

Modeling of Investment Activity in the Development of Public-Private Partnerships in the Service Sector

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Abstract: This article describes the investment activity of public-private partnership development in the service sector, the main structures of public-private partnership in the service sector and the main tasks of the private sector, existing barriers to successful development of public-private partnership, mechanisms for developing mutual investment instruments. criteria and principles are described. Also, the mechanism for increasing investment activity in the development of public-private partnership, the model project of public-private partnership and its preparation stages, directions for improving the mechanism for activating investment instruments for the development of public-private partnership in the service sector were studied.

Keywords: service sector, private sector, public-private partnership, project, investment project, integrated economic efficiency, public risks, investment instruments, budget efficiency..

Introduction

One of the important tasks of the service sector in the context of economic transformation is the efficient use of financial resources to address the problems of future economic growth. This is one of the strategic goals of ensuring the sustainable development of economic entities operating in the service sector by increasing the investment attractiveness of the economy of the country and increasing the volume of gross output created in the sector.

Increasing investment activity to develop public-private partnerships to expand the economic potential of modernization of industries and sectors of the economy in the country and to help increase the efficiency of public administration is a priority form of public-private partnership. The introduction and implementation of the public-private partnership mechanism is largely dependent on the current conditions in the economy, and this requires special research, taking into account the systematization and coordination.

The development of the service sector in the Republic of Karakalpakstan implies the formation of mechanisms for providing and supporting investments and improving the system for evaluating the effectiveness of investment projects. The implementation of investment policy in the sector should be

aimed at increasing the efficiency of the use of financial resources allocated to enterprises in the manufacturing sector. The main measures should also promote the development of the institutional framework for investment mechanisms, the introduction of modern financing technologies for the highly efficient use of budget resources and borrowed funds.

Literature review

Public-private partnership in the field of services in scientific resources, effective models of public-private partnership in the world, business forms of public-private partnership, the use of public-private partnership in public and private partnerships of developed and developing countries models of effective operation in public-private partnership. The factors influencing the expansion of the scope and forms of research are scientifically and theoretically and methodologically true.

Foreign economist DJ Gelbright [3, pp. 200-250] in his work on public-private partnership, the formation of a system of economic relations between public and private sectors, the economic essence and content of the category "public-private partnership", the purpose and functions, structure and models, the main directions of economic activity between public and private business entities, the formation of investment funds, the conceptual framework of public-private partnership.

J.Per, J.G.Peters [13, pp. 89-108] Directions for achieving the fastest growth of household income by encouraging private investment, conditions for using the economic functions of the state to create a competitive environment, management of socially important strategic projects and issues related to ensuring private sector participation in financing.

In the works of Russian scientists VG Varnavsky, AV Klimenko, VA Korolev [1, pp. 45-85] the formation of the system of economic relations between the public and private sectors, the economic significance of the category of "public-private partnership" and content, goals and objectives, structure and models, the main directions of economic activity between public and private businesses, sources of funding for public-private partnerships, public and public property.

In the abstract of the dissertation of VA Kabashkin [4, pp. 15-18] the economic content of the category "public-private partnership", its goals and objectives, models of public-private partnership, the main directions of economic activity between public and private entrepreneurship, a wide range ways of implementing socially significant projects in the types of economic activity, its advantages are studied.

E.D. Frolova [8, pp. 31-32] describes the ways to ensure the participation of the private sector in the management and financing of strategic projects of social significance, as well as the implementation of projects of social significance in a wide range of economic activities, its advantages.

In the scientific article of economists S.E. Elmirzaev, N.Sh. Shavkatov [10] advanced foreign experience of public-private partnership and the prospects of application in our country, the main forms of public-private partnership, the role and factors of public-private partnership in the system of public-private partnership.

Research methodology

The scientific basis of the methodological approach to the development of public-private partnership in the field of services in the context of economic transformation, the implementation of

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public-private partnership projects, the main directions of public-private partnership in the service sector, investment project performance indicators, integrated economic efficiency, a dialectical, systematic and scientific approach to the study of economic systems and ratios in the implementation of public-private partnerships, comparative and comparative analysis and grouping methods.

Analysis and results

Public-Private Partnership (PPP) in the development of the service sector is an institutional and organizational-economic cooperation between the public and private sectors aimed at the implementation of socially significant projects and programs, including the provision of quality public services and private contractual relations and seeks to benefit from development.

PPP operates in the interests of public and private property. This is because it is necessary to ensure the common interests of the public and private sectors, as well as to allocate the necessary resources to the service sector and its sectors.

Therefore, the main tasks of government agencies within the PPP in the field of services include:

- development and implementation of socially important strategic programs based on practical experience;
- formation, adoption and implementation of laws and regulations ensuring the effective operation of public-private partnerships in the field of services;
- organization and financing of service organizations;
- ensuring the participation of interested state and local self-government bodies in the implementation of PPP, etc.

The main tasks of the private sector within the PPP are:

- ensuring competitiveness and expanding entrepreneurship;
- search for opportunities to reduce and distribute uncertainty;
- improving relations with local authorities;
- provide necessary support for local development.

In general, these tasks can be solved in partnership with public and private non-profit organizations.

The analysis shows that the state plays a central role in creating conditions for the successful implementation of the PPP mechanism in the country. This is particularly evident in the improvement of the legal framework, the creation of special institutions to support PPPs, and the development of a financial support mechanism. First and foremost, it is necessary to rationally distribute the risk between the public and private sectors, helping to reduce project cost for taxpayers and consumers. At the same time, the private sector is interested in investing in socially significant projects, as favorable conditions for doing business are created at the legal level, taking into account the risk [6].

For the effective development of the SRS in the service sector and its sectors, it is important to implement a number of measures and comprehensive programs in addition to the legal framework.

The following serious obstacles can be identified in the successful development of PPPs in the Republic of Karakalpakstan:

- There is no clear concept for the development and support of public-private partnerships;
- Lack of clear programs for the successful development of public-private partnerships;

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– Presence of corruption and various forms of abuse.

We consider the development of investment instruments in the management of the service sector as an integral part of a single economic system, which represents a set of economic relations between the state, private business organizations and non-profit organizations in the form of local governments.

On the other hand, a rational and effective system of incentives for private partners will be created as long as the PPP mechanism is in place. Experience shows that the use of public-private partnerships often falls in the field of infrastructure projects.

Based on the above considerations, it is possible to distinguish the following specific features that apply to all models of PPP:

1. The PPP mechanism is a set of many forms of services offered to a private business (development, financing, construction and management in a single contract). For example, unlike the traditional public procurement model, the state not only orders the construction of an object, such as a logistics center, for a certain fee, but also offers a contract to develop, build, manage the project, and even finance the whole project or part of it.

2. Unlike traditional forms of public procurement, the risk in the PPP is borne more by the private sector. For example, a scheme in which financing is entrusted to a private partner-participant is common. In particular, the public body determines the technical parameters and standards of services, while the private partner undertakes to provide services in accordance with established standards.

3. PPP is formed over a long period of time and is valid for 25-30 years.

In the traditional model of public services, while the government has full control over resources and the project implementation process, in the PPP model, the public defines the final product, while control over execution remains with the private partner.

Motivation by the state is important in attracting private business to the PPP project. This is primarily due to the need to attract private capital and other resources in addition to the funds allocated by the state, to achieve greater efficiency in the use of available resources, economic incentives in various sectors of the economy and reforms through redistribution of reporting schemes.

Other forms of PPPs can also be found in the world. For example, there are models of partnership agreements in which the role of the private sector is limited only to funding. An individual can typically finance a project directly from a financial company, or use a variety of mechanisms, such as issuing bonds, depending on the risk [9].

However, the selection of PPP on different criteria is also important. The selection criteria for the PPP form are given in Table 1.

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Table 1

The main criteria for the selection of PPP projects¹

PPP form	Political motivation	Cost recovery	Normative-legal bases	Database	Ability of a public authority to manage and analyze a project
Service Agreement	Low	Low	Weak	Weak	Average
Management agreement	Average	Average	Average	Зап	Average
Leasing	Average	High	Strong	Strong	High
Concession	High	High	Strong	Strong	High
Build - Manage - Transfer and other forms	High	High	Strong	Strong	High

Public administration research suggests that the risks associated with opportunism in PPPs may be just as strongly critical as in the case of pure business partnerships in which private firms and enterprises participate, although the nature of opportunism in PPPs is different.

Projects related to the creation of PPP infrastructure are usually characterized by a high level of complexity and specificity of assets, as they are associated with the construction of unique facilities with a short time interval and a strictly limited budget.

An important aspect in the analysis of management structure selection is that they complement each other. Because the management structure represents a set of mechanisms for the interaction between partners, the partnership can use different combinations of these mechanisms to some extent to achieve an acceptable level of risk and manage costs. First of all, the following is highlighted [1]:

1. A participant in the share capital.
2. Contractual agreements.
3. Scope of partnership.
4. Reliable management mechanism.

Regardless of the choice of management mechanisms and solutions to organizational problems, the structure and organization of the PPP should take into account the following general principles:

a) PPP is aimed at meeting social needs. PPPs are usually formed in the context of the construction and management or maintenance of social infrastructure facilities for the future use of the population. For example, utilities and transport services for the population, as well as infrastructure facilities such as roads, airports, thermal power plants, hospitals, prisons, water treatment facilities. Given its social orientation, certain obligations and principles of the civil service must be followed and fulfilled for the successful implementation of the project within the framework of the PPP.

Principles such as universality, continuity, equality, fairness in the process and evaluation of results, high quality service, availability of benefits commensurate with the risk level of the private agent and transparency of activities are key when transferring to the private sector.

b) PPP often involves a long-term agreement. Often, a project involves a long-term relationship that goes through different stages of implementation (design, construction, and operation). If

¹ Developed by the author

construction and financing are a major part of the contract, the projects should be developed with the prospect of ensuring their economic and financial sustainability for the entire life of the facility, as well as the effective transfer of risks to the private sector. For example, for a long-term dam, the PPP must have a contract that is valid for the duration of the dam.

v) The PPP agreement usually includes full or partial financing of the project. In most cases, the PPP agreement is a condition for partial or full financing of the project by a private partner.

Funding for non-standard projects, as well as the mechanisms associated with this funding, are extremely complex and difficult to standardize. Projects implemented under the PPP are also non-standard projects.

Although in theory it is possible to form a PPP without private funding, the participation of a private partner in the project with its own capital will contribute to the quality of work performed by him. Therefore, the establishment of PPPs by attracting capital from the private sector is justified in practice.

g) PPP focuses on achieving dimensional results. Unlike traditional public procurement, where payment is made per unit delivered, PPP is encouraged based on results and achieved productivity. Such a results-oriented approach leads to the creation of an effective system of incentives for the private partner, as a result of which the private partner uses effective and innovative methods that allow to achieve better financial results and achieve higher overall. This productivity and income will sooner or later lead to a positive outcome (usually in the form of lower prices for the population and an increase in the quality of services) intended by the public authority.

d) The private partner assumes most of the risk. The various risks associated with the performance of the contract should be borne by the party who can best manage them, i.e. the partner who can mitigate the risks in the partnership. Also, the distribution of risk between the parties is based on agreement. In the implementation of partnerships, property relations will change significantly, new models of financing will emerge, and more efficient methods of management will emerge. Thus, the partnership between the public and private sectors can be described as a long-term partnership. Such a partnership, by its economic nature, is the development of traditional mechanisms of economic relations between public authorities and the private sector. The development of investment instruments of public-private partnership in a market economy will allow diversifying the economy in accordance with strategic goals and, ultimately, improving the quality of life of the population.

In order to determine the essence and content of the mechanism for increasing the investment activity in the development of PPPs, the following directions of their formation can be distinguished:

- 1) transition to the model of ensuring economic growth, ensuring the innovative development of modern sectors of the economy;
- 2) rational use and improvement of existing methods of management of socio-economic processes in all regions, cities and districts;
- 3) increase the investment attractiveness of the regions, taking into account the improvement of the mechanism of support for enterprises on the basis of increasing investment in the development of the economy and regional infrastructure;
- 4) modernization and development of key network enterprises and their infrastructure.

In view of the above, we have proposed an algorithm for a mechanism to increase the investment activity of the development of PPPs in the services sector.

These conditions are the main conditions for further enhancing the economic potential of the economy and the entire service sector.

The analysis of the activities of the PPP shows that the effective financial mechanism for its implementation has three main groups of the following organizational and economic problems.

1. In the field of public-private partnership:
 - lack of an appropriate legal regulator of the PPP;
 - lack of coordination between the expected results of the public sector and the initiatives of the private sector for the creation of facilities on the basis of PPP;
 - organizational-economic, legal problems of cooperation of local state bodies and business structures in regions, cities and districts of the republic;
 - lack of consistency, insufficient competitive environment, lack of transparency.
2. In the field of financing PPP projects and programs:
 - lack of sufficient information on the possibility of using different conditions of investment allocation in the process of realization of PPP at the expense of public and private funds, investment funds;
 - expectations of very high public sector return on investment;
 - lack of determination of the public sector in attracting budget funds for long-term investments (investment funds);
 - lack of knowledge about non-standard opportunities for investment financing by financial institutions (banks, etc.).
3. In the field of implementation of PPP projects and programs:
 - low level of public sector involvement in investment;
 - lack of cooperation programs between government and business;
 - lack of plans of the authorized state bodies for joint development of budget funds, which will allow to implement PPP projects;
 - weak information supply for investors;
 - weak leadership role of the public sector in the planning of investment projects;
 - the presence of administrative barriers in the preparatory phase of the investment initiative, object and procedure selection.

The methodology for solving the problems that arise in the process of financial management among PPPs creates a new perspective on the role of the state as an effective participant in economic relations at the enterprise level.

Figure 2 below shows the mechanism of PPP, methods of project implementation and methods of forming a system of requirements for the parameters and conditions of budget funds and private capital within the planned organizational and economic mechanism of financial management.

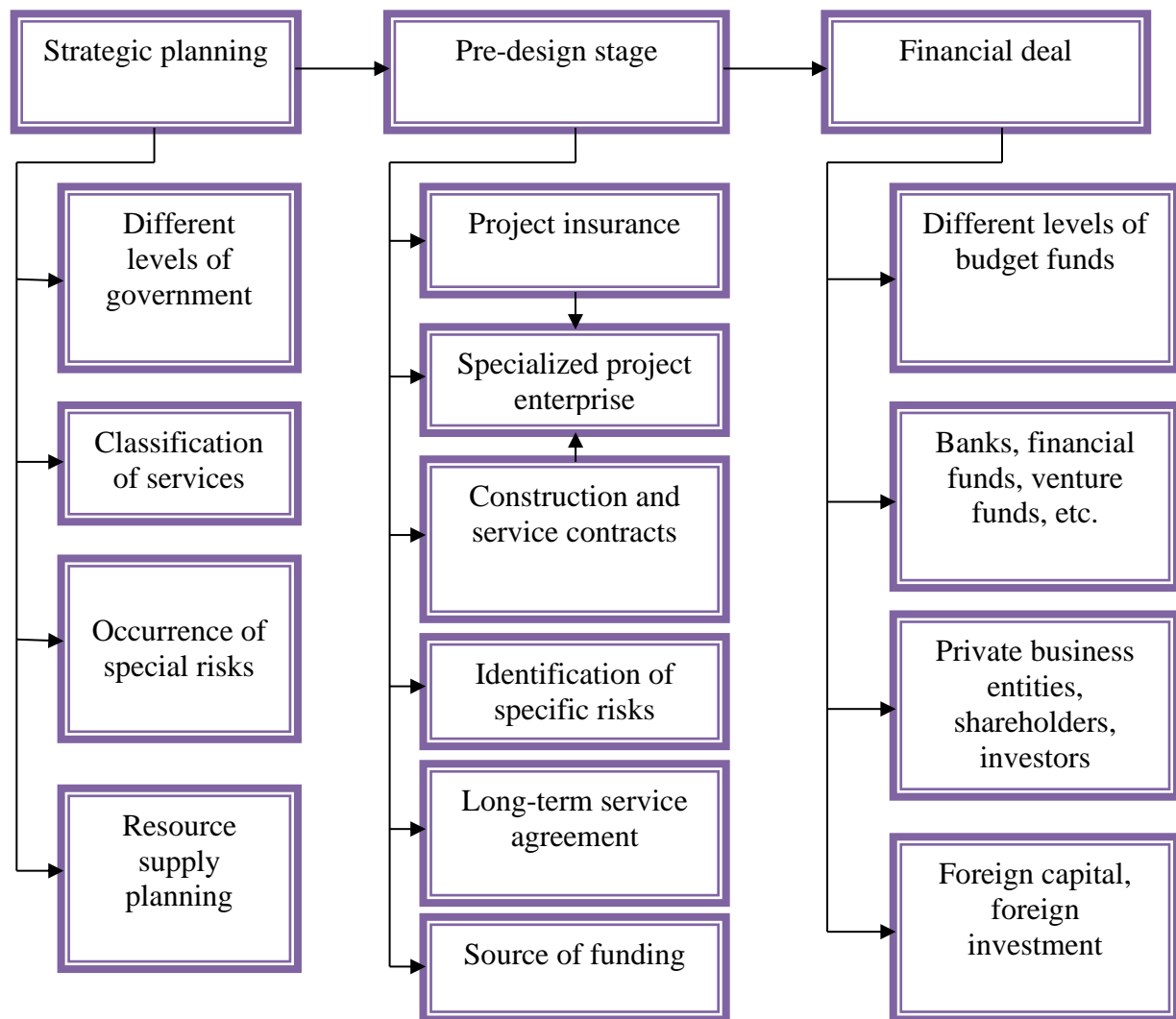


Figure 2. Model project of public-private partnership and stages of its preparation²

Currently, in economics and law, the following options of PPP, which provide an important organizational and economic mechanism for managing the financial flows of the budget and private capital for project implementation, are being studied: privatization of the enterprise and the property complex with the necessary land plot or land plot for further development of business activity on the basis of investment obligations; on the basis of joint participation of the public and private sectors in the authorized capital and management activities of the new enterprise in the relevant land plot or in existing organizations; concession of a production (service) enterprise or land plot; transfer of the infrastructure object and the corresponding land plot to trust management; subsequent lease of property on the basis of legal investment obligations for the further development of business activities with the necessary land plot or land plot of the enterprise; delivery of goods, rendering of services or

² Developed by the author.

performance of works under state contracts within the framework of services of state enterprises and organizations.

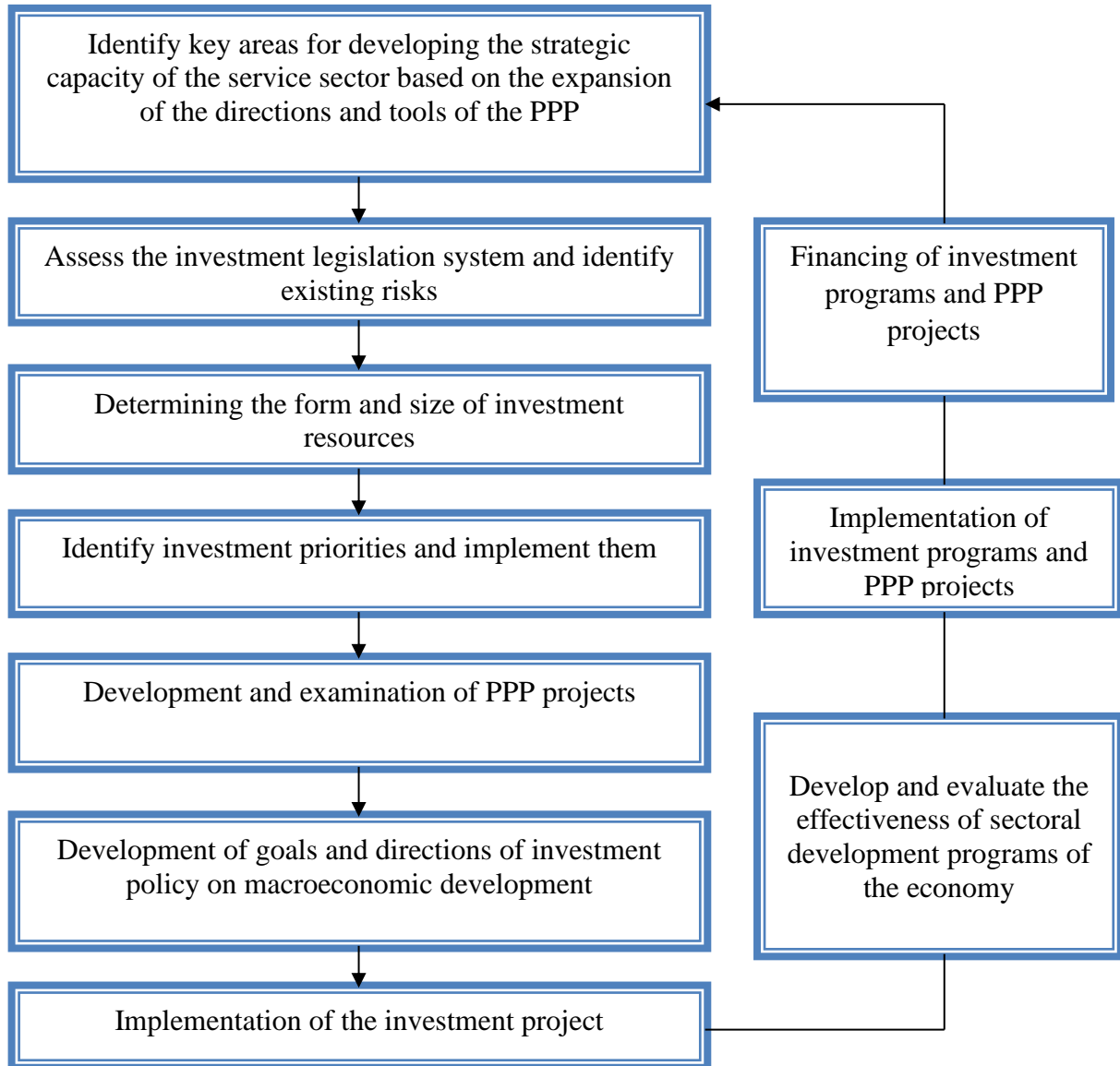


Figure 3. Algorithm of the mechanism of activation of investment tools for the development of PPP in the service sector³

The basis for further economic development of the republic is to identify its most promising and attractive areas.

International experience shows that the implementation of the mechanism for activating investment instruments for the development of PPP in the service sector will be carried out step by step (Figure 3).

³ Developed by the author

For the implementation of investment projects it is necessary to address the following tasks: development of a strategic plan for the implementation of the investment project; identification, analysis and assessment of investment risks in enterprises and organizations in the service sector; identification of its sources during the implementation of investment projects; substantiation and examination of investment projects by local executive authorities and self-government bodies; identification of goals and directions of investment policy on macroeconomic development in the country; development and evaluation of the effectiveness of development programs of economic sectors at different levels in the country; implementation of investment programs and PPP projects; financing of investment programs and PPP projects.

There are certain uncertainties in the formation of sources of financial resources for the implementation of PPP projects for the development of the service sector. These uncertainties should be taken into account when developing a mechanism to increase investment activity in the service sector:

$$\begin{aligned} SF &\geq SF_{te} \\ \text{Max } SF &\rightarrow \frac{\min}{6 \in B}, T_{qm}^6 \text{ on the border } K \leq K_{ur} \\ &T_{qm} \leq T_{ur} \end{aligned} \quad (1)$$

where: SF - net profit from the implementation of the PPP project;

SF_{te} - net profit required from the implementation of the PPP project;

T_{ur} - the period of implementation of the project PPP;

T_{qm} - the term of the project cover;

K_{ur} - the volume of available investment;

K - is the volume of investments realized.

The results obtained on the basis of formula (1) allow to estimate the required amount of financial resources for the implementation of socio-economically significant and effective PPP projects in the service sector.

Conclusion/Recommendations

1. The main goal of the development of the service sector today is the efficient use of financial resources to ensure economic growth and solve the problems of forming a modern service system. Accordingly, the formation of relations in the implementation of economic and social development programs based on the introduction of investment projects in the field is an important condition for the implementation of mutually beneficial cooperation based on the establishment of interaction between the public and private sectors. It should be noted that this relationship has a responsible and unique character.

2. For the implementation of investment projects in the field of PPP, it is necessary to address the following tasks: development of a strategic plan for the implementation of the investment project; identification, analysis and assessment of investment risks in enterprises and organizations in the service sector; identification of its sources during the implementation of investment projects; substantiation and examination of investment projects by local executive authorities and self-government bodies; identification of goals and directions of investment policy on macroeconomic

development in the country; development and evaluation of the effectiveness of development programs of economic sectors at different levels in the country; implementation of investment programs and PPP projects; financing of investment programs and PPP projects.

3. Although the evaluation of the effectiveness of public-private partnership projects has some common approaches, this process should be carried out separately, taking into account the important conditions and factors of their implementation. The final effectiveness of investment projects should be assessed taking into account the overall effectiveness of the state and business circles aimed at solving systemic problems in the development of the state, entrepreneurship and society.

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