

Triodos  Bank

Reset the Economy

An agenda for a resilient and inclusive recovery
from the global corona crisis, 28 May 2020

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Production

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Published

28 May 2020

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Triodos Bank is actively engaged in promoting value-based banking communities in the Netherlands and internationally. It is a co-founder of the Global Alliance for Banking on Values (GABV) and host to its secretariat. It is a founding member of the Dutch Sustainable Finance Lab and supports numerous community-based initiatives favouring inclusive finance.

This paper is the result of extensive discussions within Triodos Bank, with our external stakeholders and in society-at-large. The overarching thesis is that the world now needs a more resilient and inclusive economic system that can help to advance a more sustainable society. Its aim is to inform the debate about how we encourage a recovery that will achieve a resilient, sustainable and inclusive economy when the coronavirus health crisis has been contained.

This document can be downloaded from www.triodos.com

Executive summary

A defining moment for a big reset

Millions of citizens around the world are feeling the impact of the corona crisis. Some have lost loved ones or struggle with their health; many have abruptly lost their jobs. Numerous measures have been taken to help people and support the economy. Yet, it has become increasingly clear that there is no quick fix, neither for the pandemic nor for the unfolding deep economic recession.

The corona crisis and the resulting Great Lockdown are unique. What started as a health crisis quickly turned into an economic and social emergency. But this crisis has to be placed in context. In essence, we are witnessing a failure of our economic and social system: it is systemic.

The question now arises: what next?

So far, the focus has primarily been on overcoming the health crisis, and rightfully so. But Triodos Bank believes we also need to address the severe shortcomings in our present-day economies and societies. We need to prevent a future pandemic from holding the world in such a vice-like grip, we must intensify our efforts to combat the climate

emergency and we must work on a more socially inclusive society. And the emergency measures from governments and central banks will determine economic developments in the years to come.

Triodos Bank calls for a reset of the 'old' economy and for a global and collaborative effort to rebuild a more resilient, sustainable and inclusive one.

Root causes

If we are to take the right steps to rebuild the economy, we need to understand the root causes of the systemic corona crisis.

First, our relationship with nature is broken. Zoonoses, like corona, are far more likely now to transfer from animals to humans than they used to be. Rampant deforestation, uncontrolled expansion of agriculture, intensive farming, mining and infrastructure development, as well as the exploitation of wild species have created a perfect storm for the spillover of diseases from wildlife to people. Part of the solution is to completely redesign our food and agricultural systems.

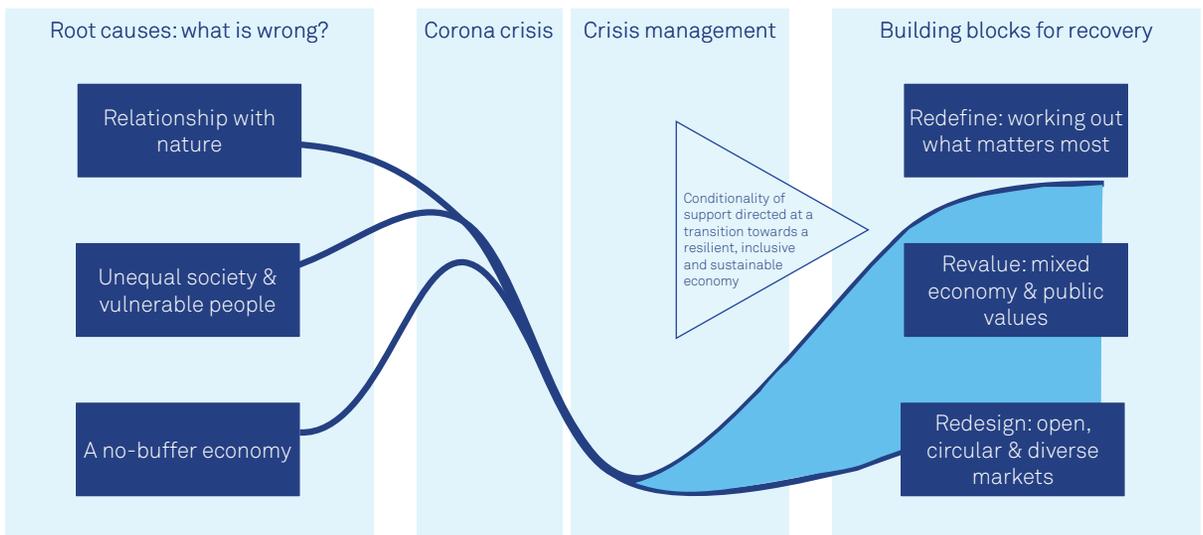


Figure 1. From root causes to crisis management and building blocks for recovery

Secondly, the Covid-19 disease and the crisis it triggered have exposed societal inequality and weaknesses in healthcare. Not everybody has access to affordable healthcare; not everybody can afford to stay at home. There is also inequality between countries: the economic effects of the crisis are likely to be more severe for lower income countries. We can and should use this moment to create a more inclusive society.

Thirdly, the pandemic has laid bare fundamental flaws in the way we have organised our economy in our unrelenting efforts to strive for economic growth. The speed and severity of the economic impact on (global) enterprises and value chains are significant. The supply side restrictions and the fallout of demand demonstrate the absence of buffers and a lack of resilience in big parts of our economy. We have encouraged gigantic, highly leveraged firms to operate on a delicate balance of high debt and ultra-efficient, just-in-time performance. They are simply not equipped to adapt to the current conditions. The same goes for significant parts of the workforce. Many self-employed and casual workers are out of business and out of work. Without buffers they face instant difficulties. This needs to change.

Plotting a path to the future

The recovery from the corona crisis is not simply a question of putting the 'old' economy back on its feet. The reset we call for addresses the root causes and is a thorough overhaul of the economic system.

Crisis management

The transition to a more resilient, sustainable and inclusive economy starts with the crisis management of many governments and central banks as a response to the immanent impact of the corona crisis. Fortunately, many governments and central banks have launched comprehensive packages of measures to support liquidity. It is vital that these interventions are effective for the people most in need. Communities, business organisations and financial institutions should also do their utmost to mitigate the direct impact of the crisis.

We need to revive and revitalise every corner of our economies.

However, more is needed to support the transition. More global solidarity is needed. Gifts and aid packages should be made available on a larger scale and the IMF needs enough firepower to provide emergency credit lines, especially for countries with relatively low debt affordability. We need better cooperation in the European Union on many pandemic-related issues, including possible financial support in the form of a conditionalised mutualisation of corona-linked debt in the eurozone. The massive interventions of governments and the impact of the Great Lockdown on national budgets, will deteriorate fiscal balances and lead to a steep increase in public debt. Similarly, the debt burden might become a problem for companies, which historically have had highly leveraged balance sheets. In our opinion, central banks' acquisitions of significant quantities of government and sub-sovereign bonds are unavoidable. Intervening in financial markets mainly serves those markets: it leads to higher prices of assets and does not serve the real economy. So to serve the real economy, Triodos Bank believes central banks such as the ECB should engage directly in financing public debt. And government support for businesses should be conditional: jobs need to be maintained and 'fossil' companies must submit ambitious greening plans to receive support.

Long-term building blocks

In addition to short-term crisis management, we should start to focus on the long-term recovery. Triodos Bank has identified three key building blocks: redefine what matters most; revalue the way we live, cooperate and communicate; and redesign our economy.

Redefine

We have known for a long time that human progress cannot be reduced to annual GDP growth. Declining ecosystems are a threat to our wealth.

And as we have seen in the past decades, economic growth without adequate levels of equality ends up excluding people from basic needs, human dignity and resilience.

People, planet and prosperity should therefore be the central values upon which government policy rests and business investment decisions are judged. Economic growth must make way for wellbeing.

An important precondition is adopting the 'true' value or cost of production. This should be calculated and used as a metric for transactions. Governments can and should adopt this approach in tax policy (green taxation) and companies need to look beyond shareholder value and become more embedded in society.

Revalue

Public policy and the economic activities of companies should reflect the common shared values in each society. Standard neoclassical economics works from the premise that market prices, for instance for products and services, reflect our values. However, this is not how it works in practice and there is no guarantee that market forces deliver outcomes in line with what we want to achieve.

So markets should be directed through cooperation, public investment, and more activist industrial policies. Such an approach helps to steer economies in the right, more sustainable direction and to create effective demand. Government has an important role to play here through fairer taxes and anti-trust policies.

Redesign

The notions of wellbeing, a values-based economy and public institutions and investments are building blocks for a redesign of the economic framework. The corona crisis is a clear indication many (global) enterprises operate on business models that are resilient nor sustainable and that more should be done to improve the diversity of economic and finance activity.

A concrete agenda

The general framework of redefine, revalue and redesign provides the right context for concrete measures that work towards a resilient, sustainable and inclusive economy. This is truly a collaborative effort by governments, businesses and communities.

We see a special role for the financial sector. After all, money and the way we use it have a material impact. The leadership of financial institutions will determine whether they will be part of the solution. Given the important role of private investments in the long-term recovery, it matters a lot how money will be allocated and how finance will be used in the transition.

This paper provides concrete proposals for governments, the business community and, specifically, for the financial sector to contribute to the transition to a resilient, sustainable and inclusive economy.

This is a defining moment for a reset. If we make the right choices, our economy can become more resilient, we can create better prospects for a lot of people around the globe and in the end build an economy that is also sustainable in the long term. The direction we choose over the coming ten years will define our future. If we make the right choices, future generations will also enjoy their lives.

	Public policies	Business agenda	Role of finance
Redefine	Greening (tax) regulation Integrated reporting	True price Integrated reporting	Report & commit on impact Regulatory incentives on impact & resilience
Revalue	Green deal investment plan Strengthening public institutions Equity & fair share Open markets Different stakeholder models & the commons	Open markets Different stakeholder models & the commons	Facilitate sustainable private equity Increase social equity Gift money for transitions Debt cancellation for hopeless situations
Redesign	From transaction-based to use- based European cooperation Diversity and globalisation	From hyperglobalisation to glocalisation Sustainable business models	Global sustainable finance agenda

Figure 2. Overview of building blocks for a resilient and inclusive recovery

1. Introduction

At the time of writing, almost 350,000 people have died from the coronavirus (Covid-19), more than 5.6 million people have been reported infected, and no end is in sight (Reuters, 2020). A local epidemic that originated in Wuhan in December 2019 took just three months to develop into a global pandemic. It is the first to occur in the era of globalisation and it is already challenging foundational assumptions about our interconnected economies and their dependence on intricate, international value chains.

The global containment measures in response to the health crisis led very quickly to an economic crisis of unprecedented proportions. The lockdowns in Asia, large parts of Europe, the US and India, and social distancing measures in many different countries resulted in severe supply restrictions but, first and foremost, they have throttled demand. Certain sectors, such as tourism, travel, leisure, retail and manufacturing, have been profoundly affected. In many countries, there has been a 20 to 30 percent decline in economic activity (OECD, 2020). These kinds of effects are normally only seen in wartime conditions.

Over the last few weeks, we have seen the consequences of the demand fallout on financial and commodity markets. In terms of data on real economic activity, evidence is still scarce. What evidence there is indicates that unemployment in the US is surging, that industrial activity in most countries has plunged to record lows and that confidence indicators show historic declines. The Great Lockdown, a term first used by the International Monetary Fund (IMF), is widely expected to develop into the most severe economic crisis since World War II.

Governments and central banks are doing whatever they can to bridge the temporary fallout of economic activity. Accommodative monetary policy can ease some of the credit stress. Fiscal policies can help people with a sudden loss of income. Guarantees can help companies to survive.

The severity of the economic effects is palpable; already, policy makers have provided more global economic stimulus measures than they did during the global financial crisis (GFC).

The source of the current crisis was not financial. But, like the GFC, it has wider consequences. The GFC started with a credit crisis in a too complex, interconnected and overleveraged financial system. That led to an economic crisis and a euro crisis.

This health crisis, rooted in how we, as humans relate to nature, has translated very quickly into an economic and social crisis. And, given the policy reactions so far, it will also transform into a debt crisis. Moreover, the crisis is systemic; it demonstrates a fundamental lack of resilience in our ecological, social and economic systems.

Rightly, the focus now is on overcoming the health crisis. But the corona crisis is bringing other issues to the fore. First, it highlights our arrogant relationship with nature. Second, it is making societies even more unequal; its effects are most severe for poorer people. Third, it shows up the lack of resilience in our economy, which is totally unequipped for these kinds of shocks.

Temporary measures often become permanent. That's why this is the moment to discuss the system that we want to create, and what needs to improve. Right now, trillions of dollars are being used to rescue the old economy. We think that is not what we should be doing. Instead, we should be investing those trillions in an economy that is fit for the future: one that is more resilient, more sustainable and more inclusive. Now is the time for a just transition.

Our aim in this paper is to map a pathway for a resilient and inclusive recovery once the coronavirus has been contained. The overarching idea is that we want to use this period to build a more resilient and inclusive society.

To do that, we first have to redefine what matters most. It is time the concept of wellbeing became the foundation of government policies and business

investments. We need to engage with each other more fully, as human beings not just market participants.

Second, we need to revalue how governments and markets interact. Governments and institutions need to support social cohesion not just market transactions. What is plain in this crisis is that public policies can make a difference. That will be critical for any transition towards a more sustainable and inclusive economy.

Third, we have to redesign our economic system: to make it more resilient, with higher financial buffers, diverse sourcing and more local and circular production chains. We need business to be more resilient and business models to be more diverse.

Public policy should not be focusing on saving the old economy. Why rescue stranded assets with support for oil companies? Why should we use public money to save companies that, once unpriced externalities such as carbon emissions, pollution and social damage are factored in, are making negative contributions to society?

Private capital will become more and more important as fuel for the recovery. Public funds have been used extensively to cover the first blow of the crisis. Building a resilient, inclusive society will ultimately depend to a larger extent on private capital.

The implication for Triodos Bank is that we should target our capital and our instruments even more precisely in favour of those that are leading the transitions to a more sustainable economy. Although the way we achieve this may vary, our goal should always be to maximise our impact and accelerate the transition.

The structure of this paper is shown in figure 3. The paper starts with the root causes of the current severe crisis and describes very briefly the current crisis (chapters 2–4). Thereafter, ideas for the best crisis management to combat the worst effects of the crisis are given (chapter 5). The main message of this paper can be found in the last three chapters (6-8). We should redefine, revalue and redesign our economy to create a resilient, sustainable and inclusive society. This implies different roles for policy makers, businesses and the financial sector.

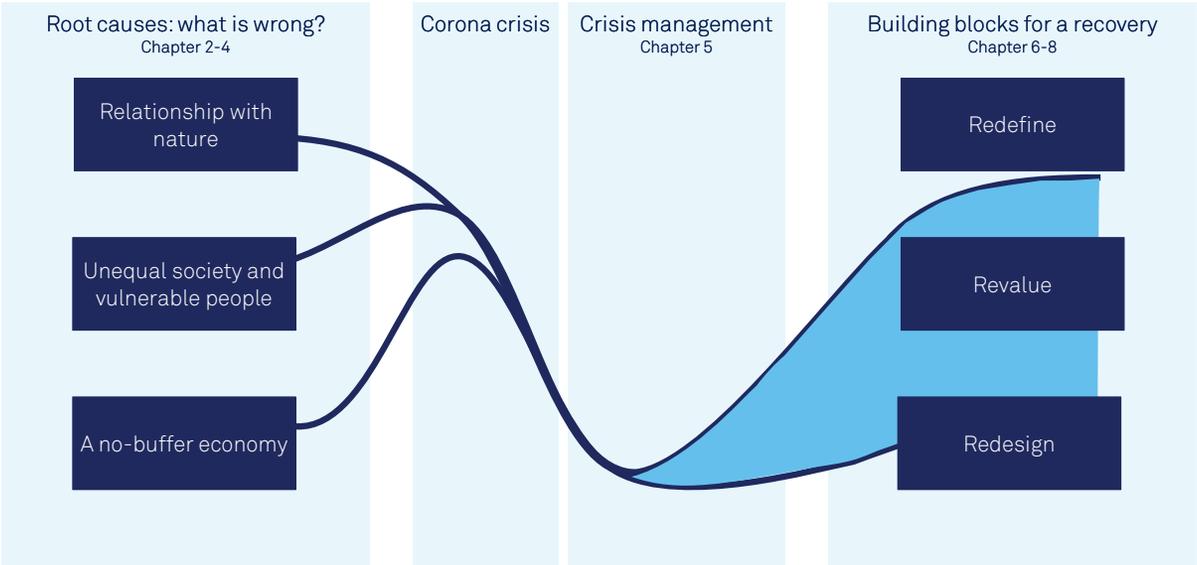


Figure 3. Structure of this paper

2. A health crisis rooted in our relationship with nature

The coronavirus probably originated from the animal world. The fact that people were infected and that it spread so quickly all around the world has everything to do with the human relationship with nature. Primarily, we exploit it. The risks and consequences that result from that attitude are all too evident. The coronavirus is a wake-up call for our relationship with nature.

2.1 Complex systems and their vulnerabilities

Nature and our economies are inextricably interwoven. These complex, interconnected systems are only as strong as their weakest link. Our global food system, for instance, is vulnerable to biodiversity loss. It follows that the adverse effects from global warming on the world's ecosystems also undermine human infrastructure, economic activities and food supplies.

The coronavirus outbreak has crystallised the realisation that the way we structure our food system can threaten our existence. The corona crisis is a real-life example of how our arrogant relationship with nature, not accepting that we are symbiotically linked, can harm us.

2.2 Human activity and contagion

Diseases like Covid-19 organisms that infect our bodies. More than 70 percent of all emerging diseases affecting people originated in wildlife and domesticated animals (zoonoses). Pandemics are caused by activities that bring increasing numbers of people into direct contact and often conflict with the animals that carry these pathogens (Settele et al., 2020).

Demographic trends and rapid industrialisation have radically increased the likelihood of transmission of zoonotic diseases from animals to humans.

The human population has doubled over the last fifty years from 3.6 to 7.2 billion, increasing interactions between people and animals. Human activity has

significantly impacted more than three quarters of the Earth's land surface, destroyed 85 percent of wetlands—the habitat of most animals—and dedicated more than a third of all land and almost 75 percent of available fresh water to crops and livestock production (UN, 2019a).

Rampant deforestation, uncontrolled expansion of agriculture, intensive farming, mining and infrastructure development, as well as the exploitation of wild species have created a perfect storm for the spillover of diseases from wildlife to people. These mostly occur in crowded urban locations and in areas where communities live that are most vulnerable to infectious diseases. Unregulated trade in wild animals, globalised food chains, increased use of antibiotics and greater human mobility have all helped to make the global spread of such viruses faster and easier.

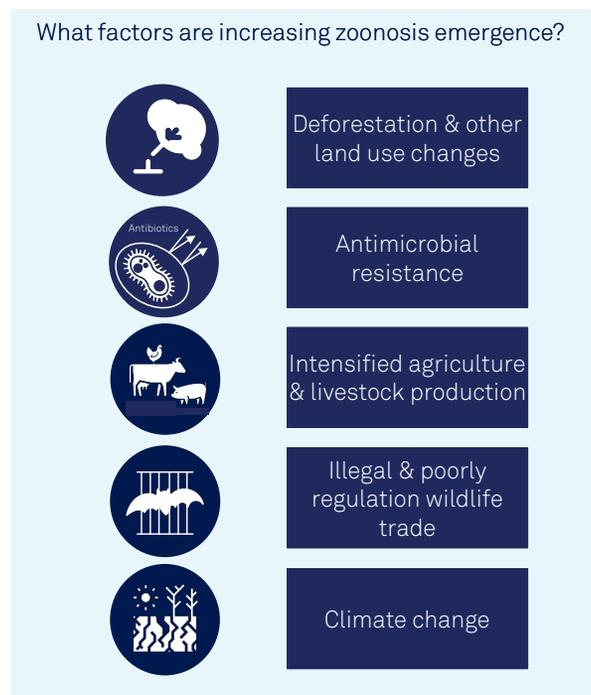


Figure 4. Five factors that increase zoonosis emergence, UNEP (2016)

There is a single species that is responsible for the Covid-19 pandemic—us. As with the climate and biodiversity crises, recent pandemics are a direct consequence of human activity—particularly our global financial and economic systems, which are based on a limited paradigm that prizes economic growth at any cost.

And this may just be the beginning. Animal-to-human diseases already cause an estimated 700,000 deaths each year (WHO, 2019) and the potential for future pandemics is vast. It is believed that as many as 1.7 million unidentified viruses of the type known to infect people still exist in mammals and water birds. The next ‘Disease X’ could be any one of these unidentified viruses, which could potentially be even more disruptive and lethal (Settele et al., 2020).

Future pandemics are likely to happen more frequently, spread more rapidly, have greater economic impact and kill more people if we are not extremely careful about the possible impacts of the choices we make today.

We now have a small window of opportunity, as we seek to overcome the challenges of the current crisis, to avoid sowing the seeds of future ones. There is broad scientific consensus about the risks we face and how we need to address them—the challenge now is to convert that into political momentum and effective action.

2.3 Reflections

We urgently need to reflect on the relation between nature, food systems and the economy. Triodos Bank’s vision paper *Towards Ecologically and Socially Resilient Food and Agriculture Systems* (Triodos Bank, 2019a), concluded that our food systems have to change. This pandemic has confirmed this assessment: our current economic system is simply not resilient, it cannot cope with large-scale crises.

In this case, the crisis was triggered by an infectious disease that precipitated a health crisis. But nature has many more ‘black swan’ risks in its locker. According to the global risk report of 2020 from the World Economic Forum (WEF) the five biggest risks for the global economy relate to our ecosystem: extreme weather events, biodiversity loss, natural disasters, climate action failure and human-made environmental disasters. Other risks, such as food crises, infectious diseases and water crises, relate to our natural environment. Should any of these materialise, the consequences for our system will be similar: a large fallout of economic activity leading to bankruptcies, unemployment and misery. The severity of the outcome may vary, but our globalised economy is simply not equipped to cope with disruptions coming from nature. Fundamentally, until we are working with nature, as part of its circular processes, we will be facing unexpected challenges.

Most importantly, the roots of this pandemic come from our tendency to exploit nature on a large scale for our own benefit. There is a limit to that. If we keep exploiting nature for energy, food, materials and water we will get to a point when the damage we inflict cannot be restored. After corona, the idea of nature as a resource, the input into our economic process, requires fundamental revision.

3. Coronavirus as the great unequaliser

The pandemic and measures taken to combat it have unequal consequences for people in society. Suppose you are a beggar. Or a street musician. Or a day worker. There is no work. There are no people to beg from. There is no audience to enjoy your music. And if you have no government support, feeding yourself is your biggest problem. For a lot of unfortunate people in India for instance, that is a far bigger challenge than getting infected with coronavirus. In general, in more wealthy countries the health and social effects can be mitigated. In poorer regions and for poorer people this is far harder.

3.1 Causality

Covid-19 has exposed societal weaknesses in healthcare and inequality. As has often been the case with pandemics in the past, globalisation has accelerated transmission and poorer people in poorer countries are the worst affected. This was the case with the plague in the Roman empire and the Black Death in the 14th century. Globalisation led to the emergence of new pathogens; widening inequality encouraged outbreaks of epidemics (Turchin, 2020). And viruses spread faster in poor and crowded areas where hygiene is less affordable. Research on influenza found that in an epidemic, poverty and inequality exacerbate rates of transmission and mortality for everyone (Spinney, 2020).

Up to now, the rapid spread of the coronavirus has probably had less to do with inequality than past pandemics. It is more related to increased globalisation. Having said that, the consequences for inequality may turn out to be even more devastating than in the past.

3.2 Health inequality

Inequality in health starts with individual risk factors that can be attributed to inequality. In most rich countries, many health conditions, such as obesity, heart disease and diabetes, are correlated with income (WHO, 2020). People with a poorer health status are disproportionately affected in any

epidemic. With coronavirus, the effect on people with weaker health conditions is demonstrably more serious.

Institutions can amplify health inequality. In countries with unequal access to healthcare (for example, through limited healthcare insurance coverage) poorer people often delay going to the doctor. Therefore, they are more likely to get ill or die from coronavirus. Those that remain uninfected are more likely to suffer loss of income or adverse health consequences from quarantine and other measures.

And those needing to earn may be more exposed to the virus. Unpaid workers are far less likely to be receiving financial support. Their risk of getting infected is considerably larger than it is for those that can afford to stay at home.

3.3 Increasing economic inequality

The more severe the social distancing measures, the greater the economic effects. Again, in general, those that are most vulnerable in the labour market are the worst affected. This can of course be mitigated by government measures that help people financially to bridge the containment period. But with less government support and lengthier containment measures economic inequality is likely to increase in a more significant and enduring way.

One feature of economic inequality relates to the changed structure of the corporate sector. Big Tech companies, like Google, Amazon, Apple and Facebook have enjoyed continued growth in their market share. And this is not just a tech sector phenomenon. Market share is being concentrated in most industries. Figure 5 and 6 show that big companies are getting bigger and winning a larger market share.

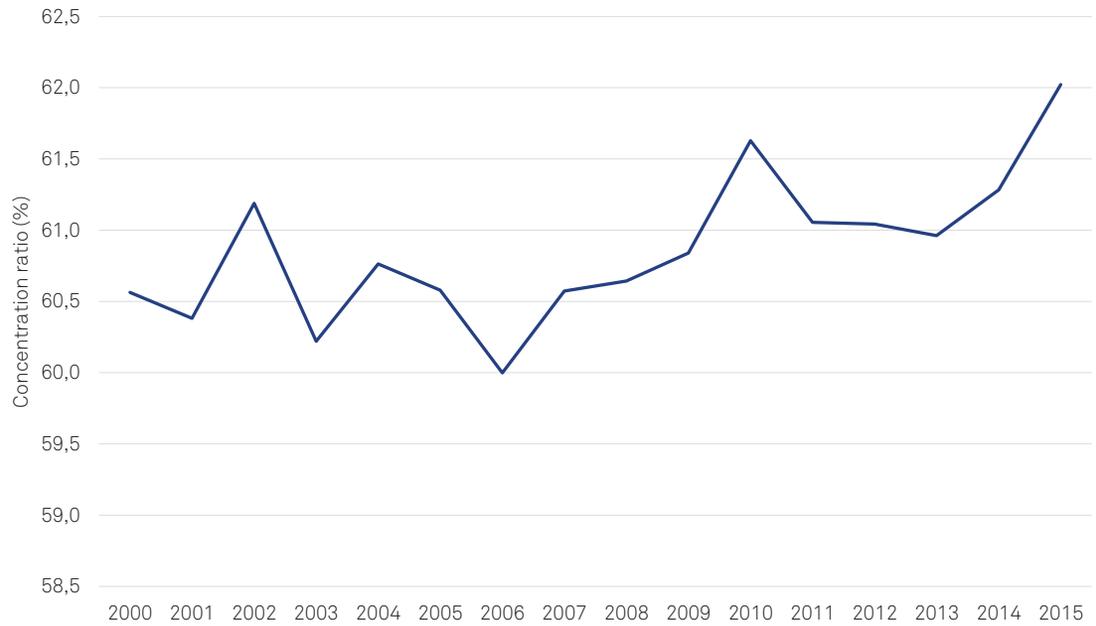


Figure 5. Concentration ratio (sales of top 4 to top 20 within industry, averaged across industries (%)), 2000–2015, Orbis database and IMF (2019)

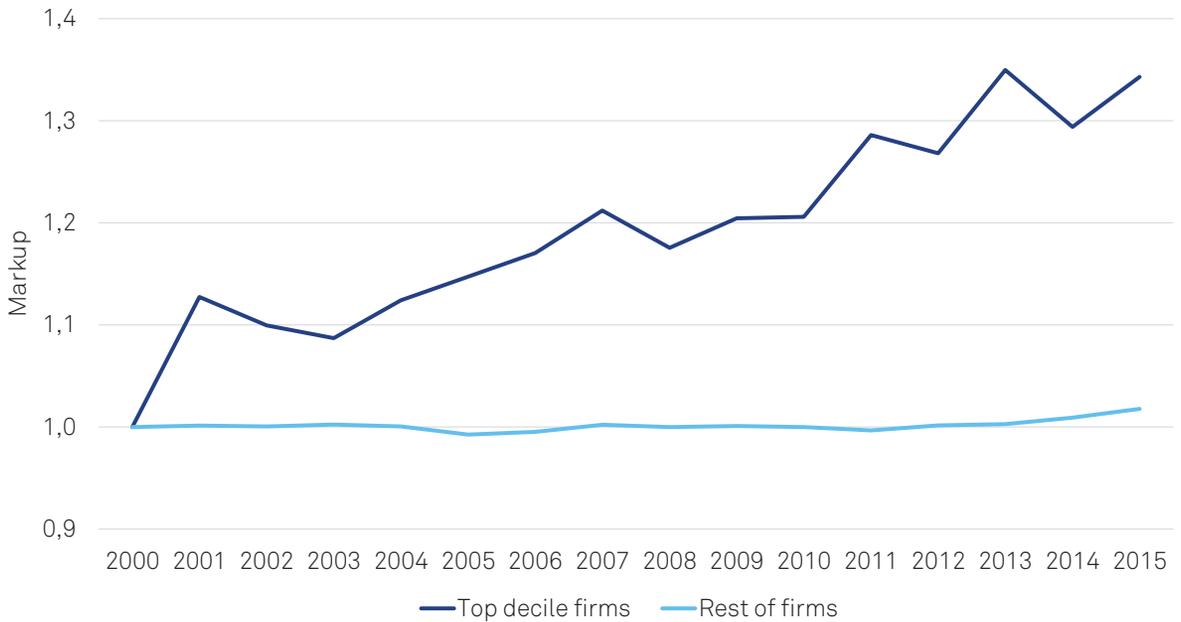


Figure 6. Evolution of markups by firm groups, 2000 = 1, 2000–2015, Orbis database and IMF (2019)

As a consequence, sector leading companies are seizing higher (monopoly) rents and gaining political influence. This may also weaken workers' labour market position in two ways (Tepper and Hearn (2018)). First, employees are in some areas dependent on only one big employer. This employer can suppress wages because it has monopoly power. Second, market power can squeeze out all the margins in a supply chain. Suppliers for large companies, often in lower wage countries must produce at the lowest possible costs to get those contracts. In the end, it often means low wages for employees. In general, the largest companies (especially Big Tech and Big Pharma) seem to be the current winners in the corona crisis.

The self-employed and flex-workers are hit hardest. In flexible labour markets, unemployment figures rise very quickly when social distancing measures force sectors to shut down economic activity. Flex-workers have few rights, no social security and hence no income. Those with no buffers to fall back on may be forced onto minimum benefits and food stamps. In more egalitarian countries, the effect on inequality is less marked as existing social security arrangements such as unemployment benefits cushion the income drop, but it remains present.

Some countries have introduced income transfers to the self-employed or others not entitled to unemployment benefits to address this inequality. In some cases, this has taken the form of unconditional cash payments to (some) households, almost a (temporary) basic income. Countries that introduced income transfers include Spain, the US, the UK, France, Germany, Belgium, Denmark, the Netherlands, Italy, South Korea, Malaysia, Ireland, Australia and Hong Kong.

Ultimately, the scope for measures that limit the economic fallout of the corona crisis is dictated by the level of national prosperity. Since richer countries are better placed to mitigate its worst effects, inequalities between nations are likely to grow.

3.4 Increasing inequality between countries

The economic effects of the corona crisis are likely to be more severe for lower income countries for a number of reasons. First, the lack of proper social safety nets implies that social distancing measures will have more serious consequences for inequality. Second, their governments are in general incapable of mitigating its adverse effects with public spending. And third, the global economic crisis caused by coronavirus will hurt poorer countries more. The resulting outflow of capital and depreciation of local currencies against the dollar will aggravate existing inequalities between developed and developing economies.

India, Philippines, Vietnam and South Africa have all announced national lockdowns, with severe consequences for their respective economies. People are suddenly deprived of their sole source of income and in most cases receive only very limited income support from their governments. As a result, in India thousands of migrant workers have returned to their villages. This risks creating labour shortages in the cities, which may exacerbate the economic slowdown. The longer lockdown periods and social distancing measures disrupt economic activity the more severe the effects on inequality. This could create conditions for social unrest and disorder.

As well as the direct effect of reducing economic activity domestically, many countries are having to adjust to disruption in global supply chains. Cancelled orders and delayed investments are increasing unemployment and may lead to more structural negative effects for emerging economies. Many emerging economies rely heavily on the export of commodities and tourism, these have been especially hard hit.

The implications for these countries are qualitatively different from the GFC. When global trade slowed after 2008, emerging economies like India, Indonesia and Brazil were partly shielded by continuing demand from their domestic consumers. The pandemic has slowed international trade even more dramatically than in the GFC, while stifling domestic commerce at the same time.

The direct and indirect real economic effects of the crisis are already more severe in poorer countries, but that is made worse because their governments have fewer resources and less scope to act. The richer nations have been able to introduce massive fiscal stimulus packages, of up to 35 percent of GDP. The major emerging nations do not have that luxury. Their far more modest stimulus programmes typically average between 1 percent and 3 percent of economic output (IMF, 2020a). And in many cases, their published figures are artificially inflated by including pre-existing expenditure. But they are trapped: they know that if they borrow more heavily to spend more, they risk losing the confidence of investors, triggering a currency collapse and financial crisis.

This threat is already looming for some of these economies. After a decade of weak economic growth, emerging nations entered the pandemic more vulnerable to shocks than they were on the eve of the global financial crisis. Before 2008, many of their governments had balanced budgets. These have deteriorated into large budget deficits. Global debt has surged over the last ten years and a far greater debt burden is now carried by emerging economies.

When the pandemic hit, many big emerging economies, including South Africa, Nigeria and Argentina, were managing large twin deficits in the government budget and the current account—a measure of how much nations need to borrow abroad to finance their spending habits. Today, spooked investors are fleeing to the relative safety of the US dollar, weakening the currencies of emerging economies and further undermining their ability to pay their bills.

The result is an unprecedented rush for bailouts: the pandemic crisis has put the International Monetary Fund (IMF) back in business. Since the outbreak began, over a hundred countries have requested emergency financial help. The concern now is whether the fund's 1 trillion USD war chest will be enough to cope with the crisis (IMF, 2020b).

3.5 Post-corona equality

Inequality is not a new topic. Piketty brought the theme of inequality back into the mainstream discussion with his book *Capital in the 21st century* (2014), followed by *Capital and Ideology* (2020). Inequality might not be the root cause of this crisis, but it is an inherent problem of our economies, exacerbated by the effects of the corona crisis. Over the last thirty years, inequality has changed in the world, but not diminished. Especially the top 1 percent has gained more than the rest (see figure 7).

We can and should use this moment to create a more inclusive society. The general topics are on the political agenda. For some of the causes of this crisis—hyperglobalisation, monopoly power, the lack of universal access to basic needs—alternatives are readily available.

Hyperglobalisation can be replaced with a combination of globalisation and glocalisation. International cooperation, specialised international supply chains that serve everyone and local production and governance that serve all local communities, help to connect people to their culture, food and products. Rethinking globalisation must strike the right balance. We need international cooperation—for instance, for climate policy, or to combat pandemics or public debt challenges—but we also need thriving local communities.

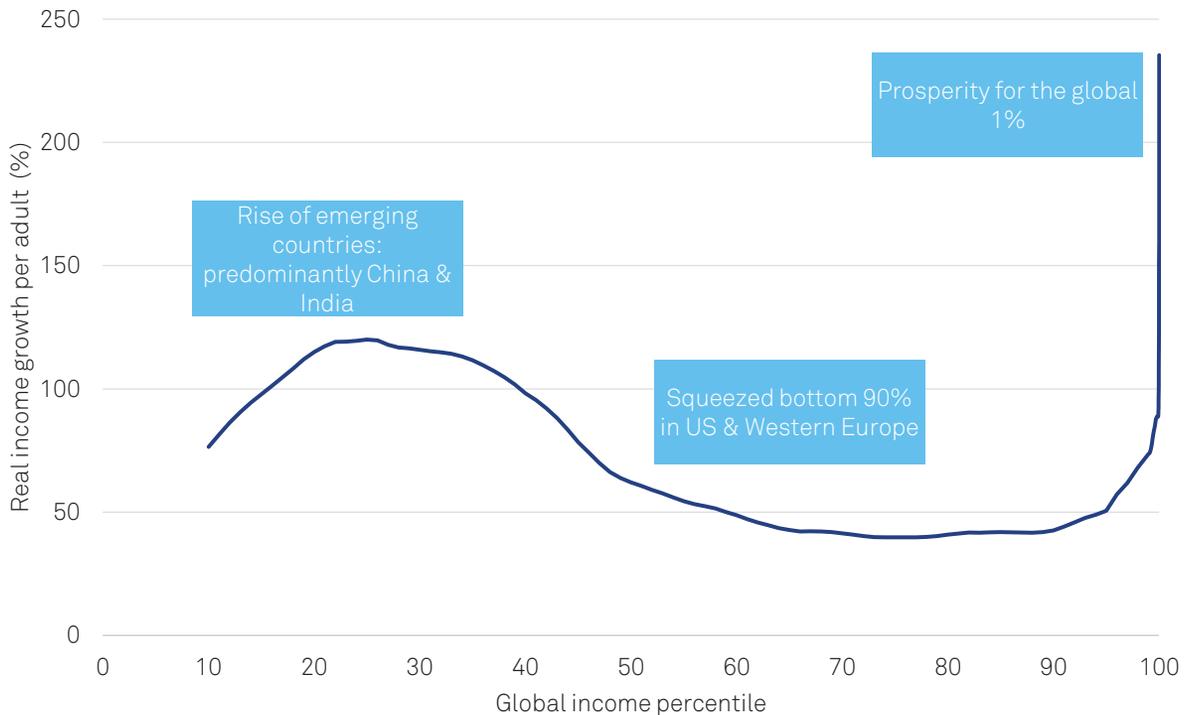


Figure 7. The 'dinosaur' of world inequality, 1980–2016, WID (2020)

Monopoly positions of companies have to be addressed. This is a matter of anti-trust regulation. But it is also about funding innovation and giving leeway to new players in different markets by financing those alternatives. In the wake of the corona crisis, private funding for new technologies and initiatives becomes even more important.

On a more individual level, providing equal opportunities for people to earn a living and to experience human dignity are also on the agenda for investors and financiers. Financing projects and businesses that aim to create equal opportunities (such as inclusive finance and social enterprises) helps people to build their own future: access to funding is essential here. So equality will depend even more on private initiatives in the post-corona world.

4. Buffeting the no-buffer economy

The fact that we are now acting in panic has everything to do with how we have constructed our economies. We have optimised the economic process around the idea of a treadmill that only increases in speed. That increase in speed, economic growth, is what creates new employment, increased incomes and higher tax receipts. When the treadmill runs slower than expected we already have a problem. But if the treadmill stops completely, we are totally unprepared. Our system isn't resilient. There are no buffers for that kind of event—the treadmill has jarred to a halt, the shock has knocked us off our feet and we are left not knowing how to climb back on again.

4.1 A severe economic crisis

The severity of the economic consequences of this health crisis should not be underestimated. Shutting down economic sectors for probably months has dramatic effects on profits, balance sheets, employment, investment decisions and inequality. A temporary drop in economic activity of more than 30 percent in some countries is very hard to swallow for any single economy, let alone when it happens worldwide simultaneously. This is first synchronic and symmetric shock of this size in modern history. Even the GFC was merely a Western phenomenon; the domestic effect for China and most emerging markets was very limited.

The Q2 investment outlook of Triodos Investment Management (2020a) projects global growth in 2020 at between -1.5 percent and -7.2 percent (see figure 8). The scenarios anticipate that poorer regions will be hit harder in terms of inequality, capital flight and the negative effects of a global value chain crunch as demand fallout causes production orders to be cancelled. Low-income countries without good governance may experience a sudden stop in economic activity if they are heavily dependent on those international value chains.

Although fiscal spending and accommodative monetary policies aim to cushion the direct blow of the demand fallout, this is unlikely to be enough to avoid economic activity declining dramatically. After the first period of lockdowns and severe social distancing measures, there will be months of less strict but still serious social distancing measures that continue to curtail economic activity drastically. All in all, it seems likely that the direct economic effects of the corona crisis will persist until a vaccine is widely available.

4.2 The efficient, no-buffer economy

Currently, our economy is geared primarily towards promoting efficiency. That makes it less resilient to shocks like the coronavirus. This increasingly efficient, ever growing, optimised model, the 'lean machine', cannot cope with this sudden stop in economic activity. We optimised our production processes and our balance sheets. Because, as we learnt in the last few decades at business schools and undergraduate economics courses, economics is all about efficiency. The objective is to maximise profit from the resources used. It is a system focused on ultimate efficiency, one in which buffers don't count.

If you can hop from job to job, self-employed people or SMEs won't fall off the moving train. If you get enough money out of your job or business to pay your rent, mortgage and other outgoings, and have a little left for fun stuff, the train will happily chug along. Now the economic train is coming off the rails and there's no time to prepare. That's something we should have done in the good years, but we were way too busy ratcheting up the train's speed.

In an efficiency sense, redundancy is having more than you need and that costs money. On balance sheets, it is very attractive in the short run to maximise shareholder value by 'optimising' cost structures, using debt finance and tax structures promoted by fiscal legislation. Equity costs more than debt financing. So, at least in the short term, redundancy equates to less shareholder value and lower profits.

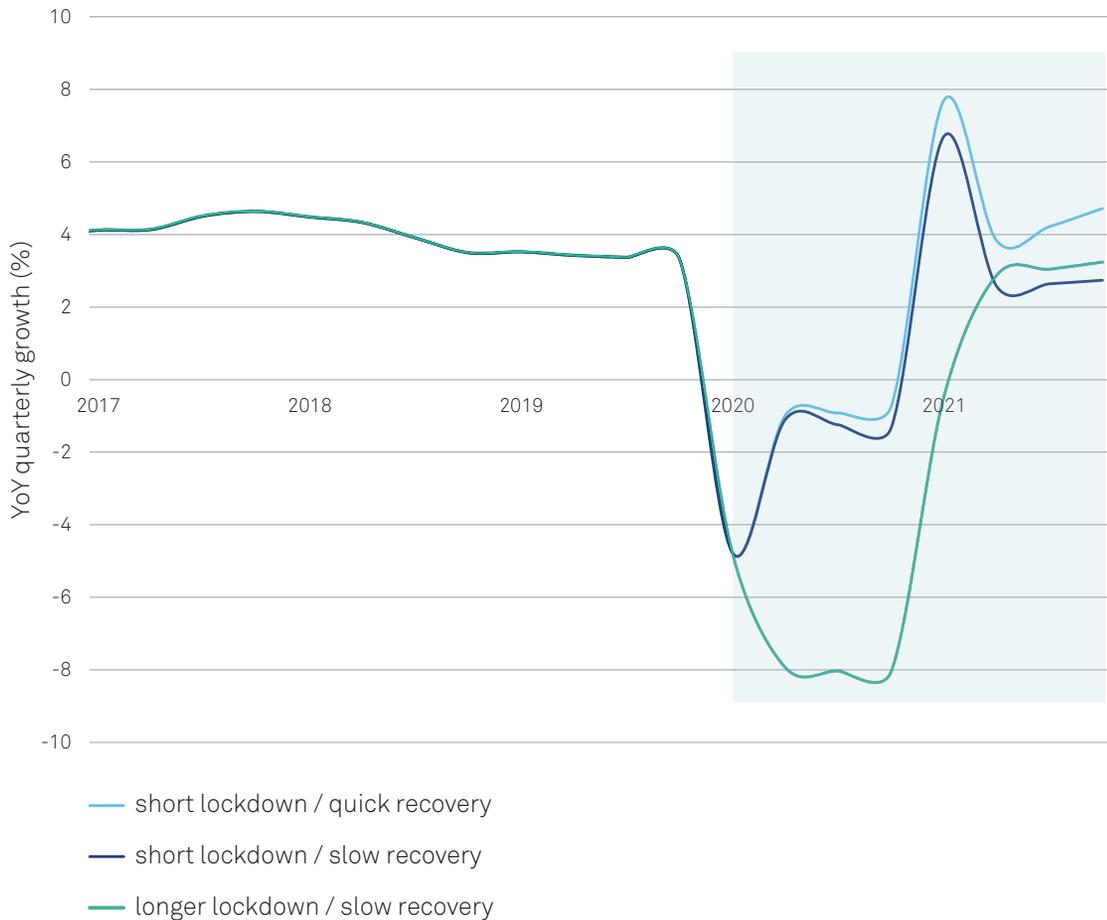


Figure 8. Different scenarios for global growth, 2007–2021, Triodos Investment Management (2020a)

The same is true in the labour market: job security costs firms money. If a business has no need for special skills, as in the gig economy, the most efficient way to hire people is only when there is work: that way, all the risks are with the individual. Offering a person a permanent contract increases the likelihood of redundancy.

There is also a moral argument that can be made here. If the only purpose of organising the economy is to make it as efficient as possible in the short run, everything else is redundant; a waste of money. If it is more costly to let local communities organise how they govern their livelihoods, keeping those in

common ownership, than the right approach is to privatise it as that is more efficient. If in the short run, it is more efficient to produce and pollute and the pollution is not forbidden, why not?

A longer-term outlook would acknowledge the value of redundancy in supporting resilience. Governments can play a key role here through a tax and regulatory system that incentivises fair competition, ethical behaviour and sustainable activities. To be effective, any such system will need to gain popular support and be replicated internationally. The current crisis may provide a window of opportunity.

4.3 The globalised efficiency economy

There are other parts in our economy which make our system very vulnerable to such sudden stops. For decades, the international policy agenda has been dominated by the so-called Washington consensus. This promotes world trade and globalisation, following strict fiscal policies and deregulating the financial and labour markets, to enhance the opportunities for financial activity and reduce restrictions on business.

This policy recipe, advocated by almost the entire economic policy community, was rolled out across the world by international institutions such as the IMF and is deeply entrenched in the European treatments and trade agreements as promoted by the WTO.

Globalisation has led to an immense increase of material wealth. It has helped millions of people out of poverty and brought advances in technology, innovation and specialisation.

But these benefits have come at a cost. Global free-trade regimes appear to have rolled out the red carpet for giant companies with resources to buy up (local) competitors. Big Tech and Big Pharma have acquired dominant positions in markets where public values are at stake. We have a common interest in the safe processing of our data (i.e. privacy) and the availability of medicines at affordable prices for all.

And market concentration is also the dominant dynamic in food and finance. The lack of effective (global) competition policies plays a role here. So does the appetite for more efficiency. Economies of scale do indeed matter, but this 'gigantism' comes at a price. Not only is evidence of the surplus value of mergers and acquisitions for long-term value creation weak, public values are at stake, as the world found out to its cost in 2008.

What has also happened is that value chains have become longer, more specialised and, as a consequence, more vulnerable. Global value chains

are driven by efficiency gains. Disruptions like the coronavirus do not figure in the risk models used by the spreadsheet owners that calculate optimal logistics and production processes. And that is completely rational from a traditional economic point of view. Those decisions are based on data and, by definition, that is always backward-looking. Unforeseen risks cannot be quantified; taking account of them is irrational and, in the short run, adds unnecessary costs.

Our highly efficient system is built on extreme specialisation in manufacturing chains. And so, LCD screens and essential car parts are only made in the Hubei province of China, where the coronavirus outbreak began. Yes, incredibly efficient and cheap—until it shudders to a halt.

Specialisation and globalisation went hand-in-hand with liberalisation of a lot of labour markets. Economic textbooks teach us that more flexible international labour markets lead to more jobs because wages can adjust more quickly and, in the long run, this is the optimal outcome for companies, competitiveness and workers, because the countries that make their labour markets most efficient gain the most. In reality, this flexibilisation of labour markets has been a race to the bottom. In Europe, it has led to less work security in countries that originally had high unemployment protection. It led to a new army of gigworkers, self-employed and a general casualisation of labour away from fixed agreements offering longer-term security for workers. The labour market position of many workers is even worse in Anglo-Saxon countries. And for factory workers in emerging economies discussions about living wages are often very hard to move forward.

In the past few decades we have built a highly efficient system, but it is fragile and not remotely resilient. The lean machine is unable to withstand a virus.

4.4 The growth-addicted system

Our economy is also very dependent on economic growth. This growth addiction implies leveraging on the future. Every business plan is opportunistic; every business expects to grow and be better. It is almost an article of faith. So the investments or costs we take on depend on growth. In every phase of the life of the company. Only growing economic activity is it prevented from falling apart.

We have optimised the economic process based on the idea of a treadmill that only increases in speed. That increase in speed is economic growth. We already have a problem if the treadmill runs slower than expected. If it stops, we are not prepared. We do not have the resilience in our system.

One of the biggest driving forces of prosperity is innovation, finding new solutions for the biggest societal problems. In economic terms, innovation is an increase in labour productivity, it is making the same amount of goods with less human energy. However, if we want to keep the same amount of work, labour productivity growth implies that the demand for goods and services has to increase. Hence, more growth. The argument here is that we need growth to guarantee jobs. But the real argument can also run counter to that. Innovation is 'free' for society, in the sense that it implies less human labour. We only work more because we have no other mechanism to share the fruits of prosperity.

Governments also claim they need growth to balance their budgets. They expect spending to increase structurally in the coming decades, mostly because of ageing. To pay for that, tax income must increase. Since the tax base is linked to economic activity (income tax, value added tax and profits) government policies aim to foster economic growth. This addiction to growth is built into the dynamics of government.

Debt is another example. Debt is a claim on future earnings. We can only pay it back, normally, if earnings grow. If earnings do not grow, or even decline, we have a problem. We cannot afford the

debt we have. Ideally, we would have used debt to create something, to invest in the real economy, getting a real return and hence generate cash flow. Then we would not have that problem. But reality is different. We make debt to consume now. Not to invest.

Lately, unintended detrimental effects of our current economic model, ranging from inequality to environmental damage, have had more impact on our wellbeing than the material prosperity it is designed to promote. What is more, disappointing growth figures over the last decade suggest the current recipe for economic growth does not work anymore.

We should reconsider whether economic growth should be the centrepiece of our policy goals. Developed markets have been stuck in a low-low nexus since the global financial crisis: low growth, low interest rates and limited ability to move the needle towards a more sustainable, inclusive society. Our economic model has become uneconomic and delivers more harm than prosperity (Triodos Investment Management, 2020b).

Economic growth, driven by technological progress, has brought prosperity in the past. And as long as the marginal benefits outweigh the marginal costs, in terms of ecological and social damage, it is beneficial to pursue economic growth. If the (marginal) damage is larger than the benefits, however, growth should be defined as uneconomic.

And that is where the corona crisis hurts. Our system is not equipped to withstand such a sudden stop in economic activity. But this lean machine can be changed. It can become less growth addicted and more resilient.

5. Crisis management: supporting the economy now

The imminent impact of the corona crisis requires a quick response. People are struggling with health and insecurity. Companies that are casualties of the lockdown face severe difficulties paying salaries and other bills. Fortunately, many governments and central banks have launched comprehensive packages of measures to support liquidity. It is vital that these interventions are effective for the people most in need. Communities, business organisations and financial institutions should do their utmost to mitigate the direct impact of the crisis. We need to revive and revitalise every corner of our economies. Importantly, these short-term solutions should—at least—not obstruct a transition towards a more sustainable economy. Therefore, all of these interventions should be consistent with a resilient and inclusive recovery framework.

The corona outbreak has dramatically changed the perspectives of many citizens and entrepreneurs in a

short period of time. There is now broad agreement about the urgency of reviving and revitalising the most affected parts of our societies. There is a great and inspiring flow of new cooperation, solidarity and innovative actions. Governments and central banks are playing an important role to cushion the direct effects. Civil society has responded on a grand scale. Families, communities and business organisations are all contributing, in a spirit of solidarity and generosity. This reservoir of strength, resilience and change will be essential in the coming months and should be guarded and supported in every way possible.

5.1 The responses of governments and central banks

Many governments and central banks have launched firm policy responses. Government fiscal interventions support a threefold policy agenda: activation or expansion of social safety nets and

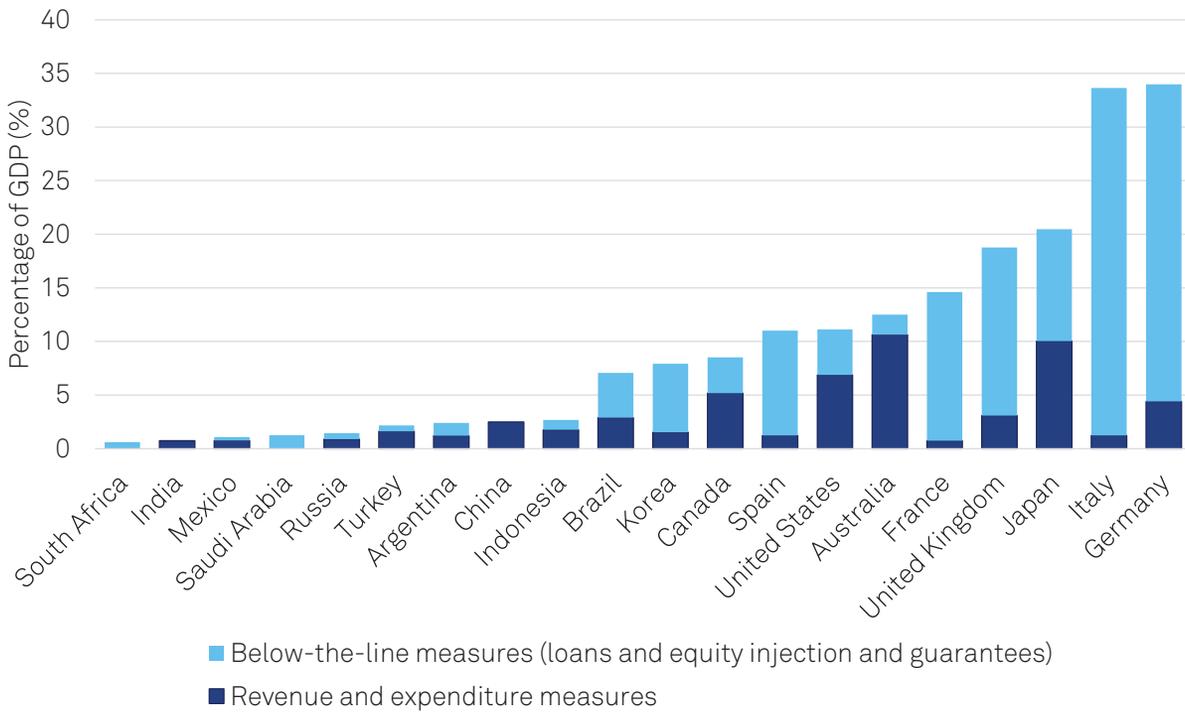


Figure 9. Fiscal measures as per 2020, April 8, IMF (2020a)

direct cash payments; public guarantees of private loans and credit insurance; and deferral of tax payments. Central banks have been equally active with a range of policy measures in recent weeks, from slashing policy rates to unconventional accommodative monetary policies. Capital requirements for systemic banks have been softened and new asset purchase programmes launched and partially put into practice.

The global response of governments is at least twice as large as during the GFC. If loans, equity injections and guarantees are included as well, in some countries it adds up to more than 35 percent of GDP (e.g. Italy and Germany, see figure 9). And while this is already massive, we do not know where it ends. But this is what states are invented for: providing social support and softening the immediate impact on the economy from a synchronised external shock to the economy. It is valuable that this policy

response has been adopted without much discussion or hesitation.

Central banks have intervened in markets in an unprecedented way. In addition to a policy rate at the zero lower bound for major central banks (see figure 10), accommodative policy by buying bonds and credits in secondary markets has been exceptional. Some countries entered the corona crisis with low levels of labour market protection, limited social security systems and highly leveraged companies. This increased the need for governments to step in massively. However, in emerging economies many governments lack the resources and institutional capacity to deploy the type of emergency support that's visible in OECD countries.

The huge global policy response will probably not be enough to let the growth-addicted, no-buffer economy come unscarred out of this recession.

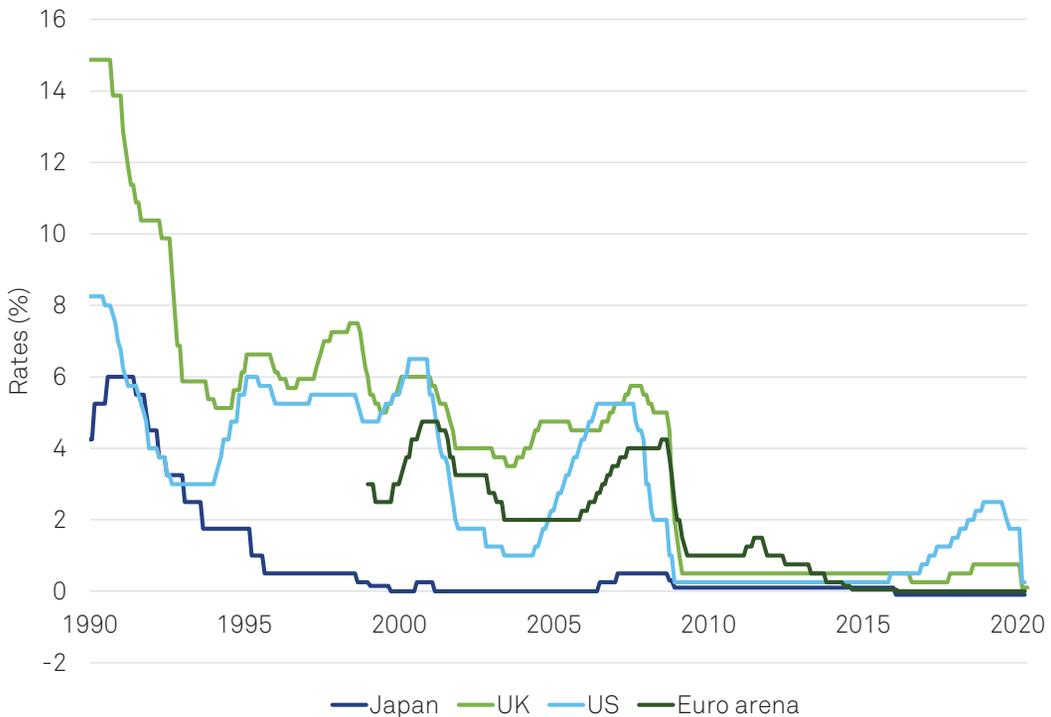


Figure 10. Central Bank policy rates, 1990–2020, data from Refinitiv Datastream (2020)

Despite the global efforts to stabilise the economy and inject liquidity into the system, the immediate fallout from the Great Lockdown will probably be more severe. This is a very worrying message, especially for the millions of citizens facing the prospect of unemployment, bankruptcy of their enterprises, shrinking purchasing power or empty wallets, private debts they cannot repay, shortages of food for their families and so on. Looking ahead, the worst policy idea would be starting with austerity measures as soon as the immediate fallout is over. Recovery will take years is. We learnt from the GFC that tightening budgets too soon leads to even more structural damage to the economy.

5.2 More is needed

In addition to the response of central banks and fiscal authorities we have seen so far, more elements are needed in the coming months to prevent further collapse. We will need global solidarity, both within and between countries, and monetary financing of debt. We should also make financial support conditional on resilience and inclusivity.

- 1. International solidarity:** The current global policy response to the corona crisis is primarily nationally oriented, but those most affected live in emerging economies, in countries with limited scope to support their own populations. More global solidarity is needed. Gifts and aid packages should be made available on a larger scale. The IMF needs enough firepower to provide emergency credit lines, especially for countries with relatively low debt affordability.
- 2. European cooperation:** We also need to better cooperation in the European Union. Many pandemic-related issues (from transport-restrictions, vaccine-research to medical equipment and Covid-19 data) and national emergency support policies benefit from European coordination and burden-sharing. And this is not the time to be

obsessed with the North-South divide. That may imply a conditionalised mutualisation of corona-linked debt in the eurozone.

- 3. Monetary financing:** The massive interventions of governments and the impact of the Great Lockdown on national budgets, will deteriorate fiscal balances and lead to a steep increase in public debt. The IMF (2020a) estimates that public debt will surge to close to 100 percent of global GDP this year. For some countries, especially emerging economies, debt maintenance could become a serious challenge in the years ahead. Similarly, the debt burden might become a problem for companies, which historically have had highly leveraged balance sheets. Any recovery will become very sluggish if we are mired in a global debt-deflation overhang, with zombie companies, low effective demand and, in the end, lower structural growth making debt repayment more difficult.

The usual option for governments facing deficits is to issue new sovereign bonds. This is what they currently do; most of these bond issues are absorbed by central banks in advanced economies. But it is questionable how long that can last in the current circumstances.

In our opinion, central banks' acquisitions of significant quantities of government and sub-sovereign bonds are unavoidable. The major central banks (Fed, ECB, BoE, BoJ) have also been intervening heavily in other capital markets, such as corporate bond markets. These measures were absolutely necessary, especially in March, to prevent a total meltdown of the financial system, but they are not sufficient on their own. Intervening in financial markets mainly serves those markets: it leads to higher prices of assets and does not serve the real economy.

We therefore believe central banks, such as the ECB, should go a step further, and engage directly in financing public debt. This is the only way to guarantee that monetary stimulus is not captured by asset owners but serves the real economy. In recent years, central banks' purchasing programmes of sovereign debt have contributed to lowering interest levels but failed to contribute to economic prosperity. Central bank-led public debt financing is the only feasible way to provide our deteriorating economies with enough liquidity and capital, without running into unsustainable debt levels and suffering great turmoil in the capital markets.

It is of paramount importance that this unconventional approach to financing public debt gains explicit political support from governments and is based on strict conditions. In the case of the ECB this requires a solid and transparent decision by the European Council. Direct monetary financing of sovereign debt will also contribute to safeguarding enough fiscal space for the recovery.

The classical argument against direct monetary financing is the fear of rising inflation. In the current economic situation, the opposite—deflation—is more likely. Economies are likely to return from the crisis with scars—higher unemployment and lower investments. In our opinion, the most likely longer-term scenario is that economies will be running below capacity with interest rates at the zero lower bound and hence no inflationary pressure.

An alternative interesting option is for the central bank to provide citizens with direct cash (helicopter money). That can be regarded as a basic income for all citizens for the duration of this crisis. Again here, monetary financing can only work when it is temporary, with strict conditions bound to recovery and sustainable investment goals.

- 4. Resilient and inclusive conditionality:** Many central banks and governments are now deploying plans to support private businesses. Government guarantees are being introduced or extended for banking corporate portfolios and trade credit risks. In addition, other actions are being pursued, like direct capital injections by governments or corporate bonds purchasing by central banks. These bailouts necessitate close attention, full transparency and democratic accountability. Bailouts of business in whatever form should be subject to clear rules and conditions.

The first focus of public support for the economy should be people. Support for business should be contingent on jobs being maintained, the enterprises involved contributing to a green and circular economy, and providers of capital being required to accept a haircut. The acquisition of corporate debt by central banks should be 'greened', with fossil assets excluded from the central bank's portfolio. Sectors with higher ecological footprints, such as mining, transport, manufacturing and food and agriculture can be set sustainability targets when they can become eligible for state aid and their corporate bonds can be bought in the secondary market by central banks.

Of course, it may be that not every sector merits state support. Aviation, fossil fuels and other activities that represent the old economy may already be considered stranded assets. Supporting them now diverts public expenditure towards unsustainable activities. Where political or socio-economic considerations override strategic priorities we should ensure that support for these businesses comes with strict conditions in line with longer-term ambitions on, for instance, climate change and the European Green Deal. In general, all support should fit within the Sustainable Development Goals agenda. Otherwise, it is public money thrown away.

It should also be the case that (substantial) support should only be given in exchange for an equity stake in the company. This should at least apply to large, listed companies, just as it did to banks in the financial crisis more than ten years ago. An equity stake will ensure that (1) the transition agenda is one of the conditions on which the aid granted can be closely monitored, and (2) that the state may also profit from the upside of its investment in the longer run.

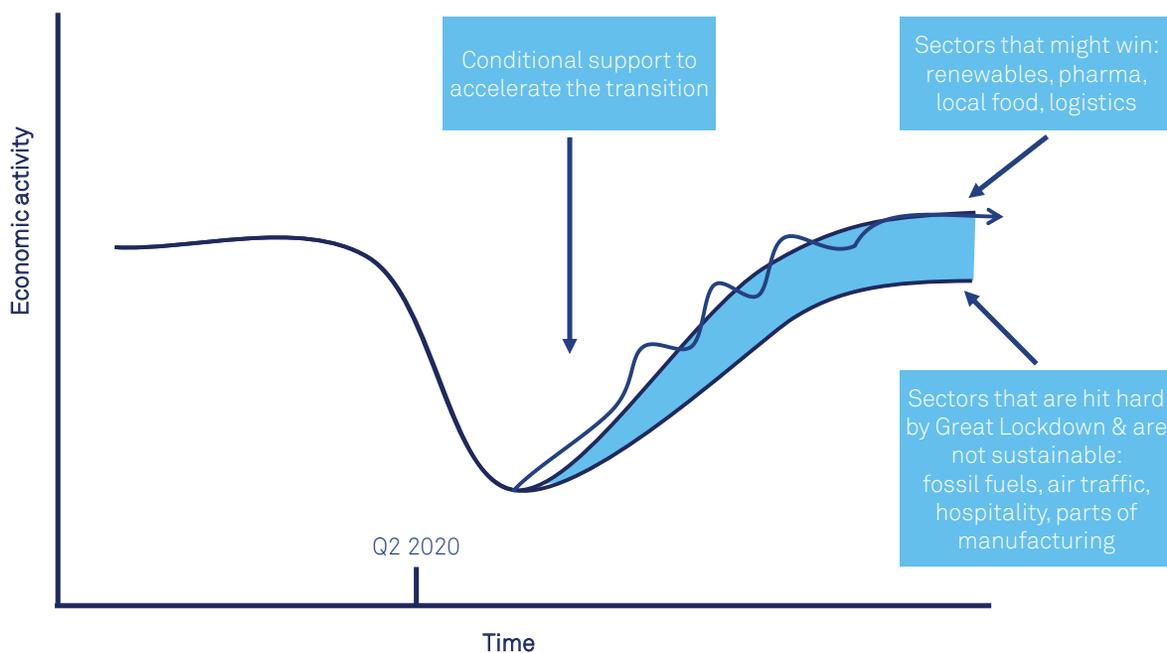


Figure 11. Resilient and inclusive conditionality

5.3 The response of civil society and finance: chains of solidarity

We should not delegate sole responsibility for managing this crisis to governments and central banks, however important they are. A diverse, differentiated answer is needed, using 'the eyes of many'. Civil society, finance and business should also contribute.

There are many good initiatives. Banks are offering postponements of interest and redemption payments to their clients. Responsible shareholders act likewise. In value chains, purpose-driven and socially connected companies are offering to pay in advance or help in other ways. Landlords with sufficient liquidity are helping tenants by agreeing to postpone monthly rent. Citizens that bought a ticket for cancelled concerts leave the money with the affected orchestras or bands.

The global value-based banking community is part of this movement. These chains of solidarity are vital to get through the hardest times. Of course, everything depends on how long the immediate effects of the corona crisis will last. Because over time, liquidity issues may well evolve into solvency problems.

For now, the financial sector has an important role. Its first responsibility is to respond adequately to the concerns of customers and support its business clients, for example by ensuring the (extra) guarantee programmes for banking loans now deployed by governments work for businesses in jeopardy. Financial institutions can also serve as 'eyes' on the real economy, helping governments with proper data about the effectiveness of the support being offered and sharing knowledge about the relevant developments in economic sectors. Decisions by banks should, as always, be based on professional risk assessments, also when government guarantee programmes are relevant.

Triodos Bank has taken all necessary steps to safeguard the wellbeing and safety of our co-workers during the corona pandemic. We have also ensured that we can continue vital services to our customers. Our business colleagues consult with our customers and clients on a daily basis to make sure they are receiving the help they need. Triodos Bank is committed to facing the challenge of the crisis and will do its utmost to support our business, retail and mortgage customers. We have also activated our stakeholder network, connecting customers so they can help each other and stimulating gift money initiatives.

6. Building blocks for a resilient and inclusive recovery

The corona crisis is in the end a systemic crisis. Covid-19 was the catalyst, but the roots of the crisis lie in our relationship with nature and the lack of resilience in our system, both in terms of social inclusion and financial stability. The building blocks for a recovery should increase resilience in all its aspects and focus on a more inclusive and sustainable society. This is not just a financial question. It is a question of morality; we need to ask what kind of society we want to live in.

The corona crisis painfully brings up the shortcomings in the design and operation of our economies today. We have built up wealth by exploiting ecosystems and that relationship is broken. We have allowed inequalities to develop that leave millions of people and entire communities with limited or no means to cope with the crisis. By encouraging minimally resilient business models we have left ourselves dangerously exposed to systemic shocks.

Before we can move forward, we need to ask ourselves some fundamental economic questions. Some of the answers to these go beyond mere economics, they also have a moral dimension:

- **What is the impact of economic activities?** To answer this question, we have to look at different aspects of those economic activities. Are the consequences fair and acceptable for all stakeholders: for those directly involved (those that produce, buy, consume, work, earn profit, levy taxes); for the people and communities that indirectly bear the consequences of negative externalities, such as pollution, waste or over-extraction of resources; and for future generations? Certain economic activities may have positive spillover effects to society. Think about arts and culture, where the direct economic impact might be small, but the societal impact can be large. This may also lead to moral questions such as whether it is fair to future generations to increase public debt to save every company today. Does industrialised

food processing have an acceptable effect on the natural world? Are profits being distributed in an equitable way? How do some jobs and labour conditions relate to human dignity?

- **How resilient are these economic activities in the long run?** Part of the answer has to do with affordability and fairness to all stakeholders as outlined above. But economic activity, say a business model of a company, also has to be sustainable in its own right. Is it resilient against shocks, is it financed in such a way that it is not totally dependent on more and more turnover after reaching a certain scale? Are its sourcing and outputs net positive for sustainability? If not, it is uneconomic. It may appear to be financially sound, but if it has negative social and ecological consequences it is not resilient.
- **How are these activities embedded in the social environment?** A simple economic answer is that economic activities are only relevant if society has a demand for them. Otherwise, there is no market and therefore no business model. An activity must answer a social need. Reality is more blurred. Activities embedded in a social environment need on the one hand to be inclusive and help inclusiveness, for example by distributing gains in a fair way, to connect or be part of communities and have a social function combined with an economic function. On the other hand, activities should also contribute to the real economy. Financial activities with no social, real goal, are not socially embedded and hence not relevant. In parts of today's financial markets, gaining profit at the expense of others is the sole rationale.

Structural reforms in our economic system are needed as we get the economy back on its feet. In our view, the following elements are vitally important: redefine what matters most; revalue the way we live, cooperate and communicate; and redesign our economy.

6.1 Redefine: working out what matters most

We have known for a long time that human progress is not reducible to annual GDP growth. As early as 1972, the Club of Rome was warning that economic growth came at the expense of depletion of natural resources and ecosystems. The corona crisis is another wake-up call.

Declining ecosystems are a threat to our wealth. And as we have seen in the past decades, economic growth without adequate levels of equality ends up excluding people from basic needs, human dignity and resilience. That is not progress, it is a failed economic model.

The Brundtland report *Our Common Future, From One Earth to One World* (1987) set out the guiding principles for sustainable development. The report noted that wellbeing extends beyond short-term material prosperity. It defined sustainable development as those activities that meet present needs without compromising the ability of future generations and people elsewhere to meet their own needs.

In recent years, many initiatives have sought to replace economic growth with other (sets of) indicators, like the Sustainable Development Goals, the global agenda for progress adopted by the United Nations in 2015. In *Doughnut Economics: 7 Ways to Think Like a 21st Century Economist* (2017) Kate Raworth proposes a similar way of thinking about progress. The expression: people, planet and

prosperity, is also in line with this thinking about a holistic, complex system optimising individual and societal wellbeing while respecting planetary boundaries. Many academics support this new way of thinking and governments, like those of New Zealand, Scotland and Finland, are implementing policies along those lines (Stiglitz et al., 2018).

Since 1980, we have embraced this holistic concept of progress as the foundation of all financing operations in Triodos Bank. It is time the concept of wellbeing became the foundation of government policies and business investments. Policy makers should not just use the yardstick of economic growth to steer their policies. Considering wellbeing in this broader sense places its other dimensions, such as social values, ecological boundaries and cultural values, at the same level as material prosperity. For companies, reporting on their impacts for society and the environment become as important as financial reporting. It also implies that there should be rigorous assessment of impact performance and strict consequences if they are not met.

The knife cuts both ways: redefining progress now makes sure that every decision about the future of our society and economy leads to real progress. And it challenges us to build an economy that supports ecosystems and communities. If we can do this effectively it will help us to invest public and private money wisely.

Value cannot always be monetised: the value of a play, a concert or a painting is not merely derived from its production costs; the cost of conserving of nature does not equate to its beauty. And even if it were possible, you should question if this is always good: it implies that we can substitute expenses on culture for, let's say, outlays for military equipment. Keeping those aspects that determine a 'good' society as separate, recognisable and non-substitutable values has its benefits.

Redefine progress

Redefining how we think about progress in a market economy is essential to broaden policy and corporate agendas so that they encompass all vital aspects of wellbeing. We suggest the following combined alternative for GDP, based on:

1. The framework of ecological boundaries as the hard, non-negotiable boundaries for economic activities. The easiest one to start with is the carbon footprint of countries and companies. We have the Paris Agreement and a clear carbon budget for the global economy. The other eight planetary boundaries are also known and can be made concrete for countries or companies and local or regional scale (Steffen et al., 2015)
2. The achievements of SDGs as an indicator for wellbeing of a country. This is the global strategy for wellbeing in 2030. The aim should be to try to optimise SDGs, keeping an eye on the inherent trade-offs, where, again, ecological boundaries must be respected.
3. GDP can still be used as an important indicator for production aligned with the other goals. In the same spirit, profits and financial accounting frameworks for companies will and should be used, supplemented with other frameworks.

At both country and company level, this combined set of indicators will help policy makers to find the balance between ecological boundaries and social foundation. A holistic view on wellbeing does more justice to the inherent complexity of the interaction between the ecological, social and economic dimensions of sustainability.

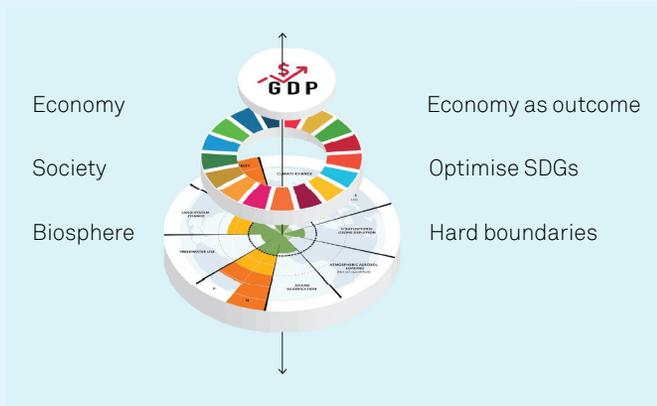


Figure 12. Policy goals for wellbeing: hard boundaries and SDG optimisation

To correct for externalities—negative consequences of production and consumption—the ‘true’ value or cost of production should be calculated and used as a metric for transactions. Governments can and should adopt this approach in tax policy (green taxation) or in the way they purchase goods and services. These are powerful instruments which can have a huge impact on the economy. Business and financial institutions do well to incorporate the concept of true pricing into their key decision-making processes, enabling all involved to have a clear view about the real value-added of investment options.

Companies also need a broader sense of responsibility. It has long been a dominant idea that the main—or only—purpose of business is to maximise shareholder value. Most explicit on that point was Milton Friedman in 1970, stating that the social responsibility of business is to increase profits.

Thankfully, this view is no longer pre-eminent. Many businesses have set themselves carbon emission reduction targets in line with the Paris agreement. More and more are reporting on how they contribute to the SDGs. A growing number of companies (currently over 3,000 globally) have committed to being held accountable on how they balance purpose and profit.

It is not just companies committed to purpose; other organisations based on common values can help to create a more values-based economy. Social enterprises with explicit social goals will often attract public and private funding. There are also collectively owned organisations such as community-based farms and cooperatives for housing or renewable energy.

6.2 Revalue: mixed economy and public values

Public policy and economic activities of companies should reflect the common shared values in each society. Institutions and policy goals should be designed to meet those shared values. We expect a lot from markets in terms of value-creation and measure much in society by costs, benefits and profit. There is an implicit assumption that markets also deliver the optimal results in terms of social values. The pricing mechanism is often thought of as both the fairest and the most efficient way to pursue every societal goal. But some values, trust for instance, cannot be bought in the marketplace. Trust is essential for economic development. It determines the accumulation and the efficient use of physical and human capital, the ability to invent and adopt new technologies, the efficiency of institutions and governmental performance, and the size and specialisation of markets. But trust is also a value in itself. Trust helps to restore security, strengthens interpersonal relations and helps to build up societies without using markets. People can only work together effectively on a shared purpose where trust is an underlying value.

Values should be a more integral part of our society. All (inter-)actions between economic agents, such as producers, consumers and governments, aim to achieve a normative goal. The strong claim from standard neoclassical economics is that prices in (perfectly working) markets reflect the normative choices (values) of all actors in society. Maximum social welfare (utility) is then achieved when everyone pursues their own self-interest (maximising personal utility). In theory, utility maximising agents rationally interact with each other to maximise the fulfilment of their needs over a certain timeframe.

In practice, this is not how it goes. We do not always behave in our own self-interest. We do not always have or take the time to ‘optimise’, because we are busy with our day-to-day concerns. Sometimes we even think self-interest is unfair. And quite often we are just short-sighted and do not consider the long term. But in all cases, we want to live up to our implicit moral values.

Prices play an important role in our economies, steering consumers and business behaviour, but we cannot simply leave everything to markets. There is no guarantee that markets give the outcomes that agree with our collective values. Especially if there is a need for transition to meet long-term sustainability challenges, we need clear and strong public values. Public policies should be more actively directed at the transitions we require.

This notion derives from the work of Italian-American economist Mariana Mazzucato (Mazzucato, 2018). A government is, in essence, not neutral. Public policies have societal and political objectives and are guided by politicians. But ultimately, in capitalist societies, it is (free) markets that deliver those objectives. If they do not, economists call it market failure. Mazzucato argues that there is no way to be sure that a (perfect working) market will deliver values that are consistent with the political objectives. Hence, markets should be directed through cooperation, public investment, and more activist industrial policies. Such an approach helps to steer economies in the right, more sustainable direction and to create effective demand. (Mazzucato and Ryan-Collins, 2019).

In the longer run, this could also create market opportunities, also for investors, that are currently not yet exploitable. Public investments in energy infrastructure, say, or fundamental research on sustainable technologies extend knowledge and resources and create new space for private enterprise to benefit.

In addition to that, it has also become clear in this corona crisis that strong public institutions—in healthcare, education and the labour market—help societies in times of crisis. This differs from our existing efficiency-based market approach to public goods. Having more spare capacity, for instance in hospital beds, helps the resilience of the total system. This contrasts with the way public institutions have been governed in recent decades. Strong, resilient public institutions help a resilient economy.

The world is more prosperous than ever, but not everyone benefits. Our current economic system is unequal and hence not socially inclusive. Redistribution of material wealth can boost shared prosperity and promote social inclusiveness. There are two ways that governments can help: fairer taxes and anti-trust policies. Redistribution of material wealth spreads the existing material wealth. It also implies that we are not dependent any more on the ‘trickle-down’ fairy tale: that wealth at the top trickles down to the rest of the economy. It has never happened. So we need policy for that.

Governments can help to ‘rescue capitalism from itself’: too much market power for too big companies is not good for spreading wealth. It is not even capitalism as described in the text books: competition that leads to innovation and lower prices for the benefits of consumers. Monopolies like we see now obstruct price declines and innovation. Stronger anti-trust policies can improve value for consumers by giving market access to start-ups and new challengers.

6.3 Redesign: open, circular and diverse markets

The notions of wellbeing, a values-based economy and public institutions and investments are building blocks for a redesign of the economic framework. The corona crisis is a clear indication many (global) enterprises operate on business models that are neither resilient nor sustainable; and that more should be done to improve the diversity of economic and finance activity. Our Vision Papers on Food and Agriculture (Triodos Bank, 2019a), and Climate and Energy (Triodos Bank, 2019b) highlighted some of our proposed directions. With regard to building more resilient and sustainable systems, a few elements are worth restating here.

First of all, we need a shift from a transaction-based economy towards a use-based economy: it is not the possession of products that gives them value, but our access to and use of them. One of the quickest ways to create a more sustainable economy is to use every product that's made more efficiently. If we can make that shift by adopting circular principles, it will save enormous amounts of resources.

Second, we need a shift from an extractive, specialised economy to a regenerative, diversified one. Doing less harm is not good enough. We must protect and restore the earth's ecosystems. The damage done to the earth's ecosystems requires business models that regenerate it. Reversing deforestation, purifying water and increasing pollination must be seen as economically viable activities. This implies that markets should not only steer on economic (financial) value, but also on social and ecological value. Efficiency should be replaced by sufficiency.

Third, our goals need to shift from prioritising monetised values (such as GDP growth) and the pursuit of individual affluence to sustaining ecosystems and improving human wellbeing. We should adopt a holistic approach that addresses the basic needs of communities in a values-based context.

Fourth, we need to shift from a hyper-globalised world towards balanced globalisation: international cooperation and solidarity on global topics—ranging from climate change to tax evasion on the one hand and reviving local economies on the other hand. Such a balanced approach implies stronger European cooperation: this is of long-run interest for European society. It also implies the valuation of local culture, art, craftsmanship and local communities. But this can only be fostered in a world with strong global and European governance.

Fifth, we need to shift from an efficient economy towards a resilient economy—one that has diversity baked into its system, with different types of business models, and different size businesses interacting in a complex network, connecting sometimes with local producers and consumers, sometimes internationally. Economic resilience is, as in nature, helped by diversity.

These building blocks aim to contribute to a more resilient and sustainable economy. This line of thinking is not only relevant for business and national politics and communities, it also applies to European and global frameworks that will be developed in response to the corona crisis. And redesign of the current globalisation model is long overdue. Today's globalised free marketplace is, first and foremost, governed by free-trade regimes and agreements. As such, it suffers from many of the shortcomings described above.

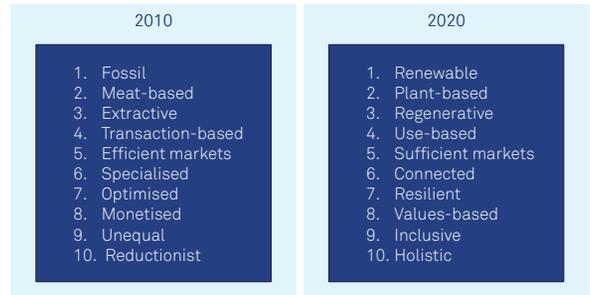


Figure 13. Paradigm shift

7. A concrete agenda for the recovery

We should now start to set the framework for regenerating the global economy in the post-corona era, building on the harsh lessons of the corona crisis. This crisis foreshadows even more dramatic eco-crises that we really need to avert. Postponing the sustainable transition once again is no longer an option. The next decade will be decisive. We need to implement policies that bring secure jobs and the living wage to the millions of people now suffering from social exclusion. The best way to do that is by promoting a resilient and inclusive recovery agenda. We need to make the right policy choices and business investments decisions. Today, the emergency response of governments and central banks amounts to about USD 15 trillion in a little over two months (IMF, 2020a). Realising the Sustainable Development Goals implies an annual contribution of USD 5–7 trillion (UNCTAD, 2014 and UN, 2019b). So, it appears to be more a matter of will than money.

Despite all public and private efforts to revive the economy now, a global downturn in 2020 will not be avoided. It will require a strong and concrete agenda for recovery, responding to the current social and economic malaise and learning the right lessons from the crisis. This agenda should:

1. meet the urgent needs of people (jobs and income);
2. reduce high levels of uncertainty in society and markets (guiding new private investments);
3. address the ecological crises (stakeholder business models and sustainable markets);
4. and improve social inclusion (social enterprises, healthcare, labour market regulation).

	Public policies	Business agenda
Redefine	Greening (tax) regulation Integrated reporting	True price Integrated reporting
Revalue	Green deal investment plan Strengthening public institutions Equity & fair share Open markets Different stakeholder models & the commons	Open markets Different stakeholder models & the commons
Redesign	From transaction-based to use based European cooperation Diversity and globalisation	From hyperglobalisation to glocalisation Sustainable business models

Figure 14. Building blocks for the a resilient and inclusive recovery: public policies and business agenda

In the previous section we identified the key building blocks of a resilient, sustainable and inclusive economy. The following set of proposals, regarding public policies and the business agenda, give concrete substance to this (see figure 14 for an overview).

7.1 Redefine: working out what matters most

Governments, business and finance should operate on principles of true value and broad welfare. This starts by making the societal costs associated with production and consumption transparent and ends by ensuring these costs are paid, either voluntarily or through taxes. Our first two proposals are essential in supporting these goals:

- 1. Greening (tax) regulation:** We need an overall shift in the way governments levy taxes: they should move away from taxing economic activity and towards taxing natural extraction and pollution, from labour to resources and from consumption towards waste and carbon emissions. Companies with more sustainable business models will be able to accelerate their business, while the polluters will be penalised.

There are several promising measures government can take. Green taxes, CO₂ levies, strengthening of the EU-ETS system and tapering off (implicit and tax) subsidies to unsustainable business (including fossil fuel producers, industrial agriculture and airlines) are powerful instruments that can correct markets and make sustainable business investment more profitable.

With the current low level of fossil fuel prices this is probably the best time to introduce corrective policies that ensure new private investment is aligned with long-term sustainability. Another option for action is smart regulation of product markets in favour of sustainable and circular goods (by encouraging producers to take back the

original products). Product-as-service models can also help to increase use of goods and make production more sustainable. Existing instruments like competition policies, public procurement and financial reporting standards should be redefined to contribute to transition of markets, production and consumption. In this way, governments can steer their economies according to broad welfare principles (people, planet and prosperity) and leave behind the old growth-oriented paradigm.

2. Integrated reporting on impact and progress:

This recovery should be about more than material wellbeing as expressed in GDP. Hence, monitoring the progress of governments' attempts to rebuild societies should be based on more metrics than economic growth. Wellbeing should be the central focus. Dashboards with different indicators on social, ecological and economic factors that measure the current and future effects of economic activity on other countries should be central in this rebuild attempt.

Likewise, business and finance should be operating on principles of true value and impact. Integrated reporting is a powerful tool that pushes companies to put that into practice. It also enables companies to better understand, and act upon the productive role they can play in (global) value chains. It is important that business communities broaden their horizons: the 17 Sustainable Development Goals are not intended exclusively as government-led initiatives but as an urgent call for action in a global partnership of individuals and organisations. A consistent and internationally harmonised framework for businesses to report on impact with the same status as financial accounting rules is the best way forward.

7.2 Revalue: mixed economy and public values

Public policy and economic activities of companies should reflect the common shared values in each society. Institutions and policy goals should be designed to meet those shared values. The next five proposals aim to contribute to this.

- 3. The Green Deal investment plan:** It's time to revisit the concept of the 'entrepreneurial state'. Governments must step in to give society a new, common perspective, to revive economies and to steer them in the right direction. In the current crisis, a clearly articulated public investment agenda can provide guidance and direction, as people seek new jobs and income and businesses reassess core strategy. The recovery should be guided and boosted by a Green Deal public investment plan. Among the many available options are green hydrogen programmes, the scale-up of sustainable investments in the built environment and ecosystem services in rural areas. As indicated by Hepburn et al (2020) green infrastructure investments, building efficiency spending, and investments in clean R&D, education and natural capital are good examples of fiscal recovery policy types which offer high economic multipliers and positive climate impact.
- 4. Equality and fair share:** This depends to a large degree on whether countries decide to run balanced tax systems based on fair share principles. Many countries entered the corona crisis with tax systems resting, to a large degree, upon the shoulders of citizens (income tax, consumption tax) and fuelling the unequal distribution of wealth (low or non-existent wealth tax, large-scale tax-avoidance). To meet the urgent fiscal needs of states, new taxation might be part of answer: higher corporate tax rates and a (corona) wealth tax should be on the table. Abolishing the tax deductibility of interest on loans would help to reduce the non-resilient levels

of leverage of many businesses and value chains. International cooperation on taxation should be intensified to avert the current race to the bottom on capital and wealth taxation.

- 5. Strengthening public institutions:** An adequate public healthcare system, accessible to all citizens, is an important cornerstone of a prosperous economy. Effective and inclusive regulation of the labour market also matters, providing people with basic social security. Public institutions like healthcare and social security require a decent budget to be effective and resilient. This partly depends on effective global cooperation on tax policies (see also proposals 4 and 9).
- 6. Open markets:** Nature shows us the importance of diversity as the major source of resilience and balance. The same applies to our economies. However, in many markets, like tech, food, medicines and finance, diversity is under threat. Monopolistic companies have taken control globally of huge parts of value chains and markets. The resilience and efficiency of our economies are not well served by a few monopolistic global enterprises that are too big to fail and too big to control. (Global) Competition policies should play a more decisive role as should regulatory regimes that currently, in finance for instance, implicitly reward market concentration. The European Commission should take the lead in Europe to break up these monopolies and adopt diversity as a cornerstone of market regulation that serves resilience and reduces dependencies.
- 7. Stakeholder business models and the commons:** A significant driving force towards concentration and short-termism in the governance of companies is the dominant role shareholders have come to play in recent decades. Not all shareholders act the same way and it matters a lot to the destiny of

companies whether its shareholders have a long-term outlook and a broad view on value creation. A company can announce a purpose-led strategy, but if stakeholders are not aligned, it becomes very hard to live up to that. In many global governance regimes, there are few constraints on the power of shareholders. We witness every day how this enables those that are more aggressive to put pressure on the business leadership to deliver short-term profits. This is often at the expense of long-term value creation, the resilience of the enterprise, and its social and ecological performance. Shared decision-making between different types of stakeholder and more diverse business models would better serve the wellbeing of the economy. Stakeholder models should be promoted and favoured in legislation. It should be required of businesses that they are rooted in communities and contribute to the progress of society. Governments and impact investors should exert pressure to ensure impact targets for listed companies become more important. Another avenue is reforming corporate legislation to deliver effective options for common ownership of business, supporting the commons.

7.3 Redesign: open, circular and diverse markets

The current framework of our (global) economy is man-made. Redesigning this (global) framework is of paramount importance to support the regenerative economy we propose. The three proposals outlined below are essential building blocks:

- 8. From transaction-based to use-based:** One of the best ways to mitigate our impact on Earth's ecosystems is to produce less. The most obvious and elegant way is to use products longer and more efficiently and to have a discussion on ownership of products. First steps in this direction are new regulations on guarantees on products (like in the European Circular Economy Action Plan
- (2020)), which incentivise companies to design and produce products that live longer with better, more modular product design and the more widespread adoption of product-as-a-service business models.
- 9. European cooperation:** The European Union can build on important work done by the OECD and intensify cooperation on capital and wealth tax regimes across the continent. This can help governments to stabilise their national budgets and save fiscal space for the recovery that's required now. More is needed here. The recent attempts of the European Commission to strengthen the EU Green Deal deserves the full support of all EU countries, notably the new EC-agenda for Sustainable Finance that has been released recently for consultation. Funding of EU-wide and national recovery programmes should, at least partially, be based on joint funding instruments like corona-bonds and/or access to the ESM on adapted conditions, provided the funds are used to boost a resilient and inclusive recovery. And that may imply a conditionalised mutualisation of corona-linked debt in the eurozone.
- 10. Diversity and globalisation:** Redefining the values on which our economies operate must also have consequences for the future of globalisation. The corona crisis revealed shortcomings and weaknesses here as well. Emerging markets appear to be extra vulnerable. They often depend on export-models with a narrow base, typically exploiting natural resources balanced by inflows of private capital. It's time for these countries to develop a more diverse and resilient economic approach, funded by international financial institutions and private sector impact-investments. The current global free-trade regimes could support this change by adopting and promoting fair trade principles.

Although free trade can benefit everyone—since specialisation creates wellbeing—there are still companies that use it to exploit labour or nature. Companies should for instance always pay fair, living wages to their employees. Their obligation is not only to comply with existing, low, national statutory wages, they have the moral obligation to pay decent wages. The crisis has also highlighted the vulnerability of the efficiency-optimised complex international value chain. Differentiation in chains and more local production, can strengthen the global economy. Especially with food production, local chains can make the system more resilient and better connect people with nature.

8. The role of finance and money in the recovery

Money is a source of energy. When money is spent, given, lent or invested, energy is transferred and new possibilities for the receiving party emerge. Especially now, in a time of crisis, all citizens do well to consider carefully how to deploy the power of our money. The professional guardians of the money system, the financial industry, bear a great responsibility. Banks, insurance companies, pension funds and investment funds will be negatively impacted by the economic downturn. The leadership of financial institutions will determine whether they will be part of the solution. Given the important role of private investments in the recovery, it matters a lot how money will be allocated, and finance will be used in the transition.

There is a profound risk of a new financial crisis. Wave one is the direct impact of Covid-19 as it stifles the economy. The second wave is what happens to the companies who are being kept afloat but are not sustainable, being incompatible with net-zero transition pathways, lacking resilience and being overleveraged. As Nassim Nicholas Taleb shows in *Antifragile: Things That Gain from Disorder* (2012), trying to ‘extend and pretend’ with additional debt just leads to bigger implosions down the line. We need other solutions.



Figure 15. Building blocks for a resilient and inclusive recovery: role of finance

Public investments, taxation and regulation will be essential to steer the economy in the right direction. This will help to create a level playing field for sustainable and inclusive finance. Sustainable business models will look more attractive when the negative societal effects of production are fairly priced and government investments create new markets. However, to get there, private capital must take on a bigger role. Building a resilient, inclusive and sustainable economy depends to a larger extent on private capital. The following set of proposals, regarding the role of finance, gives concrete substance to this (see figure 15 for an overview).

8.1 Redefine: all finance is impact finance

Value-based banks, like Triodos Bank, operate on the vision that all finance is impact finance, connected to the values and needs of society. All decisions about the use of money have by nature an impact on people, communities, nature and society. This principle is now more relevant than ever. The 2008 GFC showed a global financial industry that had neglected its fundamental responsibility as professional guardians of the monetary and financial system: to serve people and society. We now need to see the lessons learned since then put into practice.

We should all be making conscious decisions now about how to deploy the power of money. Individuals, businesses and financial institutions need to make informed choices about whether to provide financial support with gifts, by extending credit or by buying equity stakes. It really matters to companies for instance, whether the funds they need incur additional debt obligations or dilute ownership. Also, financial inclusion, access to basic financial services, is an even more important value to safeguard in times of crisis.

In recent years, the global financial industry has become increasingly aware of the shared responsibility of all to address the great issues of our time: the eco-crisis and inequality. The elements of the transformation to a values-based economy, highlighted in previous chapters, apply also to

finance. Redefining the concept of value that steers decision-making, revaluing instruments and strategies to create diversity and resilience, and redesigning the (global) frameworks of our economies are principles that also change the financial industry.

We have advocated this agenda for change in finance over many years, for example in the joint publication by the GABV, Finance Watch and M2020 *New Pathways: Building Blocks for a Sustainable Finance Future for Europe* (2017). It is of paramount importance that this process continues. The financial industry is indispensable in the transition to a sustainable and inclusive economy. It is a two-way street. If having a positive impact on people, the planet and prosperity is at the heart of financial decision-making, this will contribute to more resilience, less risk and a more robust financial system. And in the end, all finance is impact finance.

1. From risk to impact: reporting and commitment:

Traditionally, financial institutions focus on risk and return. In recent years, supervisory authorities have recommended to banks to take into account climate-related risks, through for example the Task Force on Climate-related Financial Disclosures (TCFD). Those risks might emerge due to physical impact of climate change or the transition to a net-zero economy. Now, this risk-based approach must be followed up by an impact-based approach: financial institutions should be fully aware of all impacts of their finance decisions, building on important steps in past years, such as the UN Principles for Responsible Investment and the UN Principles for Responsible Banking. All financial institutions should know, report and act on relevant information about impact and be accountable to stakeholders. Since the adoption of the Paris Agreement in 2015, many impact initiatives have been developed, like the Partnership for Carbon Accounting Financials (PCAF). In countries like the Netherlands and Spain, national voluntary

climate commitments have been adopted by financial institutions. Reporting on the carbon footprint of assets and portfolios (scope 3) and firm-specific target-setting on reduction of this footprint are essential elements. These approaches should be adopted by all financial institutions. In addition to that, reporting frameworks on other topics are being developed, including on biodiversity, SDG performance, and ESG risks and opportunities.

2. Regulatory incentives on impact and resilience:

financial institutions are subject to many rules, regulations and accountancy standards. We recommend that these regulatory frameworks are screened for un-wanted effects in order to create the right incentives to steer in impact. It's vital to understand that sustainable and inclusive impact portfolios not only benefit our societies but also appear to be more resilient and less volatile. There are many examples: capital requirements should be more based on the level of unsustainable portfolios, like the 'brown' capital add-on in case of concentration of high-carbon portfolios. Accountancy rules should encourage long-term value creation, instead of favouring short-term 'fair' value (see also proposal 8). A first step is for the European Commission to develop an appropriate taxonomy to harmonise these approaches.

8.2 Revalue: equity instead of debt

As we move towards rebuilding the economy, the demand will not just be for emergency/bridging. Equity will play a critical role. And in some cases, (particularly when blended in the right way) gift money can have a vital catalytic effect. While some of this will come from public institutions, and be supported by institutional investment, direct impact investment from citizens remains a missing element. Currently, most citizens have little choice other than to follow the listed equities rollercoaster. There are

relatively few opportunities to invest directly in the long-term environmental infrastructure and social enterprises they want to support. Although there is a small but growing crowdfunding market, reaching the scale we need requires properly regulated impact investment funds for individuals.

3. Facilitating sustainable private equity: As part of the concerted public and private efforts to restore businesses' financial soundness it makes sense for existing fund schemes to be offered as no-frills investment funds for professional investors. While the same sustainability criteria for the allocation of funding should apply across the board, from the smallest bakery to the largest airline, the respective funds could come from suitable providers: 1) the state, imposing conditions with their state-ownership, for the systemic and large listed companies and 2) Corona Recovery Funds (CRFs) for professional investors for small caps and non-listed corporates, applying the same sustainability conditions to the allocation and monitoring of their funds. A specific issue is whether and how small and medium enterprises (SMEs) can be reached; these are normally mostly financed via bank lending. Boot et al. (2020) suggest setting up a specific (European) government fund that offers cash to firms in exchange for a temporary increase in the future corporate profit tax rate post-crisis. Alternatively, and within existing fund regulations, cities could act as representative of their SMEs and, as city-umbrellas, participate as investees in the CRFs. State-ownerships and CRFs together could leverage each other's contribution to restore resilience in the economy. Enhancing the role of equity is crucial. Relying solely on debt finance just pushes the problem down the road. Ex-ante conditionality based on sustainability requirements for SMEs might sometimes be difficult due to data limitations. If so, ex-post evaluation is a logical solution.

4. A greater role for social equity: Other intermediate forms of equity investments can be in the form of 'social' equity where public capital (sometimes in combination with private capital) can be used to invest in, for instance, social enterprises. Especially locally, there are a lot of new initiatives that need support but hard to finance with only private capital. This also links to forms of patient capital: in those structures where owners of equity have relatively low requirements on the returns to their investments, it is easier for companies to have a long-term objective and align their business with that. Patient capital, either from public entities or private investors, helps to strengthen balance sheets and get rid of short-termism. Finally citizens could be empowered if retail investors were able to invest in the sustainable enterprises that appealed to them in the form of sustainable UCITS, combining debt and equity. This could follow the tried-and-tested UCITS structure in Units of Collective Investments in Sustainable Securities (UCISS).

5. Gift money for transitions: Gift-money has always played a significant role in society, energising valuable social initiatives that would otherwise not come to fruition. It is also an important source of finance in the commons space, the (natural) resources that require support and protection, and benefit all. Gift initiatives, small and large, can make a difference in the unfolding of the current crisis. Gifts shift wealth from the haves to the have-nots. Business initiatives and local communities can have significant impact here.

6. Debt cancellation and debt-for-SDGs: Cancellation of debt is another important track. The IMF recently decided to cancel outstanding debt of several developing countries. In the aftermath of the crisis this will continue to be a serious option, although clearly one that requires careful

consideration. There are both good and bad examples from history. Any country that benefits from debt cancellation will need to use the fiscal space wisely and avoid building up new, unsustainable debts—this could be monitored by reference to the SDGs.

Transparency and the involvement of civil society are key. Creditors will need to be decisive as unserviceable debts can stifle economies and hamper recovery. This pathway can also be followed by private financial institutions.

7. Debt cancellation for citizens most in need:

Unbearable debts are a problem for too many citizens in most societies. Social exclusion, inequality and deprivation are likely to be aggravated by the corona crisis. An active stance that seeks to cancel problematic private debts should be part of the common response, especially for those people and families that have been in this situation for many years. However, we have known for a long time that unending debt undermines families and is a major cause of social exclusion. Tackling the issue is not just socially desirable it is also sound economics: years of debt collection are expensive and demanding for all involved. Without active cancellation initiatives, we waste energy and talents of (especially young) people.

8.3 Redesign: changing the financial system

The current proposals are meant to contribute to a fair and effective short-term approach, responding to the emergency and the recovery. As far as the financial industry is concerned, we have underlined the importance of impact (climate change, biodiversity, social inclusion), diversity (sustainable equity, gift and debt cancellation) and the role of retail investment. Over the longer term, the future of the financial sector and the financial system need a fundamental redesign in order to effectively support the transitions to a resilient, sustainable and inclusive economy.

The GFC in 2008 has changed the global financial industry. Governments and supervisory authorities have adopted stronger and more intense regulation and are more aware of risk of financial instability. In Europe, the largest banks have been supervised by the ECB since 2014.

Understandably, the focus was on preventing a repetition of the 2008 crisis. Now, we enter a new phase. As explained in chapter 6, the economy of the future is use-based, regenerative, focused on wellbeing and resilient. We need a financial system that fully supports this transition. The ultimate source of resilience is not in the first place more supervision, but better alignment between finance, society and the major challenges of our times.

8. Finance for the future: The (global) legal framework of all financial institutions and markets should be fundamentally revised on principles of impact, real economic value, diversity, transparency and resilience. Many public and private initiatives, like the European agenda on sustainable finance, the regulatory agenda (TCFD and likewise), the adoption of impact-based principles and climate commitments, are promising building blocks of a new global financial landscape. These efforts can benefit from a supporting global finance agenda strengthening the coherence and resilience of the financial sector in a new role. After all, finance is not an ordinary business.

8.4 Conscious choices, resilient finance

In the upcoming months, governments, which are currently supporting all kinds of business, will have to make up their minds about how to proceed. For which parts of the economy should the continuation of support be considered, and on what conditions? It seems likely that a triage process will take place. We believe that the choice of sectors and business, and the conditions set should largely be steered by a resilient and inclusive recovery agenda, which plots a pathway to the future regenerative economy.

This should, in our view, also be the departure point for all financial institutions. They will face a tough task, managing the sanity of their institutions and sometimes fulfilling their societal role by confronting business and entrepreneurs with the choice of ending certain activities or having to meet stricter guidelines on sustainability. The choices financial institutions will have to make should not be based on a 'back to normal' approach, focusing only on cashflow and collateral. This also applies to business leadership.

Directing capital in the right way, either by investments or through bank finance will be increasingly important. The SDG-linked private investment agenda was huge before the crisis. Its impact will be even larger in its wake. Social inclusion will become an important topic in emerging countries where sources of private capital are currently declining, but also in Europe and other developed countries. And, finally, given the root cause of the corona crisis, changing the food and agricultural system will be an extremely high priority on top of the climate change emergency which is as pressing as ever.

If we realise that money steers, enables and realises what we want to achieve in our society, we start to understand that all finance is impact finance.

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