What is the New Normal for Impact Investing in COVID19?

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The philosopher Plato said, “the community which has neither poverty nor riches will always have the noblest principles.” COVID19 has been called the great equalizer disregarding wealth, race, or religion as it sears a deadly path around the globe. It has also put on global display the great disparity between the world’s rich and poor.

Dynamic, long-standing, and unjust economic, health, social, and environmental systems are colliding during this crisis. Yet, pockets of positive innovations are taking root. Smallholder supply chains and family farms in the developing world hold exciting potential for reducing food loss and waste and increasing the profitability and sustainability of our food systems. Additionally, the European Green Deal ambitiously takes aim at creating a low carbon economy to circumvent the climate crisis.

What is the new normal for impact investing under COVID19? How can impact investing accelerate and support more just systems? How can moral money and leadership create a more equitable world based on measurable noble principles and actions?

These were the questions our panel discussed during a 6 May 2020 Impact Webinar hosted by the Impact Investing Programme team at Saïd Business School, Oxford University. More than 540 people from 75 countries joined the session. They represented alumnae and new students of the Oxford Impact Investing (OIIP) and Oxford Social Finance programmes (OSFP) as well as colleagues within our global network. We came together to share experiences, gain knowledge, and find solace in our global community. People were eager for answers. We received more than 75 questions prior to the webinar. Those issues top-of-mind included: the role of moral leadership in guiding ethical decisions in crisis; truthing whether the investors would protect financial returns over social and environment returns; finding creative ways to blend capital at scale; and using this moment in time to rewire profound systems change.

Headlines regarding global opportunities, included key data points:

- Sustainable funds (ESG) appear to be weathering crisis better than the traditional funds. *Bloomberg* analysis suggests—the average ESG fund fell by about 12%—half the decrease seen by S&P 500 Index over same period.
- The coronavirus outbreak is motivating more governments, companies, and international bodies to lean toward social financing. Illustrations on new collaboratives captured in a recent article in *Foreign Policy* include use of social bonds for social change at scale. These include:
  - The first COVID-19 social bond—only by corporate bank Macao branch of Bank of China in late February. The lender raised more than $600 million from its COVID-19 Impact Alleviation bond to support Macao’s small and medium enterprises.
  - Since March, the World Bank’s International Finance Corporation (IFC) has since March raised $1 billion from a social bond—its largest to date—that will boost production of medical supplies in emerging markets.

- In March the African Development Bank in March sold its [Fight COVID-19 Social Bond] for $3 billion, which it claimed was the largest-ever dollar-denominated social bond in international capital markets.
- The Spanish bank BBVA estimates that global issuances of green, social, and sustainability bonds will reach [$320 billion in 2020]—a year over year increase of 28 percent—and the pandemic is set to accelerate that pace.

The challenge under COVID-9 is to find ways for money to be moved quickly to address global challenges. The ultimate goal is to change financial systems – making investments that value people and planet as the standard, not the exception – to build back better in both the near and long term. While optimistic about the potential for large-scale change, it won't be inevitable, but intentional. Jenn offered the following insights:

- **Leverage existing infrastructure** – Right now, there is no time to build anything new. Small businesses, particularly those that operate in low-income communities, needed capital last month and we can't continue to delay. Existing pipelines must be used to move money rapidly to communities in need. The [Community Centered COVID-19 Recovery Program] that Calvert Impact Capital is developing, in partnership with Community Reinvestment Fund (CRF) and Community Development Financial Institutions (CDFI) across the country with critical support from Soros Economic Development Fund (SEDF), is built from this principle. It utilizes established CDFI infrastructure to move money efficiently and at scale into low-income communities. Created in the 1970s in response to the discriminatory practices of banks, CDFIS are the unsung heroes of economic development. They provide affordable, flexible capital for small businesses, community facilities, affordable housing in low- and moderate-income communities.
- **Collaboration** – This is an all hands-on deck situation; every sector – public, private, philanthropic – must be engaged and doing what they do best. Again, the [Community Centered COVID-19 Recovery Program] response draws from this principle, engaging nonprofits, city, state, and federal government agencies, local and national foundations, impact investors, banks, and more. There are two essential elements to maintaining effective collaboration:
  - **Common goals / values** – Partners must be dedicated to achieving shared goals and have common values to address any issues along the way. Where there is any conflict, the question that drives resolution is "what is best for the communities that we are serving?"
  - **No martyrs** – Collaboration must work for all partners involved, meeting their impact and financial goals to ensure that they can contribute in a robust and sustained manner.
- **Systems changing solutions** – Our work must be with an eye to the future, and how to change the world. At its core, impact investing is about systems change. It seeks to provide a demonstration, to build a bridge to a different world, one that supports sustainable and equitable ways of allocating investment capital. This crisis is showing the lack of infrastructure at every level of our society. Investment infrastructure must be rebuilt to deliver capital where it's needed, strengthening networks like CDFI that are embedded in community and that can deliver tailored solutions to those who need it most.

Sean noted that as part of George Soros' Open Society Foundations, SEDF's initial response has focused on:

- **Ensuring equal access to vaccines and therapies**—Financing solutions that prioritise and incentivise access for all rather support the well-funded search for medical solutions.

- **Pursuing partnership to leverage impact**—Given the scale of the challenge and relatively limited financial resources, SEDF is looking for partners—from multilateral agencies such as the WHO, CEPI, and FIND, as well as private companies—and seeking opportunities to leverage its investment to maximum effect with this focus on issues of access.
- **Ensuring distributed global manufacturing for any eventual vaccine**—Even though centralized manufacturing might be economically more efficient and deliver better investment returns, experience suggests that the North will hoard, buy up, price in ways that will effectively deny the Global South access to whatever is delivered.
- **Focusing on responses that are most viable for the Global South,** in terms of affordable pricing, scalability, transportation, and simplicity of delivery.

This crisis is the first real test of the impact investing industry, which was in its infancy in 2008. It has delivered the industry something we'd been struggling to create urgency. There is widespread recognition of our systemic failures and a demand for big change. Impact investing has to step up to meet this demand, enabling large investors to access the type of investments that can really start to stem inequality so we can move money at the scale that our challenges demand. This demand requires collaboration among people who understand how to structure products that can scale and get in front of investors and people who understand local economic challenges, so those products are actually responding to needs of businesses and communities in place, not just market demand.

This moment requires moral and courageous leaders, an important area we explore in our Impact portfolio of programmes at SBS. It is important to act now while there is a call for change and before the powerful countervailing forces create pressure to retreat and maintain the status quo.

The COVID-19 pandemic has made it abundantly clear that our economic system is failing us and we must change to a system that values people and the planet. But impact investing will not become the new normal without a fight. We must find fortitude to create guiding principles that are equitable for all.

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