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ABOUT COVID-READY ECONOMIES

By Dr David Nabarro and Joe Colombano

WHY SUSTAINABLE DEVELOPMENT NEEDS US ALL TO BE COVID-READY

Joe Colombano and I were both closely involved in the development of the 2030 Agenda for Sustainable Development, which is the plan that world leaders agreed for the equitable future of peoples and the planet in 2015. Five years later, faced with the unprecedented and multidimensional challenges of a global pandemic, we continue to find the Sustainable Development Goals (SDGs) inspiring and relevant. The third goal (SDG3) is to *Ensure healthy lives and promote well-being for all at all ages*, and one of its targets (3D) is to *Strengthen the capacity of all countries, in particular developing countries, for early warning, risk reduction and management of national and global health risks*. These words take on a new sense of urgency now, as we realize that the coronavirus that causes COVID-19 is here to stay, at least for the time being and we need to be prepared to live with it.

Societies everywhere will need to be [COVID-ready](#). This requires everyone to do their part, and at speed. Authorities need to be quick to put in place strict isolating and distancing measures. Everyone needs to comply diligently with them. This is the only way to interrupt chains of transmission.

Lockdowns will continue be used to reduce opportunities for transmitting the virus. They must be implemented promptly and rigorously at the beginning of an outbreak. The sooner the lockdown is put in place, the easier the crisis can be managed, the shorter it will be and the more limited the disruption of social and economic activities – in terms of the geographical area affected and the duration of the impact.

We understand why Governments may be reluctant to act rigorously. They know that the human and economic costs associated with a lockdown can be high – especially for people on daily wages or working in the informal sector. They fear that the impact will be substantial. Yet during a lockdown they are enabled to strengthen community-based public health services and to ensure hospitals have what is needed to protect health workers. Then they can [release the lockdowns gradually](#), focusing first on the areas with strong defenses while being more careful with regard to areas where there is a high rate of virus transmission. They can prioritize those sectors that are the most vital in terms of ensuring access to essential services.

POLITICAL ECONOMY ELEMENTS

Governments are considering how to adapt their economies to the need for societies to be COVID-ready while – at the same time – valuing the essential elements of the sustainable development agenda. COVID-readiness means investing in public health and hospital services so that they are at the standard needed for societies to defend themselves against this and other threats. It also means being able to protect lowest paid people in case they are asked to stop working as part of physical distancing to contribute to COVID-19 containment. It means valuing and rewarding women especially for the roles they play in essential health care, food systems and social care – and more. This means being ready to deploy a number of bold measures to lessen the economic and social impact of the restrictions on activities and movement. A whole-of-government approach is needed, including both

fiscal and monetary policies to boost the economy, with a special attention to social protection, targeting the most vulnerable in society.

Traditional monetary easing is necessary to inject liquidity, but hardly sufficient, especially given the current low interest environment in many countries. Bold fiscal packages are needed, addressing both health and economic challenges. They must be focused on the public health system, especially health care workers, because they are at the frontline of the crisis. They must put people at the center, especially the most vulnerable and the hardest hit. And they must support businesses of all sizes, because the recovery depends on them.

Making an economy COVID-ready takes courage. Fiscal measures need to be commensurate with the challenge at hand. They need to be big. Often this will mean breaking with long-held practices of prudential fiscal rules, and lead to increasing levels of debt. It could change political dynamics and the political space, either by alienating traditional constituencies reluctant to abandon fiscal discipline, or by losing the support of those that perceive the interventions to be slow or inadequate. Damned if you do, damned if you don't. But it must be done. This is not simply about stimulus. It is about survival.

INSTITUTIONAL ELEMENTS

A COVID-ready economy requires COVID-ready businesses. Businesses are badly hit by the virus and the restrictive measures required to contain it, especially when these are imposed for extended periods of time. Any deep and protracted disruption to the highly interconnected global economy of which businesses are part directly impacts on their balance sheet, with deleterious cascading effects on their employees, suppliers and customers. Supply chain disruptions mean that manufacturers cannot source raw materials and semi-finished products, thus undermining their ability to bring their products to market.

The sudden stopping of trading leads to the drying up of revenues and the accumulation of debt towards suppliers and employees, as deliveries and salaries go unpaid. Typically, lacking any government program for emergency lending, the only options left are to renegotiate the terms of debt or to be insolvent. This is especially the case with Small and Medium Enterprises (SMEs), and it is most acute in the informal sector, which is often beyond the reach of government measures.

Making businesses COVID-ready requires a change of mentality and possibly an adaptation of the current institutional frameworks of our economies. This is not simply about updating business continuity plans. The virus, and the cascading implications of the measures needed to contain it, have shown us the fragility of our global economy, a highly sophisticated system of interconnected pieces, working like clockwork and managed tightly in just-in-time frameworks aimed to maximize efficiency. While resilient to localized challenges, when faced with the uncertainty derived from the global impact of a pandemic, such a system buckles under the pressure of collapsing supply chains and eventually stalls when hit by extensive and prolonged lockdowns. This changes the way in which companies large and small need to look at risk, especially tail risks, and their vulnerability to the occurrence of events that, while rare, have large systemic consequences.

The sheer scale of such consequences puts aspect of our economic and legal frameworks to the test. Efficient ways to transfer the risk of rare but catastrophic events exist, mostly through insurance coverage and explicit contractual clauses. Events such as a COVID-19 pandemic can be configured as 'acts of God' or *force majeure*, well-established juridical concepts aimed to protect against

unforeseeable circumstances, whether man-made or not, that prevent parties from fulfilling a contract. Their occurrence is usually certified by the local chamber of commerce. Some jurisdictions also refer to a *factum Principis*, when the inability to perform a contract comes from a formal act of the authority, such as in the case of decrees issued to impose a lockdown. On these bases, insurance contracts transfer the risk of rare but catastrophic events to the policy issuer, which is in turn covered by the re-insurance industry, and ultimately by the market.

All of these provisions, however, generally assume that the effects of the *force majeure* or act of God are limited to one of the parties of the contract, and that there is always a liquid and solvent guarantor up the risk-transfer chain ready to assume such a risk at the right price. The presence of functioning financial markets where the risk can be further spread is also taken as given. Such assumptions are heavily tested in the case of a total and complete shutdown of the economy, as it may happen in the course of a pandemic, at least in the short term. This would make it more difficult to identify guarantors of last resort, especially when standard instruments for further spreading of the risk are also unavailable. As a result, there is a need to introduce measures, including *ad hoc* work out mechanisms, to address what are effectively pandemic-induced market failures.

COVID-READY BUSINESSES: SOLIDARITY, SACRIFICE AND INGENUITY

In the face of the COVID-19 pandemic, the first responsibility of businesses is towards their employees. Jobs are livelihoods and must be protected to the greatest extent possible. The health and safety of employees needs to be prioritized, including by adopting emergency policies to designate essential workers and allow them to continue to operate safely. Measures also need to be taken to allow non-essential workers to operate remotely, via internet-based platforms and technologies. Business interruption insurance can help mitigate the risk of layoffs. Measures such as the provision of health insurance, social protection benefits, and direct cash transfers should also be considered, at least temporarily, as a way to supplement or substitute for public interventions.

Business continuity planning needs to go beyond a short-term emergency management perspective. It must entail an overall revision of the way in which the company operates and considers the outbreak of new infections not as ‘black swan’ events with only infinitesimal probability of occurring, but as a ‘new normal’ for which companies must be prepared for at all times. For manufacturing companies especially, this means reassessing and strengthening supply chain relationships, and putting in place alternative production and procurement plans. It also means introducing buffers to the just-in-time manufacturing process, by building in redundancies and considering alternatives to near-zero inventories.¹ It means establishing cash reserves for crisis management, and investment in technology to be able to deploy remote working practices. It will be costly, but it is necessary.

Meanwhile, as the pandemic continues to damage economies around the world, a number of new practices and policies are being introduced to soften the blow and help businesses survive. Such experimental measures have in common a deep sense of solidarity and sacrifice in the face of an unprecedented challenge and they display remarkable ingenuity. Several examples are included below, some originating from the countries that have been hit the hardest by the crisis, and ranging from macroeconomic policies, company-level interventions, political economy, the legal system and beyond. Taken together, these examples, while not applicable or appropriate everywhere, represent

¹ Javorcik, Beata. “Coronavirus will change the way the world does business for good.” *Financial Times*, London, 2 April 2020.

interesting ways to respond to the emergency and are in line with the idea of building COVID-ready businesses and economies. Examples include:

- 1) Top executives from Fiat Chrysler Automobiles have voluntarily forgone their salary for the year to alleviate pressure on the group's balance sheet.
- 2) In Italy, the players of soccer team Juventus have also voluntarily forgone their salaries for the months March-June (equivalent to EUR 90m) to make up for lost revenues arising from the cancellation of the soccer season.
- 3) In Italy, lawyers are working with legislators to consider the possibility to convert the debt accrued by listed companies towards suppliers and C-suite senior executives into corporate capital.
- 4) In a number of countries, including Chile, governments have declared a 'state of catastrophe' to authorize extraordinary powers for executives to deal with the crisis (especially with respect to limiting movement and assuring food supply and basic services).
- 5) In the US, the President invoked the Defense Production Act to compel American manufacturers to suspend their normal operations and begin producing critical products, including Personal Protection Equipment.
- 6) A group of Italian economists has proposed a number of measures to transition to a new normal, including a gradual introduction of young, low-risk workers back to work on a voluntary basis, and an emergency fiscal system to redistribute profits of restarting firms.²
- 7) As a way to support the balance of payment needs of developing countries, a former senior government official from Argentina has proposed to establish a \$200bn Special Investment Vehicle at the International Monetary Fund to guarantee interest payments on developing countries' foreign-denominated debt coming due until end 2021.³
- 8) In South Korea, Samsung mandated temperature checks and health screenings for office employees deemed essential. They have moved some of their production away from outbreak areas and offered free sanitization of their handheld products.
- 9) In a break from monetary orthodoxy, prominent international economists are advocating for the creation of new money, particularly by OECD country central banks, to mend the channels of transmission of monetary policy and fund the response to the pandemic.⁴

CONCLUSION: STRATEGIES FOR LIVING WITH COVID-19

It is beyond doubt that in the face of the COVID-19 pandemic, businesses and economies must be COVID-ready. Measures such as those illustrated above need to be worked into comprehensive strategies that enable people's lives to continue while they live with the threat of COVID-19 outbreaks. These COVID-19 strategies are needed within individual businesses and for local and national economies. They are needed in every country and must be designed to address potential vulnerabilities of current systems. Such strategies must deal with important elements such as risk transfer, market failures and legal and institutional frameworks, along with initiatives to pool the necessary resources to implement them.

² Ichino, Andrea et al. "Transition steps to stop COVID-19 without killing the world economy." *Vox CEPR Policy Portal*, 25 March 2020. [\[link\]](#)

³ Prat-Gay, Alfonso. "A cost-effective way to help emerging markets fight Covid-19." *Financial Times*, London, 31 March 2020.

⁴ Buiter, Willem and Sony Kapoor. "To fight the COVID-19 pandemic, policymakers must move fast and break taboos." *Vox CEPR Policy Portal*, 6 April 2020. [\[link\]](#)

While each COVID-19 strategy will be specific to a company and the country contexts within which it operates, it will be important to develop a common reference framework that can be adapted in individual sectors and countries. The availability and effectiveness of such COVID-19 strategies would determine the risks associated with investing in different of businesses and countries, and their attractiveness to investors. It will influence borrowing costs, including by impacting credit ratings of individual companies and sovereign rating of each country.

A viable COVID-19 vaccine will be made available at some point. Delaying urgent action in the hope that it will solve everything would be unwise. Outbreaks of COVID-19 will continue to occur, people will be sick, lives will be lost, economies impacted and livelihoods disrupted. Having experienced the impact of the virus' sudden arrival in our unprepared world, it is imperative that societies are quickly capable of defending themselves against threats posed by COVID-19, as well as other pathogens that may emerge. This capacity is needed for the foreseeable future regardless of when the threats can be expected.

COVID-ready societies will be our 'new normal', and all concerned must work out what this means now, without delay. In this way, nations can scale up their efforts to realize the Sustainable Development Goals, ensure, healthy and sustainable futures for all their people, and increase their resilience in the face of future threats – both those that are anticipated and those which catch us unawares.