Economic recovery: streamlining 'shovel ready' projects and securing financing

If the past is an indicator of the future, what might COVID-19 infrastructure stimulus programs have in store for island jurisdictions?

Impact of COVID-19

The region began experiencing significant economic impact related to COVID-19 in March 2020, when strict social distancing measures were implemented. COVID-19 has eliminated the equivalent of 1.5 million jobs in the Caribbean according to the International Labour Organization[1]. S&P Global Ratings estimates global air passenger numbers will drop by about 50%-55% in 2020 compared with 2019 and expect that passenger numbers will stay below pre-pandemic levels through 2023[2]. We anticipate that travel bans and social distancing will continue until the end of August 2020, resulting in a deep and long-lasting impact to economic activity. Over the next 15 months, the World Bank Group will be providing up to $160 billion in financing tailored to the health, economic and social shocks countries are facing[3].

Role of infrastructure stimulus in recovery

Infrastructure stimulus programs are one of many approaches to support economic recovery. Past economic recessions, including the 1930's Great Depression and the financial recession of 2008, have used infrastructure stimulus as a recovery tool. As infrastructure projects are completed, they improve physical assets; boost productivity in the public and private sectors; lift capacity; create and sustain jobs; and boost overall personal income[3].

Infrastructure stimulus programs come in various sizes, ranging from investments to strategic projects to a focus on achieving a state of good repair through ongoing maintenance and renewal. Although stimulus plans are starting to be released, an opportunity exists to maximize the benefits and catalyze the recovery by engaging both the public and private sector through targeted stimulus funds.

Previous infrastructure stimulus programs

Key attributes of successful stimulus programs include:

- At least a two-year stimulus program, primarily focused on infrastructure spending. Other components included tax relief and grants to businesses and individuals.
- The infrastructure stimulus targeted 'shovel-ready' and 'shovel-worthy' projects, to be substantially completed within two years.
- Focused on matching funding with other levels of government and international financial institutions.

Environmental, social and governance (ESG)

COVID-19 has jettisoned ESG considerations to the top of government and corporate agendas. Island governments seeking financial support may find that projects with strong ESG components will gain greater traction. Projects which reduce carbon emissions, increase infrastructure resilience, protect our oceans, and contribute to greater social equity are examples.

1. International Labour Organization, COVID-19 Pandemic, News, 13 May 2020

2. S&P Global Ratings – Airports Face A Long Haul to Recovery

3. World Bank Group's Operational Response to COVID-19 – Project List

What have we learned?

S&P Global Ratings estimates that infrastructure stimulus spending in the United States will add an additional $2,400 to per capita personal income by 2029 and allow households to spend $3.5 trillion more over that 10-year period than in the "no infrastructure spending" scenario[4]. Relevant lessons learned from infrastructure programs include:

- Stimulus funding is optimized by focusing on priority projects, as compared to higher-ranked eligible projects.
- Tight deadlines place pressure on application periods and project screening.
- Maximizing rapid impact and spend of construction funding requires focus on projects that are past preliminary planning stages, with an aim to increase the funding spent in the first year.
- Achieving delivery deadlines is best supported by meaningful consideration of project scope and cost specifications as part of the original project application.
- Clear documentation of final funding decisions demonstrates open, fair, and transparent processes.

By taking these lessons into consideration, governments can better achieve the employment and infrastructure objectives of a potential stimulus program.

What should I do?

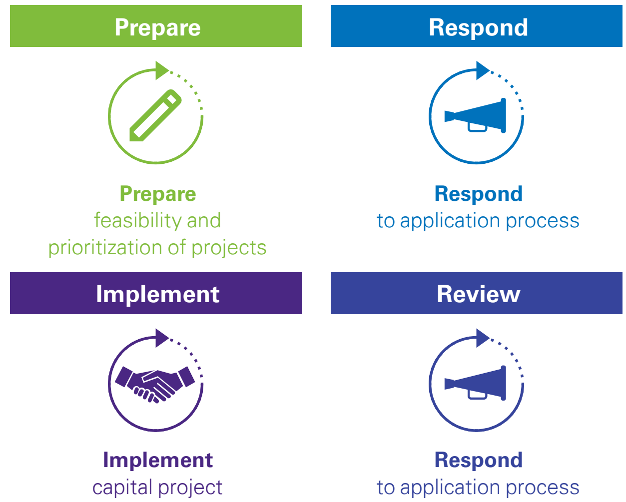
Public sector organizations should be readying themselves for roles they can play in supporting economic recovery – including infrastructure stimulus. Based on lessons learned from previous programs, immediate actions may include:

1. Defining and prioritizing potential projects well suited for positive economic impact. Consideration should be made to both timeliness of project delivery, project readiness, complexity of the project supply chain or specialized requirements, bundling opportunities, and alignment with organization and government priorities.
2. Design of innovative approaches to accelerate project delivery, including the commercial, market, and project approach.
3. Readying project documentation and potential application requirements, such as preparing project briefs for potential projects and bundles. Efforts should also include consideration of financial capacity for matching contributions.
4. Proactively consider resourcing and approaches to post-approval project reporting, assurance, and oversight.

4. S&P Global Ratings – Infrastructure: What Once Was

How KPMG can help?

KPMG's Global Infrastructure Advisory team is comprised of leading infrastructure and construction advisors. Actively advising governments on over $150 billion in infrastructure projects globally, we have the experience to provide solutions to your complex problems. Our multidisciplinary team can support you in all stages of a potential stimulus program:



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