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**THE ROLE AND MECHANISMS OF PUBLIC-PRIVATE PARTNERSHIP IN
ATTRACTING FOREIGN INVESTMENTS**

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Abstract: Public-Private Partnership (PPP) plays an important role as an effective instrument for attracting foreign investments, developing priority sectors of the economy, financing infrastructure projects, and introducing innovative solutions. Through PPP mechanisms, the state performs functions such as reducing risks, regulating processes, and providing guarantees, while the private sector contributes capital, advanced technologies, and managerial expertise. As a result, the stability of the investment environment increases, the financial attractiveness of projects strengthens, and new sources of economic growth emerge. This mechanism offers foreign investors legal guarantees, clear and transparent procedures, and a long-term cooperation model, creating opportunities to expand relations with international financial institutions and multinational companies.

Keywords: public-private partnership, foreign investments, infrastructure projects, risk management, financial attractiveness, innovative solutions, economic growth.

Introduction

Structural changes in global investment flows, the limited nature of public resources, and the increasing financial scale of major infrastructure projects have further strengthened the importance of Public-Private Partnership (PPP). Today, many countries actively use this mechanism to establish sustainable sources of economic growth, enhance competitiveness, and develop social infrastructure. Attracting foreign investment, in particular, serves as an essential factor for developing nations in accelerating modernization processes, introducing advanced technologies, and increasing employment. From this perspective, the PPP model enables the strengthening of cooperation between the state and business, ensuring the efficient use of resources and balancing economic risks in investment activities.

In the context of Uzbekistan, the relevance of this direction is directly linked with the country's gradual transition to an open economy, the liberalization of the investment climate, and large-scale reforms aimed at modernizing infrastructure. Implementing major projects in sectors such as energy, transport, utilities, healthcare, education, and digital infrastructure requires mobilizing additional resources beyond the state budget. For foreign investors, the PPP model offers not only stable legal guarantees but also clear risk-sharing mechanisms, long-term participation in strategic projects, and opportunities for high returns. At the same time, expanding cooperation with international financial institutions,



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multinational corporations, and private equity funds contributes to deepening Uzbekistan's capital markets and increasing its investment attractiveness.

These aspects demonstrate that the effective use of PPP mechanisms plays a decisive role in attracting foreign investments. This process harmonizes the state's regulatory and guarantee functions with the financial, managerial, and technological capabilities of the private sector. As a result, the quality of investment projects improves, infrastructure development accelerates, and the efficiency and coverage of public services expand. PPP also plays an important role in strengthening macroeconomic stability, transparency in the business environment, and investor confidence. Therefore, studying the role and mechanisms of public-private partnership in attracting foreign investments and developing proposals to improve their effectiveness represents a highly relevant scientific and practical task today.

Literature Review

Carter B. Casady and Ancor Suárez-Alemán (2025), in their work titled "Evaluating the Impact of Public-Private Partnerships–Enabling Conditions on Infrastructure Development: Evidence from Latin America and the Caribbean," analyze the effect of institutional conditions that promote PPPs on the volume of infrastructure investments using a longitudinal dataset for 26 LAC countries covering the period 2009–2022.¹ According to the research findings, political and social will, as well as institutional capacity, are the most important factors in predicting PPP activity. The authors note that approximately USD 250 billion per year is needed to close the global infrastructure gap and that infrastructure shortages may reduce regional output by up to 15% — underscoring the need to strengthen PPP performance in the LAC region.

In their article "Evaluating the Effects of Public–Private Partnership Investment in Energy on Labor Market Dynamics and Poverty Alleviation in BRICS Countries" (2025), Mosab I. Tabash and his co-authors analyze a 24-year panel using robust empirical methods such as CS-ARDL and FMOLS.² They emphasize that PPP investments in the energy sector significantly reduce poverty and unemployment in the long run. According to the study's descriptive statistics, PVT (poverty) averaged 32.955%, UNP (unemployment) averaged 10.246%, and PPE (PPP investments in energy) averaged USD 9.04 billion. The regression results show a long-run coefficient of -4.378 ($p < 0.001$) for the effect of PPE on poverty and -0.395 ($p \approx 0.097$) for unemployment — indicating that PPPs directed toward the energy sector contribute to improving social outcomes.

In their 2024 article "Public-Private Partnerships and Human Development," Hanna Kociemska, Franklin Obeng-Odoom, and Patrzalek Leszek use Human Development Index (HDI) data for low- and middle-income countries and apply propensity score matching

¹ Casady C. B., Suárez-Alemán A. Evaluating the impact of public-private partnerships-enabling conditions on infrastructure development: Evidence from Latin America and the Caribbean. – IDB Working Paper Series, 2025. – №. IDB-WP-01735.

² Tabash M. I. et al. Evaluating the effects of public private partnership investment in energy on labor market dynamics and poverty alleviation in BRICS countries //Discover Sustainability. – 2025. – T. 6. – №. 1. – C. 573.



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(PSM) and multivariate regression methods.³ The authors emphasize that an increase in the number of PPPs is associated with statistically significant positive changes in HDI levels (with p-values < 0.05), indicating that well-designed and well-regulated PPPs contribute to improved social inclusion and quality of life. These findings highlight the need to evaluate PPP policies in the infrastructure and services sectors from the perspective of their social impact.

In the context of transport and the environment, J. Binsuwadan and colleagues (2025), in their article “The Impact of Public–Private Partnership Investments in Transport on CO₂ Emissions in East Asian and Pacific Regions: A VAR Model,”⁴ analyze the period 1990–2023 using VAR models and find a negative relationship between PPP investments in the transport sector and CO₂ emissions — meaning that under certain conditions, PPP investments directed toward transport can reduce emissions. At the same time, broader macro-statistical trends — such as the significant decline in the number and value of international project finance deals in 2023 (e.g., global project finance value falling by roughly 26% compared to 2022) — illustrate the real challenges of mobilizing infrastructure investment, underscoring the need to consider PPPs as part of a broader policy package.

Analysis and results

Public–private partnership (PPP) is considered one of the most effective instruments in the modern economy for implementing large-scale infrastructure projects, reducing investment risks, and attracting foreign capital into the economy. This mechanism aligns the government’s strategic objectives with the private sector’s innovative, managerial, and financial capabilities, thereby creating sustainable sources of economic growth.

Figure 1 illustrates the interlinked components of the PPP mechanism in the investment process in the form of gear wheels. Each gear represents the public sector, the private sector, financial markets, infrastructure projects, and governance mechanisms. Their interconnected movement signifies the integrated and stable functioning of the PPP system. When this process operates in a coordinated manner, a clear, stable, and predictable environment is formed for foreign investors. The structure of the figure demonstrates that the role of PPPs in attracting investment is not based on a single factor but relies on a complex set of mutually interconnected mechanisms.

³ Hanna K., Franklin O. O., Leszek P. Public–private partnerships and human development //International Journal of Management and Economics. – 2025. – T. 61. – №. 2. – C. 85-96.

⁴ Binsuwadan J. et al. The Impact of Public–Private Partnership Investments in Transport on CO₂ Emissions in East Asian and Pacific Regions: A VAR Model //Sustainability. – 2025. – T. 17. – №. 20. – C. 9074.

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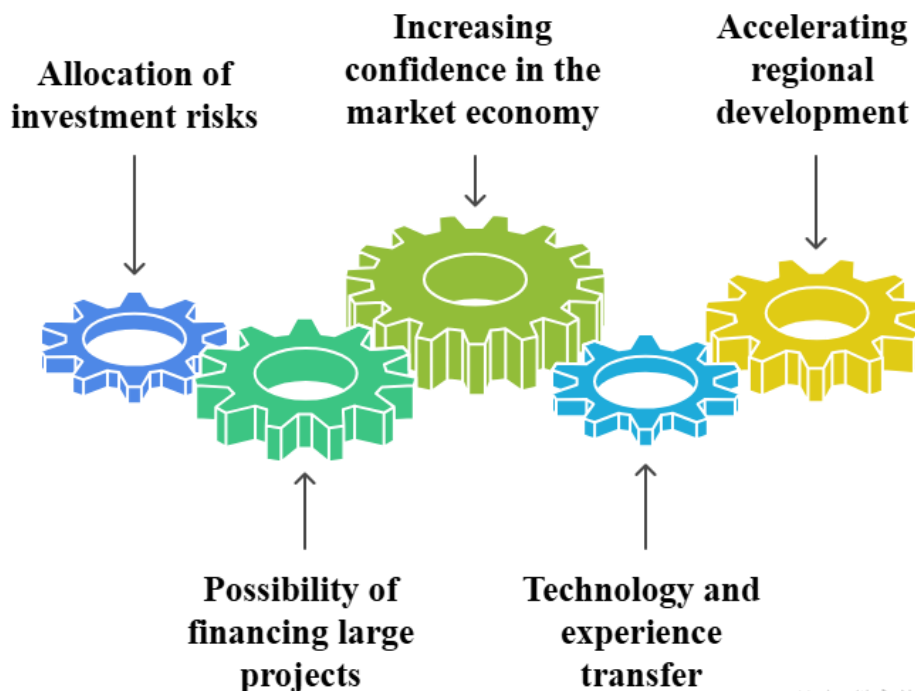


Figure 1. The role of public–private partnerships (PPPs) in attracting foreign investment.

As seen from the model, PPPs function not merely as intermediaries but as a system that integrates multiple factors in attracting foreign investment. The public sector provides legal guarantees, regulation, and resources such as land and infrastructure, while the private sector brings technology, innovation, and managerial expertise; financial institutions supply long-term capital. The coordinated movement of these “gears” ensures reduced risks, increased transparency, and enhanced economic efficiency and financial sustainability of projects for investors. As a result, the PPP model serves as a reliable platform for foreign investors and provides a strong impetus for the country’s infrastructure modernization and economic growth.

The mechanisms for attracting foreign investment through public–private partnerships (PPPs) are among the key tools for financing and effectively managing large-scale infrastructure projects in the modern economy. These mechanisms help reduce the fiscal burden on the state, engage the private sector’s expertise and innovative approaches, and ensure the high-quality implementation of projects. In international practice, models such as BOT, BOO, BOOT, and DBFO are particularly distinguished for their economic efficiency, ability to stimulate capital inflows, and opportunities for optimal risk allocation. Each mechanism differs in its legal, financial, and operational characteristics, creating varying degrees of attractiveness for private investors.



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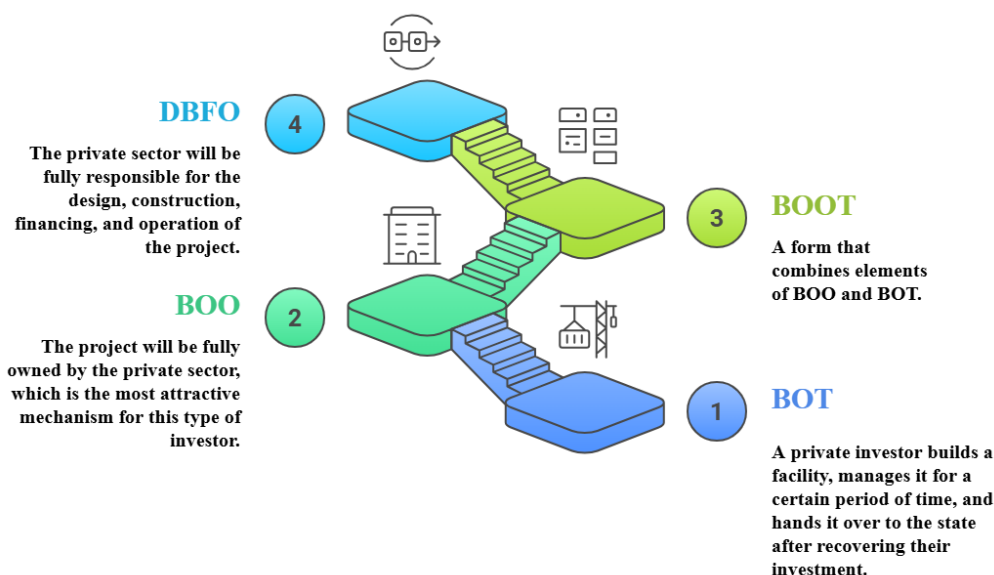


Figure 1. The role of PPPs in attracting foreign investment.

The DBFO (Design–Build–Finance–Operate) mechanism is one of the most complex forms of PPP and relies heavily on private sector involvement. Under this model, the private investor assumes full responsibility for project conceptualization, construction, financing, and operation. This significantly reduces the financial burden on the government, as all necessary funding is provided by the private sector. At the same time, DBFO ensures effective risk allocation: technical, financial, and operational risks are transferred to the private sector, while the government performs monitoring functions related to service quality and final outcomes. This mechanism is commonly used in complex projects such as transport, healthcare, and education infrastructure.

The BOO (Build–Own–Operate) mechanism is among the most attractive PPP models for private investors, as the project remains fully under their ownership and does not need to be transferred back to the government. This enables investors to earn long-term revenue, encouraging companies to engage actively in high-technology and capital-intensive projects. The BOO model is widely applied in sectors such as energy, telecommunications, and industrial infrastructure. In this model, the government's role is mainly limited to regulation, licensing, and monitoring service quality. Its major advantage lies in enhancing capital inflows through strong ownership guarantees for investors; however, this may also reduce the government's control over strategic assets.

The BOOT (Build–Own–Operate–Transfer) model is a unique combination of BOO and BOT, granting the private investor the right to own and operate the project asset for a specified period, after which it is transferred to the government. Although temporary, this ownership right allows investors sufficient time to recover their costs and generate profit, making the BOOT model suitable for long-term, high-investment infrastructure projects. At the same time, the transfer of the asset back to the government ensures the preservation of strategic control, which is particularly important for maintaining security and stability in social infrastructure.



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The BOT (Build–Operate–Transfer) model is one of the most widely used forms of PPP. In this model, the private investor constructs the asset, operates it for a predetermined period to recover investments and earn profit, and then transfers it to the government. BOT maintains a balance between the interests of the public and private sectors: the investor recovers their costs and profits, while the government ultimately gains access to modern infrastructure. BOT is widely applied in projects such as highways, bridges, ports, and power plants. Its key advantage is that most risks are borne by the private sector; its main drawback is the potential for relatively high tariffs or service fees as investors seek to recoup their investments.

The use of PPP mechanisms to attract foreign investment plays a crucial role in ensuring sustainable economic growth and effectively financing large-scale infrastructure projects. Through PPPs, the government reduces its need for public funds in major projects, while the private sector gains secure and guaranteed revenue streams in exchange for its capital. The success of such partnerships largely depends on the financial incentives provided by the government, which help ensure stability, minimal risk, and high profitability for investors. In international practice, mechanisms such as tax incentives, subsidies, state guarantees, and preferential loans are considered among the most effective tools for attracting foreign investors.

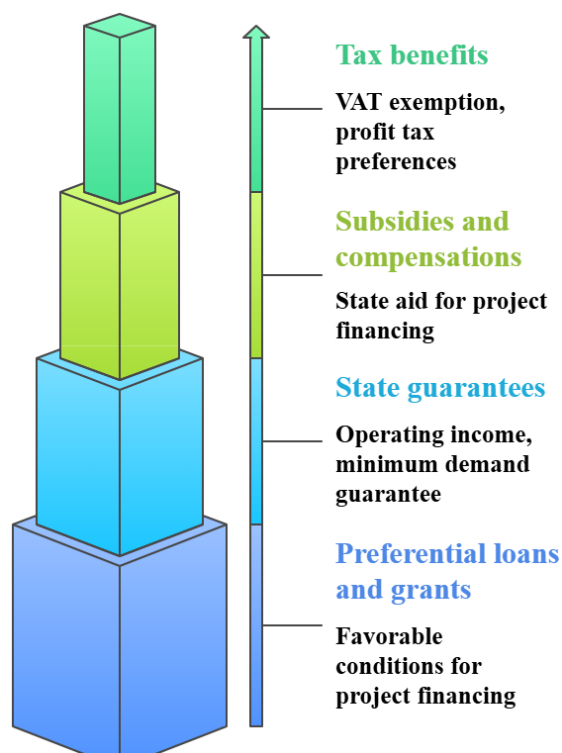


Figure 3. Financial incentive mechanisms.

Tax incentives are among the strongest motivational instruments for foreign investors, as they significantly reduce total project costs and increase investment profitability. For example, exemptions from value-added tax (VAT) lower expenditures related to the import of construction materials and equipment, while profit tax preferences increase the investor's net income share. Such incentives create fiscal stability and long-term revenue opportunities for investors, thereby accelerating the inflow of capital into the

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country. At the same time, tax relief strengthens the economic viability of PPP projects and ensures the development of strategic public assets.

Subsidies and compensations reduce investment risks and improve project efficiency by enabling the state to cover a portion of investor costs. They may be implemented through reducing construction expenses, partially reimbursing operational costs, or artificially lowering tariffs. For instance, in energy, transport, and agricultural infrastructure projects, government compensation mechanisms play a crucial role in preventing excessive increases in service prices. As a result, investors gain guaranteed profitability, while the population benefits from socially significant services at affordable prices.

Government guarantees are among the most important tools for minimizing risks for foreign investors. Mechanisms such as minimum demand guarantees or revenue guarantees stabilize investor income streams and mitigate risks associated with market volatility. For example, if traffic volume on toll roads falls below expectations, the government compensates for the revenue shortfall. Such guarantees encourage the private sector to participate in high-risk infrastructure projects, as partnership with the state serves as a safety “cushion” for investors. Consequently, the volume of capital mobilized increases, and the project’s financial model becomes more sustainable.

Preferential loans and grants—provided by governments or international financial institutions—serve as concessional financing instruments that reduce the initial capital burden on investors and address liquidity challenges in the early stages of a project. Preferential loans typically feature low interest rates, long maturities, and grace periods, while grants provide non-repayable financial support, further reducing overall project costs. These mechanisms offer additional motivation for investors, particularly in socially significant but relatively low-profit projects. In this way, through financial incentives, the state accelerates the inflow of private capital and stimulates economic development.

Conclusion

The importance of public–private partnership (PPP) mechanisms in attracting foreign investment is immense, as they accelerate economic growth by integrating the state’s strategic infrastructure projects with the expertise and capital of the private sector. The attractiveness of PPPs for foreign investors is primarily determined by institutional guarantees that reduce investment risks, clear project planning, transparency in tender procedures, and the stability of long-term partnership conditions. In this context, financial incentive mechanisms — such as tax benefits, credit guarantees, subsidies, and infrastructure support instruments — provide additional confidence for investors and enhance the country’s overall investment appeal. As a result, PPPs increase inflows of foreign capital, improve efficiency across economic sectors, and foster the development of innovative management principles.

Recommendations:

— Introduce risk assessment methodologies aligned with international standards in PPP projects;



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- Create a unified “PPP Information Portal” for foreign investors to provide all data in an open and integrated format;
- Re-optimize financial incentive mechanisms by sector and adapt them to investors’ needs;
- Increase transparency in tender processes by implementing digitalization and blockchain technologies.

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