Impact investing and SDGs in the COVID-19 era: maths matters more than opinion

The coronavirus that causes COVID-19 has changed the ball game in relation to today's global impact investment strategies. It can no longer be business as usual. It also seriously calls into question our ability to reach the Sustainable Development Goals (SDGs) by 2030 – if that was ever possible. President Trump's game of "draining the swamp" on an international level, including his cutting of funds to the World Health Organization, potentially undermines the very legitimacy of the multilateral system in which Switzerland and Geneva have played such a leading role.

By **Arthur Wood** - May 6, 2020

Promoting the Sustainable Development Goals at Times Square in New York. (Photo: UN)

It has become a hoary cliché in many U.N. halls that the Chinese characters for crisis include both disaster and opportunity. Our interpretation of the Chinese may be due to wishful thinking and grossly inaccurate. But the international community's response to COVID-19 needs to show it is ready to embrace both possible senses.

The reality with COVID-19 is that, even prior to the pandemic, the SDGs were already $3 trillion short per annum. These are UNCTAD's figures and are up from $2.5 trillion, with some SDGs such as water and sanitation in retreat. What this means is that we are nowhere near – and probably never were – completing our targets by 2030. To get an idea of how far we are falling behind, we should understand that the World Trade Organization estimates total international trade at $26 trillion before the pandemic, rendering the SDG gap before COVID-19 at a crippling 11 per cent.

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With the likely collapse of Foreign Direct Investment (FDI), whereby funds from one country are invested in another, the SDGs will probably fall short by $4 trillion a year. If we ever believed that the $350 billion pledged by the United Nations and various development finance institutions (DFIs) (including the World Bank and large foundations' donations as 'strategic' subsidies) were going to even begin to fill the multi-trillion dollar SDG gap, then we are seriously deluded. It assumes no one is paid from these subsidies and none of the bread and butter business is done and that the whole $350bn is then leveraged at ten times. It is thus a mathematical fact, and not opinion, that we will fail with the current strategy.

Accessible water supplies are vital for refugees, such as these Burmese Rohingya in Bangladesh. But access to clean water and sanitation as guaranteed by SDG 6 should be available to all, no matter where. But will the world be even close to this goal by 2030? (Photo: UNICEF)

Crisis = Disaster: The shortfall in financing the SDGs and beyond

Why? Even assuming that the SDG gap has been correctly calculated, such a conjecture was always highly questionable. It is comprised by a range of figures with a fudge on various related issues in the hundreds of billions of dollars. These include climate accounting, the anti-microbial resistance threat, resource utilization, unfunded structural pension and health liabilities in the G20 countries, not to mention 'black swan' events (unpredicted disruptions as rare as black swans) such as COVID-19.

With COVID-19, many hearken to the possibilities of a mindset 'shift' once we are back up and running. It is not just the utopians who see this, but the cynics, too. Both agree that western balance sheets will at best go back to 2008 levels. In terms of debt-to-GDP, we're talking of 10 per cent or more, plus unemployment at 15 per cent coupled with the strong possibility of populist-enforced cuts in foreign aid.

Nor do interest rates, which are at pre-crash 200-year lows, offer much hope for inciting greater firepower in monetary policy.

There are other concerns, such as structural weakness and populist responses. Italy had to battle with the European Union for facemasks, and Fitch recently downgraded Italy to one notch above 'junk' status due to the coronavirus impact. France adopted a policy of requisitioning masks, including the reported seizure of four million Swedish ones also intended for Italy and Spain. For its part, Germany banned their export.

For those in finance, it is no surprise that investors are reluctant to stand up in this environment. How can we expect this to work with an impact investment ecosystem focused on the developing world faced by the probable decline of government subsidies? The financial meltdown (currently deemed to be worse than in 1987 or indeed, as some say, 1933) will also very likely reduce traditional foundation funding.

In the developing world, any impact investment strategy based on venture capital and private equity approaches is bound to be killed off when COVID-19 hits with full force in Africa, Latin America and elsewhere. It will kill off most investment opportunities and overwhelm social infrastructure if responses are akin to what we have seen in the West. At best, we can expect distortions to the health system as recently demonstrated by Ebola. Not only are certain lockdown figures dubious, but it will prove even harder to fathom the consequences on vast swathes of the shadow and informal economies

People in a market area set up in front of badly damaged buildings following the January 2010 earthquake in downtown Port-au-Prince. Some 300,000 homes were damaged or destroyed, making 1.6 million people homeless. This was followed by cholera and Hurricane Matthew causing even more death and destructiion. (Photo: UNICEF)

The United Nations' "Plan"

At the UN level, there is a COVID plan with $2.1 billion committed by five major agencies until December 2020. This is designed to deliver essential testing equipment and medical supplies to treat people; install hand washing stations in camps and settlements; launch public information campaigns; and establish airbridges and hubs to move humanitarian workers and support to where they are needed most.

Given that tiny Haiti has sought $9 billion (much of whose pledged funding has yet to arrive), coupled with the scope of the pandemic, the first question must be: is this a sufficient response? Government development banks are promising a few billion dollars to mirror support to the developing world promised by western economies. Yet, there is a danger that as with Haiti and Ebola, much proposed backing will end up as too little, too late. Much will be unaccountable, or worse, lost to corruption and poor distribution at both ends.

OCHA, the main humanitarian coordinating agency of the UN, has the mandate for co-ordinating the response to disasters yet the COVID plan was put together by the Inter Agency Standing Committee. There is no budget for OCHA , leaving suspicions

that the response will be siloed. For those with experience inside such agencies, the replication and redundancy of effort across fiefdoms makes the plot of *Game of Thrones* look like a friendly exercise in collective action.

Disinfecting for COVID-19. (Photo: UN)

Transparency far more effective than castigation

This is perhaps the only point whereby President Trump's WHO chastisement can claim a glimmer of merit. By losing a significant lifeline, the Geneva-based health agency may actually have to find a long-lost "RESET" button. Most of us, however, believe more in the power of multilateral dialogue and action than the 'benefits' of institutional castigation or blame-shifting. It doesn't help that those same agencies recently suffered major funding problems, resulting in lifts and fountains being turned off at the UN Geneva HQ.

Transparent dialogue regarding funding allocations serves the world best. This is being done to an extent, but history shows that these organizations do not always welcome unfettered openness. Where in all this kerfuffle is the strategic framing that is supposed to create cost efficiency? Or the tax and governance approaches designed to avoid large-scale silo replication? Where are the resilience structures and planning for data integrity and the accountable delivery of funds, the feedback loops from the community themselves and data frames that are competitive and comparative? And yet, the need for such precautions should surely have been clear from earlier disasters.

The good news is that there is at the moment a small but important group of individuals and institutions in Geneva attempting to align incentives and strategies, even creating the specifics of termsheets for 'response' facilities, to be used as catalyst for Swiss DFIs. There has also been news of a seminal articulation of the necessary alignment between those in the formidable microfinance community here in Geneva, which has been heartening. These are honourable attempts to shatter the status quo, though it is a bit like trying to break a glass ceiling with a chopstick from the perspective of the whole global 'systems challenge'.

For impact investors – especially those who work directly in countries where they seek to make a difference, insurance and financial tools for resiliency should be built into the frame (though recent World Bank actions with Pandemic Bonds in this regard give little comfort) to protect against new crises, including possible second or even third waves of COVID. We must leverage existing solutions as opposed to continually rebuilding projects in small-scale silos where expensive overheads

become embarrassing. Resilient planning tools and solutions are critical. As is guaranteeing alignment of the $9 trillion in local capital markets to meet social purposes and development. Equally important, we have to collectively create a governance framework that – instead of cannibalizing funding of existing health infrastructures – create re-usable architecture.

Failure to mitigate global warming in the earth's polar regions, such as here in Greenland, will affect the entire planet causing ocean surges, the disappearance of islands, and the flooding of major cities ranging from Bangkok to New York. (Photo: Greenland Tourism)

Lessons from the recent past

The blunt reality is that the historical track record of responses to major health crises has not been good. Ebola in West Africa, for example was characterized by delays that initially cost millions, but soon morphed into billions. Funds simply disappeared, 35 per cent in Sierra Leone alone. In Haiti, there was the usual siloed response. The follow-on cholera, which infected half a million and killed 8000, was in turn, denied, covered up and then – when exposed – resulted in key players declaring 'sovereign immunity'.

This same scenario risks being played out once more. Yet this time, the consequences could prove massive. COVID-19 is spreading in a U.S. election year with a populist President seeking a scapegoat. This, along with several scandals, is having profound implications for the political and moral legitimacy of the multilateral institutions, of which international Geneva is not only an integral member but a leader. Let us not forget why the Geneva-based League of Nations also failed.

One only need explore some of the highly critical responses by a normally sympathetic western press (*See where did the Haiti earthquake money go? and aid agencies fail with cholera).* Or reports that the 170 cases of paedophilia in UN Peacekeeping were ignored along with the apparent firing of whistle-blowers in multiple UN agencies. This is not to speak of various profoundly unpleasant regimes chairing the UN's Gender or Human Rights Councils in Geneva. The problem is compounded by organizational responses to crisis that place further layers of audit onto an overworked bureaucracy already constrained by politics and outmoded employment practises. It doesn't take much to imagine what the likes of Fox News could say.

If lessons from the last four years show how easily the Paris Accord on climate mitigation can be ditched, environmental rules shattered, and basic legislation protecting responsible and sustainable stewardship of land removed, it is evident that we need a complete re-design of the current development paradigm. We need to stop pretending.

What currently exists is the exact opposite of what one is taught at business school. We're dealing with an outdated sector marked by high marginal cost coupled with low marginal revenue with very few annuity models that are scalable. All of this has been essentially financed in silos by a non-profit foundation sector built on the logic of a model that dates back to the start of the last century, created notably by the Carnegie and Rockefeller Foundations but in a model with their balance sheets

unaligned to social purpose. Donor governments are also caught up in a never-ending paradigm that simply has not got the capital to solve the real issues at hand.

Crisis = Opportunity

COVID-19 has made crystal clear in a matter of three weeks what all those years of long arguments have failed to achieve: the high costs of inaction on social issues in the mainstream economy. Ironically, this has a new silver lining: the pandemic has clarified the importance of the *delta (the rate)* of improvement. People want to know where something is working, and how fast. We can now see where change is happening and to whose benefit. It also poses a global question: what kind of normal will we return to?

As the Chair of the International Accounting Standards Board recently noted, the current approach "will not prioritize planet over profit." What is important for both sides of the for-profit and not-for-profit divide is not what people are saying – but what they already doing to be socially impactful. What are we paying for? And what is the incremental impact of each government or corporate dollar to each SDG? In other words, we need a metrics process whereby everyone is seriously involved and stakeholder actions are competitive, comparative and predictive.

If not, we will continue to witness a decline in both the effective statistics measuring the SDGs as well as the effectiveness of programmes designed to serve them, with an expansion of the funding gap. The danger is that by 2030 the international community will have spent $6 trillion with little to show, particularly to teenage Swedish activist Greta Thunberg's generation.

The Greta generation (Swedish activist Greta Thunberg – second from left – and other children) have the right to worried about the international community's inaction regarding climate change. It is their future which is at stake. (Photo: UN)

If there is a compelling case to do exactly what the UN Secretary General has called for, it is the urgent need to price the externalities, that is the benefits (positive externalities) and costs (negative externalities) to third parties (often to society as a whole) from an economic activity by those who undertake it. Social interventions have to be stacked up against an objective, transparent global calculation of the problem's scope (and cost).

The good news is that these externalities have been priced by a range of stakeholders. The World Bank, WHO and UNICEF have estimated that in water supply, sanitation and hygiene (WASH), negative externalities are valued at half a

trillion dollars annually. Accenture noted $1 of education investment in India leads to a future economic value of $52. Stop TB calculated that $1 spent creates $45 of economic benefits. These are the kinds of input and outcome ratios we are talking about.

The dynamic data practices of Google, Facebook and Amazon are already part of our daily lives. The same data models need to be applied to development and SDGs, gathering enough information in real time to increase management effectiveness and at all levels so as to be predictive of their impact. In their absence, we have the status quo: we all do our work in thousands of concurrent bilateral siloes thinking that the transaction costs we are incurring in the process are acceptable. They are not.

Once you determine a future cash flow (in this case the economic value of the social intervention), the new model we need, with programme-related investment (PRI) from foundations stimulating broader collaboration and partnership, operates like any other investment model. The basic legal architecture for this was created and approved by the US Congress in 1969, defining how to integrate subsidies into a for-profit framework. From the metrics point of view, this is not difficult. It is basically the same model that drives most aspects of our lives outside the development world. This is what the rest of the economy has already done. It is time to apply it to development.

The international community needs to move beyond talking and ineffective action if the SDGs are to meet their 2030 goals. (PhotoL UN)

This is where both international Geneva and Switzerland can come into their own. They need to start asking how they can build and benefit from such a framework in their development work. We have a unique opportunity today, and reflecting the work of 22 cross sectoral organisations, several of us wrote about this in a paper *Billions to Trillions* two years ago to create a better-designed systemic approach. The answer lies in competitive collaboration within win-win structures, not siloed solutions which cannibalize each other in the face of a declining funding base.

As we sit in the cafes in the Old City or the Palais des Nations in Geneva, we should be talking about building bridges between the UN and the investment community. We should also be talking about the metric, legal, networks, fiduciary, tax and financial framing necessary to connect such innovation to capital that sits in this country's well-entrenched silos – and can serve as a global hub.

International Switzerland needs to move beyond well-meaning talk. But for this to happen, we need to be clear as to what deters commercial and financial players from

engaging. Quite simply, most development projects are less than $100m. If you want large scale capital and solutions, then commitments have to be above this. As it stands, mathematically we cannot succeed in funding the actions that will ultimately justify the international institutions in Geneva based on status quo: dribs and drabs of small projects and programmes supporting entrepreneurship here and there without tying it all together and thinking "full scale".

With the founding of the Red Cross in 1863 and the League of Nations in 1920 – both the result of massive blood-spilling on the battlefields of Europe – Geneva became the key to the world's multilateral bridge. Will we now have the courage and the imagination to move ahead? The alternative is already proving disastrous.

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