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THE ECONOMIC SIGNIFICANCE OF PUBLIC-PRIVATE PARTNERSHIP MECHANISMS IN FINANCING INVESTMENT PROJECTS

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Abstract. This article analyzes the economic significance of public-private partnership (PPP) mechanisms in financing investment projects, with particular emphasis on their role in reducing the burden on the state budget, attracting private capital, improving the quality of infrastructure services, and managing fiscal risks. Based on the current regulatory framework of Uzbekistan, official statistical data, and analyses of international institutions, the study examines both the advantages of PPP mechanisms and the aspects that require careful consideration.

Keywords. public-private partnership, investment project, infrastructure, private capital, project financing, fiscal risk, economy of Uzbekistan.

Introduction

The public-private partnership mechanism is becoming an important institutional instrument in financing investment projects, as it enables the alignment of the state's economic functions with the resources of the private sector. Under the traditional approach, large infrastructure facilities, social services, energy, transport, water supply, and educational institutions have mainly been financed through budgetary funds, public debt, or loans guaranteed by the state. However, as economic growth accelerates, public demand for high-quality services expands, and infrastructure needs increase, a financing model based solely on public funds becomes insufficient. Therefore, the PPP model harmonizes the interests of both parties by reducing the state's obligation to fully finance projects and by creating long-term investment opportunities for private investors based on clearly defined contractual terms [3; 14].

In the legislation of Uzbekistan, PPP is defined as cooperation between a public partner and a private partner, legally formalized for a specific period, based on the pooling of their resources for the implementation of a PPP project [3]. This definition shows that PPP is not merely a form of attracting financial resources, but a complex economic relationship that includes contracts, obligations, risks, management, and performance outcomes. In investment projects, its economic significance is primarily reflected in the possibility for the state to implement strategic projects in cooperation with the private sector without abandoning them under conditions of capital shortage. At the same time, PPP is not entirely "free" financing for the state: if structured improperly, it may create hidden obligations and fiscal pressure on future budgets [13].

Methodology

This article applies legal-regulatory, statistical, and comparative-analytical approaches. The legal analysis was conducted on the basis of the Constitution of the Republic of Uzbekistan, the Law "On Public-Private Partnership," the Law "On Investments and Investment Activity," as well as regulatory legal documents related to public procurement and public debt [1–7]. For the statistical analysis, the official press release of the National Statistics Committee on investments in fixed capital for January–December 2025 and information from the Ministry of Economy and Finance on PPP projects were selected as the main sources [8; 9].

The logical basis of the study is that the economic efficiency of PPP is determined not only by the amount of capital attracted to a project, but also by such factors as project cost, risk allocation, contract transparency, user payments, state guarantees, and service quality. Therefore, the statistical indicators in the article are interpreted not simply as a collection of numerical data, but from the perspective of their impact on budget sustainability, the composition of investment sources, and the modernization of economic infrastructure. In substantiating the international approach, the study also takes into account the principles presented in the analyses of the World Bank, the International Monetary Fund, and academic literature on project financing [13; 14; 15].

Results

The growth of investment activity in the economy of Uzbekistan is increasing the need for PPP mechanisms. According to the National Statistics Committee, in January–December 2025, investments in fixed capital from all sources of financing amounted to 591.1 trillion soums, which was 10.5 percent higher than in 2024 [8]. Considering that this indicator amounted to 236.6 trillion soums in 2021, the volume of investments in fixed capital expanded significantly over the five-year period. This process creates major opportunities for increasing production capacity, renewing infrastructure, and accelerating regional development. However, the growth of investment demand also requires a cautious approach in relation to the capacity of the state budget and public debt.

Table 1. Dynamics of Investments in Fixed Capital in Uzbekistan

Year	Volume of investments, trillion soums	Growth rate, %
2021	236.6	102.9
2022	266.2	100.2
2023	356.1	123.4
2024	507.5	131.3
2025	591.1	110.5

Source: *Compiled by the author based on data from the National Statistics Committee [8].*

The high share of decentralized sources in the structure of investments makes the PPP mechanism even more relevant. In 2025, 62.6 trillion soums, or 10.6 percent of investments in fixed capital, were financed from centralized sources, while 528.5 trillion soums, or 89.4 percent, were financed from decentralized sources [8]. Within decentralized investments, foreign investments and foreign loans without state guarantees amounted to 389.6 trillion soums, or 65.9 percent of total investments [8]. This situation indicates the high share of private and external capital in the economy. PPP links this capital flow with social and infrastructure objectives, that is, it directs investment resources not only to ordinary commercial projects but also to facilities that serve the public interest.

Official indicators of PPP projects also confirm the growing role of this mechanism in investment policy. According to the Ministry of Economy and Finance, in 2024, 129 PPP agreements worth USD 8.9 billion were signed with local and foreign investors [9]. The target has been set to attract at least USD 30 billion in private investment through PPP mechanisms by 2030 [7; 9]. This indicator means that PPP in Uzbekistan is moving beyond the level of individual pilot projects and is becoming a systematic investment channel in such areas as energy, transport, education, healthcare, water management, and public utilities.

According to the analysis of the International Monetary Fund, by the end of 2024, the PPP project portfolio in Uzbekistan had reached USD 31.1 billion and was estimated to be equivalent to 27 percent of GDP [13]. The same source notes that direct and contingent liabilities related to PPPs were estimated at 15 percent of GDP [13]. Thus, although PPP creates opportunities for attracting large-scale private capital into the country, the contingent liabilities associated with it require regular monitoring from the standpoint of the long-term sustainability of public finances.

Table 2. Sectoral Composition of Uzbekistan's PPP Portfolio at the End of 2024

Sector	Value, million USD	Share in total portfolio, %
Energy	28,878	93.0
Utilities	1,500	5.0
Education	144	0.8
Ecology	116	0.4
Social sector	103	0.4
Other areas	276	0.9
Total	**31,118**	**100.0**

Source: *Compiled by the author based on IMF data [13].*

Discussion

As shown in the table, the main part of the PPP portfolio belongs to the energy sector. This situation is economically understandable, since the electricity generation and distribution system is a basic infrastructure for industry, services, agriculture, and urbanization processes. The participation of private investors in energy projects makes it possible to launch new capacities more quickly, increase technological efficiency, and reduce the state's capital expenditures. However, the excessive concentration of the portfolio in one sector also creates a diversification problem. Expanding PPP projects in education, healthcare, water supply, sewerage, ecology, and transport is important for regional development and social stability.

The economic efficiency of PPP depends on three main factors. First, project selection must be economically justified. If a project is not thoroughly analyzed in terms of real demand, costs, tariffs, and service volume, it will not be efficient even if private capital is attracted. Second, risks must be fairly distributed between the public and private partners. If the private partner can manage construction, financing, operational management, and technical maintenance risks more effectively, it is appropriate to assign these risks to the private sector; political, legal, or regulatory risks, however, should be managed by the state through stable institutions [14; 15]. Third, performance indicators must be clearly defined in PPP contracts. For example, in electricity supply, reducing losses; in water supply, expanding coverage; and in schools and hospitals, increasing service capacity and quality should be at the center of contract monitoring.

In the context of Uzbekistan, PPP mechanisms can serve as a powerful instrument that complements state investment policy. For this purpose, PPP projects should be closely linked with the state investment program, budget planning, and public debt management. Legislation on public debt requires the assessment of risks and the management of state obligations [6]. Therefore, if PPP agreements include state guarantees, minimum revenue guarantees, purchase obligations, or currency risks, they must be financially assessed before the project is signed, and their impact on the budget must be clearly indicated. Otherwise, a project that appears to be outside the budget today may become a public expenditure in the future.

Local academic literature particularly emphasizes the need to take into account the composition of financing sources, the cost of capital, and investment risks in financing investment projects [10; 11]. This approach is also highly relevant for PPP projects: a project must be financially attractive for the private investor and, at the same time, produce socio-economic results for the state. Therefore, PPP should not be developed as a simple form of privatization or as a tool for hiding public expenditures, but rather as a cooperation mechanism based on clear economic outcomes, transparent tenders, fair contracts, and independent monitoring.

Conclusion

The results of the analysis show that PPP mechanisms have great economic significance for Uzbekistan in financing investment projects. On the one hand, the rapid growth of investments in fixed capital and the high share of decentralized investment sources in the country strengthen the need to direct private capital toward the state's strategic objectives. On the other hand, PPP can reduce the one-time burden on the state budget in the implementation of large infrastructure projects, attract private-sector management experience, and improve the quality of services. At the same time, the economic benefit of PPP is determined not only by the value of agreements, but also by the quality of project selection, risk allocation, contract transparency, and the full accounting of fiscal obligations.

The statistical data presented in this article show that the PPP market in Uzbekistan is expanding rapidly. However, the high concentration of the portfolio in the energy sector, the impact of PPP obligations on future budgets, and contingent fiscal risks require careful management. Therefore, three practical principles should be prioritized in implementing PPP projects: first, the value-for-money and socio-economic outcomes of each project must be justified in advance; second, tender and contract processes must be open and competitive; third, the state's direct and contingent obligations must be regularly assessed and coordinated with budget policy. Such an approach will transform PPP mechanisms into an effective, sustainable, and reliable institutional instrument for financing investment projects in the economy of Uzbekistan.

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