Summary of Deloitte (2020)  
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**Summary**

Deloitte (2020) presents the challenges that face infrastructure companies as a result of COVID-19. Specifically, the pandemic has caused many development contracts to be dropped or slowed, leaving infrastructure companies in a liquidity crisis and creating funding gaps. Other than this, a major challenge is the unexpected drop in demand for and usage of certain types of infrastructure assets, such as transportation. The report projects an overall decrease in infrastructure investment in the short to medium term and a portfolio diversification trend.

**Implications for infrastructure**   
This report presents the ongoing pandemic as “an opportunity for infrastructure investors to acquire valuable hard assets from a valuation perspective (which is typical during an economic downturn) and reposition for the longer term when various initiatives have stabilized and there is an economic rebound” (p. 2). In addition to this, a list of key considerations for infrastructure companies is presented.

**Stock-and-flow diagram**

Infrastructure assets are modeled according to three phases: development, construction and operations. Each asset is found in one of these phases. Assets under construction or in operation are said to have suffered the largest impact due to COVID-19 as many contractors have declared force majeure or the demand for usage of certain assets (e.g. airplanes) has decreased due to virus containment measures.

Companies receive income from operation activities, so, naturally, these two challenges have adversely impacted company income, lowering the financial resources of the companies and posing a challenge for expenditures. This unexpected decrease of income has challenged liquidity and thus future investments, widening the infrastructure gap even further (the gap between Money needed to be invested in infrastructure and Money invested in infrastructure).

This cycle might improve the financial situation in the short term, but ultimately comes back to debilitate future earnings as investments drive the potential for future income through new infrastructure development. This problem echoes in construction as well as development as companies are faced with a funding gap resulting from low liquidity which prevents them from finishing certain construction activities.

The main stocks in the model are described in Table 1, while the causal links are the subject of Table 2.



Figure 1. Stock-and-flow diagram based on Deloitte (2020). The dotted arrow is an assumption induced from the document.

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable name** | **Description** | **Quote** | **Page** |
| Assets under development | The number of ongoing infrastructure development projects | The impact on infrastructure companies can be assessed during any of the following phases: development, construction and operations | 2 |
| Assets under construction | The number of ongoing infrastructure construction projects | The impact on infrastructure companies can be assessed during any of the following phases: development, construction and operations | 2 |
| Assets in operation | The number of operating infrastructure assets | The impact on infrastructure companies can be assessed during any of the following phases: development, construction and operations | 2 |

Table 1. A description of the most important variables in the model.

|  |  |  |  |
| --- | --- | --- | --- |
| **N.** | **Page** | **Quote** | **Causal link** |
| 1 | 2 | This is creating liquidity challenges resulting in funding gaps. | Development rate -> Expected financial income -> Funding gap Income -> Funding gap |
| 2 | 2 | The Government might prioritize its spending commitment in light of the pandemic, with a revised budget for 2020 focused more on recurrent expenditure, this could impact the annual gap in infrastructure investment in the short to medium term, except with interventions. | Expenditures -> Money invested in new infrastructure development -> Infrastructure gap Money needed to be invested in new infrastructure development -> Infrastructure gap |
| 3 |  | The infrastructure sector utilises people and equipment (largely fixed costs), thus compa nies and contractors with high levels of debt and low cash reserves may face a liquidity crisis. | Income -> Financial resources -> Expenditures |
| 4 | 2 | Supply chain interruptions will likely continue, affecting the availability of parts and equipment, and eventually impact projects. | Supply chain interruption -> Construction rate |
| 5 | 2 | The impact on infrastructure companies can be assessed during any of the following phases: development, construction and operations | Planning rate -> Assets under development -> Development rate -> Assets under construction -> Construction rate -> Assets in operation |
| 6 | 2 | There has been a downward spiral in demand and usage of major infrastructure assets like transportation due to the lockdown. | Share of operations halted due to COVID-19 -> Operation halt rate |

Table 2. Causal links found within Deloitte (2020)

**References**

Deloitte (2020) *The impact of COVID-19 on infrastructure projects and assets.* https://www2.deloitte.com/ng/en/pages/finance/articles/the-impact-of-COVID-19-on-infrastructure-projects-and-assets.html#, accessed on 12 October 2020.