

## DEVELOPMENT OF FINANCIAL AND CREDIT MECHANISMS OF STATE AND PRIVATE PARTNERSHIP IN UZBEKISTAN

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### Abstract:

The article analyzes Uzbekistan's strategies to increase innovation and development in the financial sector. In this article, financial and credit mechanisms related to the state and private sector, additional measures used to ensure their development, and problems in the field of finance are discussed. The article provides information on steps aimed at increasing entrepreneurship between the public and private sectors in Uzbekistan, encouraging economic development and expanding opportunities in the field of finance and credit.

**Keywords:** private partnership, government, The World Bank, credit mechanisms, ICT sector, mutual cooperation.

The government of Uzbekistan has been actively trying to involve the private sector in the implementation of socially important infrastructure projects. The development and implementation of modern forms of mutually beneficial cooperation between the authorities and business is part of the reforms in public administration that began in 2017. During this time, the government developed a number of measures to develop public-private partnerships in areas such as preschool education, health care, and utilities. On May 10, 2019, the basic document regulating relations between the state and private partnership was adopted - the Law "On Public-Private Partnership". The preparation of this law and its discussion lasted almost 2 years.

What is the main content of government and business partnership in the joint implementation of socially important projects? What initiatives and projects are being promoted by the government of the republic for the development of public-private partnership?

The simplest scheme of government-private business cooperation is as follows: the state announces that it plans to build or modernize a social infrastructure object (for example, a clinic, road, kindergarten, school, etc.) and invites investors to participate in the tender. The winning private company will finance

the project (raise capital), build (or modernize) the facility and manage the facility throughout its life cycle. At the end of the contract between the state and the private company, according to its terms, the object is either transferred to the state or remains in the hands of the private company. The state, in turn, makes monthly unitary payments that include all expenses, loan interest and income of the private partner.

Public-private partnership is primarily the combination of financial, technological and management resources of the state and business in the organization of infrastructures and provision of socially important services. In such cooperation, relations are established like cooperation between state and private companies. At this time, it is necessary and important that the division of risks between the participants in the public-private partnership agreement should be clearly defined. This form of interaction requires a legal framework that clearly defines the powers of state bodies.

According to historical data, the state has cooperated or cooperated with private entrepreneurs in almost all periods. By the Middle Ages, the relationship between the authorities and private individuals acquired a legal form. Christopher Columbus's expeditions from 1492 to 1504 are a vivid example of this type of cooperation. The kingdom presents the title of "Don" to Christopher Columbus. If he successfully completed the journey, he had the right to manage the lands he occupied and to use the minerals mined there. According to the contract concluded in 1491, Columbus paid one-eighth of the costs. The financial result of the contract was divided as follows: 90% of the imported goods and natural resources went to the government, and 10% went to Christopher Columbus's account, except for expenses.

In the new historical period of mankind, the cooperation of the authorities and private entrepreneurs has increased, and accordingly, the number of joint infrastructure projects has also increased. The Suez and Panama Canal projects are the largest among them. In 1855, the private enterprise "Suez Canal General Company" received from the Viceroy of Egypt the right to implement a concession for the construction of the Suez Canal connecting the Red and Mediterranean Seas. 44 percent of the company's shares belong to the Egyptian government, 53 percent to France, and other countries buy the remaining 3 percent. According to the terms of the concession, the profit from the project

was to be distributed as follows: 75 percent of the profits were to be shared with the shareholders, 15 percent with the Egyptian government, and the remaining 10 percent with the founders of the company. Construction work was completed after 11 years and the canal was opened to ships in November 1869. Currently, the funds received from the operation of the canal constitute a significant share of foreign currency inflows to the Egyptian treasury.

The construction of the famous Eiffel Tower in Paris is another vivid example of concession. In 1887, Alexander Gustave Eiffel signed a contract with the municipality of Paris. According to him, the tower will be provided to him on the basis of lease with the condition of 25 years of use. It is also planned to pay a subsidy in the amount of 1.5 million gold francs. This was 25% of the total cost of building the tower. During the period of operation, the tower justified its expenses due to the money received from the tours, the tickets sold for going to the elevators, the right to sell souvenirs, and the rent of the restaurants.

Today's public-private partnership

In the last 30 years, the public-private partnership mechanism has been actively implemented in more than 130 countries of the world. According to the World Bank, about 15-20 percent of private investments in infrastructure projects are attracted using this mechanism.

Great Britain, France and Germany are the main leaders in introducing public-private partnerships in Europe. In general, the total cost of the EU from 2010 to 2016 is 111 billion. 541 public-private partnership projects were implemented in the amount of EUR. Education (156 projects) and transport (111 projects) sectors were among the priority sectors in public-private partnership projects.

Various forms of public-private partnership implemented in Uzbekistan in the last 30 years mainly concerned only some sectors of the economy. Such projects were mostly implemented in the oil and gas and mining industries. This is due to the fact that investments in these sectors are considered safer compared to other sectors of the economy. A production sharing agreement is one of the most widely used forms of public-private partnership in attracting foreign investment in mineral resources-related sectors.

The lack of a single legal mechanism for mutual cooperation between the state and business is one of the main reasons for the relatively low level of development of public-private partnership in the republic.

In 2017, the active implementation of the World Bank to involve the private sector in the construction and modernization of social, transport and communication infrastructure in Uzbekistan began in 2017.

The public-private partnership development agency under the Ministry of Finance was appointed to be responsible for the implementation of the unified state policy in the field of public-private partnership in Uzbekistan. This agency defines the policy on public-private partnership in the republic, reviews projects, coordinates tender documents and contracts on public-private partnership with line ministries, assists in the development and conduct of tenders and financing of public-private partnership projects. The Asian Development Bank, the European Bank for Reconstruction and Development, the International Finance Corporation, the Islamic Development Bank and the World Bank are participating in projects as consultants.

In the law "On Public-Private Partnership" this type of cooperation is described as "cooperation between state bodies and a private partner based on combining their resources for the implementation of a legally formalized public-private partnership project for a certain period of time." State administration bodies, including local executive bodies, are partners on behalf of the state, and local and foreign investors are participating as private partners.

Equality of state and private partner before the law, transparency of rules and principles in the process of partnership implementation, competition and impartiality in the selection of the private sector, non-discrimination and corruption are the main principles of public-private partnership. In Uzbekistan, a public-private partnership agreement can be concluded for a period of 3 to 49 years.

On the use of the instrument of public-private partnership in the development of the innovation sphere in Uzbekistan

At present, in many countries with transformational economies, a new institutional structure of the economy is being formed, and there are shifts in the system of economic relations between the state and the private sector. Ensuring the competitiveness of the national economy, as well as its sustainable development, is impossible without consolidating the efforts of state authorities and the business community. In many countries, public-private partnerships are becoming the most common form of government-business cooperation because

they often find services and solutions more cost-effective than traditional management approaches.

The term public-private partnership (PPP) characterizes the relationship when public and private resources are combined to achieve a goal or group of goals that are mutually beneficial to both a private entrepreneur and the state. In addition, public-private partnership, as world practice shows, plays an important role in the integration of science, education, production and finance in the interests of increasing the competitiveness of industry and developing an innovative economy.

Thus, the measures of the government's innovation policy are already yielding positive results - an increase in the absolute indicators of investments in R&D by the state, business and universities, and emerging venture capital. But so far these measures do not have a special impact on the institutional structure, socio-economic consequences.

In this perspective, PPP can become a decisive condition for the development of innovation, creating space for research and development outside government structures, which creates a favorable environment for innovation. The partnership helps to more widely attract talent and skills to the innovation process, as well as to create a disciplined and responsible work culture in this area that stimulates creativity and innovative thinking. Finally, the partnership between the state and private business reduces the risks of inefficient decisions in the field of science and innovation.

The most favorable environment for the development of public-private partnerships can be considered the ICT sector. Most of the innovations introduced in different business sectors of the economy depend on ICT. Thus, on the one hand, the PPP model can be an ideal mechanism for financing ICT projects, contributing to the development of the necessary infrastructure with a certain degree of guarantee of return on investment. On the other hand, information and communication services are provided within the affordability of millions of consumers in rural and urban areas. In view of this, the goals of public sector services can easily be linked to the goals of ICT service providers. It is also important that the development of social services becomes largely dependent on the network of communications, and the state and private sector



institutions cooperate to provide the necessary ICT infrastructure in places accessible to businesses and individual citizens.

Based on the results of studying the state of affairs with the introduction of PPP mechanisms in certain areas, an analysis of the strengths and weaknesses, opportunities and threats was prepared in the implementation of the public-private partnership mechanism in Uzbekistan.

Strengths: balanced distribution of risks, responsibilities and rights between the public and private sectors; reducing the burden on the state budget; transfer to the private sector of the rights of use and ownership of state property, with the exception of the order (except for the contract for construction and operation); increasing the transparency of public spending on the maintenance of the PPP facility (due to the operation of the contract rules and the attraction of borrowed funds by the operator, i.e. monitoring of creditors); maintaining leverage over the activities of the operator (private sector); faster adoption of new technologies; a clearer orientation of services to the needs of consumers; stimulating the development of the stock market and the banking sector; attracting private domestic and foreign investment; development of small and medium business; a variety of forms of long-term contracts concluded by the private sector with state and local authorities.

Weaknesses: longer planning procedures compared to budget investments; the complexity of forecasting for a long period due to changes in market conditions; the presence of restrictions in some sectors: tariff, licensing and others; the difficulty of attracting investors to large projects; availability of financial resources for the implementation of infrastructure projects; imperfection of the regulatory and legal framework in the field of PPP.

Opportunities: political support; support from international organizations; improvement of the regulatory legal framework in the field of PPP; implementation of long-term programs for the development of the country; experience in the use of concessions in the energy and transport sectors; emergence of new forms of interaction with the private sector; acquisition and dissemination of knowledge and experience in the field of PPP; creation of new jobs; development of "near-project" infrastructure; providing quality services at affordable prices; introduction of international standards, models, methods and others.

Threats: deterioration of the country's financial performance due to dependence on prices for mineral resources and rising inflation; lack of knowledge in the field of PPP; lack of qualified personnel when using new technologies; standards incompatibility.

A comparison of the strengths and weaknesses, opportunities and threats of using PPPs allows us to draw the following conclusions:

- line ministries and local executive bodies can use internal factors and distinctive advantages in the implementation of projects using the PPP mechanism;
- Opportunities identified during the analysis can become strengths of using the PPP mechanism in the future;
- These weaknesses require changes for improvement.
- Threats such as lack of knowledge in the field of PPP require special attention and appropriate strategic actions should be taken to reduce them.

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