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Public-private partnership development prospects in Uzbekistan

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ABSTRACT: The article analyzes public-private partnership model opportunities, advantages and disadvantages (PPP) as Private Finance Initiative (PFI), and offers recommendations for their improvement.

KEYWORDS: Public-private partnership, model, project, risk, efficiency, improvement.

There has been a long-standing partnership between the public sector and the private sector, but in most cases the public sector is the customer and the payer, and the private sector fulfills the order. This usually implies a large prepayment by state or the government outsources services pays accordingly to the private sector.

Some types of partnership are shown in the following table:

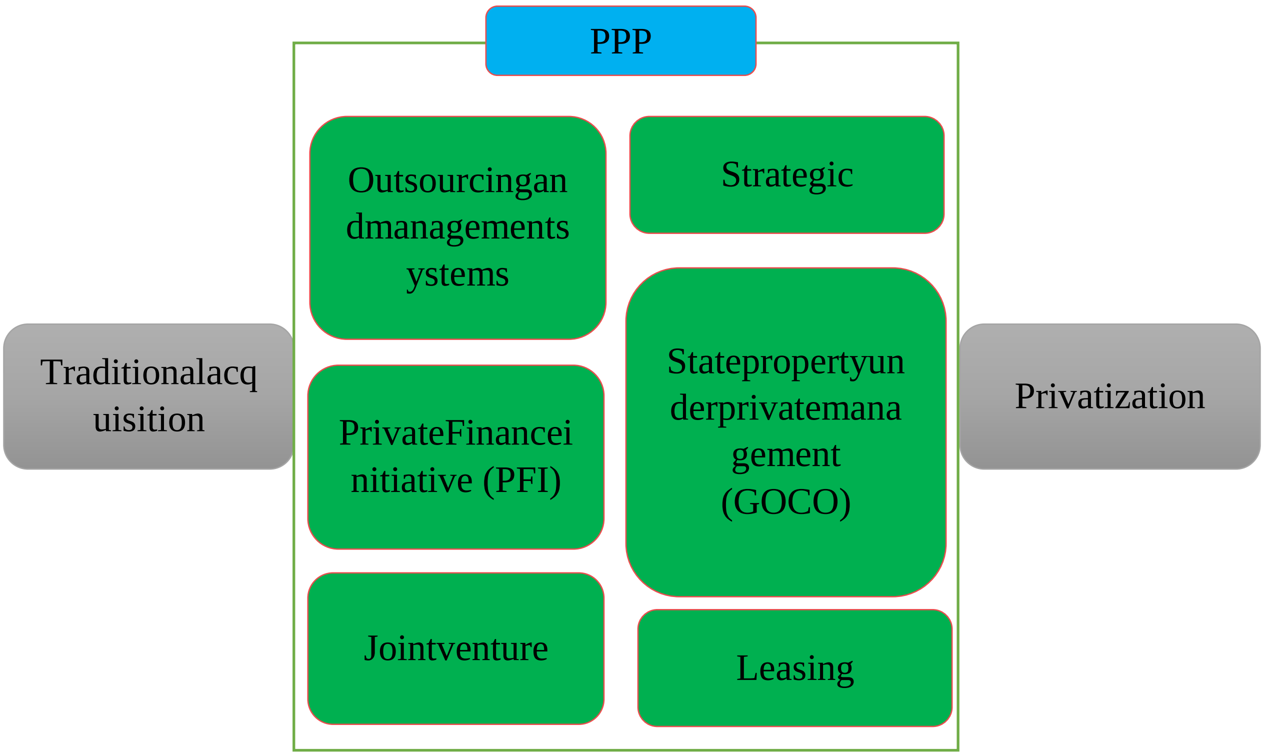
*1-table*As the table shows, the public sector usually has several options for cooperation with the private sector. The private sector participation model depends on the responsibilities transferred to the private partner

2-table

Different levels of participation of the private sectorand in PPP contracts							
	Identifyinfr astructure needs	Suggest a solution	Design	Financing	Building	Exploitation service	Possession

Estimatedconstruction	Publicsector			Privatesector	Publicsector	
DesignConstruction	Publicsector	Private-sector	Publicsector		Publicsector	
DesignConstruction, Financing	Publicsector	Privatesector			Publicsector	
Design Construction, Financing, Operation Maintenance	Publicsector	Private sector				Publicsectorprivatesector

1-table



One of the most common cooperation models implemented by many developed and developing countries is the last one in the table: "Design, construction, financing, management and maintenance of the project." In Canada, this model is called P3s, and in the UK — the "Private Finance Initiative" (PFI).

This initiative was first announced in the 1992 autumn budget in the UK. Its essence is a partnership, not an ordinary purchase and projects order .

The cooperation scheme is as follows: the state announces its intention to build a public facility and invites the private sector to participate in the tender. A private company creates a design, builds a structure, raises capital, manages the object during the object life cycle (usually 25-30 years) and at the end of the cycle, depending on the agreement, the object is either transferred to the state or remains controlling a private company, which can resell it.

The state, in turn, makes monthly unitary payments, which include all private sector expenditures and interest on the loan. Let's look at this scheme on the hospital building example. First of all, the public sector determines the hospital parameters: the size, departments number , beds number, and so on. Project specifications are published and applications from private sector representatives are accepted.

The private sector usually forms investors consortium and sometimes construction companies and banks. The consortium covers costs part at its own expense (usually around 20%), and the rest is covered through a loan. All expenses, including purchases, construction, maintenance, bank loan interest, private loan interest, and dividends are calculated and a financial model is created. In this model you specify the amount of the unitary payments. It should be emphasized that the state does not pay anything during construction. Payments start from the moment when the object starts functioning.

To implement the project, a special Purpose Vehicle (SPV) company is created to protect the consortium members from the debts negative impact in other areas of their business, as well as to effectively distribute risks and combine all contracts and sub — contracts under a single legal entity.

The basis of PFI is the transfer of risk to the party that has the best ability to control and manage these risks. The private sector is considered to be more experienced in managing risks, in particular financing risk. This is due to the fact that the private sector usually controls loans more carefully, since they have more experience in this business.

In addition, project financing risk transfer creates incentives for private partners to provide services in a timely and high-quality manner, since they start receiving payments for services only when the flow of public services actually begins, and payments depend on meeting the established criteria for efficiency and quality.

It should be emphasized that the higher the risk, the more bonuses the private sector will demand. In the meantime, the risks of specification changes, risks of changes in legislation, risks of criticism of the project, and so on should remain under the control of the public sector. Controversial risks, such as the need risk, should be discussed with maximum effectiveness for the public.

Private companies are considered more competent and efficient in construction and maintenance, as they have more experience. In addition, the fact that payment depends on timely and high-quality delivery will serve as an incentive for the private sector.

Competition between the private sector will help reduce prices and save money for the public sector and help prevent corruption and monopolies. An open and transparent process is fundamental to the success of the partnership.

Another advantage of PFI is that the cost savings after signing the contract and during the construction or maintenance of the facility are shared equally between the public and private sectors.

Savings can be achieved through better interest rates after the loan is renewed, saving energy and other utilities, saving insurance, and so on. This will encourage the public sector to be cautious when using public services, and the private sector to regularly consider alternative and more affordable service delivery schemes.

PFI projects will enable the government to know all the costs over the project life cycle. This will provide certainty and improve planning for the future.But you should also specify that this is only if the project will not change, since project changes can be expensive. As mentioned above, the risks of financing, construction and quality are transferred to the private partner, so the debt on the project is not reflected on the state's balance sheet. This leads to an improvement in the state's creditworthiness.

The costs associated with participating in the tender may be too high. The longer this process takes, the more costs are required. The interest on loans received by private companies is usually higher than the interest on loans purchased by the public sector. The public sector also has its own reserves, with which it can build a facility without attracting private sector Finance. Since the main goal of the private sector is to maximize profits, there is a high risk that the cost of services provided to the state will be much higher than the market.

Excessive risk transfer can lead to private partner bankruptcy . This can lead to unnecessary costs for the public sector when searching for an alternative partner. The effectiveness of the model should be reviewed at the beginning of the process and compared both with other PPP models and with a regular government order. Areas where the PFI model can be applied effectively are healthcare, education, road transport, waste management, and construction of social, public, and residential facilities.

What needs to be done to make this partnership work successfully? The options may be as follows:

It is necessary to work out legal measures and changes in legislation to support the partnership. Reviewing current legislation, making changes and issuing new laws for long-term contracts, tax obligations for the partnership, and property transfers are mandatory for the partnership to work successfully. Many countries have introduced or are in the process of introducing special laws to support PPPs. This, in turn, will give certainty and confidence to both the public and private sectors.

Transparency and openness. It is necessary to ensure transparency both during the tender process and in the future during the construction and maintenance of facilities. This is the only way to identify all effective mechanisms for saving resources and review the artnership effectiveness for both the public sector and private investors. In addition, transparency will increase private sector confidence in the state.

The government should view the partnership as a long-term commitment. This will serve as an indicator of serious attitude to the project and encourage private companies to invest in public projects. If the state periodically suspends these projects, the interest of the private sector will disappear due to the threat of instability.

The tender process should be short and cheap. This is when there will be no need for extra expenses. To do this, it is necessary to standardize the entire process and minimize bureaucratic obstacles.

Alternative sources of financing: if the interest on a loan from traditional sources is too expensive for the state and the private sector, the state should attract or form alternative sources of financing. To do this, you can create a partnership Fund.

Flexibility in certain services and changes: the state should effectively restrict services received on a long-term basis. For example: "soft services" such as cleaning, catering, and small repair services should not be included in the contract.

Risk management: risks should be regularly reviewed. During risk sharing, both parties must assume the risk that they can best manage. Otherwise, the damage will not be avoided and there will be distrust between the government and the private sector in the future.

Government participation in the project as an investor. Being a limited investor of the project as a member of the consortium,the state can solve a number of problems. First, the state will become a participant in careful monitoring of the project and making functional decisions. Second, since the state is one of the shareholders, prices for services will not be noncompetitive and possible over-payments to the private sector will be limited. Third, the spirit of mutual trust and cooperation between private investors and the state will be strengthened.

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