

ANALYSIS OF INVESTMENT CHARACTERISTICS OF PUBLIC-PRIVATE PARTNERSHIP PROJECTS

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***Abstract:** In this article, the problems, advantages and disadvantages of the financing of public-private partnership projects are widely covered. The economic nature and importance of public and private sector cooperation in financing investment projects, the methods and main forms of project financing in the context of public-private partnership, and the legal basis of public and private sector cooperation in financing investment projects are widely covered in the article. Below, the main directions of development of public and private sector cooperation in the financing of investment projects, the prospects of using foreign experience in our country in the development of methods of financing projects in the context of public-private partnership are fully revealed.*

***Key words:** public-private partnership, project, financing, private sector, non-profit partner, investment, private capital, credit.*

Introduction

A public-private partnership is a long-term agreement between public and private sector institutions. Typically, this involves private capital funding public projects and services upfront, then collecting revenue from taxpayers and users to generate profits over the course of the public-private partnership agreement. Public-private partnerships have been implemented in many countries and are mainly used in infrastructure projects. Although they are not required, public-private partnerships have been used to build, equip, operate, and maintain schools, hospitals, transportation systems, and

water and sanitation systems. Cooperation between private entities, corporations, and governments has existed since the emergence of independent nations, particularly for the purposes of tax collection and colonization. The modern "public-private partnership" appeared around the end of the 20th century. They were aimed at increasing the participation of the private sector in public administration. They have been seen by governments around the world as a way to finance new or refurbished public sector assets off their balance sheets. Although public-private partnership funding comes from the private sector, these projects are always paid for by taxes or service users, or a combination of both. Public-private partnerships are structurally more expensive than publicly funded projects because the private sector's borrowing costs are high, resulting in users or taxpayers footing the bill for disproportionately high interest costs. Public-private partnerships also have high transaction costs. Public-private partnerships are controversial as financing instruments, mainly due to the fact that the public return on investment is lower than the private financier's return. Public-private partnerships are closely related to concepts such as privatization and contracting out public services. Secrecy surrounding their financial details complicates the process of assessing the success of public-private partnerships. Proponents of public-private partnerships emphasize risk sharing and foster innovation, while critics decry their high costs and accountability issues. For example, evidence of the performance of public-private partnerships in terms of value for money and effectiveness is mixed and often non-existent. Public-private partnerships in infrastructure are typically financed on a project basis (as opposed to corporate financing). This involves financing where lenders look to the cash flows of the investment for repayment, with neither equity sponsors nor the public sector turning to cover any shortfall. This arrangement reduces/insulates the financial risk of investors with several advantages; more careful examination of the project, analysis of risks leading to changes in the project structure, reduction of risk and more correct distribution of risks between parties.

Methods

A public-private partnership is defined as an agreement between a public sector institution and a private entity, where the private party performs a function normally provided by the public sector and uses public property under the terms of the public-private partnership agreement. Most of the project risk (technical, financial and operational) is transferred to a private entity. The public sector pays for the full range of services, including new infrastructure, maintenance and facilities management, through monthly or annual fees. In a traditional government project, the public sector pays the capital and operating costs and bears the risk of cost overruns and late deliveries. It is important to understand that the processes and structures used in project financing are dynamic and continue to evolve. Public-private partnership projects vary significantly in terms of duration and structure. The purpose of using project finance to raise capital is to create a structure that is bankable (attractive to investors) and to limit stakeholder risk and shift some of the risk to those who can better manage it. In project financing, an independent legal vehicle (SPV) is created to attract the necessary funds for the project. Payment of principal, interest, dividends, and operating expenses will be made from project revenues and assets. Investors, both debt and equity, require certain key legal, regulatory and economic conditions throughout the life of the project. The revenues of the public-private partnership project are obtained from the fees (tariffs) collected from the government and service users. In some projects, the private sector provider also pays a concession fee to the government or other authority in exchange for access to government projects, such as a concession fee based on service usage or net revenue, giving the government a vested interest in the project's success. In such cases, the interests of the state can be compared with the interests of the investor. As budgets become increasingly constrained and unable to generate additional revenue, many governments have turned to private sector partnerships. Such contractual arrangements are usually related to quality improvement, improved service delivery, cost savings and reduced financing costs. Typically, a public-private partnership is a partnership between one or more government agencies and one or more

private sector or non-profit partners to support or finance, design, build, operate and/or maintain public services. is conceptualized as a contractual agreement concluded for the purpose of showing. a specific project for public benefit. These types of partnerships are typically designed with the implicit and explicit goal of leveraging additional funding resources and expertise that might not otherwise be available for government purposes through traditional procurement practices. Public-private partnership implies a synergistic and mutually beneficial relationship between direct or indirect partners. In other words, partnership (based on trust and common interests) as a contractual arrangement provides greater efficiency and improved results than a simple contractual arrangement – as if the sum is greater than its parts. This is obviously a strong assumption that can easily be questioned on the basis of wishful thinking and a bit of naivety. Yet this is the underlying, if often unspoken, assumption behind many of the benefits associated with public-private partnerships. A public-private partnership without long-term mutual commitment beyond the terms of the contract is a contract. A key motivation for governments considering public-private partnerships is the opportunity to attract new sources of funding to fund public infrastructure and service needs. There are a number of financing mechanisms for infrastructure projects, particularly public-private partnership projects.

- Funding by the state
- Corporate or balance sheet finance
- Project financing

Public financing means that the government may choose to finance some or all of the capital investment in the project and turn to the private sector for expertise and efficiency. This typically occurs in a design-build-operate project, where the operator is paid a lump sum for the completed construction phases and then receives an operating fee to cover the operation and maintenance of the project. Another example is when a government chooses to carry out the construction work for a project through traditional procurement and then engages a private operator to operate and maintain or maintain the facilities. There is a growing recognition that there are certain aspects or

risks in a project that the government may find easier or more reasonable to accept. This is discussed in the section on public support for financing public-private partnerships. A private operator may accept part of the capital investment financing for a project and decide to finance the project through corporate financing - this involves financing the project based on the private operator's balance sheet. than the project itself. This is a mechanism typically used in lower-cost projects where the cost of financing is not significant enough to warrant a project financing mechanism, or the operator is so large that it chooses to finance the project from its own balance sheet. The benefit of corporate finance is that the cost of financing is the same as the cost of financing the private operator itself, and therefore it is usually lower than the cost of financing the project. In addition, it is less complicated than project financing. However, there is an opportunity cost to corporate financing, as a company can only raise a limited amount of financing relative to its equity (debt-to-equity ratio), and the more it invests in a single project, the less likely it is to finance it. . or invest in other projects. Project Financing One of the most common and often the most effective methods of financing public-private partnership projects is "project financing," also known as "constrained resource" or "resource-free" financing. Project financing is usually in the form of a limited recourse loan to a specially created project vehicle with the right to construct and operate the project. It is usually used in the context of new construction or large-scale renovations, and therefore does not have an existing business in the SPV. The SPV will depend on revenue streams from contractual agreements and end-user tariffs, which will only kick in once construction is complete and the project is operational. Therefore, it is a risky venture and before they agree to finance a project, lenders will want to carefully consider the potential viability of the project and whether the allocation of project risk will adequately protect the project company. This is commonly known as a project's "bankability" check.

Results If we consider investors in public-private partnership projects in developing countries, the highest ranks are:

-Commercial banks (domestic/international) Commercial banks are important investors in infrastructure projects, particularly through senior loans and collateral products such as performance guarantees and letters of credit. The complexity and duration of project-financed projects often means that local banks in developing countries lack the technical capacity or willingness to enter into these projects, and where they are junior members of the syndication.

-Capital markets/ bondholders (domestic/international) Bond financing is suitable for project financing because it has a longer maturity than commercial loans. However, there is less flexibility in lending. Given that many institutional investors can only invest in investment-grade products, it may be easier for an infrastructure fund to obtain financing through the capital markets rather than an individual project.

-Equity Funds Private equity funds (often called "infrastructure funds") can play an important role in project mezzanine financing, taking on more risk than traditional lenders but less than sponsors.

An equity fund is a collective investment scheme that invests in stocks. Collective investment schemes are a way for investors to invest with other investors to take advantage of the inherent advantages of working as part of a group. These benefits include:

- hiring a professional investment manager who theoretically offers good returns and/or risk management prospects

- benefit from economies of scale - sharing costs among others

is more diversified than is possible for most individual investors, which, in theory, reduces risk.

Discussion

Public-private partnerships enable the completion of large public projects, such as roads, bridges, or hospitals, with private funds. This partnership works best when private sector technology and innovation are combined with public sector incentives to complete work on time and on budget. Risks for private enterprise include cost

overruns, technical defects and failure to meet quality standards, while the user fees agreed for public partners may not be supported by demand, for example for a toll road or bridge. Despite its advantages, public-private partnerships often blur the lines between legitimate public objectives and private profit-making activities, and the self-dealing and leasing that can occur. is criticized for exploiting the public due to receiving.

Advantages and disadvantages of public-private partnership

Partnerships between private companies and governments provide advantages for both parties. Private sector technologies and innovations, for example, help improve the operational efficiency of public service delivery. The public sector, in turn, encourages the private sector to deliver projects on time and within budget. In addition, creating economic diversification will increase the country's competitiveness in strengthening its infrastructure base and developing related construction, equipment, support services and other enterprises.

A private partner may face particular risks when entering into a public-private partnership. Physical infrastructure, such as roads or railways, includes risks associated with construction. If the product is not delivered on time, costs exceed the estimate, or there are technical defects, the private partner usually bears the burden. In addition, the private partner faces an existence risk if it fails to provide the promised service. A company may not meet safety or other relevant quality standards, such as in the management of a prison, hospital or school. Demand risk occurs when there are fewer users than expected for a service or infrastructure, such as toll roads, bridges or tunnels. However, if the public partner agrees to pay the minimum fee regardless of demand, this risk may be transferred to the public partner.

Public-private partnerships also pose risks to the general public and taxpayers. The cooperation of private operators with the state can exempt them from responsibility for public service users cutting too many corners, providing poor service or even violating citizens' civil or constitutional rights. At the same time, the private partner can use the position to increase duties, tariffs and fees for captive consumers who may

be forced by law or geographic natural monopoly to pay for their services. Finally, as in any situation where ownership and decision-making power are separated, public-private partnerships can create complex principal-agent problems. This can facilitate corrupt deals, payments to political cronies, and rent-seeking activities, undermining the connection between the private parties who make important project decisions, who benefit, and accountability to taxpayers.

Conclusion

Public-private partnership is a special type of contract, according to which the public partner (state entity) transfers part of its obligations to the private partner under a long-term contract, in which the rights and obligations of each party is set. period, as well as mechanisms to restore financial balance in the event of unforeseen events or non-compliance by the parties. Public-private partnerships are an important tool for infrastructure development and therefore economic development. They are used in infrastructure such as roads, airports, ports, energy, water and solid waste, and usually involve investment, operation and maintenance. Public-private partnerships are also used in social infrastructure such as health and education, e.g. construction and maintenance of hospital or school facilities, but may also include clinical or educational services in whole or in part. There is potential for public-private partnerships in any sector.

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