

Asian Development Bank Institute

Managerial Lessons in the COVID Era

- Infrastructure Investment and City Development

Eugene Chao

**May 17, 2022
Tokyo (Virtual)**

URBAN TRANSIT FOR LIVABLE CITIES

PROF. VUKAN VUCHIC

Learn to develop customized urban transit plans and improve city mobility with this course that bridges technical knowledge with practical application.



"City livability depends on urban transit. Learn about transit systems and their critical role for the character of cities and quality of life."

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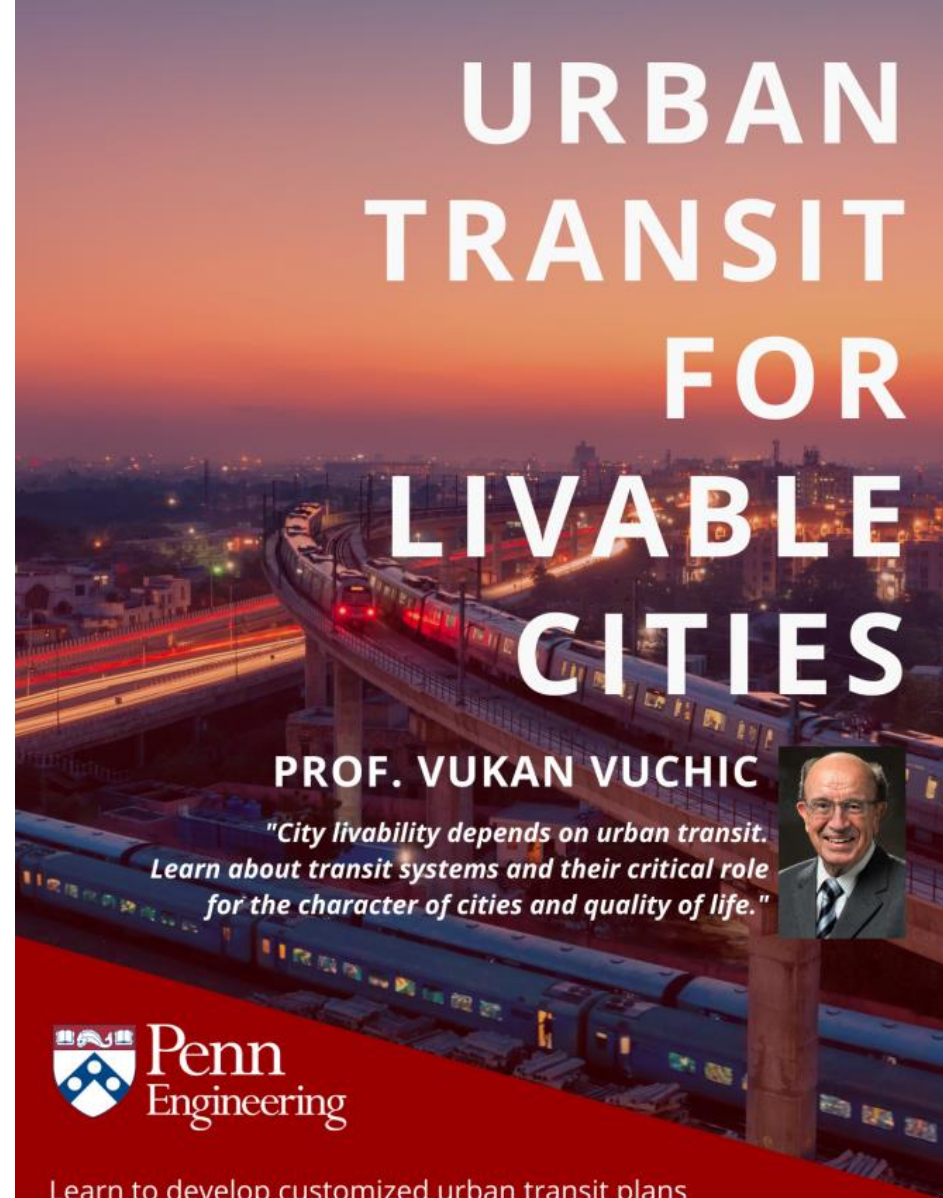
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Advisory and lecture in Russia, UAE, and others



Executive Summary



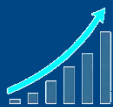
In many changes and lockdowns, the trendy stimulus across the globe immediately raised eyebrows. What do the governments want from the massive stimulus?



What pace of growth do governments intend to create? Which **scale** are enough to achieve intended outcomes? Growth at what cost? How long can it be sustained? What is the **quality** of growth?



Fiscal discipline, organization culture, investment acumen are pivotal to ensure that the growth decisions translate into long-term view and sustainable outcome.

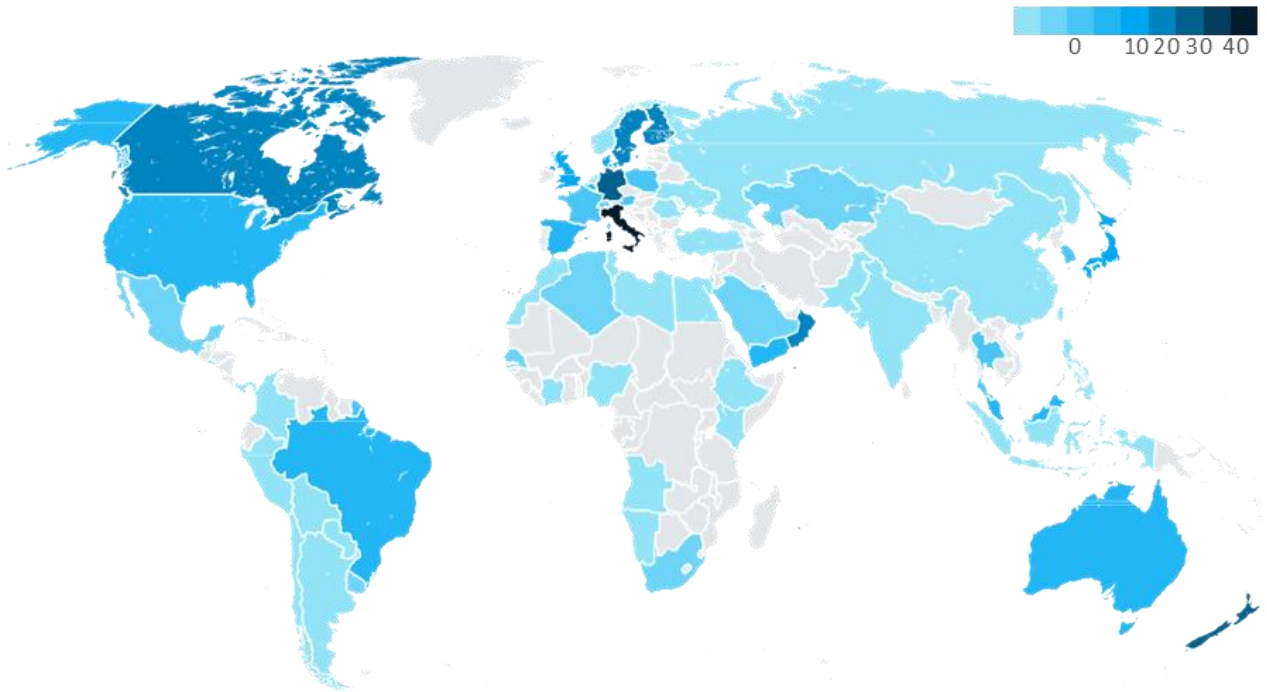


This presentation differentiates **the pitfalls of stimulative growth** and examines **the fundamentals of delivering enduring city development outcome**.

1. Introduction: Trendy Stimulus in Sporadic Matter

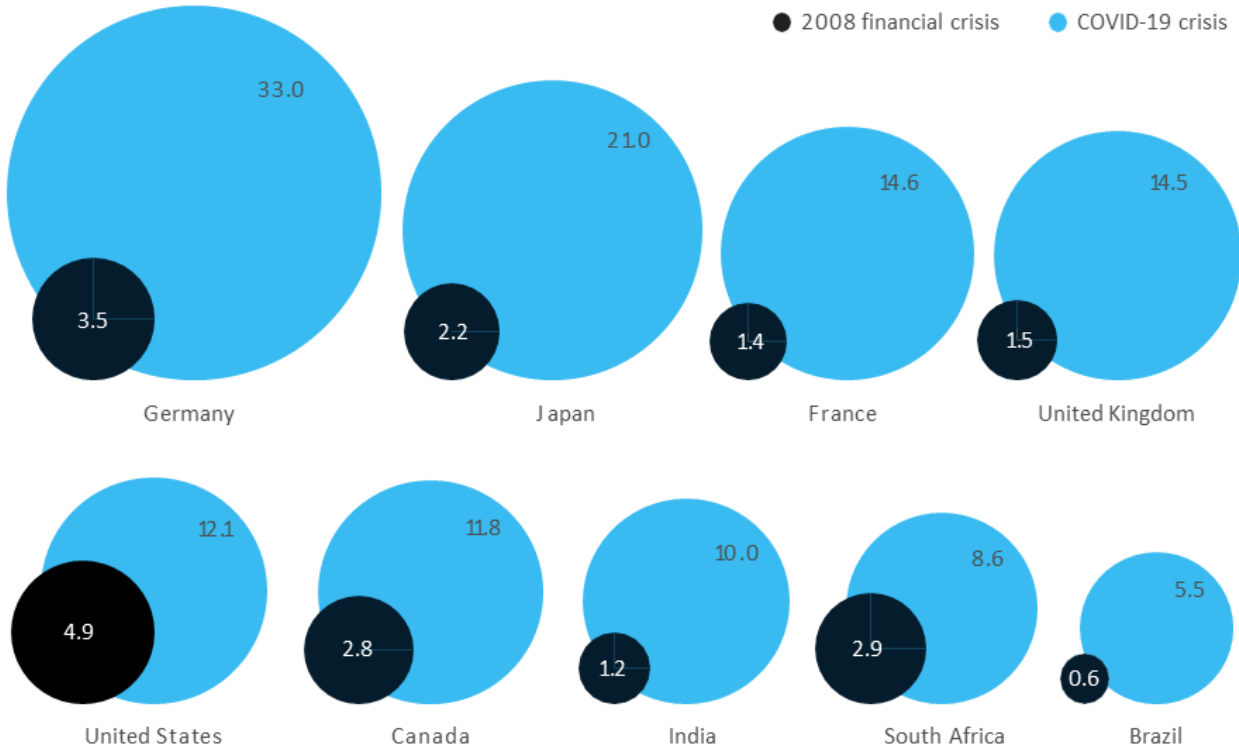
COVID-19 stimulus package statistics

Worldwide stimulus package



Note: Size of stimulus package (as of May 2020) on % of 2019 GDP

Stimulus package: 2008 financial crisis vs. COVID-19 crisis



Note: Stimulus crisis response on % of 2019 GDP

Source: McKinsey & Company: The \$10 trillion rescue: How governments can deliver impact, June 2020
<https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-10-trillion-dollar-rescue-how-governments-can-deliver-impact#>

COVID-19 stimulus spending category

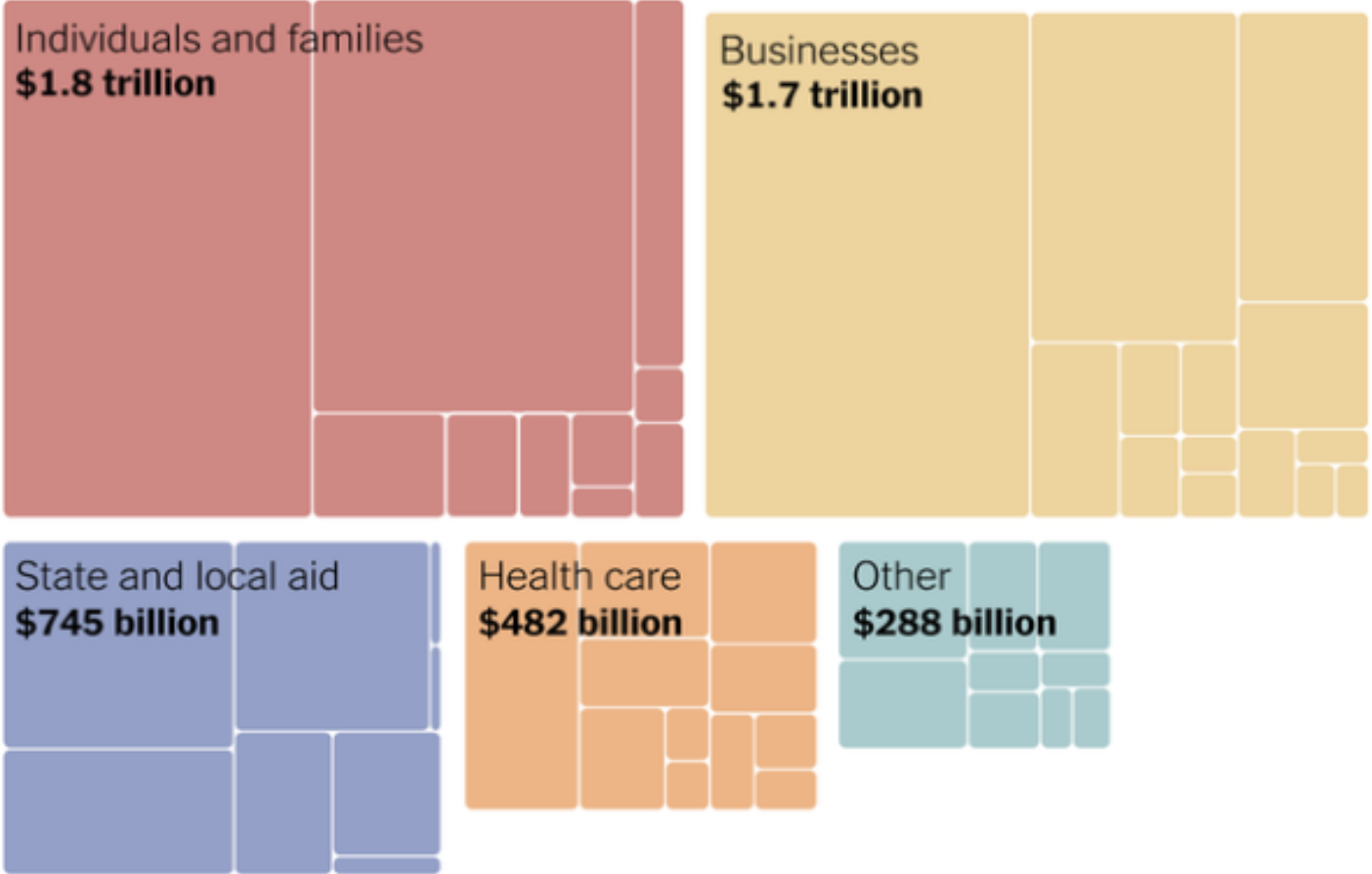
The New York Times

Millions in Stimulus Aid, and Clashing Over How to Spend It

As communities across the United States receive pandemic relief money, fierce debates have erupted over priorities, and who has the power to set them. **By Deborah B. Solomon** March 11, 2022

Where \$5 Trillion in Pandemic Stimulus Money Went

It is the largest government relief effort in recorded history, and two years after Covid-19 crisis began, money is still flowing to communities. Here's where it went and how it was spent.



Where to create the spending account?



SEPTA board OKs spending federal COVID-19 aid on the King of Prussia rail line by Thomas Fitzgerald Published Feb 25, 2021

Chalkbeat

NEW YORK

Here's how NYC schools are spending \$7 billion in COVID federal relief

By Reema Amin Mar 8, 2022,

The Guardian

California cities spent huge share of federal Covid relief funds on police Sam Levin 7 Apr 2022

Bloomberg Opinion

Where Did \$6 Trillion in Covid Funding Go?

Congress rightfully doled out big checks for pandemic relief. Unfortunately, many of them ended up in the wrong pockets. The Editors March 14, 2022

COVID stimulus spending for the 2021-2022 school year

Category	Description	Funding
"Maintain current services"	Pays for "existing costs" that might have been cut without federal aid	\$823M
Universal 3-K	Expanding preschool for 3-year-olds	\$378M
Academic recovery	Money for schools to create extra tutoring programs, provide professional development, cover certain salaries and create more arts programming	\$350M
Special education	After-school and weekend programs for students with disabilities, additional pre-K special education seats, extra support to eligible students ages 21+	\$251M
Universal Mosaic Curriculum	Creating a new English and math curriculum that reflects "the variety of histories, languages and experiences that make up the city."	\$202M
Miscellaneous	Variety of "smaller projects such as school safety training and professional development." (DOE did not provide further details)	\$175M
Restoring enrichment programs	Restoring previously slashed programs for arts, Learning to Work, "Equity & Excellence" programming, such as AP For All	\$172M
Backfill cuts for school funding	Held schools harmless for last year's enrollment drops	\$150M
Reopening school buildings	Health and safety costs associated with reopening buildings during the pandemic, including covering extra staff	\$135M
Technology and devices	Buying more devices, expanding Computer Science For All, training 5,000 educators in advanced computer science	\$122M
Summer Rising	Creating universal summer school in the summer of 2021	\$100M
Fair Student Funding	Ensuring every school received 100% of funding through the city's formula	\$95M
Social-emotional and mental health support	Hiring more social workers and buying a social-emotional screener for schools to assess their students	\$80M
Building infrastructure	Updating buildings and making them more accessible	\$70M
Early Literacy for All	A screening tool and training to evaluate K-2 students, hiring additional teachers and literacy coaches for interventions.	\$49M
Restarting and expanding school sports	Creating more high school sports programming	\$21M
Expansion of restorative justice programs	The DOE did not provide further details	\$12M
College and career readiness	College counseling for all Juniors and seniors, expanding college-credit courses, and mentorship opportunities for immigrant students	\$10M
Expand community schools	Increase the number of community schools to 400	\$10M

2. Detrimental Consequences: Growth Ponzi Scheme and Blitzinvesting

*Blitzinvesting is suffocating growth and wasting resource: **spending too much, too soon on unvetted insolvent projects** only heightens the risk profile that a government's race to recovery becomes a race to oblivion.*

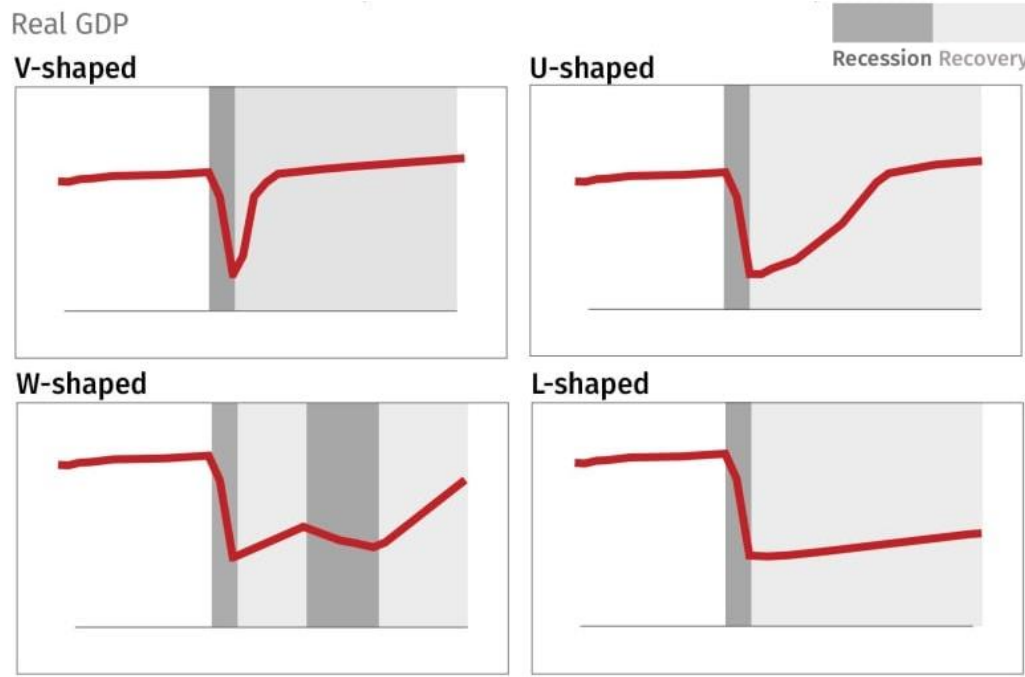
– Eugene Chao, The Wharton School

Consequence/Fact No.1: Sacrifice long-term fiscal strength to accomplish near-term targets

When periodical halts occur, many governments are desperately seeking growth (e.g., GDP, FDI, etc.). This artificial growth measure as the **Growth Ponzi Scheme (GPS)**: generating near-term growth at the expense of long-term prosperity.



Have you ever traded away sustainable long-term revenue to generate short-term spike?



CBC NEWS

Source: BMO Economics, Harvard Analytics

Consequence/Fact No.2: Chasing speed over quality

In the COVID era, governments are desperately seeking growth. Investors are hunting for profit. Periodical lockdowns halt projects and developments; therefore, chasing speed over quality – **Blitzinvesting** becomes a new growth rhythm to regain momentum and build in deliberate growth buffer.

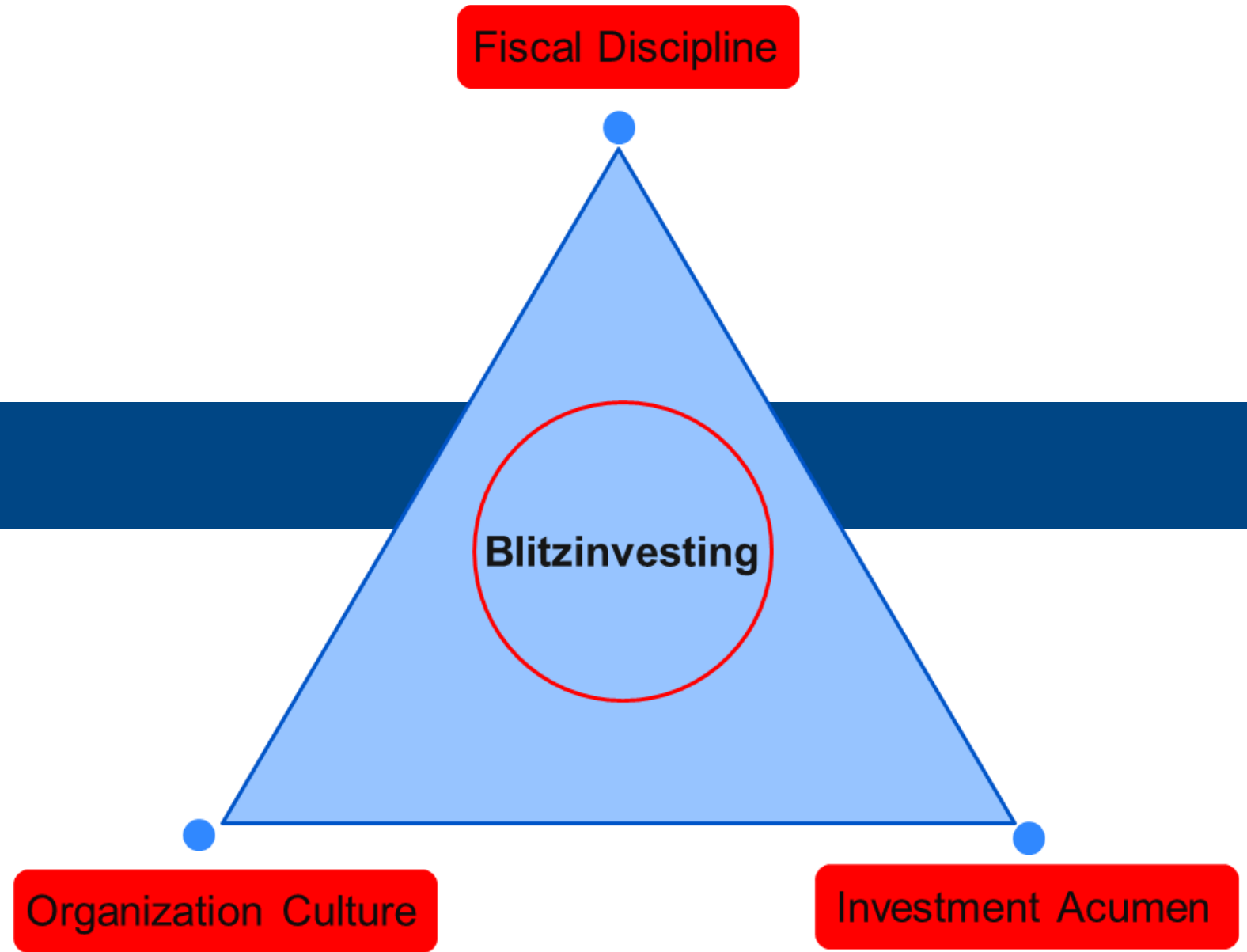
1

Blitzinvesting exercises an all-out mentality and prioritizes speed and scale over quality without prudent budgetary scrutiny and regulatory evaluation to allow money to search for projects rather than filtering through orthodox bidding, appraisal procedure, or even tailoring contracts to favor a specific bidder.

2

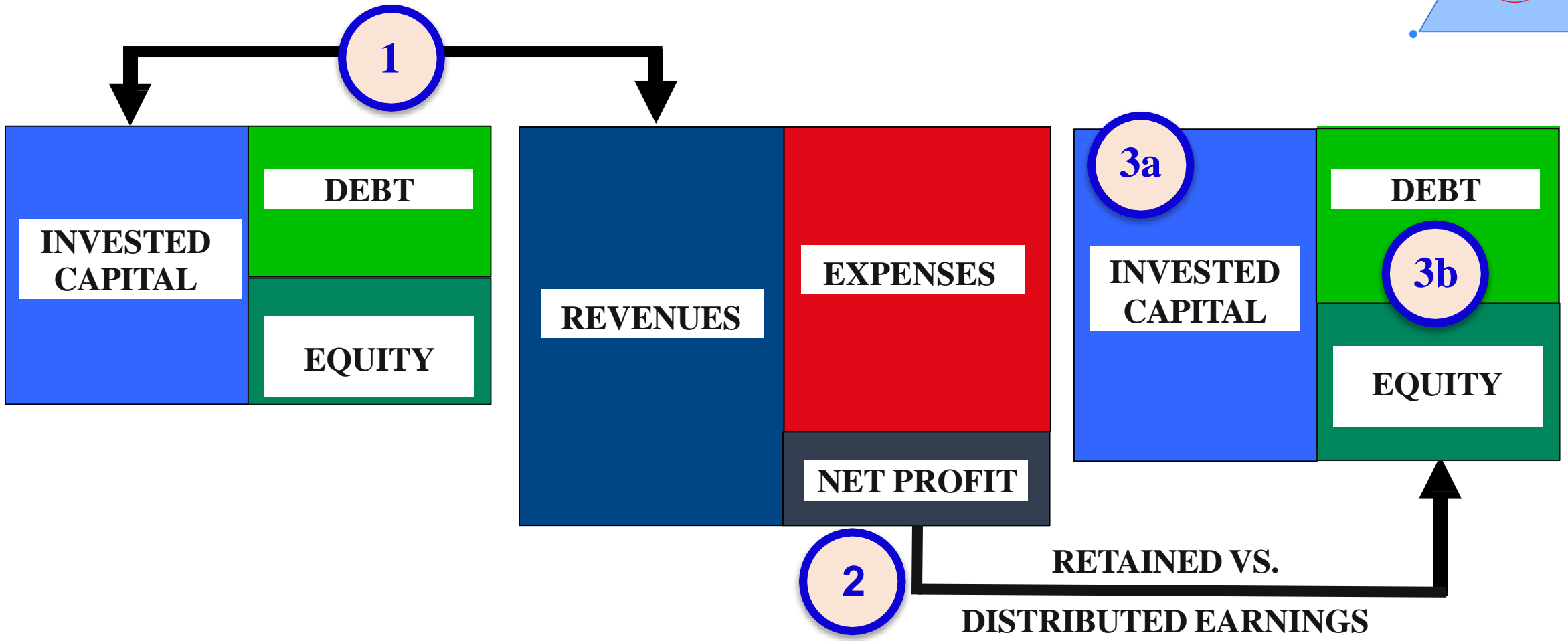
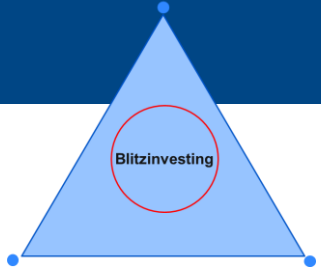
Rampant stimulus originates from a distorted governance mindset: the short-term stimulus would fix the growth trajectory (U-shaped, V-shaped recovery) so that more political rising stars could win campaign bargain and electoral rhetoric.

3. Root Causes of Chaos

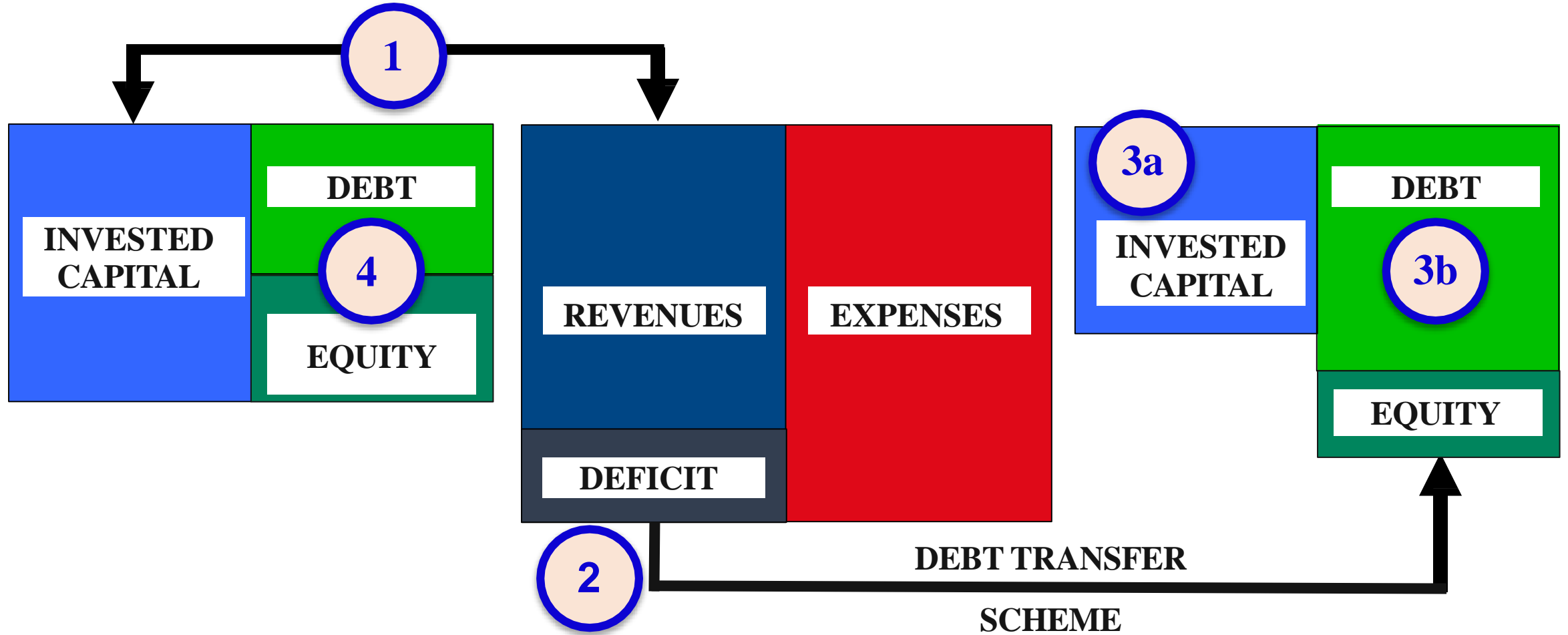


3.1 Fiscal Discipline

Value Creation

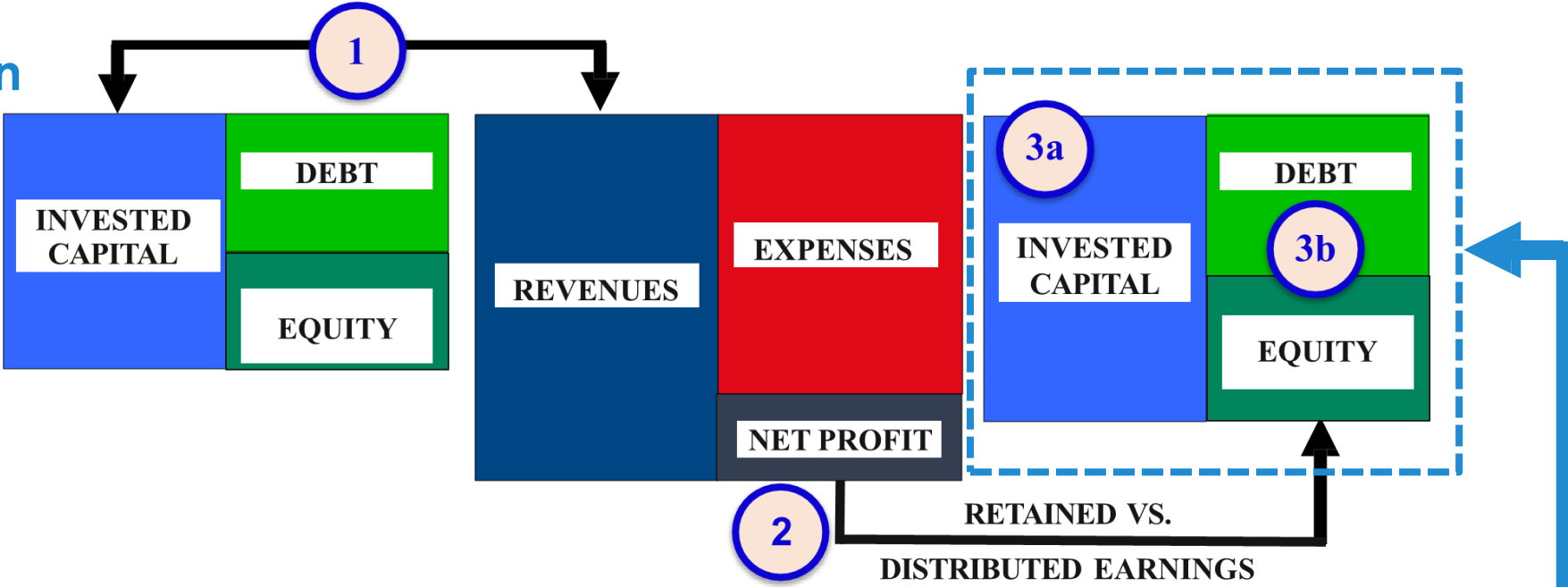


Value Destruction

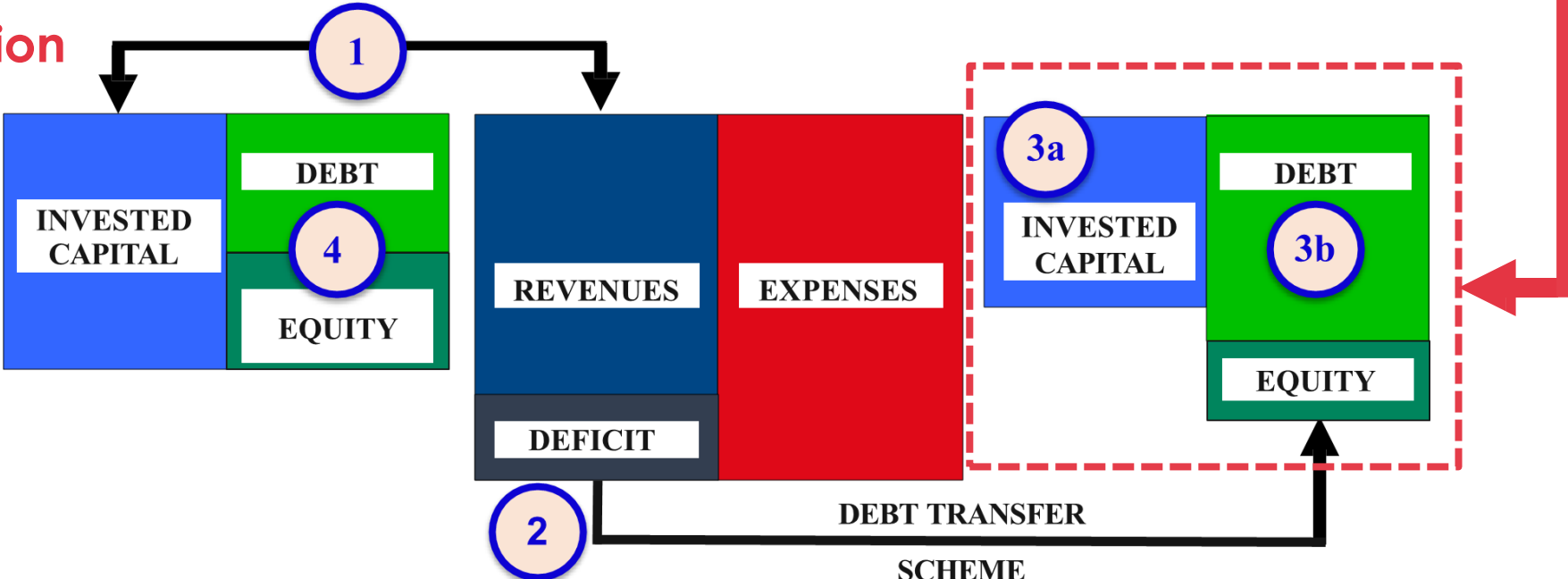


Value Creation vs. Value Destruction

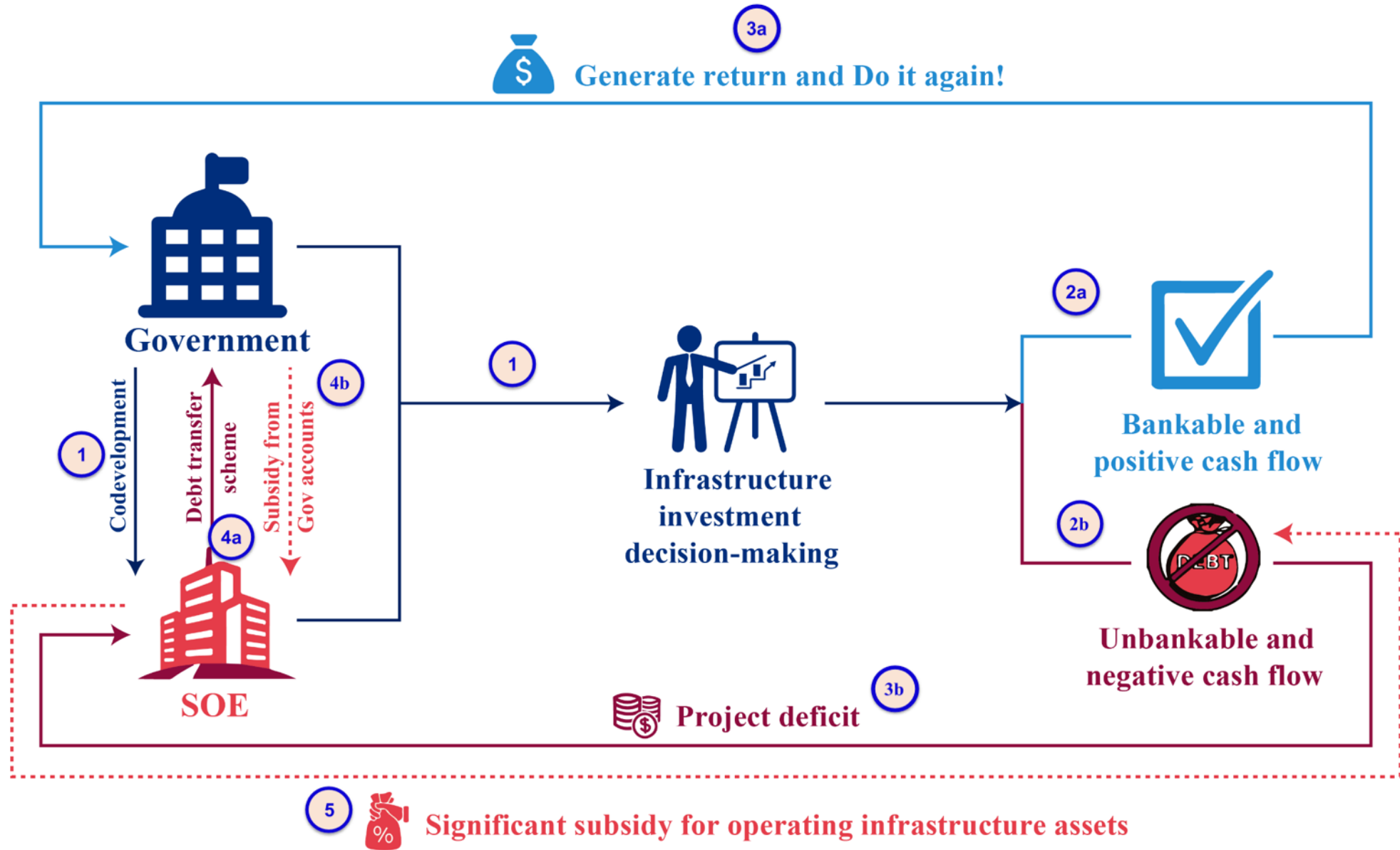
Value Creation



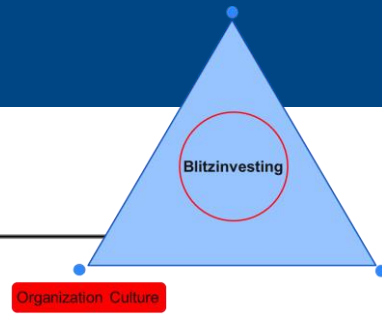
Value Destruction



Debt transfer scheme in unbankable and negative cash flow projects



3.2 Root Causes of Chaos: Organization Culture



Dialogue Box 1. Overemphasizing scale and speed over quality

Government decision-maker (G): Four years from now, I won't be here! I need to show voters how many metro lines and public amenities are going to open during my tenure as soon as possible. Let's build first and wait for the ridership to grow. Plus, we received stimulus packages, so let's do it now!

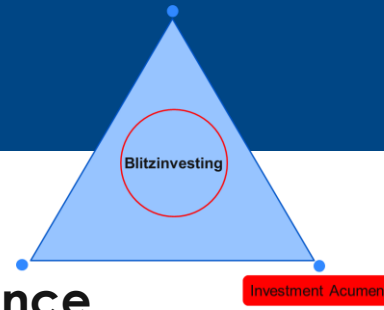
Consultant (C): Underutilized infrastructure assets would be a waste of investment. Do you have a way to boost the asset utilization rate?

G: No, we don't!

C: Would you like to have one?

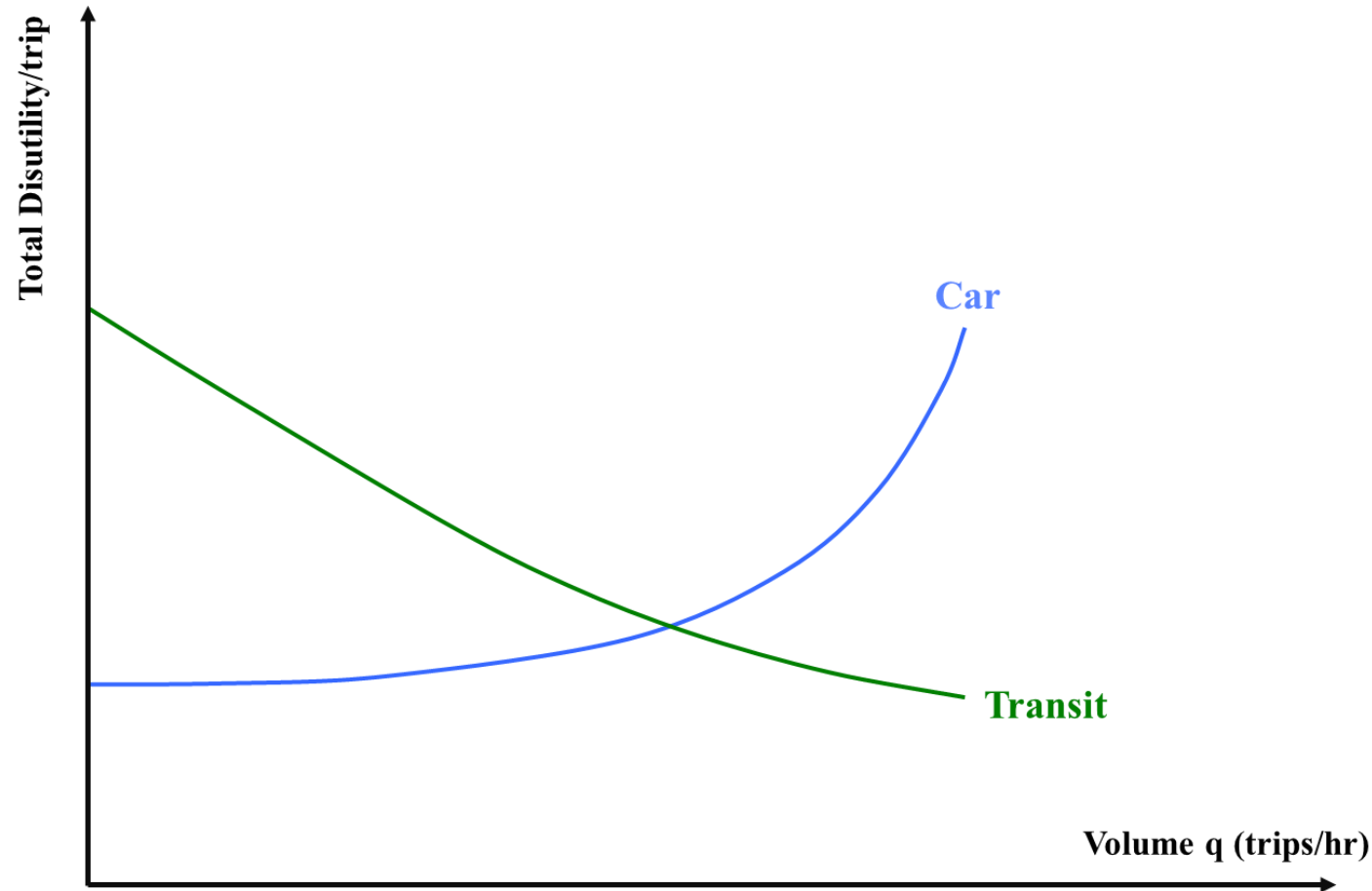
G: Well, it sounds complicated. Why not simply focus on how many lines and new systems we can open during my four-year term?

3.3 Root Causes of Chaos: Investment Acumen

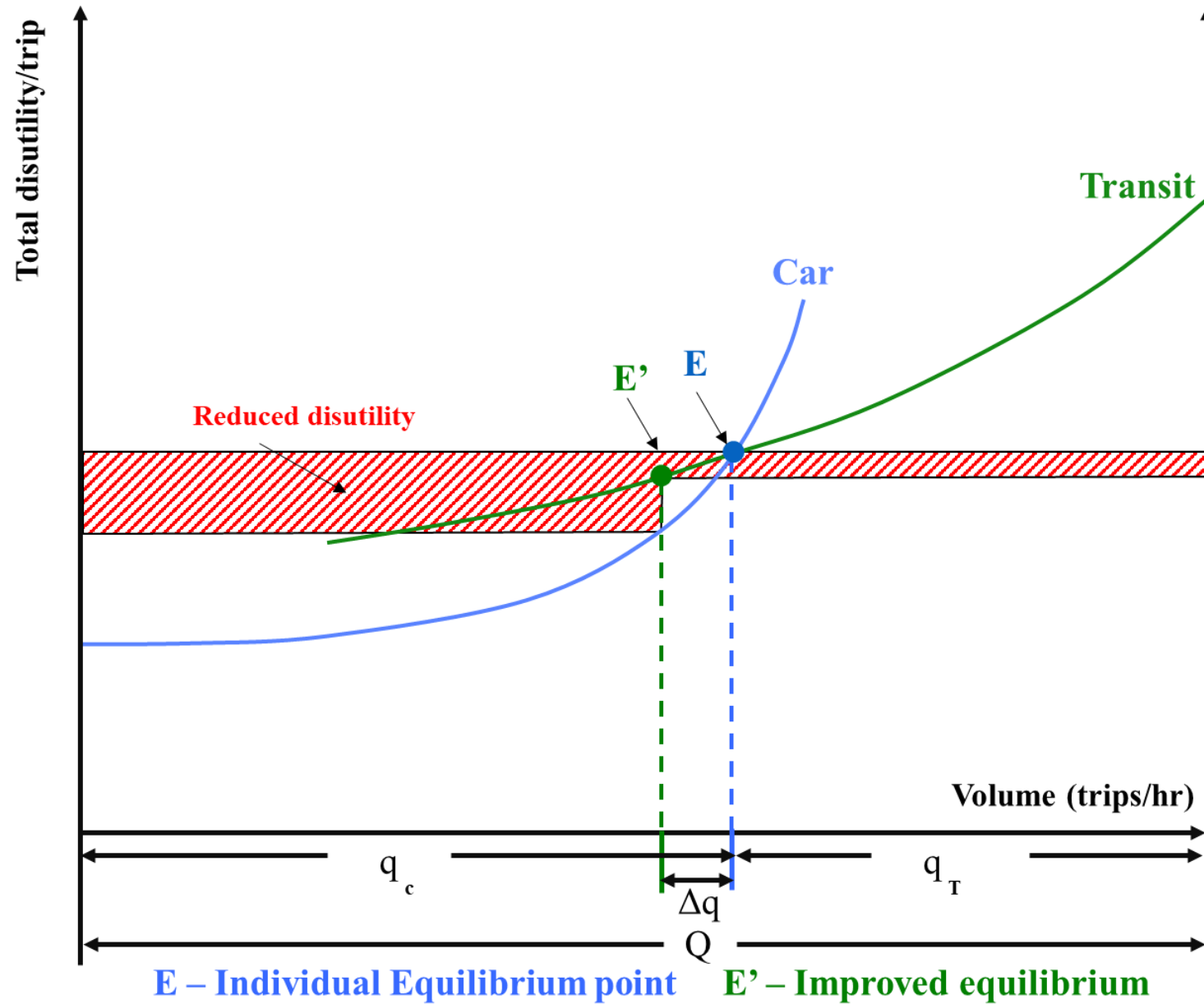


Extrapolate the past vs. Define the future

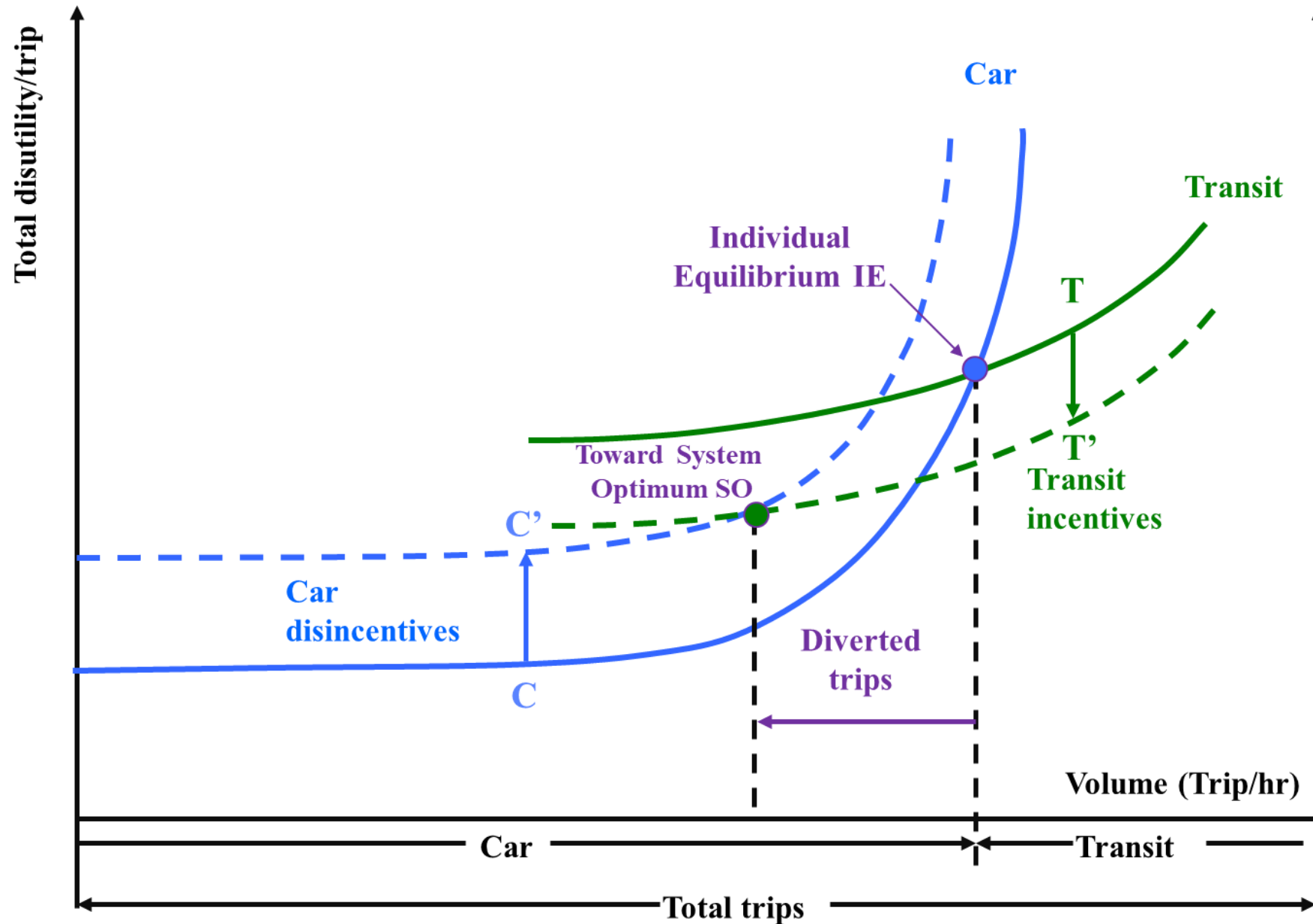
Extrapolating from the historical statistics to forecast the future or allowing the past performance and sunk cost to influence present decision-making is never a guarantee of the present and future. The precise measure is to define what kind of city do people want in the future.



Travel distribution between cars and transit



Shifting the individual equilibrium toward system optimum



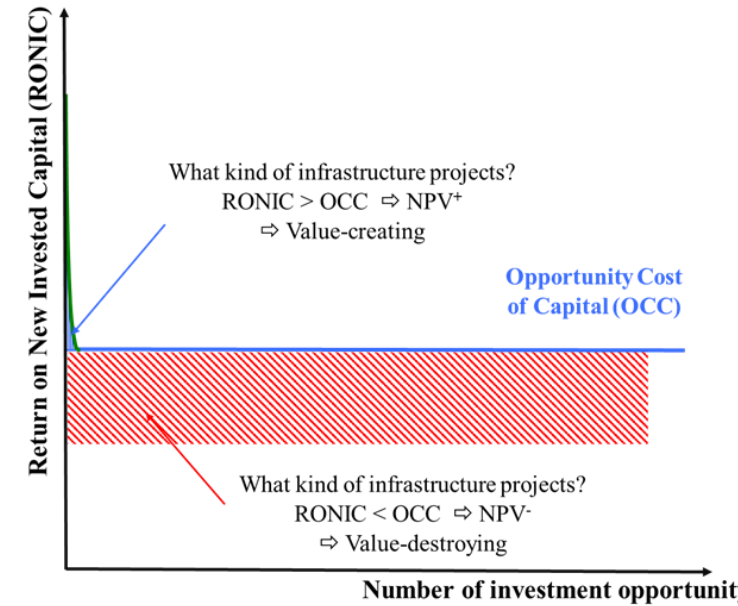
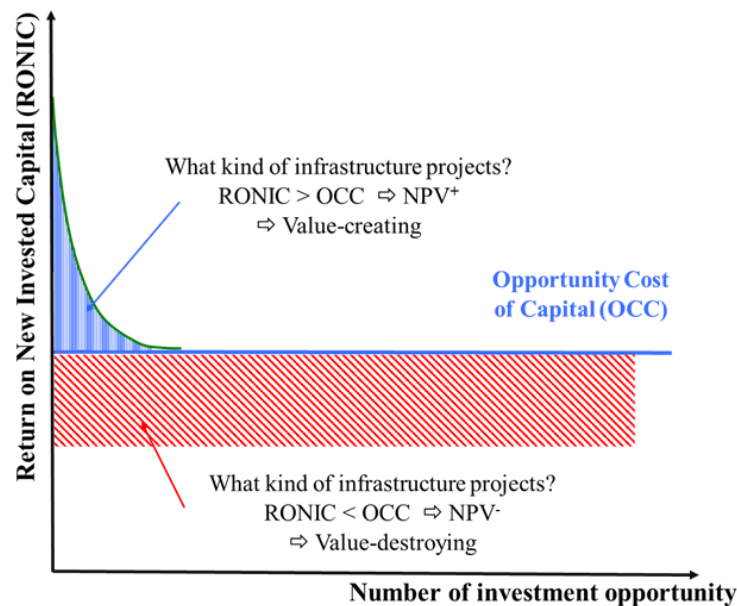
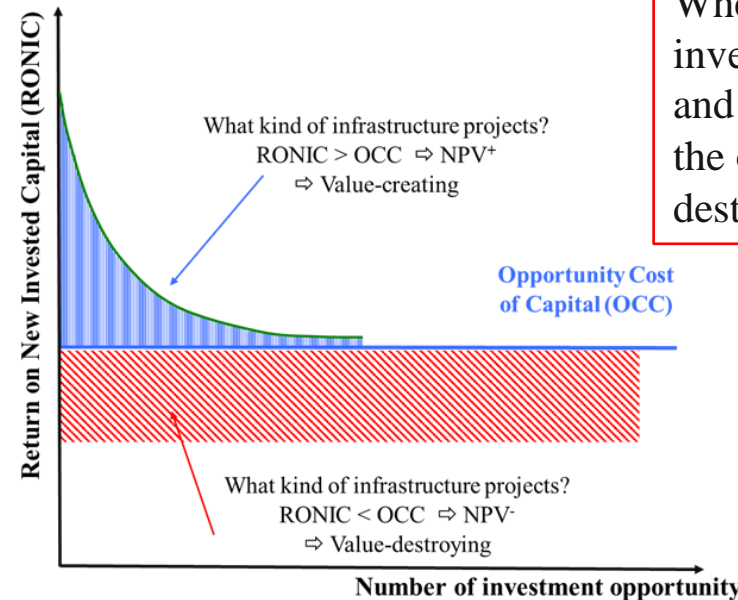
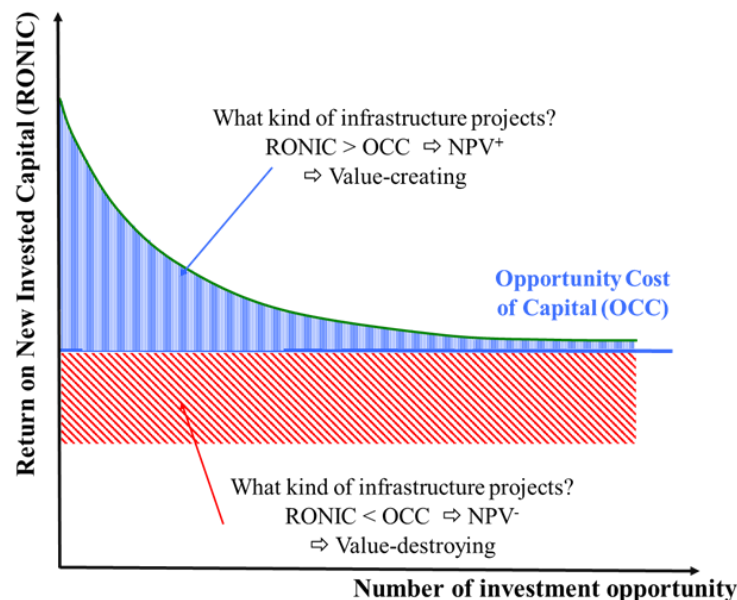
Desirable solution: Toward the positive outcome

Policy Type	Investment	Mobility	Modes and Policies												
Incentives	High	Increased	<div style="display: flex; justify-content: space-between;"> Car Transit </div>												
Disincentives	Low or Negative	Decreased													
<p>Legend for Policies</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 20%;"></td> <td style="width: 40%;">Leads to balanced intermodal system</td> <td style="width: 40%;">CI: Car Incentive</td> </tr> <tr> <td></td> <td>May not influence intermodal relations</td> <td>TI: Transit Incentive</td> </tr> <tr> <td></td> <td>Increases imbalance favoring car</td> <td>CD: Car Disincentive</td> </tr> <tr> <td></td> <td></td> <td>TD: Transit Disincentive</td> </tr> </table>					Leads to balanced intermodal system	CI: Car Incentive		May not influence intermodal relations	TI: Transit Incentive		Increases imbalance favoring car	CD: Car Disincentive			TD: Transit Disincentive
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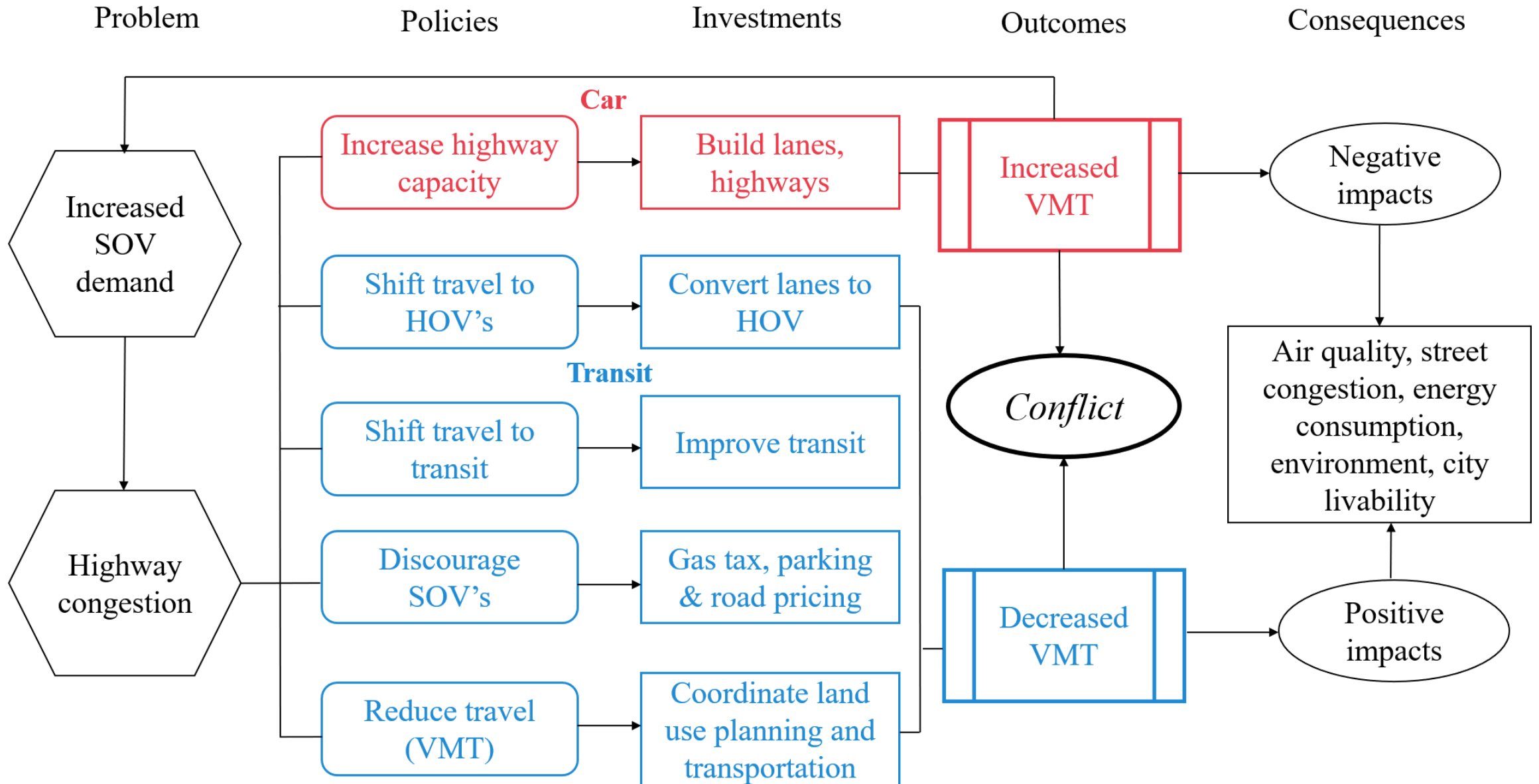
Fictitious growth as a mean to justify electoral rhetoric

When a government fails to invest in positive NPV projects and simultaneously increases the overall liability, it is destroying value for its nation.

1. If $RONIC < OCC$, growth destroys value;
2. If $RONIC > OCC$, growth creates value;
3. If $RONIC = OCC$, growth has a neutral impact on value since all investments are $NPV=0$;
4. If $growth = 0$, there is no return on new investment. The investment impact on value is none.



Offsetting consequences of conflicting policies and investments: highway vs. transit



4. If GPS and Blitzinvesting are terrible, why governments obsess with

Underlying obsession of Value Destruction

Value Creation

1. SYSTEMS APPROACH

Identify the priority and causality, develop a prudent method with enduring well-being



2. BUILD-UP CULTURE

Harvest ROI/ RONIC over quality



3. INVESTMENT ACUMEN

Invest in value creation projects and divest value destruction projects



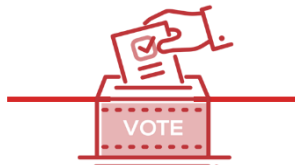
4. VALUE OF PATIENCE

Patience overcomes cyclical, continue devoting to value creation drivers



5. ELECTORAL RHETORIC

Draw benchmarked win over campaign bargain and political ladder, reward seats to value creation leaders



Value Destruction

Neglect fiscal discipline and organizational health at the expense of long-term prosperity

ROI/ RONIC over quantity/ scale is a deceptive measure

Forget about O&M expenditure, deficit Debt transfer scheme is the approach

Speed is the new rhythm of investing

Extrapolation fuels boondoggle, glitz and glamor projects, negated the opportunity for future betterment

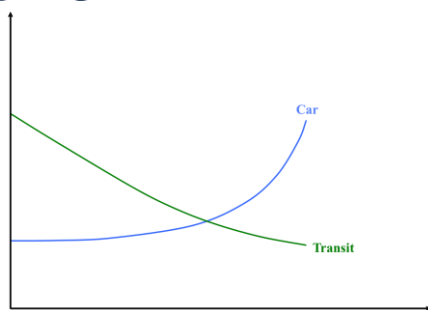
5. Conclusion



- *Have you ever traded away long-term growth to generate short-term spike?*
- **Detrimental Consequences**
 - **Growth Ponzi Scheme**
 - **Blitzinvesting**

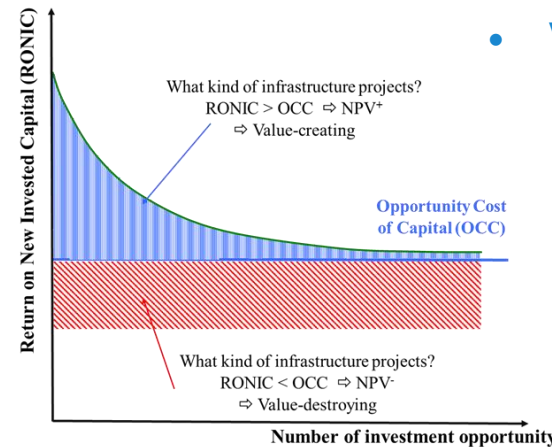


- **Three root causes of chaos**
 - **Fiscal Discipline**
 - **Organization Culture**
 - **Investment Acumen**



Investment Offset

- **Investment malpractices with distorted acumen**
 - **✗ Extrapolation**
 - **✗ Fictitious growth by electoral rhetoric**
 - **✗ Conflicting policy and investment**



- **Value Creation vs. Destruction**
 - ✓ **Systems approach**
 - ✓ **Build-up culture**
 - ✓ **Investment Acumen**
 - ✓ **Value of Patience**
 - ✓ **Electoral rhetoric**

Thank you!