

# Improvement of Methods of Financial Management of Investment Activities

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**Abstract-** This article explores the theoretical and legal framework of financial management of investment activities. In addition, the economic essence of the methods and mechanisms of financial management of investment activities is disclosed, as well as the features of state regulation of investment activities are investigated. On the basis of a critical study of scientific sources published abroad and in our country, as well as adopted regulatory documents, the economic essence of the concept of “financial management of investment activity” is studied. Based on the results of the research, the author defines this concept, i.e. "Financial management of investment activity is a management activity aimed at providing investment projects with financial resources and achieving their effective use."

**Keywords:** Investments, financial investment management, foreign experience, investment attractiveness, venture capital, venture capital market, investment companies, investment funds, capital potential

## 1. THE RELEVANCE AND RELEVANCE OF THE RESEARCH TOPIC

The global economy is dominated by a disproportionate trend between supply and demand for investment. Today we are witnessing the fact that the flow of investments is directed from developed countries to the economies of developing countries. As a result, the share of foreign direct investment in the economies of developing countries is growing rapidly. In particular, investments in the amount of \$ 170.6 billion were made to the Chinese economy in 2017, and \$ 44.4 billion to the Indian economy. U.S. In turn, the presence of many problems associated with improving the efficiency of investments remains one of the main factors determining the need to improve the financial management of investment activities.

Nowadays, in world practice, it is important to carry out research on optimizing mechanisms for attracting foreign investment and placing them in promising sectors of the economy and based on high technologies, developing the practice of venture financing of investment projects at the national and regional levels, and ensuring mutual coherence between increasing the attractiveness of the investment climate and means of financial management of investment activity, as well as by methods am evaluating the effectiveness of investment activities and improving the risk management system in this direction. This provision defines the target areas that are planned to be solved within the framework of the topic of dissertation research.

In our country, in order to implement large-scale investment projects, the creation of high-tech production facilities, large-scale work is underway to rapidly develop the economy and attract foreign investment. At the same time, a number of shortcomings such as the inefficient use of available resources, a superficial study of the feasibility and profitability of projects included in the investment program negatively affect the effectiveness of activities in this area. The mentioned issues negatively affect the investment attractiveness of the country. In this regard, the “Strategy for Action on Five Priority Directions of the Development of the Republic of Uzbekistan” outlines such tasks as modernization, technical and technological renewal of production, implementation of an act in investment policy aimed at implementing production, transport and communication infrastructure projects, improving the investment climate, attracting in sectors of the economy and regions of the country of foreign, primarily direct foreign investment. These tasks indicate the need to improve the financial management of investment activities.

This dissertation research to some extent serves the implementation of the tasks specified in the Decree of the President of the Republic of Uzbekistan No. UP-4947 dated February 7, 2017 “On the Strategy for the Further Development of the Republic of Uzbekistan”, No. UP-4996 dated March 31, 2017 “On the Creation of the State Committee on investments of the Republic of Uzbekistan “and No. UP-5177 dated September 2, 2017“On priority measures for the liberalization of monetary policy”.

## 2. THE DEGREE OF KNOWLEDGE OF THE PROBLEM

Theoretical and practical aspects of the organization of investment activity and its financial management are reflected in the studies of L.J. Gitman, M.D. E.O. Kiryanova, S.N. Grib, V.V.Sheremet, L.K. Egorova and other

scientists.

Scientists-economists of our country also conducted research on the organization of investment activity and its financial management. In particular, they are reflected in the scientific works of scientists such as A.V. Vakhobova, A.U. Ulmasova, B. B. Samarhodzhaev, D. G. Gozibekov, D. M. Rasuleva, N. Kh. Zhumaev, N. G. Karimova, O.Yu. Rashidova, N.Kh. Khaidarova, S.S. Gulomov, F.U. Dodiev and others.

Despite the fact that the scope of scientific research devoted to the theoretical, methodological and practical features of the organization of investment activity and its financial management is very extensive, a number of topical issues still remain in this area. In particular, these include issues such as the peculiarities of organizing investment activities in the regions of our country, organizing the activities of regional venture funds in financing investment projects, improving mechanisms for the allocation of syndicated loans for lending to investment projects, increasing the efficiency of the use of domestic resources, including population savings when organizing investment activities [1].

Due to the fact that topical issues in the field of improving methods of financial management of investment activity have not been comprehensively studied and studied enough, and also taking into account the scientific and practical importance of finding their solutions, all this served as the basis for determining the purpose, objectives and structure of this dissertation research.

### **3. THE MAIN CONTENT OF THE ARTICLE**

Financial Management is one of the most important functions that could help the organization reach its objective. The major roles and responsibilities related to financial management are Financial Budgeting, Financial Reporting, Cash Management, Managing People in Finance department or division and other related tasks. [6] Despite the fact that the issues of improving investment activities and methods of their financial management are the subject of research by leading financial and credit institutions and scientists of the world, as well as the availability of numerous scientific works of domestic scientists in the field of improving and attractiveness of the investment climate, the dissertation revealed that the issues related to improving the theoretical and practical foundations of financial management of investment activities are relevant. Financial managers and investment professionals need a solid foundation in finance principles and applications in order to make the best decisions in today's ever-changing financial world. Written by the experienced author team of Frank Fabozzi and Pamela Peterson Drake, Finance examines the essential elements of this discipline and makes them understandable to a wide array of individuals, from seasoned professionals looking to fine-tune their financial skills to newcomers seeking genuine guidance through the dynamic world of finance. [5]

It should be noted that despite the fact that there are many scientific sources devoted to issues of investment activity and their financial management, there is still no single approach to the essence of investment activity and financial management of investment activity, as well as to the mechanisms for their implementation. As a result of this, these concepts are interpreted in different ways; this, in turn, gives rise to certain problems of a theoretical, methodological and practical nature.

Based on a critical study of scientific sources published abroad and in our country, as well as adopted regulatory documents, the study examined the economic essence of such economic concepts as “investment activity” and “financial management of investment activity”.

Based on the results of the research, author's definitions of the above concepts are given. So, “financial management of investment activity is a management activity aimed at providing investment projects with financial resources and achieving their effective use”.

To date, the organization of investment activity of the Republic of Uzbekistan is regulated by a number of laws and more than a hundred by-laws and regulations. In addition, it should be noted that economic relations in the field of investment activity are regulated by legislative norms adopted in various fields. In particular, state (budget) investments are carried out within the framework of the norms specified in the legislative acts on finances, social investments - within the framework of the norms noted in the legislative acts on non-commercial organizations, investments in securities - within the framework of the legislative norms on the activities of the securities market. In our opinion, the establishment of legislative norms on investments by sectors reduces the degree of legal support for investment activities, which negatively affects the development of the country's economy. [2]

This means that the state regulation of investment activity, first of all, requires unification and improvement of existing regulatory documents and improvement of the regulatory framework related to the sphere of investment activity.

As the studies showed, today the system of financial management of investment activity can be divided into two large groups, i.e. It consists of methods based on traditional and market mechanisms.

Using the traditional method, financing is provided for the country's investment activities using budget funds,

bank loans and investors' own funds.

By means of methods based on market mechanisms, financing through syndicated lending, venture capital and securities is understood.[3]

The regional investment and financial infrastructure shown in the figure was developed by studying the experience of developed countries, this proposal serves as a sufficient scientific justification for solving the problems noted directly in the “Strategy for action on the five priority areas of development of the Republic of Uzbekistan in 2017-2021,” adopted by Decree of the President of the Republic Uzbekistan No. UP-4947 dated February 7, 2017 in the field of actively attracting investment resources to the regions and industries of our republic and their financial management.

Carrying out an active investment policy is of some importance in ensuring the pace of stable economic development. In particular, the volume of investment in fixed assets in 2016 amounted to 49.5 trillion soums, which increased compared to 2015 by 8.8 trillion soums or 21.62 percent, compared to 2014 by 15.8 trillion soums or 46.88 percent. 67.2 percent of the investments attracted in 2016 were aimed at improving the production infrastructure, in particular, the share of investments aimed at purchasing high-tech equipment in the total amount of investments spent amounted to 34.6 percent.

2015 years tends to decline. A similar trend can also be observed in the assimilated foreign investments and loans, as well as centralized investments. In our opinion, such a trend (primarily for foreign investments) arose under the influence of the following main factors:

- imposing obligations on investors without taking into account their legal rights and interests;
- direct intervention of state bodies in the economic activities of investors;
- vesting investors with obligations to purchase raw materials, equipment and their components, the quality and price of which do not satisfy them;
- lack of a system for conducting effective monitoring of guarantees of tax and customs services, as well as state guarantees;
- lack of effective investment policy in the regions of the country, etc.[4]

It should be noted that in recent years, a decrease in the volume of fixed capital has been observed in the economy of many foreign countries. In particular, in the Republic of Belarus in 2016, the volume of investments in fixed assets amounted to 80.8 percent compared to 2015. The main reason is the decrease in the volume of domestic sources of investment: consulting budget funds (optimization of state programs) and credit resources (high interest rates and excessive lending to organizations) [8].

To assess the current state of financial management of investment activity, we first analyze the structure and dynamics of investment sources.

As can be seen from the data in table 1, as the main driver of investment activity, one can note the own funds of enterprises and financial resources at the disposal of the population. In particular, the share of this financial source of investment in the total investment increased from 49 percent in 2010 to 53 percent in 2016. During this period, the share of funds allocated by the state decreased from 5.6 percent to 4.5 percent. These tables also show that certain negative trends are observed in the volume of bank loans and foreign investments.

To assess the factors under the influence of which the above negative trends arise, we study the dynamics of macroeconomic parameters that have arisen in our country.

Table 1: The state of macroeconomic monetary indicators in the Republic of Uzbekistan [7]

S. No.	Indicators	2012	2013	2014	2015	2016
1.	Annual refinancing rate of the national bank	12,0	12,0	10,0	9,0	9,0
2.	Average annual interest rate of loans issued in sums of commercial banks	13,5	13,0	12,5	11,4	11,5
3.	Annual devaluation rate of the national currency	10,5	11,0	10,0	16,0	15
4.	Annual money supply growth rate	21,5	27,6	3,9	22,4	18,1

Based on the data in table 1, we can say that the negative trends that are observed in investment activity have arisen under the influence of a number of factors. Such factors, in particular, include the following:

- Despite the fact that during the period 2010-2016. the annual inflation rate decreased relatively (from 7.0 percent to 5.7 percent), a high level of national currency devaluation (16.0 percent in 2015, 15.0 percent in 2016) led to a decrease in the real value of funds, which could be in the future, used by business entities and the population in investment activities;

- the relatively high interest rate on loans provided by commercial banks (11.5 percent in 2016) has a negative impact on the self-repayment term of these loans, which are long-term, as well as on the profitability of projects aimed at the production of modern technologies;

- the annual growth rate of money supply (18.1 percent in 2016) does not make it possible to sell the corresponding long-term funds in national currency. In particular, as of January 1, 2016, the money supply amounted to 42 291 billion soums, of which cash in circulation was 10 655 billion soums, deposits of foreign currency in the equivalent of the national currency - 6 067 billion soums. in 2016, the money supply in the broad sense of the word (cash, as well as deposits in foreign and national currencies) in relation to GDP (199.3 trillion soums) amounted to 21.2 percent. In developed and developing countries, this indicator is approximately equal to the volume of GDP. This state, in our opinion, makes it possible to expand the national financial source of investment activity.

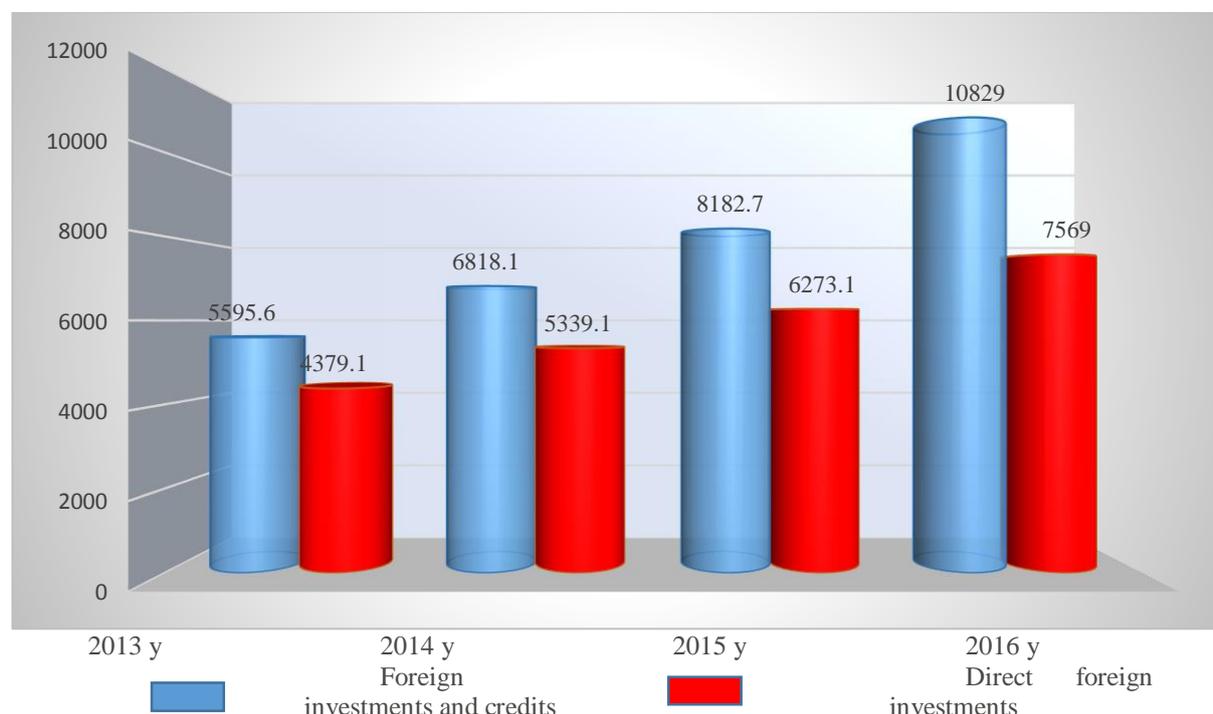


Fig. 1. The dynamics of the development of foreign direct investment, (sums in billion) [9]

As can be seen from Fig. 3 in 2013-2016. the volume of foreign investment and loans, including foreign direct investment, has continuously grown. It should be noted that there is a feature of reducing the share of direct investment in the structure of the total volume of foreign investment and loans. Despite the fact that according to the results of 2013, the share of direct investments in the structure of the total volume of foreign investments and loans amounted to 78.3 percent, in 2016 this indicator decreased to 69.9 percent or by 8.3 percentage points. This situation is considered negative from the point of view of financial management of investment activity.

The implementation of high-tech projects based on new scientific innovations and developments, as a rule, is at great risk. As is known from world practice, one of the most effective areas of financing for this area of activity is the creation of special venture capital funds.

At the end of 2016, the global venture investment market exceeded USD 127 billion and doubled compared to 2013. 54 percent of the world's venture capital investments are in the United States, 24 percent in China. The bulk of venture capital investments go to E-commerce (about \$ 36 billion), the implementation of financial services projects (about \$ 33 billion), medicine (\$ 13 billion), and the creation of artificial intelligence (about 13 billion US dollars).

An analysis of the activities of national and regional venture capital companies operating in developed and developing countries and their development strategies revealed that the main source of financing for high-tech

investment projects today is venture capital investment. At the same time, the capital of venture companies in developing countries is formed mainly from the state and local budgets (more than 50 percent) and from private investors.

The dissertation research substantiates such advantageous aspects of financial methods as the new procedure for providing syndicated loans by commercial banks while improving financial management methods for investment activities, the creation of special venture funds to increase the share of high-tech goods and services, simplifying tax policies, the widespread use of state trust funds and issuing bonds and securities of local governments in financing investment projects, improving accelerated depreciation policies and developed practical proposals and recommendations.

#### **4. CONCLUSIONS**

1. When applying the method of lending to investment projects by banks at the expense of syndicated loans, regardless of the cost of investment projects, ensuring the relationship “producer-consumer-serving banks” serves to increase the level of efficiency of sources of this financing.

2. Based on the best international experience, in order to improve the method of venture financing of investment activities in our republic, it is necessary for business entities and entrepreneurs who create venture funds to provide tax and customs benefits, and to include preferential loans in the system of venture financing, in which interest is based on state bonuses funds, transfer the execution of contractual relations of venture companies and venture funds with large industrial enterprises to state control, and the importance in the national and regional economy is the development of areas based on high technology.

3. In the process of financial investment management, the creation of financial and investment infrastructures in the regions plays an important role. In this regard, based on the experience of countries with advanced economies, it is advisable to improve the existing infrastructure.

4. In order to finance state investment projects, in addition to allocating funds directly from the budget, it is necessary to issue targeted bond and peculiar investment loans; granting local and foreign investors concessions based on the results of tenders; providing state guarantees for projects implemented at the expense of budgetary funds of the country and regions.

5. As studies conducted on financial investment management have shown, the concept of financial management has been studied by economists with various discussions. In our opinion, financial management provides for the provision of investment projects with financial resources and management activities aimed at achieving their effective use.

6. The implementation of targeted programs, in our opinion, does not need to be associated only with a set of investment projects; there is no need to require the allocation of funds from the budget for their implementation. It is necessary to consistently and coordinately implement forms of financial incentives for investment activity, which make it possible to develop and intensify innovative activities, reduce production costs, and change the export structure in the direction of science-intensive products.

7. Given the importance of attracting investment in the regions today, an econometric model has been developed to ensure the investment attractiveness of the regions of the republic and the impact of financial instruments on them.

8. Investments in the development of the country's economy are manifested as the main driving force of the economy. Attracting investment in the economy leads to increased economic efficiency at the macro, regional and micro levels. The measures taken today in the republic aimed at improving the efficiency of investment activities encompass all levels of development of the investment process.

9. The results of the studies confirm the presence of many internal problems in attracting investment both at the republican level and at the regional level, which include the lack of investment programs at the regional level, the presence of a superficial approach to existing investment programs developed, and low investment attractiveness at the regional level, as well as the presence of serious problems in the development of production and market infrastructures.

10. As a result of the studies, the dissertation substantiates and offers recommendations on the need to develop regional “investment passports” and direct investment funds through these passports, in order to create convenience for investors when attracting investments at the regional level, as well as to further improve the system of selling free objects at zero cost at the regional level.

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