



COVID-19: Special Purpose Vehicles

Transitioning to the post pandemic world



How can island jurisdictions effectively leverage Special Purpose Organizations in their economic recovery and disaster management efforts?

Impact of COVID-19

The islands region began experiencing the economic impact related to COVID-19 in March 2020, when strict social distancing measures started being implemented. According to the International Labour Organization¹, COVID-19 has eliminated the equivalent of 1.5 million jobs in the Caribbean. The pandemic has impacted on every economic sector but most prominently on tourism which comprises a significant portion of most island jurisdictions' GDP.

S&P Global Ratings estimate 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 2023². It is anticipated that travel restrictions and social distancing will continue for some time, resulting in a deep and long-lasting impact to economic activity.

How are international financial institutions responding?

As a result of COVID-19, financial institutions are aware of the importance of being creative. Banks and governments alike are exploring innovative tools to address the challenges brought on by the current pandemic. One of these tools are Special Purpose Organizations (SPOs).

Role of Special Purpose Organizations in addressing the impacts of COVID-19

While not a new concept, SPOs are increasingly drawing international attention through their ability to address the impacts of natural disasters, health crises and economic downturns. SPOs are established to address a specific matter within a specific timeframe. They have historically been used to manage financial and legal risks. While governments have most commonly used SPOs for transit and housing projects, they are increasingly being utilized to aid in recovery efforts.

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



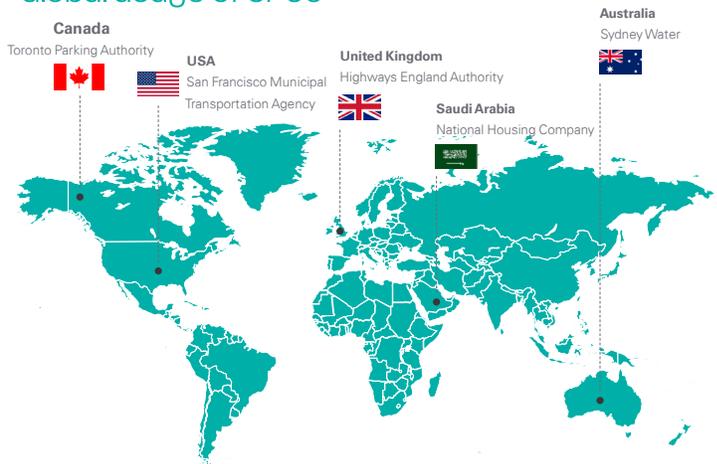
Emerging trends

International financial institutions are encouraging countries to catalyze their economic recovery through a targeted and focused organization.

Approaches include: special purpose bonds, direct delivery by public sector, public-private partnerships, etc.

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 facing³.

Global usage of SPOs



What are the common attributes of successful SPOs?

Key elements include:

- **Transparency** – both in terms of objectives and operations. Governments are increasingly utilizing SPOs to showcase their disaster relief and recovery efforts.
- **Arm's-length operations** – the ability to separate the SPO from internal government red tape or roadblocks.
- **Defined and independent governance structure** – determined by the original establishing principles of the SPO.
- **Specific and time-limited objectives** – with defined time-frames (including the option to include built-in review periods to assess the effectiveness of the SPO).
- **Client-focus** – the concentration on a specific constituency as opposed to broader population.
- **Skilled executive leadership** – a number of former industry leaders have been recruited to assume executive roles within SPOs.

Examples of SPOs

National COVID-19 Coordination Commission | Australia

- Develop strategies, manage ongoing issues and mobilize the public, private and not-for-profit sectors to ensure that Australian business and communities are supported throughout the pandemic.

National Bushfire Recovery Agency | Australia

- To lead and coordinate relief efforts and the national response to rebuilding communities affected by bushfires across Australia.
- Administers a \$2 billion National Bushfire Recovery Fund over a two-year period

What are some of the key considerations in establishing SPOs?

Before creating a SPO, governments need to clearly articulate the desired outcomes and intended length of time that the SPO is to operate. Additional key questions for consideration include:

1. Is the SPO the right vehicle to deliver the intended outcomes?
2. What role (if any) should the private sector play? How do you ensure private sector views are taken into consideration?

3. What governance mechanisms need to be put in place? What will the reporting structure and frequency look like?
4. Are legislative or regulatory changes required to establish the SPO?
5. How will the SPO obtain funding and/or financing?
6. How will risk be shared among the parties involved?

Contacts

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