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Covid-19: Successful management of economic recovery programs

The coronavirus pandemic has presented governments globally with unprecedented challenges, requiring a rapid response from both a public health and an economic perspective. Given widespread lockdowns, economic activity immediately stalled, but governments acted quickly with more than $8 trillion of monetary rescue programs and planned stimulus[1].

Typically, initial priorities have been to protect companies, employment and income among individual citizens in order to prop up economies. However, as longer term schemes are readied, programs can be designed with greater nuance and precision, with improved management, monitoring and adaptability ensuring success across delivery channels.

There are tough questions to be answered about how long each measure should be maintained and when it will need to be scaled back or ended. Any shift from direct support to stimulus must be timed carefully, and decisions need to be carefully balanced against potential public health implications.

In this paper, we examine the key economic considerations for governments around the world as they move from responding to Covid-19, towards a 'recover' phase and ultimately to a position of having sufficient flexibility to thrive in these fast-changing times.
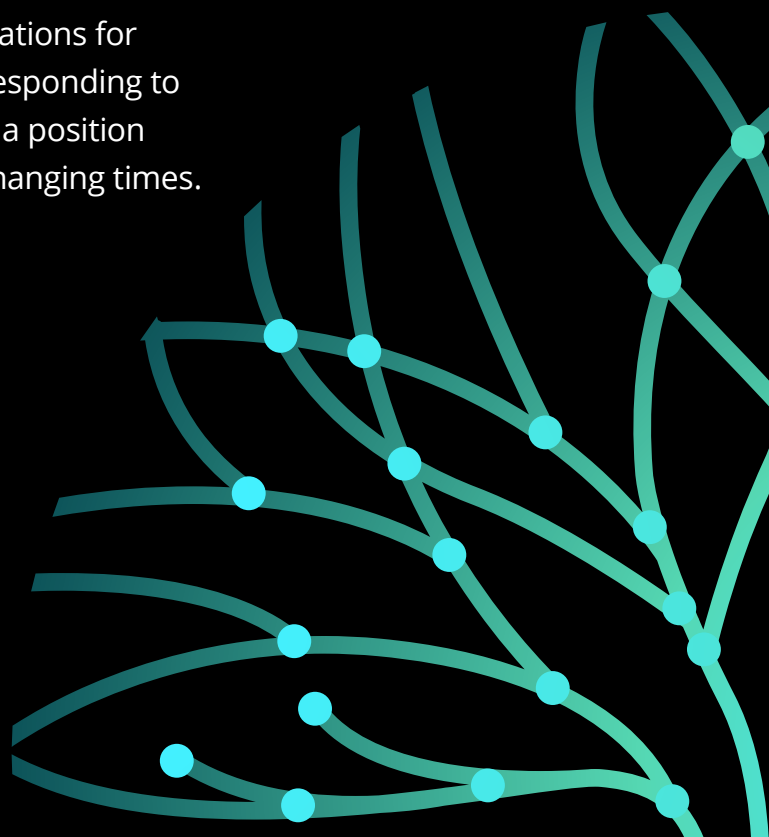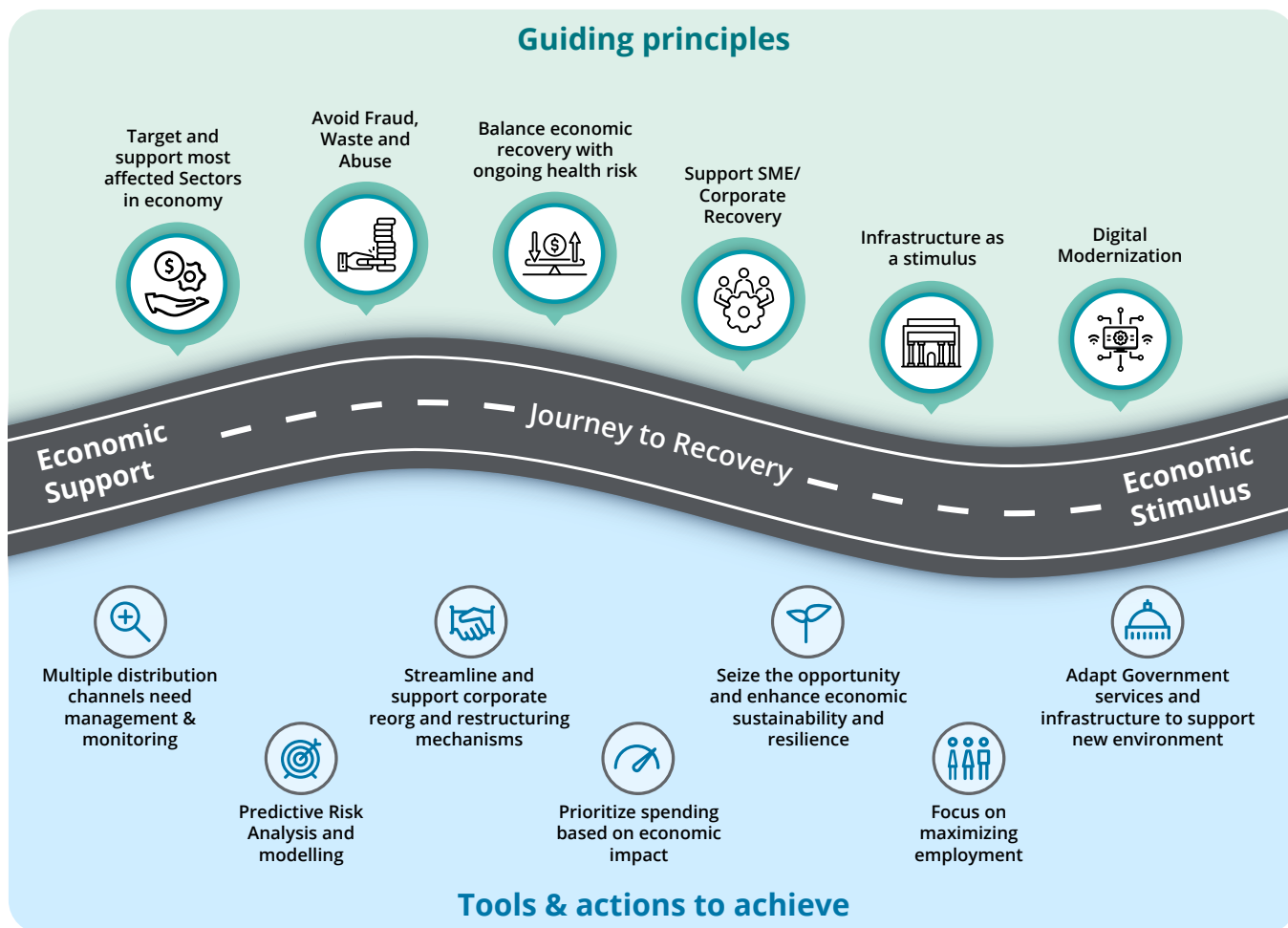
Key considerations for governments

Initial responses to the spread of coronavirus typically involved nationwide lockdowns that prevented work continuing in many sectors. This led governments, including those in the US[2], Canada[3], Ireland[4], New Zealand[5] and South Korea[6], to initiate a process of sending money out directly or indirectly to individual citizens, while some nations bailed out hard-hit airlines and other industries. In Germany[7], the UK[8] and elsewhere, large portions of salaries were covered by public funds. Other business-focused support schemes have involved grants given out directly by governments, guaranteed loans distributed through banks, equity support provided in return for working capital and restructuring processes made radically more efficient.

As countries move from the initial 'respond' to the 'recover' phase of the current crisis, by necessity many will introduce new economic stimulus at unprecedented levels. Examples of stimulus packages already taking shape include the €1.35 trillion of bond buying promised by the European Central Bank[9] and the $750 billion pledged by the US Federal Reserve[10], alongside low and negative interest rates globally. Germany, meanwhile, has introduced a large fund for distressed businesses and increased infrastructure spending. France[11] has pumped extensive support into its auto industry, while Australia[12] stepped up infrastructure expenditure. In China, liquidity has been injected into the banking system[13].

Designing and delivering programs - with analytics and monitoring

As 'recover' phase programs evolve, countries will look to catalyze longer term growth. A prominent priority will be ensuring funds and investments are well targeted and efficiently delivered to the right sectors. Priorities must be clear from the outset, with deep analytics and human expertise central to understanding which cohorts of citizens, industries and businesses most need help relative to their economic contribution. Careful analysis of the sectors at greatest risk is important in targeting funds - and 'heat maps', such as those created by Deloitte, provide that capability. While operational, all programs will need smart management and they must be supported through industry collaborations that recognize the challenges and the risks being faced by different sectors.

It is vital that financial support being offered can quickly reach intended recipients, and that large amounts of money are not lost through fraud, waste and abuse. The risk of fraud will inevitably be accentuated by the large scale of the programs, their swift introduction and the broad base of eligible candidates. Advanced forensics technology and expertise, such as predictive risk analytics and modelling, case management, and machine learning for pattern identification, can enable governments to design better programs and run them more effectively. Incorporating these technologies and skillsets into development processes results in a sharper focus on risk prevention, vastly reducing fraud and eliminating unnecessary wastage. Ongoing monitoring will also be essential, alongside industry engagement, to help meet evolving needs.

Guiding principles

Target and support most affected Sectors in economy

Avoid Fraud, Waste and Abuse

Balance economic recovery with ongoing health risk

Support SME/ Corporate Recovery

Infrastructure as a stimulus

Digital Modernization

Economic Support

Journey to Recovery

Economic Stimulus

Multiple distribution channels need management & monitoring

Streamline and support corporate reorg and restructuring mechanisms

Seize the opportunity and enhance economic sustainability and resilience

Adapt Government services and infrastructure to support new environment

Predictive Risk Analysis and modelling

Prioritize spending based on economic impact

Focus on maximizing employment

Tools & actions to achieve

Providing support - including grants, debt and equity

In the 'recover' stage of national responses to the crisis, cash payments or salary support for individuals will typically be tapered off. Employers will be encouraged to return to more 'normal' operations, sometimes after being given small grants to make that process more feasible. Nonetheless, significant numbers of businesses will rely on bank loans that are partially or fully guaranteed by governments[14].

While credit will play an essential part in business survival, there are risks involved in adding to private sector indebtedness, and governments could yet see some critical loan support becoming bad debt. An alternative, with regard to large companies that are struggling but judged to be nationally-critical, is for governments to take equity stakes. In these contexts, detailed assessments of companies' long-term viability and potential restructuring options will be crucial, with private capital accompanying government equity stakes when appropriate, in order to spread risk while boosting innovation.

To make the right choices on grants, debt guarantees and equity investments, governments will require cutting-edge financial modelling expertise. This enables them to see more clearly which companies are viable and what their prospects are, and allows for stress testing of potential scenarios. Equally, with the right insights, they can better understand what types of support might best encourage growth among more promising sectors and stabilize employment, while predicting the effects on adjacent industries and connected supply chains.

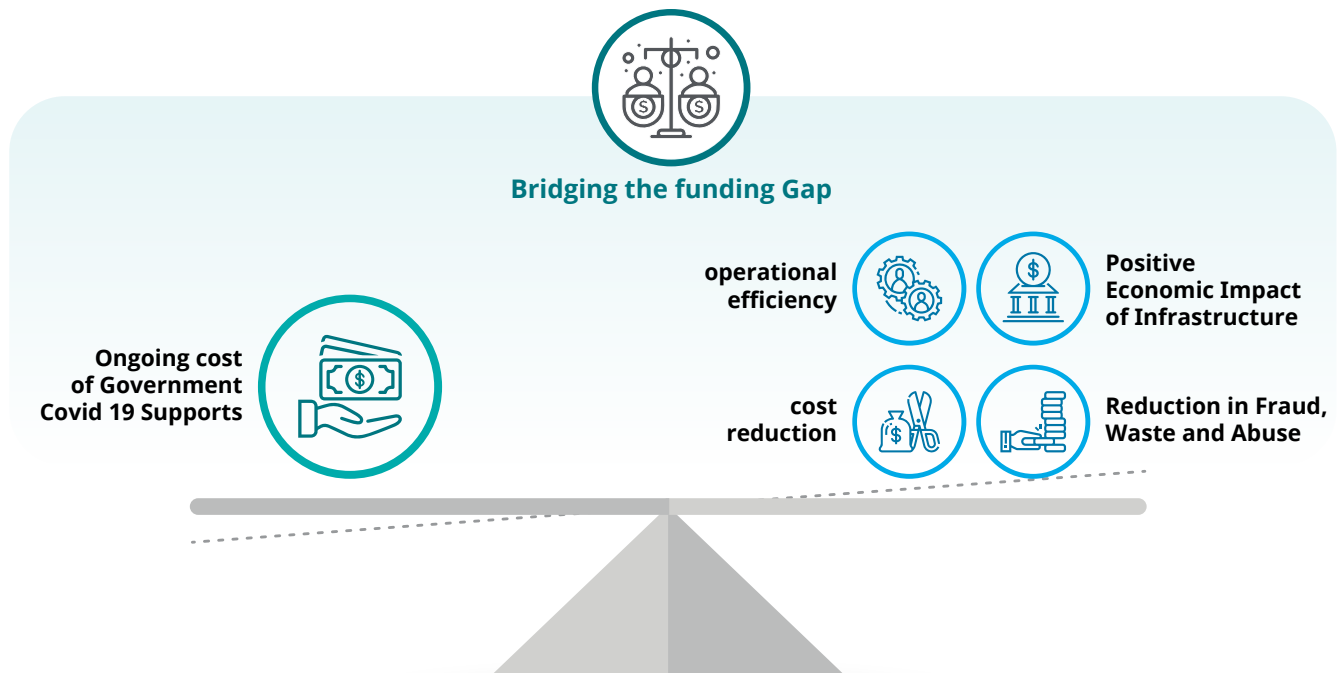## Creating stimulus - through infrastructure programs and procurement

Infrastructure programs can stimulate long term economic activity in line with governments' strategic aims. Modern infrastructure is critical to underpinning a strong economy - delivering employment, creating economic dynamism and providing a platform for private sector participation. Deciding how to prioritize investments will be of critical importance, though it is clear that changes to work are already making broadband and digital infrastructure investments one area of increased attention.

The known gap in infrastructure funding has been worsened by the demands of Covid-19, but governments are refocusing on such plans, and in order to generate the necessary funds they will look to take on low cost debt, attract private finance and skills, and lease public assets. Large scale infrastructure initiatives will be a key part of the post-Covid picture but so too will smaller projects that offer a faster boost. Opportunities are also likely to emerge for investments in more environmentally-friendly infrastructure and sustainability schemes.

Recent months have made necessary an increase in flexibility and speed of public procurement, and the creation of alliances with the private sector for public service provision. Digital platforms will be ever more important to procurement, asset construction, delivery and operation of government programs across all industries and regions.

Bridging the funding Gap

It is crucial that the supports provided to individuals and businesses across the economy are distributed to provide support where it is most needed, on a timely basis with limited waste and hopefully stimulating economic growth. The level of funding provided to date and that needs to continue indefinitely, will create a significant funding gap in Government reserves which will need to be addressed. A careful balance of cost reduction, operational efficiency improvements coupled with prioritization of spending will need to be introduced while maintaining the overall economic supports – this will be a significant challenge for Governments that will require courage to continue investment while making hard prioritization and efficiency decisions.

Bridging the funding Gap

Ongoing cost of Government Covid 19 Supports

operational efficiency

Positive Economic Impact of Infrastructure

cost reduction

Reduction in Fraud, Waste and Abuse

Careful balance of cost reduction, operational efficiency improvements coupled with prioritization of spending will need to be introduced while maintaining the overall economic supports

In practice

Governments and multilateral bodies globally have worked with Deloitte to design, create and manage essential Covid-19 support and stimulus programs.

For all such bodies, it is imperative that programs begin by being well designed and properly focused. They must then meet their objectives, being managed and monitored efficiently, and being highly adaptable as needs change. Governments and multilateral bodies will look to provide well-targeted, useful support including grants, debt and equity where relevant. They will also aim to create immediate and long term stimulus through cleverly-funded infrastructure programs and sharper procurement.

There is an urgent need to see economies recover and to stimulate future growth, amid the extraordinary landscape shaped by the coronavirus pandemic. By drawing from Deloitte's complete portfolio of services, governments and multilateral bodies can adapt quickly and succeed in meeting their economic aims, while preparing to thrive in the post-pandemic world.

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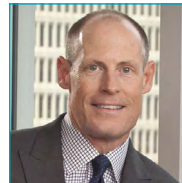
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End notes

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