

# Important Issues of Financing Investment Projects in Uzbekistan

Ilhom Alimardonov

DSc., Professor of the Department of Finance,  
Tashkent State University of Economics,  
Tashkent, Uzbekistan

**Abstract-** This article discusses a number of issues such as the financing of investment activities in the economy, the formation of its sources, the creation of a favorable investment climate, the study of factors affecting investment activities, improving the activities of enterprises with foreign investments. The views on the research of many economists and experts were discussed. Discussions and conclusions are formed on the basis of studies of investment activities and sources of their financing in the current situation, the peculiarities of the formation of financing sources.

**Keywords:** Investments, investment policy, investment financing, investment environment, investment activity, investment activity, social income

## 1. INTRODUCTION

Nowadays, favorable investment climate is a prerequisite for ensuring a stable high development of the economy, attracting investments in regions and industries, and enhancing entrepreneurial activity. It contributes to the influx of foreign direct investment in important production and social projects, expands the possibilities for innovation, and improves the quality of socio-economic development.

Over the years of independence, Uzbekistan has gone through a difficult stage of restructuring the entire economy, accompanied by certain difficulties in terms of developing a suitable concept and mechanisms for its implementation [1].

Thus, it must be recognized that for a long time specific issues remained unresolved in the field of doing business (for example, currency conversion, free repatriation of profits, attracting international financial institutions, etc.), and this, in turn, seriously affected the investment attractiveness of the country.

Investments are one of the important factors of national economy development. The experience of developing the economy of the countries of the world shows that an effective investment policy is one of the necessary conditions for ensuring the stable development of the national economy. Therefore, in the "Uzbekistan-2030" strategy for 2023-2030, approved by the Decree of the President of the Republic of Uzbekistan dated September 11, 2023 No. PF-158, to further improve the investment environment in the country and increase its attractiveness, in the next seven years 250 billion US dollars, including 110 billion taking steps to attract \$30 billion in foreign investment and \$30 billion in public-private partnership investments, including doubling the production of copper and other products through the establishment of a copper industry cluster and laying the foundation for \$8 billion in chemical and gas production - by developing the chemical industry and increasing the level of natural gas processing from 8% to 20%, producing products worth 2 billion US dollars in the chemical industry, increasing the production volume by 1.4 times, export volume by 2 times, and increasing the level of localization by further developing cooperation in the automobile industry, maintaining the investment rating of regions, based on the capabilities of each region, further increasing its attractiveness for investors is recognized as one of the necessary conditions for rapid development of the national economy and maintaining high economic growth rates.

## 2. LITERATURE REVIEW

"Regional investment attractiveness" term in modern economic literature used very quickly. One to this concept defined by several international rating agencies. In particular, "Expert RA" rating agency is defined as follows gives, that is, investment attractiveness - same as the concept of investment environment and investment potential (objective capabilities of the country) and investment own risk (conditions of investor activity) includes" [4].

Foreign scientists and many rates have been given by researchers. I.A. Blank interpret the concept of investment attractiveness as follows that is, "...investment attractiveness - the advantages and disadvantages of investing in certain sectors and objects from the point of view of a certain investor general description" [3].

V.V. Litvinova region investment attractive concept of "...region investment attractiveness of the region formed on the basis of investment potential and investment risk assessment is an integral characteristic of the investment environment and reflects the subjective perception of the region by the investor"[5].

### **3. ANALYSIS AND RESULTS**

President of the Republic of Uzbekistan Sh.M. As Mirziyoyev noted, regular meetings of the Council of Foreign Investors under the President will be held starting from 2022 in order to develop practical proposals to increase the country's investment attractiveness and further improve the business environment.

It is important to note that in accordance with the decision of the Cabinet of Ministers of the Republic of Uzbekistan No. 16 of January 14, 2023 "On measures to further improve and increase the efficiency of the system of investment program formation of the Republic of Uzbekistan", from 2023, the investment program project for the coming years will be formed "Implementation of investment projects control and monitoring of increase" is carried out through an automated information system.

On January 2, 2024, President Shavkat Mirziyoyev got acquainted with the presentation of the work done in 2023 and the plans for 2024 regarding the implementation of the investment policy. The importance of direct work with large investors, strengthening of economic diplomacy and the participation of diplomatic missions abroad in attracting investments was specially noted. Also, in the implementation of new investment projects, it is necessary to create an added value chain through the wide use of special zones in the regions and the opportunities of industrial cooperation, it is necessary for the heads of sectors and regions to work closely with industrial sectors in solving investment issues, to focus on diversifying the economy in the regions, and increasing new jobs. assignments were given.

- By the decision of the Cabinet of Ministers of the Republic of Uzbekistan No. 92 of February 14, 2024 "On measures to implement the investment program of the Republic of Uzbekistan for the first quarter of 2024", the investment program of the Republic of Uzbekistan for the first quarter of 2024 was adopted.
- In the first quarter of 2024, the total cost of this program is 7772.5 mln. It is planned to make investments in the amount of US dollars. 83.9 percent of these investments are financed by foreign direct investments.
- Also, the forecast indicator of credit lines attracted by commercial banks in the Program is 278.1 mln. It is set in US dollars.
- In turn, ensuring the effectiveness of investment policy creates the need to improve the practice of financing investment projects.
- According to the official statistical data of the Statistical Agency under the President of the Republic of Uzbekistan, the volume of capital investments in 2023 is 352.1 trillion. amounted to soums, of which the share of total foreign investment and loans absorbed into the fixed capital reached 53.4%. China (25.6%), Russia (13.4%), Saudi Arabia (7.9%), Turkey (6.4%), UAE ( 5.8 %) and Germany (4.3 %).
- One of the main financial benefits granted by our country to foreign investors is a tax benefit. In particular, according to the current legislation, tax benefits are applied in the following order, taking into account the share of foreign investors:
  - Investments in the amount of 300 thousand US dollars to 3 million US dollars - for a period of 3 years;
  - Investments from 3 million US dollars to 5 million US dollars - for a period of 5 years;
  - Investments in the amount of 5 million to 10 million US dollars - for a period of 7 years;
  - Investments in the amount of 10 million US dollars and more are given for a period of 10 years, with the application of income tax and single tax payment rates, which are 50 percent lower than the current rates in the last 5 years.

Support through tax incentives is an effective form of state support for investment activities.

The advantage of tax policy is that it covers all aspects of innovation-related activities.

Support through tax incentives is aimed at increasing the investment activity of enterprises, increasing the sources of financing innovative processes from their own funds.

Tax incentives reduce bureaucracy and reduce costs. Because there is no need for state evaluation of the innovative project and enterprise in support through tax incentives.

In developed countries, such as China and Russia, tax credits are widely used for support through tax incentives.

In the tax credit, the tax payer's liability is reduced on the basis of deferral of tax payment.

It is important to note that foreign investments have an important and special place in the practice of financing investments in our country.

A favorable business environment created for foreign investors, a wide system of legal guarantees and privileges, a whole set of measures aimed at encouraging enterprises with foreign investments made it possible to radically

increase the flow of foreign direct investments into the economy of our country. As a result, as of January 1, 2023, more than 22 billion dollars of foreign investments have been absorbed in our republic, which is 1.8 times more compared to the previous year.

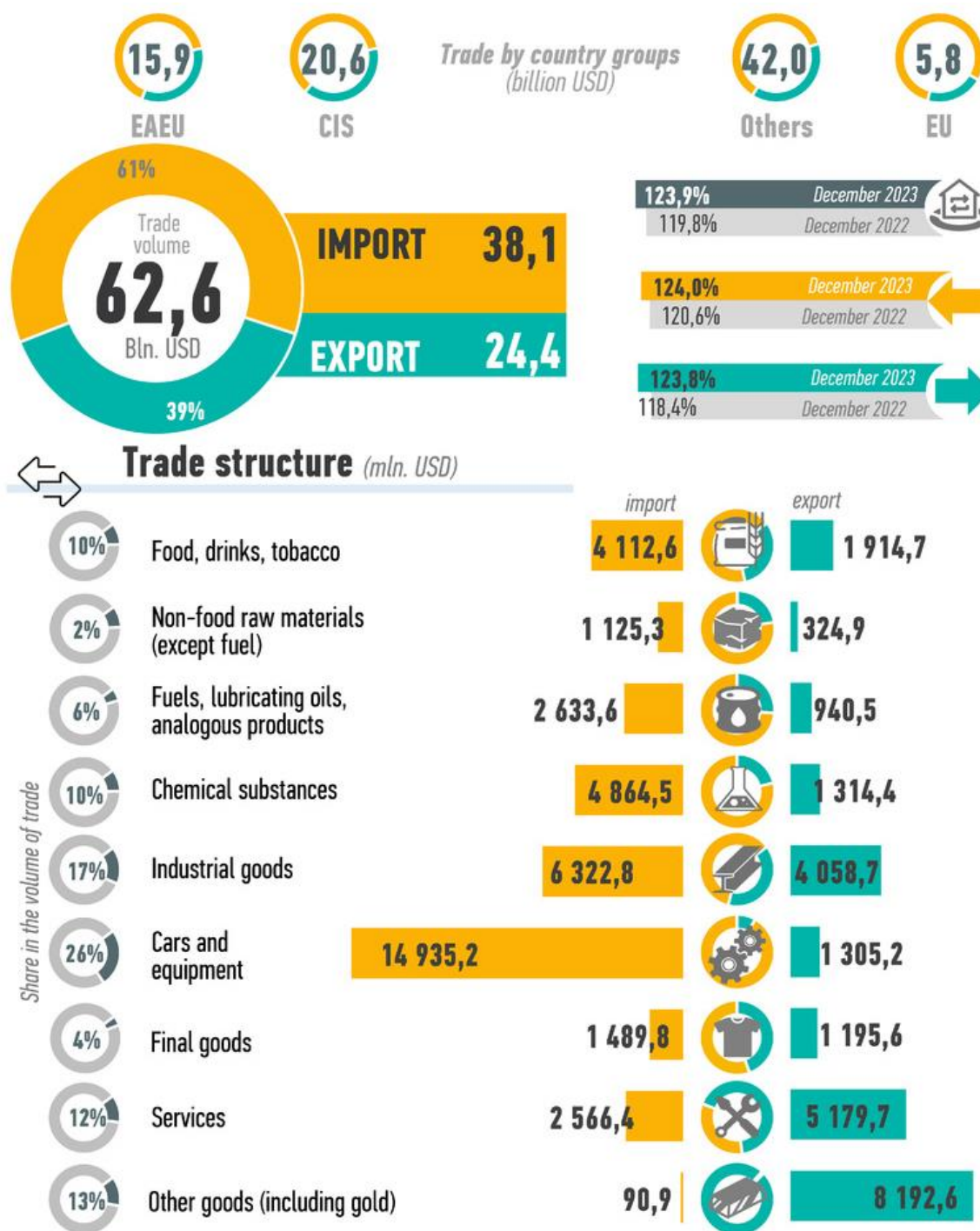


Fig.1. Foreign trade of Uzbekistan [2]

The main part of foreign direct investments is attracted from developed countries, China and Russia. In accordance with the decision of the Cabinet of Ministers of the Republic of Uzbekistan No. 559 of September 17, 2020 "On additional measures for the development of tourism infrastructure in mountainous areas",

With the help of the French Private Sector Support and Research Fund (FASEP), a consortium of French companies "Geode", "Manie Lives", "Egis", "Patriarche", "Epode" opened the international all-season resort "Beldirsoy-Chimyon-Nanay" in Bostonliq district. ) financing of the purchase of equipment for construction and services related to construction works (suspension roads, ski equipment, attractions, equipment, vehicles) is carried out as follows:

a) Financing of the purchase of equipment for the construction of the HUK and services related to construction works is as follows:

- in the amount of 15 percent - at the expense of loans of JSC "Foreign Economic Activities of the Republic of Uzbekistan National Bank";

in the amount of 85 percent — due to loans from the French Treasury;

b) Sources of financing the costs provided for in the contract:

- In the amount of 15 percent - it is returned to the account of the State budget of the Republic of Uzbekistan, and later to the account of the revenues from the activities of the Project Office;
- In the amount of 85 percent, it will be carried out at the expense of loans from the French Treasury.

Loan funds of the French Treasury in the amount of 47.9 million euros and the loan funds of the National Bank of Foreign Economic Activities of the Republic of Uzbekistan in the amount of 20 million US dollars, repayment of the principal debt, interest, brokerage fees and other expenses for service provision to the tripartite contract concluded by the Project Office it is mainly carried out at the expense of the funds of the republican budget of the Republic of Uzbekistan at the expense of returning the funds to the republican budget [6].

It should be noted that since 2019, the attraction of portfolio foreign investments to the economy of Uzbekistan has begun.

The first portfolio foreign investment in our country in 2019 was 1.0 bln. In 2021, the private sector was active in raising foreign debt by placing securities on international markets. In particular, "Uzbekneftgaz" JSC, worth 700 mln. "UZAUTO MOTORS" JSC issued securities in the amount of USD 300 mln. securities in the amount of \$ 4.85 per cent for a period of 5 years and 785 bln. Securities in the amount of soums were placed on the international financial market for a period of 3 years at a rate of 16.0 percent.

#### **4. CONCLUSIONS AND RECOMMENDATIONS**

In order to improve the practice of financing investment projects in our republic, the following measures should be implemented:

1. It is necessary to improve the practice of managing risks related to the implementation of investment projects, including marketing risks and financial risks.

In international practice, the method of increasing the accuracy of assessing the demand for goods, the adequacy of financing sources, the possibilities of forming working capital reserves, the competitive environment, and the state of wear and tear of fixed assets is widely used to improve the management of marketing risks associated with investment projects by improving the quality of marketing research.

The following methods are widely used in the management of financial risks associated with investment projects:

- increase the share of own funds in the volume of project financing sources;
- obtaining guarantees of shareholders for additional financing;
- financing of the project through the credit line of banks;
- investment insurance;
- assessment of working capital financing possibilities.

2. It is necessary to introduce innovative financing methods such as syndicated lending, crowdfunding and venture financing into the practice of financing investment projects.

Syndicated lending means the financing of large investment projects with the funds of several lenders, and it serves as an important financial basis in meeting the requirements for attracting investments to large-scale production and its financing in the economy.

Advantages of syndicated lending include:

- enables financing of large investment projects by attracting additional financial resources;
- risks are shared between banks;
- allows lending to large projects without violating the restrictions set by the central bank on lending to one client;
- banks receive stable interest income for a long time;

- small banks will have the opportunity to gain experience in financing large projects.

Crowdfunding is a method of attracting financial resources for the implementation of various types of projects from various sources, which allows to attract the necessary funds without the participation of financial market structures.

Crowdfunding is the use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding makes it easy to use large networks of people through social media and a large number of websites to bring investors and entrepreneurs together, which can expand the pool of investors and increase entrepreneurship beyond the traditional circle of relatives and venture capitalists.

An important advantage of venture financing is that it allows attracting cheap and uncomplicated financial resources.

Venture capital financing is a long-term (5-7 years) high-risk investment, which is an investment of private capital in the equity capital of newly established small high-tech promising companies focused on the development of science and production.

## **REFERENCES**

- [1]. <https://strategy.uz/index.php?news=878&lang=en>.
- [2]. <https://review.uz/en/post/infografika-vneshnyaya-torgovlya-uzbekistana>
- [3]. Melkumov Y.S. Investment. Tutorial. – M.: INFRA-M, 2003. – P.8.
- [4]. Investments: Textbook / S.V. Valdaytsev, P.P. Vorobiev and others; Ed. V.V. Kovaleva, V.V. Ivanova, V.A. Lyalina. – M.: TK Welby, Prospekt Publishing House, 2003. P.17.
- [5]. Litvinova V.V. Investment attractiveness and investment climate of the region:
- [6]. monograph. – M.: Financial University, 2013. – 116 p.