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RISKS IN THE FORMATION OF PUBLIC-PRIVATE PARTNERSHIP INVESTMENT FUNDS AND FACTORS TO REDUCE THEM

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ABSTRACT

This article describes some forms of medium- and long-term interactions to address socially significant tasks based on mutually beneficial conditions between the state and business. Also, according to our research on improving corporate governance based on public-private partnership, today in world practice, there is only one consensus on a clear definition of public-private partnership.

KEYWORDS: *Public-Private Partnership, Private Sectors,Private Capital, New Public Management, Privatization, Financial Partners.*

INTRODUCTION

PPP is an effective mechanism for pooling resources and risk sharing between the public and private sectors to implement a specific infrastructure project. Attracting private investment in various sectors of the economy, increasing its efficiency by ensuring the synergy of resources, as well as expanding the production of goods and services are the basis and goal of the PPP system. PPP projects are implemented through various investment supports in various sectors of the economy. In particular, the most common classical type is the transfer of property, property rights, intellectual property to a private partner for the implementation, operation and maintenance of the project provided for in the agreement, based on the conclusion of an investment agreement between a public partner and a private partner. at its own expense or at the expense of borrowed funds, as well as at its own risk to implement the investment project agreed in the PPP agreement.

Another tool for the implementation of an investment project is a lease of investment obligations. In this case, the lessor public partner gives the private partner the property for a certain period of time to invest in it and use it for a specific purpose. Within the framework of public procurement legislation, the procurement of goods, services and works for the entire period of the life cycle of the object of procurement at the expense of the budget for public needs in accordance with life cycle contracts is a separate investment vehicle of the SSC. Also, within the corporate form of the procurement system, the investment activity of state-owned companies in infrastructure projects will increase through the conclusion of PPP agreements.

Review Of The Literature On The Subject

PPP is relevant not only for developing countries, but also for industrialized countries, because, as a rule, PPP invites state businessmen to participate in the implementation of socially significant projects, rather than public business projects. PPPs in Europe were first used in the UK in 1992, with Portuguese public-private partnership projects accounting for 20 per cent of all public investment in 1999-2003.

-term forms of interaction between the state and business to address socially significant tasks on mutually beneficial terms .

According to the results of our research on improving corporate governance on the basis of PPP, in today's world practice there is no single conclusion on a clear definition of PPP.

Broadly speaking, PPP is usually a medium- and long-term agreement between the public and private sectors, according to which certain services belonging to the public sector belonging to the public sector are provided by the private sector with the exact infrastructure or services. As a rule, PPPs do not include service contracts or construction contracts with state orders, as well as privatization processes with a limited role of the social sector [1]. He added, “The term PPP has not been defined in the community. In general, the term refers to the interaction between government and business in providing financing, construction, modernization, management or maintenance of infrastructure or provision of services ”[2].

In addition, the EU Commission on Regional Policy defines PPP as “the transfer of investment projects traditionally implemented and financed by the public sector to the private sector” [3].

According to the UN, PPP aims to finance, plan, implement and operate services produced and provided by the public sector, and its main features are to ensure long-term provision of services to the private sector (sometimes up to 30 years), transfer of risks to private investors , is characterized by the implementation of multifaceted forms of long-term contracts of legal entities with state and local structures ”[4].

According to the World Bank Institute, “PPP is a long-term contract between a private party and a public body for the creation of public assets or the provision of services, in which the private party assumes significant risk and management responsibility” [5]. According to the definition of the Asian Development Bank, "the term PPP refers to the full range of possible relationships between public and private organizations in terms of infrastructure or other services" [6].

In addition, the U.S. Federal Transportation Administration's report to Congress on PPP states that “PPP is a contractual agreement that allows a private partner to participate more in public relations than a traditional participation agreement. maintenance or management of the system ”[7].

The Indian government describes it as “a draft contract or concession agreement between the government or the social sector to provide infrastructure services to private companies in exchange for user fees” [8].

Under British Columbia-Canada cooperation, “PPP is interpreted as a legally binding agreement between government and business parties to generate assets and provide services, which establishes a risk and liability sharing between the parties” [9].

The Australian government, on the other hand, states that “PPP is a public-private-sector paid assignment to the private sector to provide infrastructure and other services on a public-sector basis, typically for the private sector to operate and maintain infrastructure throughout the private cycle” [10].

The Irish government defines “PPP as a partnership between the public and private sectors to provide services and other projects that are traditionally carried out by the state” [11].

In Hong Kong, it is interpreted as "a contractual agreement aimed at involving the private sector in the provision of public services through the mutual contribution of each party to the enterprise" [12].

In New Zealand, the definition of PPP is “long-term contracts that provide for the creation or reconstruction of an object or asset or the provision of services” [13].

In France, “Partnership agreement is an administrative agreement, according to which a state or public organization is required to provide public services on agreed terms of investment, construction, reconstruction, storage, use, etc. an agreement that imposes obligations, in whole or in part, on the management of tangible and intangible assets. ”

Most of the researchers working on PPP issues have put forward various theories to develop the concept of public-private partnership, including its practical component. Modern Western economists, on the other hand, are far ahead in this area than the CIS countriesconducted scientific and applied research. Due to the fact that in the practice of developed countries the PPP has entered much earlier, the existence of problems in this area has allowed to study and explain in detail the main features and principles of the PPP.

According to R.Norment, the executive director of the U.S. National Council on Public-Private Partnerships, PPP is an agreement between any level of government and the private sector. Through this agreement, the resources, assets and services of each sector or complement each other in order to create public facilities. In addition to sharing resources, each party shares potential (potential) risks and benefits [14].

ANALYSIS AND RESULTS

Currently, in most developed countries, the decisive tool of public investment policy is the PPP. The United Kingdom, France, Germany and Austria are among the leading countries in the implementation of PPP projects . In these countries, the PPP mechanism is widely used not only locally but also internationally.

An in-depth analysis of the risks is also required when considering the PPP mechanism. For this purpose, Table 1 shows the grouping of risks within the SSC. As can be seen from the table, there is a risk-based nature of risk transfer on the basis of PPP, for example, if the public sector assumes 0% risk, then the private sector assumes 100% risk. It appears that in general, the risk may be borne by one participant in the PPP. Therefore, the risks in PPPs are analyzed by dividing them into two groups, political and economic.

Table 1

GROUPING OF PUBLIC-PRIVATE PARTNERSHIP RISKS

Risk group	Risk	Responsible side	
		Private partner	Public partner
Political	Political approach to the project	+	
	Change in legislation		+
	Budget cycle		+
Economic	Bank interest rate fluctuations		+
	Inflation		+
	Exchange rate fluctuations		+

Unlike other types of activities of economic entities, PPP is characterized by a relatively high level of risk. Given the specifics of PPP projects, it is advisable to take measures of political support from the state for the active development of this mechanism. Political risks are especially acute in the implementation of large long-term investment projects in the field of PPP. In the long run, political reforms or changes in legislation in the country are also likely to affect the fate of a major project. Such risks can occur in any state, but in this case, a compromise between the public and private partner will serve to mitigate the impact of political risk.

Among the economic risks are changes in bank interest rates, inflation and exchange rate fluctuations. Changes in bank interest rates occur directly in the case of attracting bank loans for the implementation of PPP projects. Commercial banks rarely issue long-term loans at fixed rates. This is because it is relatively difficult for a commercial bank to raise long-term resource funds in the first place, and secondly, long-term loans can be more risky for a commercial bank. In this case, commercial banks try to allocate loans to long-term PPP projects at "floating" rates, ie loan rates are adjusted annually based on the current situation. This will also affect the forecasts, financial flows and cost plans for the implementation of PPP projects. This situation is primarily felt in changes in cash flows. Especially in investment projects with a high share of borrowed funds, there is a risk of lack of funds to cover the principal debt on the loan. Financial hedging helps prevent this risk. The simplest and most common way to insure against losses related to changes in interest rates is to reconsider the prices of services provided by a private partner in response to changes in these interest rates, of course, in agreement with the public partner. However, this method of risk reduction in SMEs is an inappropriate method for public authorities, as the hedging method may impose an additional burden on the state budget as a result of revising the cost of private partner services with changes in interest rates. The interest rate swap method, which is another form of hedging method, is of particular importance in mitigating risks in SMEs. The interest rate swap method has a history of almost half a century in financial markets and is widely used as one of the most effective methods in reducing risks. Banks participating in derivative financial instrument markets also widely use the swap method. The swap method is particularly important for PPP projects compared to other long-term yield interest instruments. However, it should be borne in mind that there may be some problems in covering interest rate risk through swaps: usually due to the fact that PPP projects are large projects, lending will continue even after the financial aspects of the project are formalized, and the swap must be organized at the same time; some commercial banks may offer swap deals on terms unfavorable to a private partner, and so on. These problems can be solved through a consortium. For example, if more than one bank is involved in lending to a PPP project, the terms of swap agreements will be eased in exchange for competition between them. In developed countries, local banks are actively involved in financing PPP projects.According to Project Finance International, Royal Bank of Scotland, HSBC Bank, Barclays Bank, Standard Chartered (UK) BNP Paribas, Calyon (France), Bank of Tokyo-Mitsubishi, Mizuho Financial, Sumitomo Mitsui Banking Gorp (Japan) , Hupovereinsbank, Westdeutsche Landesbank (Germany), ABN Amro, ING (Netherlands) and other banks.

CONCLUSIONS AND SUGGESTIONS

The PPP mechanism is one of the most effective and optimal mechanisms, especially in the context of deepening market economy relations. By further stimulating socio-economic development with a number of advantages, PPP will expand the flow of investment in the economy, activate idle resources, ensure a balanced interest between the public and private sectors, and most importantly, address a number of social and infrastructural problems in society. In short, as a result of the PPP system, both the state, business and society will benefit. However, this system, like other economic processes, has its own characteristics, laws and risks, and its successful implementation requires the effective use of several factors, such as in-depth skills, professional experience, sustainable economic potential.

Given that PPP is a relatively new field for the Republic of Uzbekistan, the expansion of research in this area, in-depth study of best international practices and measures to prevent recurrence of shortcomings in international practice, assessment of opportunities for PPP investment projects in the national economy, information between public and private business issues of exchange, training of qualified personnel for the industry should be considered.

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