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

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Abstract

This study investigates how public–private partnerships (PPPs) can mobilize foreign capital for infrastructure while preserving fiscal sustainability and public value. It develops a mechanism-based analytical framework linking institutional credibility, bankable project preparation, risk allocation, financing structures, and contract management to foreign-investor participation. The research uses qualitative comparative analysis of official guidance and descriptive international investment evidence, supplemented by a transparent illustrative project-appraisal model. According to UNCTAD, global foreign direct investment reached approximately USD 1.6 trillion in 2025, while developing economies received about USD 901 billion. These aggregate flows do not measure PPP-specific investment. The findings indicate that a PPP is not automatically an additional source of foreign direct investment: its contribution depends on foreign ownership and financing arrangements, commercially credible revenues, transparent procurement, and enforceable commitments. A staged screening framework and a risk-adjusted performance dashboard are proposed. The article contributes an integrated decision model that distinguishes investment commitments, actual disbursements, contingent public liabilities, and realized development outcomes.

Keywords: public–private partnership; foreign direct investment; project finance; risk allocation; infrastructure; investment climate; fiscal risk; value for money.

1. Introduction

Infrastructure investment is a foundation for economic diversification, trade connectivity, energy security, and productivity growth. Yet many governments face constrained fiscal space, aging public assets, and limited technical capacity to prepare complex projects. Public–private partnerships have therefore become a prominent institutional arrangement for delivering infrastructure and public services. In a PPP, a public authority contracts with a private entity to provide assets or services over an extended period, with material responsibilities and risks assigned contractually. The arrangement differs from conventional procurement because remuneration, performance obligations, and risk exposure are linked over the project life cycle.

The relationship between PPPs and foreign investment requires conceptual precision. A cross-border equity contribution to a project company may qualify as foreign direct investment when the relevant ownership and influence criteria are met; international loans to the same project are not necessarily FDI. Likewise, the headline value of a PPP contract does not equal the amount of foreign capital entering an economy. PPPs may attract foreign sponsors, engineering expertise, lenders, and equipment suppliers, but they may also be financed entirely by domestic actors.

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Consequently, PPP counts or announced commitments cannot, by themselves, establish an increase in realized foreign investment.

Global conditions make this distinction especially important. UNCTAD's World Investment Report 2026 reports that world FDI increased by approximately 6% to USD 1.6 trillion in 2025, but the recovery remained uneven, with investment concentrated in a limited set of destinations and sectors [1]. This aggregate picture highlights competition for international capital and the need to improve project quality rather than rely exclusively on investment incentives. For emerging economies, including Uzbekistan, PPPs may provide an additional route to mobilize international expertise in renewable energy, transport, water, healthcare, and social infrastructure.

The research question is: through which institutional, contractual, and financial mechanisms do PPPs increase the likelihood of foreign-investor participation while safeguarding public value? The objectives are to systematize these mechanisms; define measurable indicators; demonstrate a transparent appraisal method; and propose a practical governance sequence. Three propositions guide the analysis: P1, predictable institutions improve project bankability; P2, efficient risk allocation and credible revenue structures support foreign participation; and P3, transparent procurement and contract monitoring determine whether announced investments translate into public outcomes.

The novelty of the paper is its separation of four analytical layers often conflated in policy discussion: investor interest, financial close, realized foreign-capital flows, and ex post service outcomes. It also links these layers to public fiscal exposure, enabling a more balanced assessment of PPP effectiveness.

2. Materials and Methods

The study adopts a structured qualitative synthesis of international institutional guidance and an illustrative quantitative appraisal. The principal documentary sources are the World Bank PPP Reference Guide, World Bank materials on risk allocation and project structuring, the World Bank Private Participation in Infrastructure (PPI) database methodology, and UNCTAD's World Investment Report 2026 [1–6]. These sources were selected because they address distinct but complementary dimensions: international investment trends, project-level contractual arrangements, and public-sector governance. The review emphasizes definitions and mechanisms rather than unsupported causal inference.

The unit of analysis is the PPP project, not the country-year. A project proceeds through identification, feasibility assessment, procurement, financial close, construction, and operation. The causal logic is conditional: institutional quality affects perceived regulatory risk; preparation affects expected cash flows; risk allocation affects financing costs; and procurement and monitoring affect competition and implementation. Foreign participation is an outcome that may emerge when these conditions are sufficiently credible. This conceptual framework does not establish causal effect sizes without a project-level dataset and identification strategy.

Five assessment dimensions are defined: institutional credibility (I), bankability and revenue security (B), risk allocation (R), procurement transparency (T), and delivery/monitoring capacity (M). Each may be rated from 0 to 100 using disclosed evidence and an auditable rubric. A proposed screening index is calculated as $S = 0.20I + 0.25B + 0.25R + 0.15T + 0.15M$. Weights are normative design assumptions, not statistically estimated coefficients; sensitivity tests are required before policy

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application. A score cannot replace a full feasibility study, public-sector comparator, or environmental and social due diligence.

Because comparable project-level microdata were not assembled for this article, the quantitative exercise below is explicitly hypothetical. No fabricated regression coefficients, p-values, or empirical causal estimates are presented. Reported global FDI statistics are externally sourced; the screening and financial calculations are illustrative and must not be interpreted as observed country or project results.

Indicator	Operational definition	Interpretation
Foreign equity mobilized	Cross-border equity actually paid into project SPV	Potential FDI component; verify statistical classification
Foreign debt disbursed	Cross-border loan drawdowns	External financing, not automatically FDI
Financial-close rate	Projects reaching financial close / tendered projects	Pipeline conversion
DSCR	Cash flow available for debt service / debt service	Debt-service capacity
Public exposure	Present value of guarantees and expected contingent liabilities	Fiscal sustainability
Service performance	Availability, quality, affordability, user access	Realized public value

Table 1. Proposed project-level monitoring indicators. Source: authors' synthesis based on World Bank PPP guidance [2–5].

3. Results

3.1. Mechanisms linking PPPs and foreign investment

First, the institutional mechanism reduces uncertainty. A stable PPP law, credible dispute resolution, predictable tariff or availability-payment rules, and an empowered contracting authority can lower the regulatory risk premium required by international sponsors. Institutional credibility is particularly important where projects span multiple electoral or budget cycles. However, the mere existence of a PPP law is insufficient if procurement decisions are opaque or contractual commitments are not enforceable.

Second, the project-preparation mechanism converts a broad development priority into a financeable transaction. Feasibility studies, demand forecasts, environmental and social assessment, land acquisition plans, and a clear procurement calendar reduce uncertainty and transaction costs. Well-prepared pipelines also allow investors to plan resources across multiple projects. Poorly prepared projects may attract initial expressions of interest but fail to reach financial close.

Third, the risk-allocation mechanism assigns risks to the party most able to manage them at reasonable cost. Construction completion and operating performance can often be managed by a private concessionaire; some regulatory and political risks are more appropriately addressed by public commitments or multilateral guarantees. Excessive transfer of uncontrollable risks to private parties can make a project unbankable, while excessive government guarantees can conceal long-term fiscal costs [3,4].

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Fourth, the financing mechanism combines equity, domestic and international loans, guarantees, and possibly development-finance participation. A foreign sponsor may supply managerial expertise and equity, while lenders provide long-tenor financing. Currency mismatch remains a central concern when debt is denominated in hard currency but project revenue is collected in local currency. The optimal financing structure should therefore reflect realistic revenue projections and explicit hedging or risk-sharing arrangements.

Fifth, the performance mechanism connects investor returns with service outcomes through output specifications, availability standards, independent verification, and transparent penalties or incentives. Strong contract management reduces renegotiation risk and helps distinguish successful capital mobilization from merely signing high-value agreements.

Mechanism	Investor-facing channel	Public-sector safeguard
Legal and institutional	Predictability and enforceability	Disclosure and independent oversight
Preparation and tender	Lower information and bidding costs	Competitive procurement and appraisal
Risk allocation	Lower unmanaged risk premium	Contingent-liability limits
Financial structuring	Long-tenor capital and credit enhancement	Debt and currency stress tests
Contract management	Reliable payment and dispute processes	Outcome KPIs and audit

Table 2. Mechanism matrix. Source: authors' synthesis from [2–5].

3.2. Descriptive international context

UNCTAD reports that global FDI reached approximately USD 1.6 trillion in 2025, a 6% increase, while inflows to developing economies were about USD 901 billion, rising roughly 2% [1]. These figures indicate the size of international investment flows but do not quantify the contribution of PPPs. The World Bank PPI database tracks private participation in infrastructure in low- and middle-income countries, including project type, sponsors, financing characteristics, and financial-close timing [6]. Its coverage is not exhaustive, and PPI projects are not synonymous with foreign-owned PPPs. For valid analysis, foreign ownership should be matched to actual financing and disbursement records.

Reported measure	2025 estimate	Meaning / limitation
Global FDI inflows	USD 1.6 trillion	All sectors and entry modes; not PPP-specific
Growth in global FDI	6%	Year-on-year global estimate
FDI into developing economies	USD 901 billion	Not a measure of PPP investment
Growth in developing-economy FDI	2%	Uneven regional and sectoral distribution

Table 3. International FDI context. Source: UNCTAD World Investment Report 2026 [1]. Values rounded as reported.

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3.3. Illustrative project screening and sensitivity analysis

Consider two hypothetical infrastructure projects, A and B, scored under the proposed five-dimensional screening framework. Project A has I=80, B=75, R=70, T=90, M=75, yielding S_A=76.0. Project B has I=70, B=85, R=80, T=65, M=70, yielding S_B=76.25. Despite similar overall scores, A has stronger procurement transparency and B has stronger revenue bankability. This demonstrates why a composite score must be accompanied by dimension-level reporting and minimum threshold conditions.

Dimension (weight)	Project A	Project B
Institutions (20%)	80	70
Bankability (25%)	75	85
Risk allocation (25%)	70	80
Transparency (15%)	90	65
Monitoring (15%)	75	70
Weighted score	76.00	76.25

Table 4. Hypothetical scores for method demonstration only; not observed empirical data.

The scores should not be interpreted as precise predictions of foreign investment. If the weight on procurement transparency rises from 0.15 to 0.25 while the weight on bankability falls from 0.25 to 0.15, the recalculated scores are 77.50 for A and 74.25 for B. The ranking reverses, illustrating weight sensitivity. A robust public decision should therefore disclose weighting choices, include a sensitivity range, and apply hard exclusions for unacceptable fiscal, environmental, or integrity risks.

A separate illustrative cash-flow example shows the importance of bankability: if annual cash flow available for debt service is USD 18 million and annual debt service is USD 15 million, DSCR = 1.20. A 15% cash-flow decline reduces the ratio to 1.02, leaving a narrow buffer. If foreign-currency debt payments rise by 10% in local-currency terms, with cash flow unchanged, DSCR falls to approximately 1.09. These are arithmetic scenarios rather than projections. They demonstrate why lenders assess downside conditions, not only the base case.

4. Discussion

The findings support a conditional rather than deterministic interpretation of PPP effectiveness. PPPs may facilitate foreign investment by packaging infrastructure opportunities into legally enforceable, financeable projects. Yet their performance depends on the quality of governance across the full project cycle. International experience synthesized by the World Bank stresses that PPPs should be selected where they can deliver value for money and manageable fiscal risks, not merely because conventional budget funding is limited [2].

An important policy tension arises between investor protection and public affordability. Guarantees and minimum-revenue commitments can improve bankability, but they also create explicit or contingent obligations for the government. Where demand is uncertain, shifting all risk to the public sector may privatize upside while socializing downside. A transparent fiscal-risk register, stress tests, budgetary ceilings, and publication of key contractual obligations are therefore essential. Contract renegotiation should be subject to independent review rather than treated as an informal correction mechanism.

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Another tension concerns the quality of foreign capital. Foreign equity participation can transfer operational expertise, technology, and management practices; however, foreign participation alone does not guarantee local supplier development, training, or productivity spillovers. Procurement rules and performance indicators should reward measurable outcomes while respecting competition and nondiscrimination principles. Development impact should be evaluated through service reliability, affordability, access, local skills, environmental performance, and fiscal cost per unit of delivered service.

For Uzbekistan and comparable reforming economies, the practical implication is to integrate PPP selection with national public investment planning rather than maintain a parallel pipeline driven by unsolicited investor proposals. Candidate projects should pass strategic screening, independent feasibility review, competitive tender, fiscal assessment, and post-award monitoring. Cross-agency coordination is needed among the contracting ministry, finance authorities, sector regulators, and local administrations. Digital project registers can make procurement stages, contract amendments, disbursements, and performance indicators traceable.

A feasible implementation sequence contains five stages. Stage 1: establish a unified project inventory and minimum disclosure requirements. Stage 2: prepare standardized feasibility, value-for-money, and fiscal-risk templates. Stage 3: use transparent competitive procurement and record the nationality and ultimate beneficial ownership of sponsors. Stage 4: monitor actual equity and debt disbursements separately from commitments, alongside contract milestones. Stage 5: conduct periodic independent evaluations of service outcomes and contingent liabilities. This sequence prioritizes evidence quality and public accountability over the number of signed agreements.

The proposed framework has limitations. It does not estimate a causal coefficient linking PPP policy to FDI; selection bias is likely because investors choose projects and countries with more favorable fundamentals. Global FDI aggregates are not project-level PPP observations. The hypothetical scoring model illustrates a decision procedure but has not been validated against observed default, financial-close, or service-performance outcomes. Future research should build a panel of project-level transactions, identify foreign equity shares and actual capital flows, and exploit credible policy changes or quasi-experimental variation where feasible.

5. Conclusion

Public–private partnerships can help attract foreign investment when they create credible long-term opportunities, allocate risks efficiently, and link investor remuneration to measurable public-service outcomes. Their value does not lie in maximizing the announced monetary value of contracts. Rather, effectiveness should be judged by additional capital actually mobilized, financing resilience, public fiscal exposure, and delivered economic and social benefits.

This article identifies five mutually reinforcing mechanisms: institutional credibility, project preparation, risk allocation, financial structuring, and performance-based contract management. The proposed indicators and illustrative screening model offer a practical starting point for comparing candidate projects, while sensitivity analysis demonstrates the importance of transparent assumptions. Governments should prioritize competitive procurement, project-level disclosure, independent fiscal-risk assessment, and systematic monitoring of disbursements and outcomes.

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The policy recommendation is to treat foreign capital mobilization as one objective within a broader public investment framework. Properly designed PPPs can complement public finance and conventional FDI policy, but poorly structured contracts can create fiscal burdens and underperforming services. A credible pipeline of well-prepared, transparently procured, and carefully monitored projects is more valuable than an expanding list of announced commitments.

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