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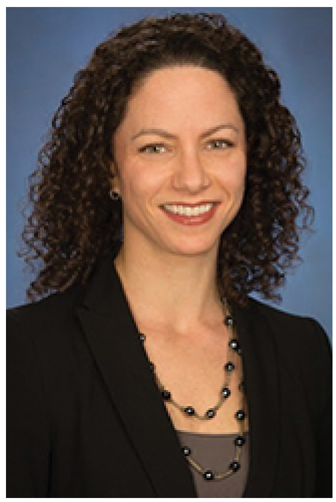
The coronavirus crisis demands impact funds

Cristina Shapiro | 30/07/2020 12:44 pm

The effects of Covid-19 are felt most in the poorest countries. The president of the Impact Fund for Children at Unicef USA explains how impact investing can help.



As the US grapples with a new surge in Covid-19 cases, public health experts are urging people to maintain social distance to limit the spread of the virus. The new outbreaks are a painful reminder of the need to remain vigilant in our response to the virus, both in the US and around the world.

In the next few months, coronavirus infections may peak in the world's poorest countries, adding further strain to healthcare and economic systems already unable to meet needs. In May, the World Bank warned that up to 60 million people were at risk of falling into extreme poverty as a result of the pandemic.

Even as this crisis sends millions into poverty, it has already affected traditional sources of relief funding. Foreign direct investment, typically a major source of funding for international development, could drop by between 30% and 40% by 2021. Faced with this looming gap in funding, the US's $1200bn impact investing industry could be essential in easing the global effects of the virus. Impact investors must play a huge role in helping to mitigate the pandemic's health and economic consequences in the world's most vulnerable countries.

Even before the pandemic, global development experts knew that investments in health, especially for the most vulnerable children, are crucial drivers of economic progress. Within the context of the current crisis, some impact investors have responded by supporting companies directly involved in addressing the pandemic, including those that focus on biotechnology and human health. These important efforts can range from local relief funds to supporting small businesses or vulnerable communities.

In low- and middle-income countries, there is now an urgent need for impact investors to take action to alleviate near-term impacts, such as by funding procurement of more personal protective equipment (PPE) and other medical supplies — but the impact need not end there. Those funds can be structured or re-invested to address longer-term systemic issues that were aggravated due to Covid-19, such as income and gender inequality, and unemployment.

Impact investors are uniquely positioned to save lives and make progress in these countries because they can efficiently build capacity in ways that help strengthen government systems, for example when there is limited funding or a lengthy budget approval process. Impact investors bring both concessionary and market-rate funding to solve challenges, complementing the philanthropic funding of foundations. Impact investors are also able to take into account market conditions, such as changes in interest rates and regulatory changes, to quickly move capital where it is needed most. They can also nimbly and flexibly achieve maximum impact, as they may have fewer constraints on their ability to take on risks and provide guarantees. Last, they can invest over a longer term, forego returns and waive interest payments to help investees manage cashflow and build reserves.

These strengths help unlock great potential for impact investors to respond to the rapidly shifting conditions created by the pandemic. At Unicef USA, we have sought to tap into that capability by creating a new Fast Fund that guarantees Unicef's prepayment to suppliers until goods are delivered. Within the current market, some suppliers are asking for material amounts of the total cost upfront, and these guarantees absorb the financial risk if suppliers do not deliver. This supports Unicef's quick securing and procurement of PPE for healthcare workers in more than 90 countries. Similarly, Unicef USA's Bridge Fund provided $10m of essential bridge financing capacity to Unicef for its PPE purchases on behalf of countries while awaiting the transfer of funding, thereby accelerating deliveries to healthcare workers on the frontlines of the pandemic.

When disasters strike, whether it is climate change-driven hurricanes or a viral pandemic, the survival of those affected depends on our ability to get ahead of the problem and respond quickly. As low- and middle-income countries prepare to bear the brunt of the Covid-19 crisis in the coming months — with far fewer resources than high-income countries — impact investors can be an indispensable partner to relief organisations. They can fund novel solutions to rapidly evolving problems, and take on informed risks where others will not. The greater and more immediate risk lies in failing to respond at all.

Cristina Shapiro is president of the Impact Fund for Children at Unicef USA, and formerly was head of global strategy, management and employee engagement for the Goldman Sachs Foundation. She serves on the board of Accion East and sits on the credit committee of the Community Investment Guarantee Pool.

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