International Journal of Research inSocial Science
Vol. 12 Issue 04, April 2022,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

ISSUES OF INVESTMENT FROM THE PRIVATE SECTOR THROUGH MORTGAGES AND INFRASTRUCTURE BONDS

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Abstract

This article presents scientific proposals and practical recommendations aimed at developing the country's infrastructure at the expense of the private sector, diversifying the financing of investment projects through mortgages and infrastructure bonds. In the practice of countries around the world, the mechanism of project financing through the development of infrastructure bonds, raising capital for targeted projects and bond repayment through the project has been studied.

Keywords:
mortgage bonds, infrastructure bonds,sovereign bonds, guaranteeing minimum returns

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INTRODUCTION

The crisis of the COVID-19 pandemic is leading to a sharp decline in the volume of infrastructure projects on a global scale, in particular, investment projects in the mortgage market at all stages and in all areas. This is having a negative impact on governments, infrastructure asset and service providers, their financial intermediaries, and end users. During crises that may result from a pandemic, and when the amount of funds allocated from the budget is reduced, it will be possible to overcome the situation through direct partnerships with the private sector. During the pandemic, the revival of the private sector, especially healthcare and digital technology-based business sectors, is largely evolving. The state is directly forced to share a large portion of the health care system with the private sector. It also takes time to expand public-private partnerships with the private sector in the field of information technology. The financial mechanisms (sources of financing) of the project play an important role in the success of public-private partnership projects.

LITERATURE REVIEW

The level of capital financing for infrastructure financing from traditional sources is much lower [1]. At the same time, the state cannot be solely responsible for solving problems related to infrastructure development. Public-private partnership is a promising mechanism for attracting private funds to implement projects in such conditions. PPP is a legally mutually beneficial cooperation of state bodies and authorities with business entities in relation to projects that have been in the direct interest and control of the state for a certain period of time.Mortgages and infrastructure bonds have become an increasingly popular means of purchasing public services and infrastructure around the world.This is mainly due to the fact that mortgage and infrastructure bonds allow governments to provide much-needed infrastructure without immediately raising taxes or borrowing [3]. Infrastructure bonds have a special place in the financing of specific projects, ie investment projects, jointly implemented by public authorities and private companies on the basis of state and communal property [4].

Infrastructure bond is a security issued by a concessionaire or a private partner to finance the construction, purchase or reconstruction of an infrastructure facility, services in investment and construction projects [5].

ANALYSIS AND RESULTS

Today, we can see from the experience of developed countries that the financing of silk plays an important role in the development of the country's economy, the effective implementation of major infrastructure projects in improving the social infrastructure in the country. One of the important tasks is to study the experience of developing countries in this area and introduce their practices in our country.

In a modern market economy, public-private partnership is an effective tool for economic and social development at the national and regional levels, a means of attracting and implementing investment projects aimed at maintaining control by state and local governments and establishing effective economic cooperation with the private sector. In public-private partnership investment projects, the private sector is responsible for financing and managing investment projects on the terms and conditions set by the state. The use of private sector funds in infrastructure development is of great importance for developing economies.

The per capita investment in infrastructure around the world is growing year by year, with an increase of 12.3% in 2020 compared to 2015. It should be noted that in the analyzed period, an average of 3.2% of world GDP fell on infrastructure investments. The European and American continents lead in terms of per capita investment in infrastructure , and about 2 percent of the GDP created in these regions is spent on infrastructure development. In Africa, where more than 5 percent of GDP is invested in infrastructure, the per capita share is less than others.

In 2021, the volume of investments in infrastructure in the world will reach 2710.7 billion. The U.S. dollar, about 7 percent of which comes from private sector funds. During this period, 1551.1 bln. Infrastructure expenditures amounted to USD 3%, of which only 3% were private investments. About 13 percent of infrastructure investment in Europe and the Americas came from the private sector (Figure 1).

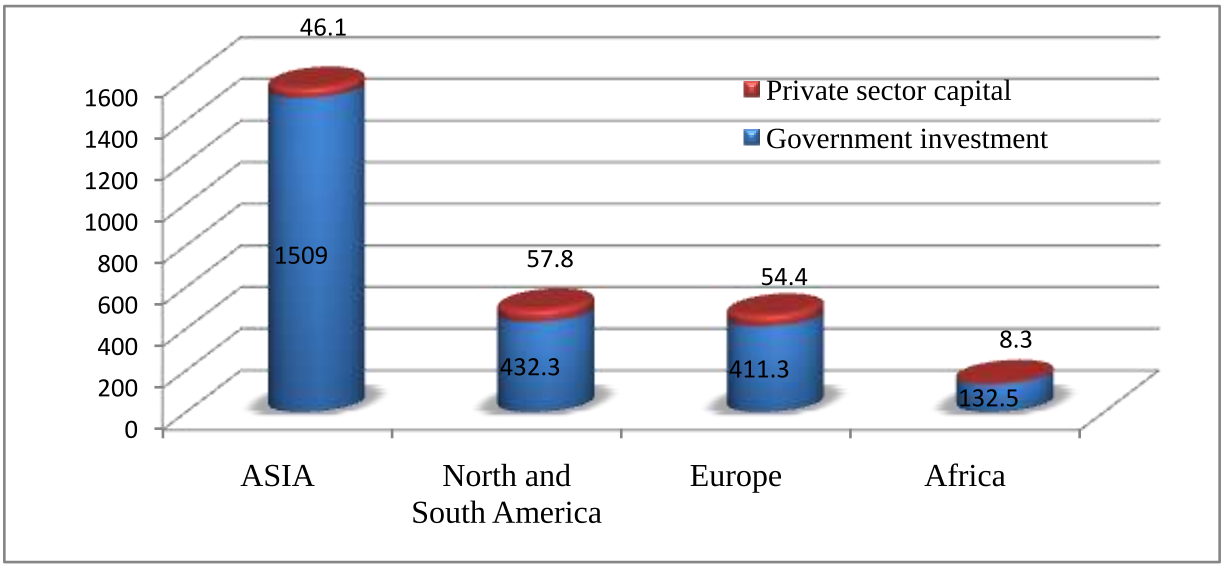

Figure 1.The amount of investment by mortgage bonds in infrastructure in the regions in 2021, in billion USD[1]

It is necessary to provide tax breaks on income from investing in infrastructure bonds. At the same time, we will be able to increase the volume of attracting investors to finance by not applying the tax rate on interest income to the income received from the financing of infrastructure bonds. According to paragraph 16 of Article 179 of the Tax Code of the Republic of Uzbekistan, interest income of individuals is a non-taxable income. However, according to Article 159[1] of this Code, incomepaid to residents of the Republic of Uzbekistan in the form of dividends and interest is taxed at a rate of 5 percent. [2]That is, for legal entities, in particular institutional investors, income from investing in infrastructure bonds is included in interest income and is taxed at the source of payment. In our opinion, the tax exemption of income from infrastructure bonds will be an important impetus for attracting private investors to the country's infrastructure.

Public-private partnership is a long-term interaction between business and government as one of the tried and tested ways to develop public infrastructure. At the same time, business can take an active part not only in the creation of infrastructure facilities, but also in the use and maintenance of infrastructure , taking into account the public interest.

A 1% increase in infrastructure investment in developed countries will lead to a 2-2.5% increase in the country's GDP. In developing countries, this figure is 1.25-1.5 percent. Annual infrastructure investment will increase by 1% of the country's GDP, reaching $ 3.4 million in India, $ 1.5 million in the United States and $ 1.3 million in Brazil. leads to the creation of new jobs. In the United States, $ 1 budgeted for transportation infrastructure brings $ 1.5-2 to the country’s GDP. An additional $ 1 made for infrastructure in Canada will bring $ 2.46-3.83 to GDP.

[1] Prepared by the author on the basis of the site https://rosinfra.ru/digest/investment .
[2]Tax Code of the Republic of Uzbekistan .(new edition) . December 30, 2019.

long-term nature of public-private partnership projects is one of the biggest factors deterring private investors from entering the project. Private investors are not always ready to invest capital in long-term projects , as this factor poses additional risks. In our view, the use of financial market instruments to address this problem may be more effective. In this case, we can cite infrastructure bonds as one of the tools of the market. "The bonds will allow the investor to leave the project before it is completed, and will also be able to act as collateral when financing the project" [6].

Infrastructure bonds are defined in the Law of the Republic of Uzbekistan "On Securities Market" as follows: Infrastructure bonds - bonds issued by companies and state enterprises to raise funds to finance the construction and (or) reconstruction of production infrastructure and other infrastructure. There are some requirements for the issuance of infrastructure bonds in our country: - within the amount of equity of the issuer on the date of the decision to issue such bonds. If the amount of infrastructure bonds exceeds the amount of the issuer's equity, the issuer must provide collateral for the increased amount; if there is an audit opinion on the financial statements for the year preceding the bond issue; Proceeds from the placement of infrastructure bonds are used to finance a project provided for by a resolution of the President of the Republic of Uzbekistan or the Cabinet of Ministers of the Republic of Uzbekistan. Also, infrastructure companies with a state share of 50% or more, as well as state-owned enterprises issue infrastructure bonds in coordination with the Ministry of Finance of the Republic of Uzbekistan[3].

Social infrastructure bonds play an important role in raising capital for projects that contribute to socio-economic development and capacity building, affordable housing and infrastructure, access to essential social services, employment and food security. High growth rates in Asian countries and infrastructure spending of around $ 8 trillion, projected for 2010-2020, will increase the demand for private investors' funds, which in turn will affect the development of the infrastructure bond market.

Infrastructure bonds are developing in the practice of countries around the world. In foreign practice, infrastructure bonds often operate on the basis of a mechanism for financing targeted projects and repaying bonds through the project. Infrastructure bond financing is a form of public-private partnership in which the United States, Australia, India, Chile, South Korea, Canada, Kazakhstan, Poland, and a number of other countries have the greatest experience in the use of infrastructure bonds.

"Today, it is time for governments and businesses to address the economic and social challenges posed by inadequate or inadequate infrastructure around the world." In this regard, the main factors that can hinder the economic growth of the country are the underdevelopment of infrastructure, such as transport, energy, utilities, as well as the lack of investment in these sectors for the development and modernization of infrastructure and low level of modern technology. is one of the problems. One of the most effective ways to solve such problems in the world is the implementation of investment projects on the basis of public-private partnership.

According to scientific research, the increase in private sector investment in the economy will contribute to a significant increase in GDP for developing countries.

[3]" On Securities Market", Tashkent,
June 3, 2015No. ORQ-387 , https://lex.uz/docs/2662539

Improving infrastructure using private sector funds is an important factor in ensuring the economic development of a developing country. According to the World Bank, the dynamics of investment in infrastructure projects with the participation of the private sector in developing countries from 2010 to 2019 is as follows (Figure 2).

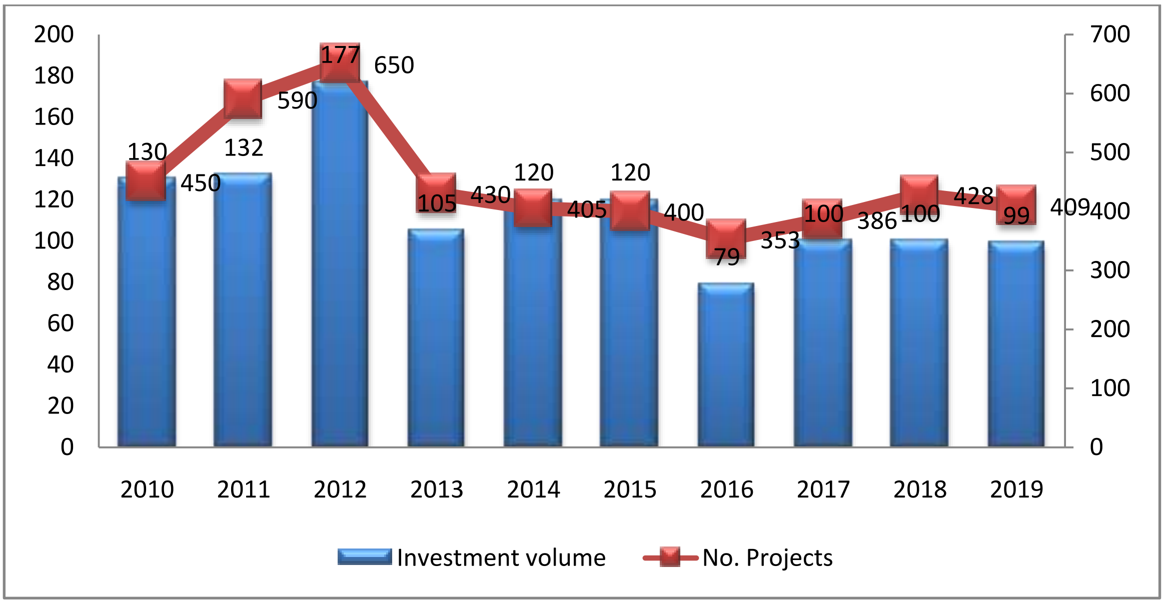

Figure 2. Implementation of private sector investments and projects in developing countries in 2010-2019[4]

As can be seen from the picture above, in 2019, 409 projects worth $ 96.7 billion were funded by private sector investments in infrastructure projects in developing countries. There was a decrease of 3% compared to 2018, and in 2019 there was a decrease of 7% compared to the average amount of 103.5 billion US dollars in the last 5 years. The lowest figure for the 10 years in 2016 was 76.8 billion. Was equal to USD. While the number of projects implemented in 2019 decreased by 4% compared to 2018, 386 and 353 projects were implemented in 2016 and 2017, respectively, with an increase of 16% and 6%, respectively. Of the 409 projects implemented in 2019, 160 or 40 per cent were implemented by foreign investors, and 55 per cent of the investment funds for this year fell to foreign private companies. Over the past 10 years, in 2019, Belarus, Belize, Cape Verde, Kamaros, Cuba, Malawi, Sudan and the Republic of Uzbekistan, where private sector investment is not directed to infrastructure development, the process of implementing infrastructure projects with the participation of the private sector [10]. The World Bank's 2019 report also states that “in 2019, Uzbekistan announced the winner of the tender for the selection of a private investor for a public-private partnership project in the energy sector for the first time in the country. It also plans to implement 25 solar-based projects in the next 10 years. In 2019, the country adopted the legal framework for public-private partnership. The practice of attracting private investors to finance the infrastructure in the country has been developing well in recent years, and they serve as a good signal to the global investment market” [10]. “In the energy sector alone, work has begun on the

[4]Private Participation in Infrastructure (PPI) , The World Bank annual report, prepared by the author on the basis of 2019 data.

construction of six new power plants on the basis of public-private partnership with foreign investors. They have a total value of $ 2 billion and a capacity of 2,700 megawatts” [11].

The development of socio-economic infrastructure is one of the key factors supporting the long-term economic growth of any country. Insufficient infrastructure hinders economic growth, negatively affects the quality of services provided to the population and reduces the intensity of entrepreneurial activity. That is why today in the world practice the development of the country's infrastructure on the basis of public-private partnership plays an important role.

CONCLUSIONS

From the experience of developed countries, we can see that financing through mortgage securities plays an important role in the development of the country's economy, the effective implementation of major infrastructure projects to improve the social infrastructure in the country;

in the practice of raising funds for construction projects through infrastructure bonds, the investor will have an additional benefit from project financing, and there will be an opportunity to attract more private sector funds in infrastructure development ;

First of all, it is a combination of financial, technological and managerial resources of the public and private sectors (businesses) in the organization of infrastructure and the provision of socially important services. In such a partnership, the relationship is built like a public-private partnership.

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