



## **WAYS TO CREATE A FAVORABLE INVESTMENT ENVIRONMENT AND INCREASE INVESTMENT ATTRACTION**

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**Abstract:** This article discusses foreign experience in studying the investment climate, the importance of investors' assessment of key indicators affecting business risk, profitability and the investment climate, as well as recommendations for improving investment attractiveness and creating a favorable investment climate in regions and industries given.

**Keywords:** investment environment, investor, investment risk, investment potential, investment attractiveness, investment environment analysis and evaluation, relations

### **INTRODUCTION**

Over the years of independence, the economy of the Republic of Uzbekistan has gone through several stages, including the macroeconomic stages. The role of reforms to improve the investment climate in the country and increase investment attractiveness in achieving high economic growth rates are very large.

At the present stage, a favorable investment climate is a key task for economic growth, without which it will not be possible to solve socio-economic problems and maintain the scientific and technological potential that will support Uzbekistan's status as an industrialized country. Therefore, reforms to radically improve the investment climate need to be accelerated.

The investment environment is a very widely used concept that encompasses all the issues and problems that affect investor behavior. The investor conducts an in-depth study and analysis of the economy of the country in which he intends to invest, exploring favorable and unfavorable situations, policies and cultures. Because the level of convenience of the investment environment determines the risk of investment capital. The more favorable the investment climate, the lower the risk of entrepreneurship and the greater the investment attractiveness, the greater the inflow of investors. Conversely, when the investment climate is unfavorable, the investor's costs increase, which not only makes the investment ineffective, but also hinders the inflow of future investors. Therefore, the investment climate is important for both investors and recipients of investment. The main challenge for an investor is to get complete information, because he has to decide where, how, and for how long

to make his capital more profitable and safer. To obtain such quality data, you need to conduct a thorough study, in which you will use the best method of selecting and evaluating the object.

Potential investors usually monitor the quality of the investment climate in a country by studying international rankings, indices, and data from various research companies and centers. In this regard, in the current context of globalization, the priority is to fulfill the tasks in order to positively form the hierarchy of our country in the international arena, to ensure an objective and fair assessment of its position in international rankings.

Active attraction of domestic and foreign investments in the priorities of the economy and their equal distribution across the regions, the creation of free economic zones and the creation of new jobs in the regions, modernization of production, introduction and introduction of new technologies, world-class production contributes to the realization of such important and urgent tasks as gaining a significant place in the world market in a highly competitive environment. In order to attract foreign investors to investment activities, it is necessary to use the program of creating free economic zones in terms of financing specific areas. Therefore, increasing the investment attractiveness of the country through the implementation of prudent investment policy and the creation of a favorable investment climate is one of the decisive steps towards the future of the state.

It should be noted that domestic and foreign investment includes a significant share of the capital market and, in this regard, serves as an important lever for economic growth. In this regard, the Decree of the President of the Republic of Uzbekistan dated April 13, 2021 "On measures to further develop the capital market" PF-6207 was approved, and in order to achieve the set goals, marked as:

- ensure the harmonious functioning of the capital market and the development of all its segments, and by the end of 2023 to increase the share of projects financed by the issuance of securities under national and regional investment programs to 5%;
- create the necessary conditions for the active financing of development-oriented investments in the stock market through the introduction of best international practices in the industry, the elimination of unnecessary barriers and restrictions [1].

### **Literature review**

There are many definitions of the concepts of investment climate and investment attractiveness, which vary depending on who created them and for what purpose. The literature of foreign scholars provides some clear definitions of these two economic categories.

J. Downs and G. Elliot describe the investment environment as "economic, financial, and other conditions that affect the efficiency of investments" [2. p. 255].

In our opinion, the concept of investment climate is concrete defined in the dictionary of the financial and credit encyclopedia as follows: "The investment climate is the financial, economic and legal conditions that determine the quality of the dominant political, socio-cultural, business infrastructure, investment efficiency and the level of risks involved in investing"[3. b. 359].

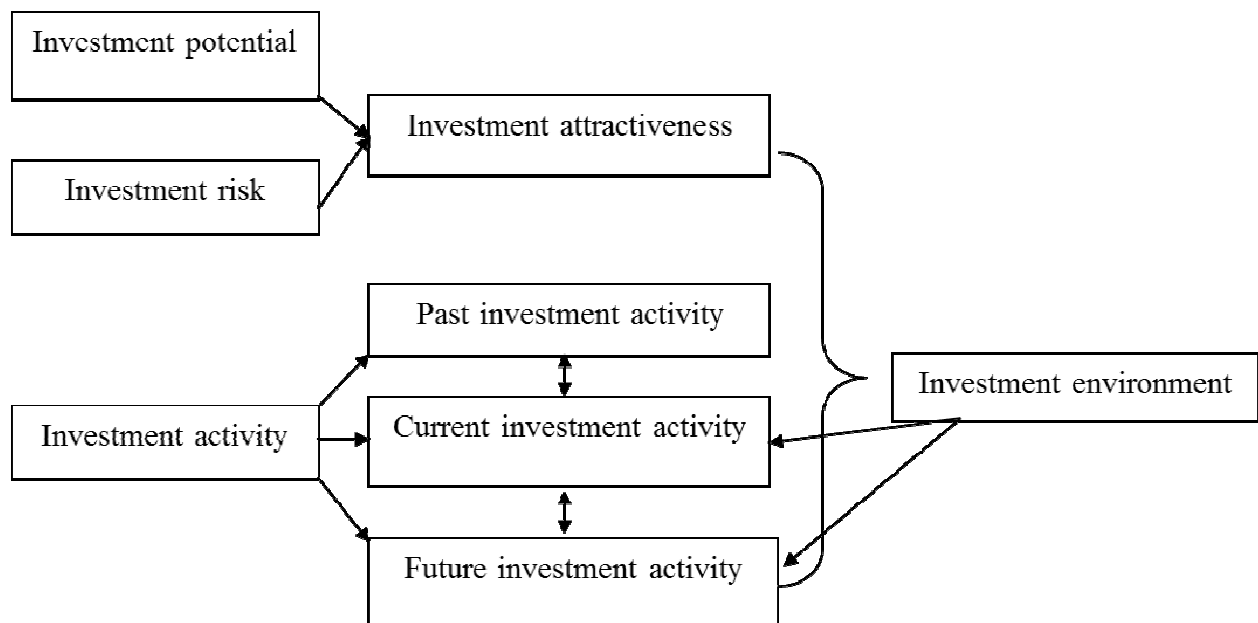
I. Royzman and I. Gryshyna assess the attractiveness of investment as "a combination of different objective characteristics, features, funds, opportunities that determine the potentially effective demand for investment in fixed assets"[4. p. 37-39].

I. Blank tries to explain the attractiveness of investment as follows: "a generalized description of the advantages and disadvantages of investing in certain industries and objects from the point of view of a particular investor" [5.p.265].

It should be noted that these definitions allow you to identify the criteria that the investor decides to invest. Any investor assesses their potential profitability and risk, taking into account the existing

investment objects. The investor concludes that it is appropriate for each amount needed to achieve the purpose of the investment and the real value of the risk for each investment.

The new opportunities provide an analysis of the institutional investment climate. From these positions, the investment climate is a special subsystem in the institutional system of the economy, designed to create the necessary conditions for the best use of socio-economic relations in the development of productive forces and scientific and technological renewal of society through active investment. At the same time, taking into account the ratio of future, current and past investment activities and their impact on the investment environment, A.V. Yashyn considers the correctly and reverse effects of the investment environment and presents them as follows. (Figure 1)



**Figure 1 Structural scheme of the investment climate**

Past investment activity describes the intensity of previous investments in the economic system and allows you to determine their expected return, the number of potential competitors and the most profitable area for capital investment.

Current investment activity determines the level of economic development of the system and allows to forecast additional investment volumes and determines the expected return on investment and the position of the investor in the market in the future. Future (expected) investment activity is a guide for planning the entire investment process: from determining future investment volumes to managing the investment climate of the economic system to achieve the required capital inflows [6. p. 9].

The analysis of all three components of investment activity provides the investor with information about the level of competition in the investment market, its development trends and risk reduction measures.

**Research methodology**

This paper uses general methodological approaches to achieving the research goal - grouping, statistical analysis, comparison, comparative analysis, dialectical approach and generalization methods.

**Analysis and results**

It is known that the issue of attracting financial resources to the economy plays an important role in the successful implementation of market reforms. Along with public investment, enterprises' own

funds, private investment and foreign investment can play an active role in financing the economy. At the current stage of development of the republic's economy, the importance of foreign investment is very high.

The establishment of many joint ventures with foreign capital is in full swing in our country. The products of these joint ventures, in addition to filling the domestic market of the republic with products, will allow them to take a worthy place in the world market, bringing products that meet its requirements.

Along with the breakdown of investments in the economy by sectors, it is necessary to pay more attention to the characteristics of the interregional direction. The uneven distribution of factors of production across the country's regions requires a separate approach to each region in the development of regional policy.

In the example of the Republic of Karakalpakstan, as in other regions of the country, joint ventures with foreign investment make a worthy contribution to the development of the region's economy and strengthening its export potential. To see the share of foreign capital in the Republic of Karakalpakstan, the investment climate and the effectiveness of investment attractiveness, we can present the following information:

In January-December 2018, 79 enterprises with foreign investment were registered in the Republic of Karakalpakstan, of which 76 or 96.2% are operating. There are 3 non-operating enterprises with foreign investment in the country, which are registered in Beruny, Takhtakopyr and Khojayli districts.

In January-December 2019, 8434.6 billion UZS allocated to increase the capital fund of the Republic of Karakalpakstan which is 96.6% more than last year. Of this amount, foreign investments amounted to 3212.3 billion UZS.

As of January 1, 2020, the number of operating enterprises with foreign capital amounted to 155. This is an increase of 34 or 28.1% compared to the same period last year. The main part of these enterprises corresponds to the contributions of the People's Republic of China, the Russian Federation, the Republic of Kazakhstan and the Republic of South Korea[7].

The land of Karakalpakstan is rich in mineral resources and natural resources. In this regard, we can say that it has a high investment potential compared to other regions of Uzbekistan. 150 projects are planned to process resources and prepare construction materials. As a result, more than 1 trillion UZS a year will be produced and an additional \$ 3 million will be exported. For example, in Muynak district it is planned to produce ceramic and reed tiles, in Turtkul district - glass.

Karakalpakstan also has great potential in agriculture. For example, 117 projects in animal husbandry, fisheries and poultry have been developed. As a result, about 7,000 people will be employed. Significantly, 24 of these projects are aimed at processing meat, milk and hides, as well as the production of compound feed.

The following table confirms the statistics of investments in fixed assets in the Republic of Karakalpakstan in recent years. (Table 1)

### Distribution of investments in fixed assets by sources of financing of the Republic of Karakalpakstan \*

Indicators	2015 y.		2016 y.		2017 y.		2018 y.		2019 y.	
	bln. UZS	perc.	bln. UZS	perc.	bln. UZS	perc.	bln. UZS	perc.	bln. UZS	perc.
Investments in fixed assets	2363,9	100,0	3730,2	100,0	2235,0	100,0	6046,4	100,0	8434,6	100,0
Centralized investments	405,1	17,1	570,4	15,3	427,9	19,1	2709,8	44,8	2786,6	33,0
Decentralized investments	1958,8	82,9	3159,8	84,7	1807,1	80,9	3336,6	55,2	5648,0	67,0
Foreign investments and loans	1090,0	46,1	1663,2	44,6	237,8	10,6	444,3	7,3	1957,6	23,2

**Table 1 \* Statistical Bulletin of the Republic of Karakalpakstan was compiled by the authors on the basis of references for 2015-2019. [7]**

The table shows that the share of investments in fixed assets in the Republic of Karakalpakstan is volatile. Investments in fixed assets in the country increased by about 37% in 2016 compared to 2015, and this figure fell to another 35% in 2017, and in the same period of 2018-2019 increased by about 74% can be traced. These volatile indicators indicate that the state support the attraction of investments in the Republic of Karakalpakstan, and that the issues of achieving financial stability remain a priority and topical.

One noteworthy aspect is that the accurate and precise calculation of analytical indicators that reflect the quality of investment attractiveness also helps investors to assess their capital risk. The relationship between investment volume and investment attractiveness is determined using correlation analysis. A point scale is used to compare quantitative and qualitative indicators and to use them in subsequent calculations, according to which each indicator is given its weight coefficient on the basis of the priority method. [8. b. 434]

According to O.Sh. Sabyrov's research, the technology that assesses the attractiveness of investment is presented in groups. According to it, the regions are classified according to the value of the indicator of investment attractiveness as follows:

- $K > 0.4$  - high investment attractiveness;
- $0.2 < K < 0.4$  - investment attractiveness is above average;
- $0,1 < K < 0,2$  - average investment attractiveness;
- $0,05 < K < 0,1$  - investment attractiveness is below average;
- $K < 0.05$  - low investment attractiveness.

The advantage of this method is the ability to compare the investment attractiveness of different regions of the country. Applying it allows you to change the number of parameters under consideration at the discretion of the analyst. [9]

### Conclusion

The concepts of investment climate and investment attractiveness are inextricably linked. Nevertheless, these concepts need to be clearly separated. In our view, the investment climate is a broader concept than investment attractiveness. The attractiveness of an investment reflects the subjective perception of the region by a particular investor, and the investment environment reflects the objective trends that affect all participants in the investment.

One important aspect is that many factors affect the investment attractiveness and investment environment: political, production, resource-raw, innovative, social, personal, infrastructural, consumer, environmental. Each factor includes a set of indicators that determine the impact.

It should be noted that the Republic of Uzbekistan has not created a stable investment climate and an undeniable investment attractiveness. Because there are a number of serious factors that hinder such issues:

- Geographical isolation of the region, ie lack of direct access to the sea or ocean and lack of advanced transport infrastructure;
- Poor administrative and legal framework that protects the rights of investors, ensures their free movement and insures business risk;
- Lack of information openness and transparency in business entities;
- Lack of state control over the targeted use of state budget funds for investments in the form of repayable and non-repayable financing;
- Expansion of the practice of insurance of investment risks in the agro-industrial complex, especially in agriculture, the failure of the guarantee of investment projects supported by the state;

We believe that the timely solution of such issues can be one of the important factors contributing to the creation of a favorable investment climate in the regions and the achievement of high investment attractiveness in the future.

In conclusion, given that the state has a task to increase the economic potential of the region, it is advisable to do the following in a timely manner:

- Innovative renewal, technical re-equipment and elimination of obsolescence;
- Introduction of mechanisms that save resources and increase production;
- Diversification and job creation;
- Active involvement of free money of the population;

The effective implementation of such priorities will depend in all respects on the extent to which a favorable environment has been created for investors in the region or on the availability of factors that encourage the return on capital investment.

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