Public-Private Partnership in Resolving the COVID-19 Societal Crisis

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ABSTRACT
COVID-19 triggered several crises, one of which arose in the social sphere. Societal crisis manifested itself in the growing distrust of ordinary citizens to the state, in the negative consequences for them of the forced restriction of social communication due to the lockdown, and in the understanding of the discrepancy between their own individual values and the generally accepted norms of behavior in society, specified by formal institutions. These social problems have only increased the quality of uncertainty of the post-coronavirus pandemic reality. Against this background, social polarization in society, growing unemployment, poverty and impoverishment of citizens have further increased their negative attitude towards the state and society as a whole. As a result, overcoming the consequences of the societal crisis in national communities has become almost the highest priority. Its solution lies in the gradual restoration of partnerships between society, firms, citizens and the state. The most important place is occupied by public-private partnership in any public sector, including socially significant infrastructure projects. Hence, the priority for the state should be to restore citizens' confidence by creating the more inclusive societal environment, minimizing the negative consequences of the societal crisis. Infrastructure PPP projects can demonstrate the social preferences' public priority. The "institutional matrix" of PPP organizational forms makes it possible to choose conditions for public projects’ implementation with the absolute priority of the healthcare system.

Keywords: uncertain post-COVID-19 reality, Formal Institutes, Infrastructure Projects

1. INTRODUCTION

The rapid spread of COVID-19, deadly dangerous for human life, served as stability test for the existing social foundations of society, as well as for the depth of mutual trust between people and society, citizens and the state. The coronavirus exposed the main "spring" of modern societies, which was unable to dampen the consequences of an unexpected infection, dangerous to human life, and contributed to the development of a societal crisis as a demonstration of national societies’ structural disunity. It is in this context the Boston Consulting Group’ experts [Boston Consulting Group Perspectives. (April 2020)] have treated the COVID-19 outbreak as the first and foremost a societal crisis.
Experts’ estimates have shown that a social and economic lockdown aimed at halting the exponential growth of coronavirus cases in countries around the world has caused unprecedented losses in both human life and national welfare. At the same time, COVID-19 proved the priority of social problems, which, moreover, were aggravated by the absolute drop in the volume of material production in the world. The pandemic dictated the uncontested subordination of the functions of the state: first, to stabilize the epidemiological situation in the country and only then not to waste time for timely re-opening economies after lockdown. The experts of the Boston Consulting Group (BCG) have designated this newest dualism in government actions as "epinomics" [Gjaja, et al. (2020)]. The epinomic policy emphasizes the paramount importance of ensuring the health and life of citizens, the achievement of which is an unconditional factor in the ability to successfully revive the economy. Moreover, the specificity of the first problem is related to the fact that, together with the physical health of citizens in the context of levelling the epidemiological situation in the country, perhaps the most important thing for states becomes to eliminate the negative consequences of the societal crisis. In the latter case, it is about the mechanisms of socialization of individuals in the structure of society. The urgent need of creating the more inclusive societal environment expansion necessary for the restoration of the societal integrity of society and accelerated economic progress predetermines an increasing demand for a theoretical justification of the new functions of the national state, factors for increasing the effectiveness of formal institutions in its hands. At the same time, it becomes especially important to search for such a structural level of national systems that could serve in practice as a “platform” that allows the state to make systemic decisions and analyze the effect of their
implementation in specific projects. In this case, it is about acceptable forms of PPP organization [Déau, (2020)]. Their numerous modifications can be conditionally structured in the form of “institutional matrices” [Vaslavskiy, et al. (2019a)]. Their theoretical justification can serve as a basis for determining the political choice of states in favour of certain forms of PPP taking into account their structural variability, the ability to “design” various partnership options depending on national characteristics, specific requirements of partners, priority sectors and areas of economic activity, and the effectiveness of risk reduction instruments in conditions of increased environmental uncertainty in the post-Covid-19 recovery phase [Vaslavskiy, et al. (2019b)].

Back in 2017, the first Sustainable Development Impact Summit of the World Economic Forum was dedicated to the high importance of PPPs for ensuring the sustainable development of national economies all over the world. According to politicians, scientists and practitioners, only expanding the partnerships between the state and private business will achieve the United Nations Sustainable Development Goals and implement the provisions of the Paris Climate Agreement by 2030 [World Economic Forum (2017)]. Under COVID-19, such importance of PPPs should be interpreted in the context of the need to form and expand the organizational structures of partnerships (cooperation, cooperation) between the state and private business, which potential is huge and can be successfully used to unlock the economic “lockdown” at the national level [World Economic Forum (2019)]. Under the current conditions, it would be very important to theoretically rethink the reasons that impeded the widespread practice of PPPs development before COVID-19, as well as the conditions that should be created for the rapid implementation of the diverse forms of such a partnership in the post-Covid-19 recovery phase [Baxter, (2020)].

Taking into account all the above, the structure of the chapter implements the following logic of providing material. The theoretical part examines the problems of inefficiency of the state and of the brightest modern form of the “failures” of the state - a societal crisis caused by the imposition of a state of emergency lockdown as a response to the COVID-19 pandemic. These manifestations of the inefficiency of the state have quite definite estimates in terms of human and economic losses, which indicate the need for a radical change in the functions of the state. As a result, its ineffective operations are very costly to society. So by 2020, the growing public debt due to the coronavirus pandemic will reach its highest level in the recorded history, at 101.5% of Global Gross Domestic Product (GDP) [Gaspar, et al. (2020)]. The restoration of missed opportunities is associated with the imperative associated with the state's focus on creating the more inclusive societal environment, first of all, through the implementation of socially significant infrastructure projects. And their organization on the basis of PPP is an acceptable form of reducing the costs of maintaining the state by society and increasing the effectiveness of projects being implemented. In this regard, it should be emphasized that the institutional aspect of the mechanism of public intervention in society and the economy becomes of particular importance. It is in this context that public-private partnership (PPP) can become the most acceptable platform for the government to test new mechanisms for resolving the societal crisis. This is due to the fact that PPP forms of organization mediate social interaction of the state with a private investor in the implementation of socially significant projects, mainly in infrastructure. And if successful, all stakeholders of these infrastructure projects will transmit positive results through structural relationships to society: through investors, employees, their relatives, employers, all PPP participants and local communities. And since before COVID-19, nation states could not boast of great success in the development of PPP projects, and formal institutions in the hands of the state largely impeded the expansion of PPP practice, now the state gets the second chance. And now at stake is the most difficult problem of restoring societal integrity, which predetermines the socioeconomic dynamics of local communities in the post-coronavirus future.

2. METHODOLOGY

So the society severely needs deep socio-economic rebuilding on the base clearly expressed the individuals' values. The Covid-19 societal and economic crises bring devastation, but it also brings an opportunity to re-evaluate what kind of a society should be created for future generations. It is about the human-centric system and the state with the health priorities compared to economic benefits. In conditions when the COVID-19 pandemic has not yet ended, it is the state that should evaluate its actions in connection with the stabilization of the epidemiological situation in the country as a serious step towards its rehabilitation in the eyes of society and the return of public confidence and trust. The positive consequences of a successful epimonic policy of states in the categories of lost opportunities can be assessed using the results of the Mckinsey Global Institute experts [Mckinsey Global Institute (2020)]. Better health promotes economic growth by expanding the labor force and by boosting productivity as well as by delivering immense social benefits as a basis for eliminating the negative consequences of the societal crisis and restoring societal integrity of the society. Moreover in recent years, a focus on rising healthcare costs, especially in mature economies, has dominated the policy debate. But the health as an investment in national societies has largely been ignored. The COVID-19 pandemic, giving rise to a societal crisis, has put the health system first in the context of its priority for individuals, national societies and economics as well as for the global economic system. This approach makes it possible to assess the missed opportunities for individuals, societies, and economies in the case of effective state policy and prevention of the extreme human and economic losses.

A well-functioning public healthcare system means that over 70 % of the gains could be achieved from prevention
by creating cleaner and safer environments, encouraging healthier behaviors and addressing the social factors that lie behind these, as well as broadening access to vaccines and preventive medicine. As a result 230 million more people would be alive by 2040 and the welfare value of good health could be as high as $100 trillion. This is a rough estimate of the lost opportunities for society as a result of the failures of the state, which failed to form a highly effective national health system capable of preventing extreme conditions of the COVID-19 pandemic and societal crisis as a manifestation of citizens' distrust of the state. According to the Mckinsey Global Institute evaluations, better health could add $12 trillion to global GDP in 2040, an 8 percent boost that translates into 0.4 percent faster growth every year. About half of these annual economic benefits come from a larger and healthier workforce. The remainder come from expanding the capacity of older people, people with disabilities, and informal caregivers to work as well as from productivity gains as the burden of chronic health conditions is reduced. (Fig. 1)

**Figure 1** Global GDP could rise by about $12 trillion in 2040, an 8 percent increase, mainly from fewer health conditions and expanded participation in the labor force.


Note: 1. Includes impact on older adults (only high- and upper-middle-income countries), informal caregivers (only in OECD), and people with disabilities (global).

The economic return could be $2 to $4 for each $1 invested in better health. In higher income countries, implementation costs could be more than offset by productivity gains in healthcare delivery (Fig. 2).

**Figure 2** For each $1 invested in improving health, an economic return of $2 to $4 is possible.

That does not mean capturing the health and economic benefits will be easy. It requires reorienting thinking about and investing in health and healthcare delivery, as well as fostering healthier living conditions and changing behavior. It also requires changes in the workplace and economic policy to allow, among others, increased participation of older people in the workforce. But it's worth. According to early estimates of the McKinsey Global Institute, the pandemic and its repercussions could lead to a 3 to 8 percent drop in global GDP in 2020 [McKinsey Global Institute (2020a)]. Moreover, each year, poor health reduces global GDP by 15 percent. So however tragic and destructive it has been, COVID-19 has placed society at a unique point in time to prioritize health. So as countries emerge from the COVID-19 crisis, they meet a once-in-a-generation opportunity to rethink the role of health in a post-pandemic future as well as the quality of the government that could be in a position to fulfill this historic mission. Making health a priority and shifting focus to areas with highest return can improve resilience, reduce health inequity, and promote greater individual, social, and economic well-being. Prevention of diseases is typically less expensive than treatment and reduces the need for more expensive treatment later on, contributing to a high economic return.

The partnership between the state and private business is promising from the point of view of eliminating the essential cause of the modern societal crisis, since it is built on the coinciding interests, preferences and values of partners. In addition, PPP refers, as a rule, to long-term, capital-intensive and socially significant projects. This means that the implementation of PPP projects in the field of public goods implies a significant number of stakeholders who, through their actions, transmit consent (disagreement) with each other's actions, including the state. So now there becomes a strong case for PPPs to take a bolder role in addressing the society’s major issue. In the case of societal crisis, statesmen place the common good above their own interests and actively work to shape the context [Reeves, et al. (2018)].

Public-private partnerships continue to be the dominant procurement option, investment in transport PPPs over the last 25 years has been considerable, adding €203 billion in Europe and US$535 billion in developing countries [Engel, et al. (2020)]. According to the available data PPP spending accounts for about 3 percent of global infrastructure spending, and 8 percent of private infrastructure spending [Engel et al. (2014)]. Hence, yearly global infrastructure spending is about US$3 trillion, around 5 percentage of world GDP. Around 75 percent of PPP spending is in the transport sector, that is, between US$45 and US$75 billion per year. Another 20 percent of PPP spending finances government services (between US$12 and US$20 billion per year), while the remainder (between US$3 and US$5 billion per year) is invested in the electricity, telecoms, and water and waste sectors. It follows that PPP spending is only a small fraction of global infrastructure spending: around 3 percent of total world infrastructure spending and around 8 percent of private infrastructure spending.

Private sector participation in building infrastructure and providing infrastructure services could be an important component of a government’s infrastructure strategy but goes hand in hand with significantly increased fiscal risks [Schwartz, et al. (2020)]. Public-private partnerships can harness private sector innovation and efficiency to improve infrastructure service provision while allowing governments to share project risks with a private partner. But they also usually result in additional debt—both firm and contingent—and are a major source of fiscal risk. E. Bova, and others (2016) estimated that the fiscal cost of contingent liabilities in public private partnerships amounted to 1.2 percent of GDP on average for a sample of 80 advanced economies and emerging markets, with a maximum cost of 2 percent of GDP. In other words, it is difficult to overemphasize the economic aspect of PPP. On the eve of the COVID-19, the functioning infrastructure of different countries could hardly cope with demand. As for the post-COVID future, while reducing the cost of PPP during a pandemic, the problems will only get worse. Late 2010s the world invested some US$2.5 trillion a year on transportation, power, water, and telecommunications systems. Yet it was not enough—and needs were only growing steeper. The McKinsey Global Institute found that the world needed to invest an average of US$3.3 trillion annually just to support currently expected rates of growth. The partnership between the state and private business is promising from the point of view of eliminating the essential cause of the modern societal crisis, since it is built on the coinciding interests, preferences and values of partners. From viewpoint of the expert of the BCG, there are three priorities that must be priorities for governments around the world (Fig. 3).

Institutionalization of PPP projects in socially significant areas, in addition to concrete demonstration of a positive effect for citizens, is able to demonstrate to private business that it is increasingly stepping up on sustainability and corporate responsibility. And this is largely due to the growing evidence of a positive link with financial performance. This alignment of finance with corporate responsibility could make a significant contribution to rebuilding the societal integrity in terms of environmental stewardship, workplace conditions, and good governance. In essence corporate responsibility is a long-term maximization of self-interest in which private investors ensure that they don’t damage themselves by undermining their own environments.
Figure 3 The main priorities of the institutional provision of PPP projects by the state, allowing to eliminate the consequences of the societal crisis due to COVID-19 pandemic
Source: Boston Consulting Group analysis

In other words, the adequate institutionalization by the state of organizational forms for the implementation of PPP projects makes it possible to expand the sphere of coincidence of the priorities of firms (as well as their employees), society and the state. This is where the state policy is being implemented, aimed at minimizing the negative consequences of the societal crisis. Corporate responsibility is fundamentally about individual values and actions, in ways that are compatible with common interest. In other words, it means "doing well by doing good" within an existing policy of fighting the societal crisis caused by COVID-19 shock (Fig. 4).

The PPPs specifics due to the dialectic of interaction between the state and private business and the variety of operations with public goods are determined by the functions and fiscal capabilities of the state in society. This is due to the fact that, firstly, the state combines subjective and objective principles; secondly, it institutionalizes the activities of both market agents and business entities acting on behalf of the state; thirdly, in fact, it "uncontrollably" redistributes to its budget a significant part of the national income created by society; fourthly, it follows its own norms of behaviour contrary to the implementation of the function of maximizing public utility, fifthly, it introduces conflict into its relations with society and citizens as a result of inadequate aggregation of individual values in public choice, which, sixthly, it orients all claims of society and citizens to the state for its inability to deal effectively with the crisis caused by COVID-19. Given all these circumstances, it should be emphasized that PPP projects are implemented on conditions dictated by the state.

According to the Boston Consulting Group experts, “those that do will navigate more effectively through the current crisis—will be ready for the next one” [Carrasco, et al. (2020)]. For these purposes, it is
necessary to prioritize the need to develop policy solutions for the societal crisis at the end of the first wave of the COVID-19 pandemic. First, one should take into account the specifics of formal institutions that mediate the dialectics of interaction between mechanisms for the implementation of socially significant norms of behavior, on the one hand, and punishment for their violation, on the other. Secondly, it is necessary for the state to recognize the phenomenon of social integrity of society as key in any conditions, including the emergency situation with COVID-19 and an understanding that its achievement is possible only with the dominance of the first of the two mechanisms of institutionalizing structural ties in national communities. It is these provisions that should be taken into account by the state when making political decisions in the epinomics.

So the COVID-19 crisis renews focus on issues that are structural and economic—that transcend the personal and the political ones. Many of those problems could have been addressed a long time ago as well as the tools and techniques. But the COVID-19 pandemic has become the right time to look forward and to begin the hard work of rebuilding national societies and economies for the bright post-COVID days ahead. The resolution of the societal crisis is in many respects consonant with the implementation of the UN people-first model that is meant to be consistent with the Sustainable Development Goals (SDGs). So the public-private partnerships would be made “fit for purpose” and oriented towards meeting the needs of “people-first”. In this case the UN people-first model stipulates five desirable outcomes (UN-5) that can be applied to infrastructure PPP projects (Fig. 5).

![Figure 5 UN-5 People-first Outcomes](source: UN, World Economic Forum’s Global Future Council)

### 3. RESULTS AND DISCUSSION

So the strong economic recovery based on the restored societal unity of the society will benefit everyone if it depends on improved social safety nets and adequate forms of PPPs organization [Pranov, et al. (2019)]. In this case, it is necessary to be aware of serious financial problems that can only be solved on the basis of broad-based fiscal partnership. This includes mixed public-private investment in health care, infrastructure, and climate change [IMF (2020)]. Good infrastructure that fosters and supports economic and human development is a key to growing the economy, creating wealth, and reducing inequalities [Schwartz, et al. (2020)]. With the COVID-19 pandemic and its economic fallout, creating good infrastructure through strong infrastructure governance are more important than ever and key to supporting economic recovery. It becomes evident that most countries will find it challenging to meet key public investment needs. A variety of options—raising more revenues, borrowing more, cutting unproductive spending, or getting more private-sector participation—can help to increase infrastructure spending. But all the alternatives have limitations and are insufficient on their own. Losses and waste in public investment are often systemic. On average, more than one-third of the resources spent on creating and maintaining public infrastructure are lost because of inefficiencies [Baum, et al. (2020)]. On average, countries waste on average about 1/3 of their infrastructure spending due to inefficiencies [Schwartz, et al. (2020)]. These inefficiencies are closely linked to poor infrastructure governance — defined as the institutions and frameworks for planning, allocating, and implementing infrastructure investment spending. Estimates suggest that, on average, better infrastructure governance could make up more than half of the observed efficiency losses [Baum, et al. (2020)]. More than two-thirds of the deviations originated from the planning and allocation stages and happened because of government actions or inactions related to, for example, unrealistic costing, expansion of project scope, inadequate
coordination across levels of government, or weaknesses in appraisals.

In the wake of Great Lockdown and the COVID-19 pandemic, more infrastructure investment and strong infrastructure governance are likely to become even more important, because with economic growth turning negative, public investment will have to be part of stimulating weak aggregate demand [IMF (2020a), IMF (2020b)]. So the numerous experts concluded that PPP projects in any field, especially in infrastructure, should either be very well prepared by the state, or they will not be effective. Moreover, only in the first case the technology of attracting private investment to implement capital-intensive long-term projects will work. But after the COVID-19 the state could be not in a position to provide full budget financing. It turns out that the conditions dictated by the state depend on whether there will be a quality infrastructure after COVID-19 and whether it will have a positive economic effect. National states associate the post-Great Lockdown future with bringing forward rather than the postponement or cancellation of projects to support employment and economic growth. But for this it is necessary to eliminate the consequences of the negative impact that the current economic crisis will most likely affect PPPs.

In this situation, it becomes obvious that, all other things being equal, the adequate use of formal institutions in the hands of the state can give quite tangible economic effect. It is about the professionalism of the state in context of adequate institutionalization of the conditions for the implementation of infrastructure PPP projects, excluding corruption of the top power, reducing the area of shadow business, minimizing socio-economic inequality of citizens and aimed at understanding the value orientations of citizens doomed to poverty due to COVID-19.

4. CONCLUSION

The solution to the problems of the societal and economic crises caused by COVID-19 largely depends on the effectiveness of the state based on the restoration of interaction and mutual trust between the state and society.

The essential problem of the effectiveness of formal institutions in the hands of the state in the context of eliminating the negative consequences of the societal crisis comes to the fore. This becomes possible only if the state has a priority focus on creating the more inclusive societal environment. This presupposes the replacement of the redistributive fiscal functions of the state with its mission to professionally assess the value preferences of households that dominate in society and find effective institutional solutions in the mechanism of aggregating public choice. At the same time, private business is becoming a priority structural level that allows the state to work out its practical solutions in the field of restoring the societal integrity of society, since it is the private business that fully represents the interests of numerous stakeholders. In this context, PPP is an adequate platform for testing formal institutions that allow the state to assess the preferences and values of private investors, expand the area of their coincidence with the priorities of state policy, and thus lay the foundations for the more inclusive societal environment. The variety of forms of PPPs allow the state and private business to optimize the sharing of risks and the burden of expenses as the capabilities of the public segment expand, as well as in the process of creating optimal “rules of the game”, conditions and effective incentives to maximize the potential of the national economy.

The success of PPPs on the phase of “fighting” the COVID-19 pandemic largely depends on how much the technology of attracting private investment to the implementation of capital-intensive long-term projects could work. Investments in infrastructure give a quick result in the economy recovering, as jobs are immediately created in construction and industry, and employment growth helps support consumer demand. But most importantly, short-term increase in demand is followed by long-term multiplier effects. In order to achieve these goals everything should be done to create a trust driven recovery environment that is collaborative and partner and stakeholder friendly. National governments should review infrastructure PPP projects in the sectors most affected by the crisis - airports, ports, roads, transport, and energy - to understand demand- and supply-side impacts. At the same time, the paramount importance of creating a national health system capable of promptly taking preventive measures and working to prevent the devastating consequences of infections such as COVID-19 is not discussed. In any case the primary problems that need to be resolved as soon as possible include obtaining an adequate assessment by states of the effectiveness of contractual provisions on PPP projects, expert consideration of restructuring and coordination of sources of contract financing, review of contracts and problem asset management tools. This should be done in discussion of the governments and their private partners and other relevant stakeholders such as financiers and regulators.

In the context of the coronavirus pandemic, the state is forced to reorganize to adequate institutionalization of the priorities of private partners through the professional use of the formal institutions’ potential. The emphasis in the processes of formalizing PPP projects should be shifted from the punishment to the specification of socially acceptable norms of behavior. This actually means creating the more inclusive societal environment for the implementation of private business partnerships with the state. In other words, the resolution of the societal crisis must begin with a change in the functions of the state itself, i.e. their switching from fiscal priorities to value ones related to preferences, for example, of private business as a partner in PPP projects.
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