-exhaustive) examples of concrete actions that can be undertaken.

#### **A HEALTH-DRIVEN CRISIS WITH UNPRECEDENTED CONSEQUENCES**

The reach, magnitude and depth of the global social and economic crisis provoked by the COVID-19 outbreak probably has no precedents in human history.

Around the world we are seeing the negative impact of the crisis on the real economy unfold dramatically, following a quasi-absolute halt of activities in many countries and across whole value chains. [JP Morgan](#) expects the global economy to contract this quarter and next, with the US projected to decline by up to 14% and the Euro area by more than 20% in Q2. Several economists view recovery before Q4 2020 as a highly unlikely scenario.

The impact of the crisis on the labour market is projected to be equally dramatic, with the [ILO estimating](#) that 5-25 million jobs could be lost worldwide – depending on different “optimistic” to “worst case” scenarios.

In a tightly integrated world, international “contagion” of the crisis is inevitable, spreading through global trade and other channels.

In the financial markets consequences are as severe, driven by the poor fundamentals in the real economy but also amplified by uncertainty and pre-existent underlying conditions: to date we cannot anticipate for how long the crisis will last as economic recovery depends on medical and epidemiological solutions. What is clearer is that medium and long-term impacts will be more profound the longer it takes to go back to normal (or *quasi-normal*) in production and trade relationships.

For this and other reasons we see the apparent trade-off between “public health” and “the economy” as a false dichotomy.

#### **IMPLICATIONS FOR DEVELOPMENT**

In terms of development, a global volatility shock is affecting and will continue to affect vulnerable countries, regions, sectors, companies, organizations and households (with lower response capabilities) more severely in relative terms. Therefore, pre-existing inequality, both internationally and domestically, is expected to grow beyond already high levels unless innovative and ambitious coping measures are taken.

At the country level, for example, the multi-billion / trillion dollar recovery and bailout packages being announced by some central economies (representing up to 15% of a given country’s GDP) are completely out of reach for most middle income, lower middle income and low incomes countries – which at the same time tend to have the weakest health, education and social welfare systems.

At a micro level, the most vulnerable will be most severely impacted, given the lack of safety nets for households and microenterprises. Amongst this group we count [informal and precarious workers](#) (a negligible fraction of the labour market in most developed countries but up to 50-70% of a largely young workforce in some emerging economies), the self-employed (formal and informal), women (typically employed in precarious conditions and in some of the most volatile sectors), the elder, MSMEs (which in several countries, ranging from Italy to Nigeria, are the backbone of the economy), and others.

In the absence of consistent, visionary and ambitious responses millions will fall behind, with profound long-term consequences for societies and the economy.

#### **THE NEED FOR IMMEDIATE ACTION: FOCUS ON (IMPACT) POLICY ADVOCACY**

At this critical time in history the global impact movement has an important role to play, putting forward impact-driven solutions across different stages of the crisis. From emergency response during an immediate *survival* phase to medium and longer-term action during recovery, investors and large businesses, social organizations and purpose-driven entrepreneurs, philanthropists and other impact stakeholders need to remain committed, building towards a global economy that optimizes risk, return and impact as the new order in the aftermath of the crisis.

At the GSG we see specific opportunities to leverage the power and uniqueness of our National Advisory Boards (covering 30+ countries) in advocating for effective public policies which put impact at the center of traditional stimulus measures being adopted in many countries.

As an overarching principle and given the urgency, we recognize a need to work through existing infrastructure - there is simply no time to develop new vehicles.

#### **EMERGING OPPORTUNITIES AND PRIORITY ACTIONS**

Early conversations amongst NAB representatives and partner organizations allow us to identify emerging priority areas for action, some of which are described below. We aim to nurture, enrich, refine and continuously update this through structured

exchange within and beyond the GSG, promoting thought leadership and innovation that can lead to meaningful change across countries.

▲ *Protecting and empowering the social sector:* social enterprises and other purpose-driven organizations are largely absent as a distinct sector from initial recovery measures taken by governments worldwide. In our view this signals a short-sighted appreciation of the critical role such organizations play and can continue to play during both the “survival” and “recovery” phases of the crisis. The capillarity, territorial depth and knowledge of the population and issues areas coming from purpose-driven organizations is absolute critical to ensure help and aid packages reach the most vulnerable. Therefore, government grants, loans, guarantees and other forms of assistance to the sector (which will be likely affected by a vast shortage of philanthropic support relative to the demand) will be critical to ensure the much-needed maintenance of the social fabric in many countries. Interestingly, we are starting to see some governments like [France](#) packaging support for the impact entrepreneurship community, including mitigation measures available for the sector.

▲ *Promote the adoption of pay for outcomes mechanisms where appropriate:* outcomes-based commissioning has the potential to deliver more and better results, fostering innovation when it is most needed. In particular we see immediate potential for such vehicles in the health area, including for the testing, treatment and vaccination against coronavirus. For example, a multi-million commitment from government(s) to purchase effective tests could unlock investment in smaller but highly innovative companies working to make tests that give faster and reliable results and are affordable. Under such arrangements governments would be strictly agreeing to commissioning an *output* (i.e. a test performed) that would however lead to very tangible *outcomes*. There is growing scientific consensus and empirical evidence in support of massive testing as a critical way to control the pandemic with lower impact to economic activity – see the case of the [town of Vq](#) in Northern Italy, or policies followed by the government of South Korea. Amongst others, GSG Global Ambassador and Nobel laureate [Paul Romer argues](#) that massive testing can yield the same epidemiological results than general isolation measures with much less economic disruption. Mr Romer claims that the cost of (impact) investment in testing would be far cheaper than just “standing by” as the world economy foregoes trillions in economic output for each month that we delay in finding a solution to the pandemic. In this sense, we see the choice between public health and saving the economy as a “false dichotomy”: if we do not invest heavily now in testing and other critical health interventions we will likely remain trapped in the same “choice” for the foreseeable future.

▲ *Issue Social Bonds to attract capital for critical programmes across issue areas:* connecting the bond market to (social) impact can help raise capital at scale for programmes and projects aimed at solving specific issues. Government-backed (therefore lower risk) bonds can yield financial returns acceptable to institutional investors, including pension funds, that are looking to allocate part of their capital to impact. This is relevant during the “emergency” as well as the “revive” / recovery phase past the first months of emergency. Whilst most (though not all) precedents come from the environmental space (through “Green Bonds”) we see enormous potential for growth across social areas. We agree with the [UNDP](#), with whom we have a strategic partnership, that to enable such capital flows to have maximum positive effect, it is essential to

*“provide guidance to bond issuers, with information and instructions in the form of assurance standards”.*

▲ *Tie bailouts and recovery packages to impact:* as a community we need to clearly reject unconditional bailout packages of an “extractive” nature that have traditionally seen private positions from those “rescued” rapidly later recomposed at the expense of society. We see a historic opportunity for governments to embed impact principles and requirements as a condition for all public support measures (e.g. fiscal stimulus packages, guarantee funds, etc.). This could go from reporting requirements to more ambitious conditionality on demonstrable creation of social and environmental impact (e.g. what if any public bailout considered the way in which businesses serve people and the planet? How can we prevent market practices that work against the public good, including company share buy-backs instead of redistribution of benefits to employees?).

### **MINDING INTERNATIONAL ASYMMETRIES**

As we progress our policy design and advocacy efforts it is crucial to pay utmost attention to the differences in response capacity between developed and emerging economies. Countries with a weaker public sector and lower response capabilities tend to also be those with the most fragile health systems - reinforcing a negative link between the epidemiological and socio-economic genesis and implications of the crisis. In all countries policies must be adapted to the local context, and in developing countries in particular a strong call for credible engagement from DFIs and other international stakeholders must be made – for example to promote massive testing for coronavirus and distribution of solutions, where efforts are underway in central economies but there is a lack of equivalent capacity in emerging markets.

In this sense, the [G20 Leaders’ statement](#) on COVID-19 following an extraordinary virtual summit on 26 March calls for a “...transparent, robust, coordinated, large-scale and science-based global response in the spirit of solidarity.” Leaders committed to acting in close coordination against the effects of the pandemic and pledged \$5 trillion for “targeted fiscal policy, economic measures, and guarantee schemes to counteract (its) social, economic and financial impacts.” This promising development can help address international asymmetries and should be followed closely and leveraged by the global impact movement.

In particular, those of our NABs operating in emerging markets have a leading role to play to capture idiosyncratic needs and realities to make our advocacy efforts successful.

### **NEXT STEPS**

Through this concept paper we aim to launch a structured exchange amongst our NABs and partner organizations - building on the ongoing GSG policy and knowledge exchange work and emphasizing our commitment to *collaboration* as a core guiding principle - this is a time for all the global and regional entities in our sector to pull together.

NABs’ deep understanding of their local contexts, coupled with their unique position as plural, trusted partners for social transformation are testimony to the potential of the GSG to play a central role through both the “survive” and “revive” phases of the COVID-19 crisis.

Further down we see this time of crisis as a unique opportunity to introduce a new paradigm of risk, return and impact in the global economy. Only by promoting meaningful systemic change will we be better placed to emerge from this crisis without inflicting avoidable suffering on the most vulnerable or further damage to the planet’s natural systems.