



Infrastructure investments as economic stimulus  
in a post COVID-19 world

June 2020

# Build back better

# Introduction

The current COVID-19 crisis is having major impact on both individual citizens and businesses across the world. The retail and hospitality sector is currently affected the most due to the lockdowns but the impact is felt all across the market.<sup>1</sup> This Insight focusses on investment in infrastructure as one of the key tools to keep people employed, businesses afloat and to maintain the productive capacity of the economy as well as maintain, and possibly increase, the attractiveness as business location.

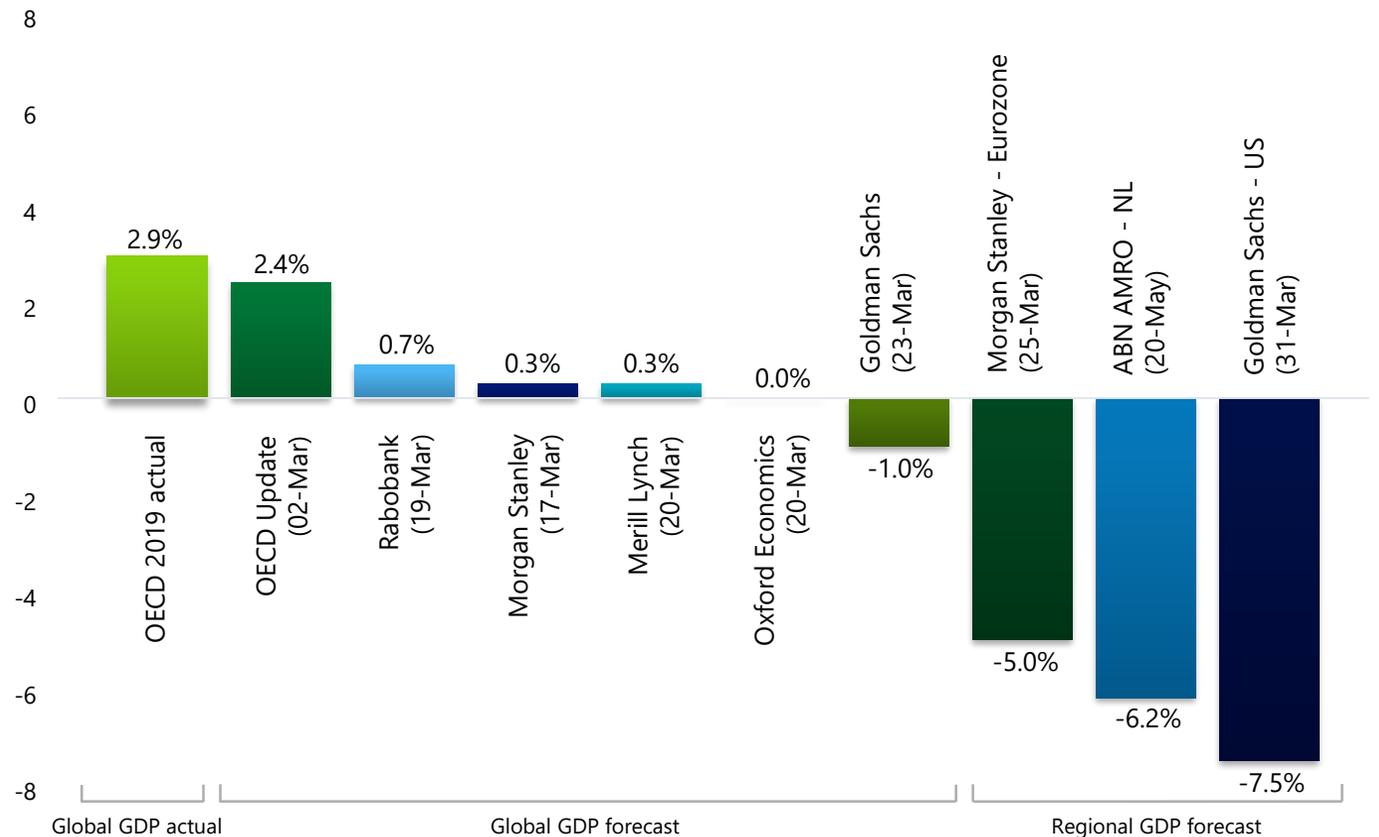
While much is unclear and uncertain at the moment, it stands beyond any doubt that the **economy is undergoing a severe impact** due to the recent COVID-19 outbreak. As a result the economic growth forecast in the Netherlands for 2020 has been adjusted downwards by 5.4% from an earlier projection of +1.6%.<sup>2</sup>

Unless explicitly stimulated through public policy of the central government, the economic downturn will cause less initiation of infrastructure, capital and construction projects, and projects in the pipeline are being postponed. Projects that are under construction today, originate from plans that have been approved two years ago. When current construction plans will be postponed or canceled, severe effects will be felt in the future.<sup>3</sup>

This insight focusses on the added value of infrastructure projects, both large and small for the Dutch Economy. By applying global best practices we can **build back better together**.

Source: 1. CBS; 2. ABN AMRO Insights; 3. Cobouw 2020

Chart 1: Analyst Forecast GDP Growth 2020 (% y-o-y)



Source: OECD, Morgan Stanley, Rabobank, Merill Lynch, Oxford Economics, Goldman Sachs, IMF, Deloitte Weekly Global Economic update 23 March, ABN AMRO Insights 20 May

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# Why do we need to invest in infrastructure today?

COVID-19 has left deep marks in the global economy. Nevertheless, the strong downturn also comes with potential benefits. It offers an excellent opportunity to accelerate the transition to a climate-neutral economy and to combine it with economically sustainable recovery.

It has been shown that **investing in infrastructure is one of the key opportunities** to create jobs and drive the economy. The best known examples are the “New Deal” projects which were enacted by Roosevelt in 1933. This package of public works helped the U.S. Federal government survive the Great Depression by decreasing the employment rate by 10% in less than five years. Another example is the IMF<sup>1</sup>, that encouraged countries to invest in infrastructure to help create jobs and drive economic growth following the Global Financial Crisis at the end of 2008.

## Downturn Dutch economy

The construction sector in the Netherlands had a major downturn in Q1 of 2020 due to PFAS- and nitrogen measures (see definitions). The industry is in need of a new influx of capital and a continuance of the current pipeline. In essence to **shift the focus** to investing in infrastructure, improving efficiency, improving resilience and improving broader cross-sector economic impacts.

During the crisis in 2008 only a limited amount of money, especially compared to e.g. the UK, has been made available by the Dutch government to increase and accelerate investments in infrastructure and (residential) construction. Municipalities, provinces and regional water authorities developed their own plans. The momentum is now to **act as a collective government** and stimulate a sustainable future. Limited proactivity could lead to a prolonged financial downturn with large job losses as a direct result.

There is a role now for public entities (i.e. national, municipality, ports) **to fundamentally invest in sustainable infrastructure projects**. The investments will then not only contribute to drive the economy, but they will also support the transition to a more sustainable society. According to the New Climate Economy, sustainable investments create an economic advantage of at least \$26.000 billion worldwide by 2030, compared with business-as-usual. Analyses of the CPB<sup>2</sup> show that a sustainable future offers more jobs than a fossil future. If we invest in sustainable infrastructure now, things will return to **better than normal** after COVID-19 in The Netherlands.

1: International Monetary Fund

2: Centraal Planbureau

3: Source: Infrastructure or accelerated capital spend as an economic stimulus, Deloitte Australia, 2020

## Infrastructure as the tool to stimulate economy across the world

It is therefore recommended to **develop a long term megaprojects strategy & accelerate projects that were already in the pipeline.**<sup>3</sup>

By building on projects that are already in the pipeline, and focusing on more than just economic benefits, but also for e.g. sustainability goals, governments can build back better:

- It is **during construction that megaprojects also have a huge economic impact** in terms of job creation and use of raw materials etc. The megaprojects should all continue at the fastest pace possible in the current climate as it provides the base load for the sector and can shield the economy from further job loss.
- Continuing megaprojects that are already in the pipeline will **provide additional benefits in the longer term**.
- Investments in sustainable infrastructure will **support the transition to a more sustainable society** and create a world that is ‘better than normal’ after COVID-19.
- Infrastructure **improves the productivity** of the nation allowing goods and resources to move throughout the economy.
- Infrastructure can be used to **drive outcomes, both economic and social**.

**In this way we can thrive the economy and shape a flexible, sustainable and resistant future.**

*“Investments in sustainable infrastructure will be the right instrument for restarting the engine of the world economy after the COVID-19 pandemic by building more resilient societies while also creating millions of jobs”*

# What can we do right now?

Governments should continue to deliver on the current infrastructure pipeline to drive future economic stimulus. Investing in megaprojects will not only create significant economic benefits in the longer term, but will also support the economy today. By investing in infrastructure, we can improve efficiency, resilience and broader cross-sector economic impacts and move to a more sustainable society.

## Focus on infrastructure projects

Megaprojects<sup>1</sup> have a huge economic impact on fostering regional growth through employment generation. Governments should consider ways to increase the speed at which these significant benefits are being generated, both during construction and after completion.

During construction, the megaprojects should all continue at the fastest pace possible in the current climate. It provides the base load for the sector and can shield the economy from further job loss. Where possible digital best practices should be used to shield personnel from potential infection risks and maximize project productivity and minimize overall project risk.

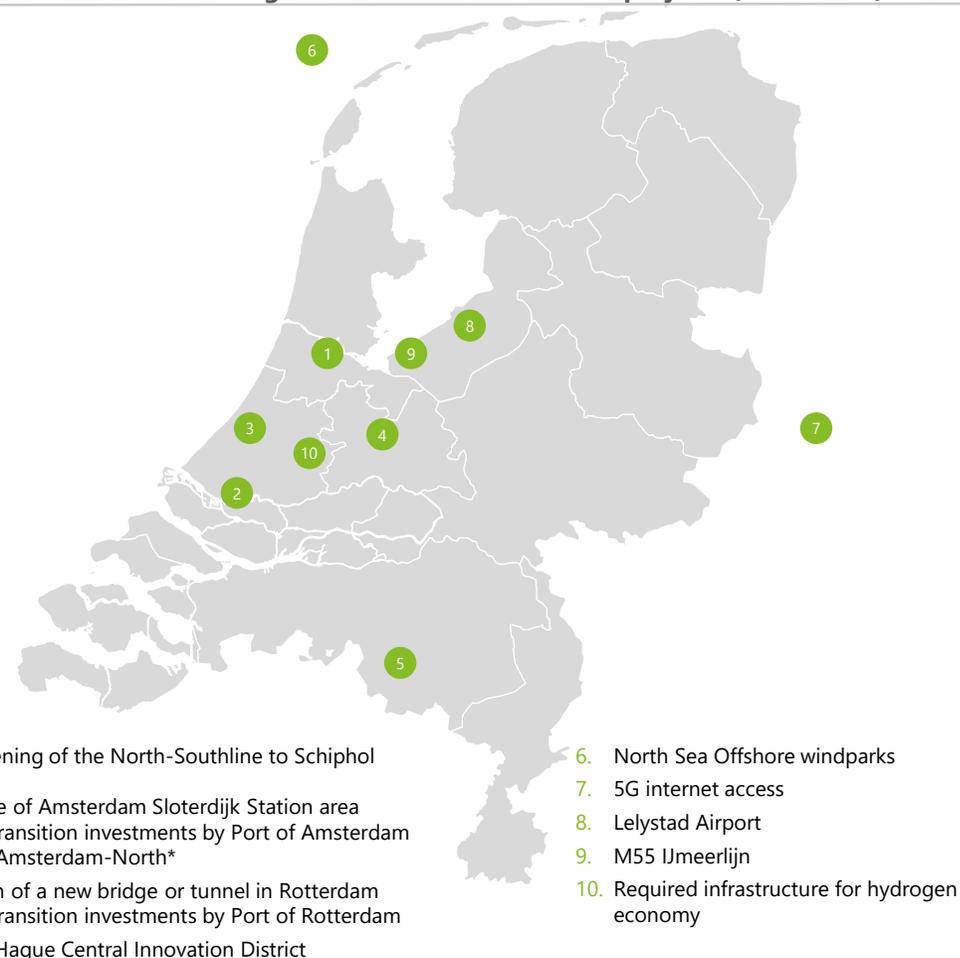
Governments should consider some of the regulatory impediments that will inhibit or slow economic growth (such as labor, planning and environmental laws) and thereby infrastructure projects. Safety should be of course the number one priority, so it remains a careful balance to optimize speed, but do so in a safe way.

In order to achieve the Dutch climate objectives and to strengthen the economy, Minister Van Nieuwenhuizen and State Secretary Van Veldhoven informed the House of Representatives about the national strategy for climate-neutral and circular infrastructure projects and about agreements to be able to work climate-neutral and circular in 2030.

COVID-19 changed the way we work, possibly forever. The pandemic is forcing us to think about different ways of working and how we need to equip ourselves to do that effectively. With effective recovery policies, **current key metropolitan infrastructure projects can be mobilized to accelerate the development of sustainable climate adaption.**

1: Zie Definitie

Chart 2: Overview of considered governmental infrastructure projects (non-exhaustive)



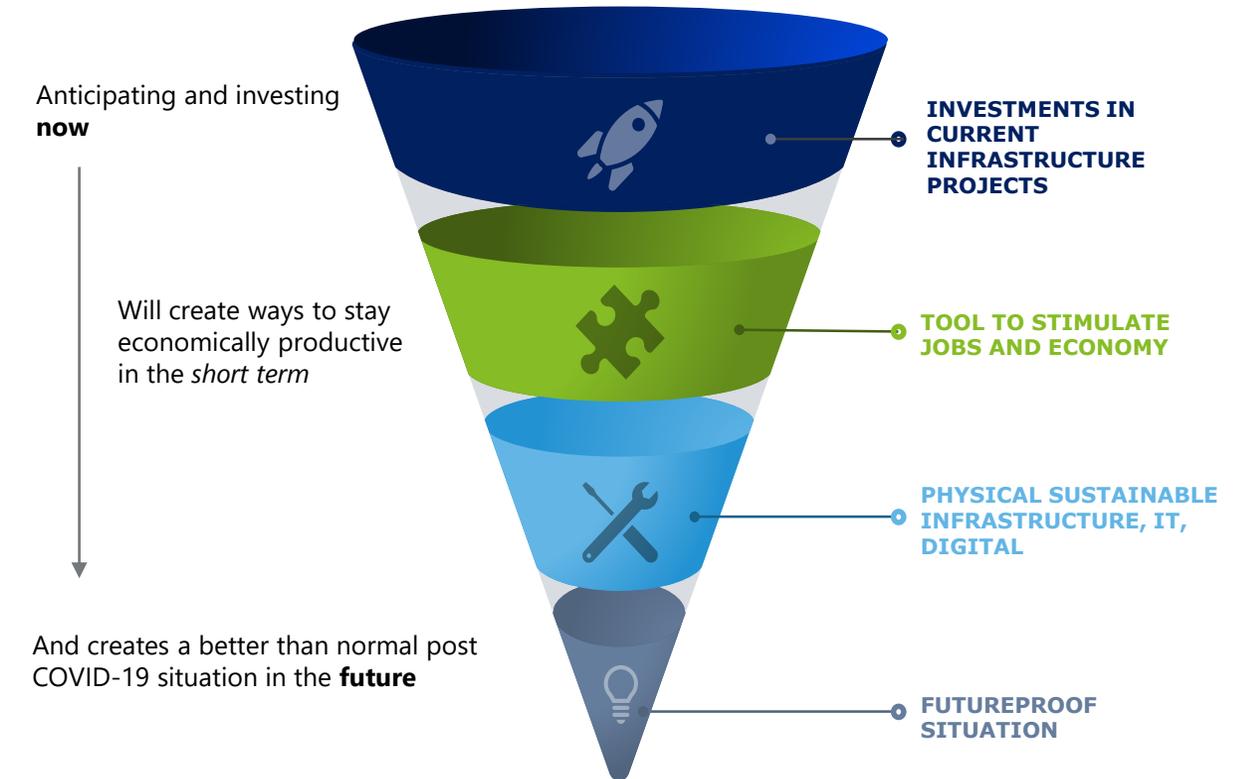
# How can we make this happen?

Whilst the megaprojects bring out the benefits outlined earlier in this document, they are less likely to show positive economic impact unless they are live or in the tender phase. Next to a strong long term strategy governments, but also local authorities and private organisations have to focus on optimizing the existing asset base.

Focusing on the existing asset base will directly allow companies to **improve efficiency, resilience and generate short term broader cross-sector economic impacts**. Once again using technology in a smart way to transform, and de-risk delivery. The following steps have to be adhered in order to generate the maximum chance of success:

- 1. Start with existing assets.** Increase the spend on asset management and maintenance. The government has billions worth of (hard) assets. Historically there has been a backlog of maintenance on assets as competing budgetary pressures have favored new build. Investment in optimizing the configuration and performance of existing infrastructure assets can bring impact quickly.
- 2. Take a holistic view.** A holistic view can create wider social and economic benefits than traditional approaches to development and infrastructure investment. It ensures we take a broader view and invest in the right projects for the community.
- 3. Digitally enabled infrastructure delivery.** The challenges associated with the delivery and operation of complex infrastructure in today's marketplace have been well documented in recent years. There are many reasons for the variability in project outcomes but one common thread in the array of solutions is effective use of real time data and analytics.

Chart 3: Futureproof situation through infrastructure investments



Source: Deloitte modification

# Looking beyond the financial business case

When starting new projects and expediting the existing pipeline, there is always a risk of focusing on the short term urgent benefits. The whole is always greater than the simple sum of its parts. By building back better, wider social, sustainable and economic impact can be achieved.

The high impact and urgency created by the COVID-19 crisis might trigger an exaggerated response by focusing too much on short term quick win projects. Even though a solid economic business case remains important for both a successful and viable project, governments and public organizations need to keep the wider benefits in mind.

By ignoring sustainability and keeping a too narrow focus on the economic business case we are just biding our time until the next crisis. Climate change and long term demographic changes will affect our economy over the coming decades, if we want it or not.

Infrastructure allows us to **plan for the long game**. Governments should include into account sustainable and social benefits when creating their long term development strategies. Parameters such as kilotons CO2 reduced, social mix & upwards potential, digital preparedness and so forth should be taken into account.

**Each level of public administration has a role to play** here. This approach is built around 2 main pillars, cooperation and clear division of roles and responsibilities. Governments in financing and national planning, local authorities in project selection and benefit monitoring, semi-public authorities (e.g. ports) in project development and cross sectoral facilitation.

Chart 4: Key factors of a sustainable financial business case



## Economic

- Higher wages and quality jobs for workers
- Superior products for consumers
- Higher tax revenues for government
- More resilient to economic downturns
- Higher than average productivity and firm growth



## Financial

- Capture more returns on public investments
- Enables value sharing through development receipts or estate fees
- Drives long term value by activated places that attract high quality tenants



## Social

- Create opportunities for community connectedness
- Allow delivery of social and community benefits in a more considered and strategic way



## Sustainable

- More environmentally efficient than traditional sprawl
- Focus on existing trends of greenification
- Develop long term growth in a sustainable manner



## The whole is greater than the sum of its parts

- Co-ordination of investment, reform and services has a multiplicative rather than additive effect
- The whole is greater than the sum of the parts
- Avoids double counting by multiple projects
- Avoids silo-ed investments in transport, utilities, and land use planning

# Conclusion

In conclusion, during, and after, the current COVID-19 crisis, investment in infrastructure offers a strong backbone to keep people employed, keep businesses afloat and maintain the productive capacity of the economy. In addition of offers a unique opportunity to build back better.

With cash flows at short hand, our first intuition is to put infrastructure investments on hold, this goes for governments and local authorities alike. Even though this is a correct short term natural response, it only aggravates the eventual downturn after the crisis.

Infrastructure investment projects should all continue at the fastest pace possible in the current climate as it provides the base load for the sector and can shield the economy from further job loss; this of course needs to be balanced out with what is a responsible health response to COVID-19.

Roles and responsibilities differ across the infrastructure value chain. Governments should consider some of the regulatory impediments that will inhibit or slow growth, develop new megaproject-strategies and focus on their existing asset base, improving efficiency, resilience and broader cross-sector economic impacts through precincts and using technology to transform and de-risk delivery.

Investing in sustainable infrastructure projects will support the transition to a more sustainable society and create a world that is 'better than normal' after COVID-19. The momentum is now to act as a collective government and stimulate a sustainable future.

These logical steps can **accelerate infrastructure as a green economic stimulus and allow us to build back better.**

## Key messages

- **The Netherlands require a strong economic stimulus package** to limit long term COVID-19 effects to the economy
- **Infrastructure can be used as an effective tool** for fiscal stimulus but with some key takeaways:
  1. **Megaprojects should continue** and be bolstered through a strong, long term, government driven strategy
  2. **Governments should remove impediments** to fast tracking infrastructure delivery e.g. planning and complex procurement
  3. **Start with existing assets** for 'quick wins' and short term stimulus
  4. **Think beyond the financial business case** to create wider economic and social benefits
  5. **Technology can help** us deliver infrastructure more efficiently from a time and cost perspective.
  6. **Urge for sustainability** to seize the current COVID-19 situation by recovering and aiding economies in a sustainable way

# How can Deloitte assist?

Deloitte Real Estate supports multiple parties in the infrastructure value chain due to its extensive expertise. We have a large international footprint, having advised on many large and complex infrastructure and capital projects around the world. We provide advise on the challenges of today, as well as a vision to consider the challenges yet to conquer.

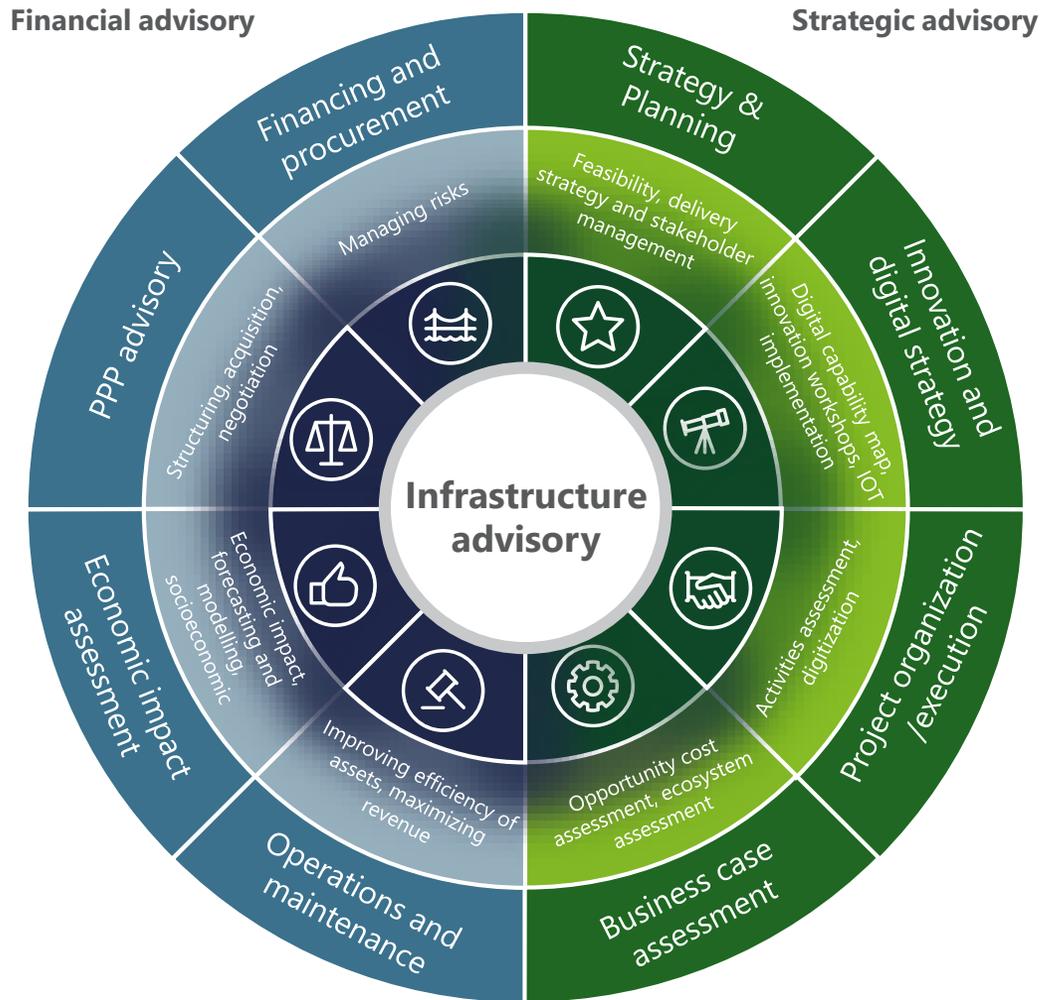
We can help you with maximizing value from infrastructure investments such as, investing in various infrastructure assets and other large capital projects representing a major investment and a complex challenge.

Deloitte Real Estate offers an end-to-end service for investors, developers, and operators in both the public and private sectors across the entire lifecycle of an asset. Our (global) network brings together world-class best practice and market-leading expertise with in-depth knowledge of local markets and the range of infrastructure asset types.

Our extensive range of services relate to strategy & planning, financing & procurement, project organization, execution, tax and audit, we support clients in the planning, financing, procurement, delivery, operation and maintenance of infrastructure assets and other large capital projects.

*“Let’s get through this **crisis together** with a **sustainable impact** that lasts”*

Chart 5: Capability map Deloitte



# How can Deloitte assist?

Deloitte Real Estate can support you thanks to its extensive expertise and its large (international) network of public and private parties



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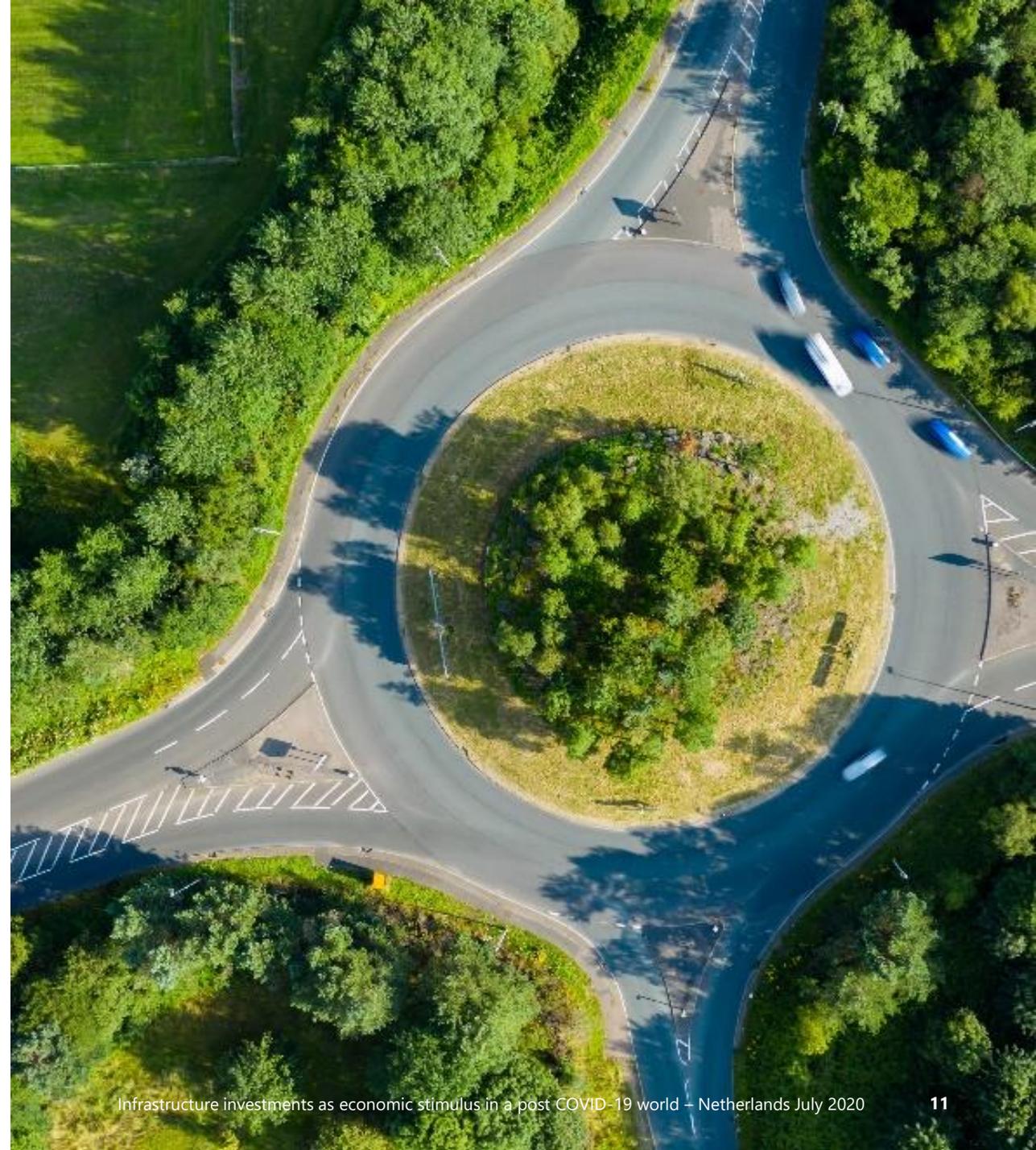
# Definitions

## PFAS- and nitrogen measures

In May 2019, the Dutch Council of State ruled that the current 'Integrated Approach to Nitrogen' (PAS in Dutch) on reducing excess nitrogen in vulnerable Natura 2000 areas is in breach of EU law. This has effectively put the granting of permits for building houses and infrastructure, and enlarging farms on hold. During the end of 2019 and the beginning of 2020 the Netherlands were threatened by a significant diminish of new houses being built. The government wanted to build 75.000 new properties each year over the coming years, but the PFAS- and nitrogen crisis has thrown a spanner in the works and cut this number by almost 40 percent.

## Megaprojects

In relation to this Insight we refer with megaprojects to temporary endeavors (i.e. projects) that are characterized by large investment commitment, vast complexity (especially in organizational terms), and long-lasting impact on the economy, the environment, and society.





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