



World Conference on "Integrated and Life-long Education of Modernity"

## **Improving Market Mechanisms of Financing Investment Activities**

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**Abstract.** In the practice of developed countries, it is important to further improve the mechanisms of financing investment activities. The high level of state intervention in the economy of the Republic of Uzbekistan and existing problems in the bureaucracy, tax, customs and banking system are still an obstacle to increasing domestic investments and attracting foreign investors more widely. This article analyzes the possibilities of further expansion of crediting of investment activity.

**Key words:** Investments, small business and entrepreneurial entities, bank credit, gross domestic product, modernization, technical and technological upgrading, long-term resource base, project expertise, credit guarantee fund.

### **Introduction**

In the conditions of global competition, it is important to create a favorable investment environment aimed at wide attraction of investment resources, to strengthen the system of legal guarantees of investors' activities, and to ensure the international competitiveness of national economic sectors. Economic activity, freedom of entrepreneurship, equality of all forms of property and equal protection by the state are guaranteed in our constitution. However, the high level of state intervention in the economy and existing problems in the bureaucracy, tax, customs and banking system are still an obstacle to increasing domestic investments and attracting foreign investors more widely [1].

According to the World Bank, during 1991-2020, the ratio of fixed capital investment to GDP was 29.38% in middle-income countries, 41.44% in China, 32.31% in India, 33.14% in South Korea, 29.28% in Singapore, Malaysia accounted for 28.25 percent, Turkey for 25.55 percent, and Kazakhstan for 25.40 percent. Taking into account that this indicator is 23.89 percent in our country, it determines the urgency of radical improvement of the investment environment and wide attraction of investments.

In the process of large-scale modernization, attracting private investments and further improving their financing mechanisms is of great importance. Today, the share of bank loans and other debt funds in the financing of capital investments has increased from 2.1% in 2000 to 13.3% by the end of 2020. At the same time, the high level of state intervention in the economy and existing problems in the bureaucracy, tax, customs and banking system are still

an obstacle to increasing domestic investments and attracting foreign investors more widely. This article analyzes the possibilities of further expansion of crediting of investment activities.

### Literature review

Scientific-theoretical, organizational-economic, socio-political, natural-economic bases of improving the investment environment and attracting foreign investments, including assessment of investment attractiveness and business environment (World Bank and International Finance Corporation), Econometric study of the relationship between the rate of investment, economic growth and other important economic indicators (International Monetary Fund, IMF), investment environment and attraction of foreign direct investment in transition economy countries (European Bank for Reconstruction and Development, EBRD), determinants of foreign direct investment (National Bureau of Economic Research, NBER), attraction of foreign investments in infrastructure projects (Asian Development Bank Institute) related research is being carried out on a large scale. R. Vernon, S. H. Haimmer, Ch. P. Kindlberger, F. T. Knickerbocker, E. M. Graham, P. Buckley, M. Kasson, The service of leading foreign scientists such as M.E. Porter, K. Kojima, J.H. Dunning is great. From the studies aimed at studying the characteristics of foreign direct investment in transition economy countries, H.P. Lankes, K.Meyer, D.Holland, R.Barrel, L.Krkoska, H.Tomann, N.Fabri, S.Zigny, K. Scientific works of Kozlov, D. Manaenkov, K. Yudaeva, M. Vernikov should be cited.

Special attention is paid to the issues of foreign investments, promotion of their attraction and effective use in the scientific work of the scientists of our republic. Theoretical aspects of attracting foreign investments and increasing their effectiveness A.Flmasov, A.V. Vakhobov, B.B. Berkinov, N.Kh. Khaidarov, Sh.G'. Yuldashev, S.S. Nasretdinov, D.D. Rustamova, A. Sodikov, N. G. Karimov, N. R. Kuzieva, J. Muinov, K. E. Amonov, L. R. Shayusupova, K. Q. Ismailov, J. Kholtaev, N. Khashimova, S. Chepel, Researched by B.B. Valiev and others. At the same time, the main focus of the existing studies is on the attraction of foreign investments to the national economy, including analysis from the point of view of certain sectors, regions or economic processes.

Acceleration of investment processes in the national economy in the conditions of modernization of the economy requires more attention to the research of the issues of further improvement of the system of stimulating the activity of foreign investors, introduction of new mechanisms of investment attraction.

### Research methodology

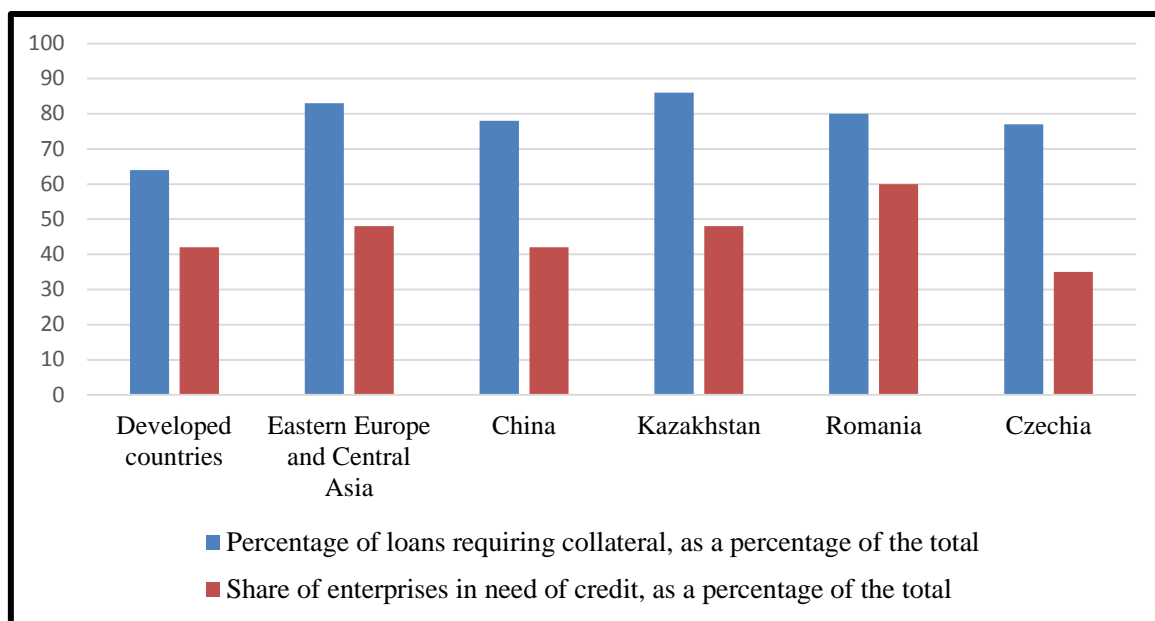
Тадқиқот ишида тизимли таҳлил, статистик маълумотларни гуруҳлаш, солиштирма таҳлил, регрессион таҳлил ва бошқа усуллар қўлланилган.

### Analysis and results

Increasing the investment processes in the economy, modernizing the leading sectors of the economy and enterprises, encouraging technical and technological renewal and ensuring innovative development, expanding the use of banking services and developing investment lending is of great importance. First of all, noting that the share of private sector funds in investment financing is growing rapidly, it is appropriate to further expand the use of banking and financial market opportunities. The share of bank loans and other debt funds in the financing of gross investments increased from 2.1% in 2000 to 3.1% in 2005, and to 13.3% by the end of 2020. This indicator is an important positive trend in the rapidly changing conditions observed in the international financial markets.

Investment financing is closely related, first of all, to the possibility of obtaining credit for enterprises. According to the World Bank, the demand of business entities for bank loans is somewhat higher in developing countries. In developed countries, on average, 40 percent of business entities need a loan, while in Eastern Europe and Central Asia, this figure ranges from 45 to 60 percent. At the same time, it should be shown that the requirement of collateral in the lending process is on average around 60% in developed countries, while it is higher than 80% in Eastern European and Central Asian countries.

It should be noted that in the process of lending, collateral security is an urgent issue. Many businesses do not have enough collateral, especially start-ups. Therefore, first of all, it should be possible to attract credit funds for the formation of initial capital. Secondly, the credit guarantee system is important.



**Figure 1. Demand for bank loans at the level of economic entities, as a percentage of the total**

*Source: World Bank data (www.enterprisesurveys.org)*

Under the Cabinet of Ministers of the Republic of Uzbekistan, the State Fund for the Development of Entrepreneurship (hereinafter referred to as the Fund) was established as a state institution and provides financial support to small business entities in the following form:

- to be a guarantor for commercial banks' loans to small business entities up to 50% of the loan amount, but not more than 2 billion soums;
- providing compensation to cover interest costs on loans from commercial banks.

This fund is entrusted with a number of tasks in order to provide comprehensive support to small businesses and private enterprises. In particular, commercial banks will be provided with resources in national and foreign currency to provide loans to small businesses and private enterprises, at the expense of attracting foreign credit lines. It is established that the fund will be a guarantor for loans of up to 50% of the amount of loans provided by commercial banks (if the loan amount does not exceed 500,000 US dollars) or its equivalent amount.

It is also envisaged that the fund will provide financial assistance in the form of

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compensation to cover interest costs on loans from commercial banks.

The fund provides guarantees and compensations for commercial banks' loans, and resources for commercial banks to allocate loans for the following projects:

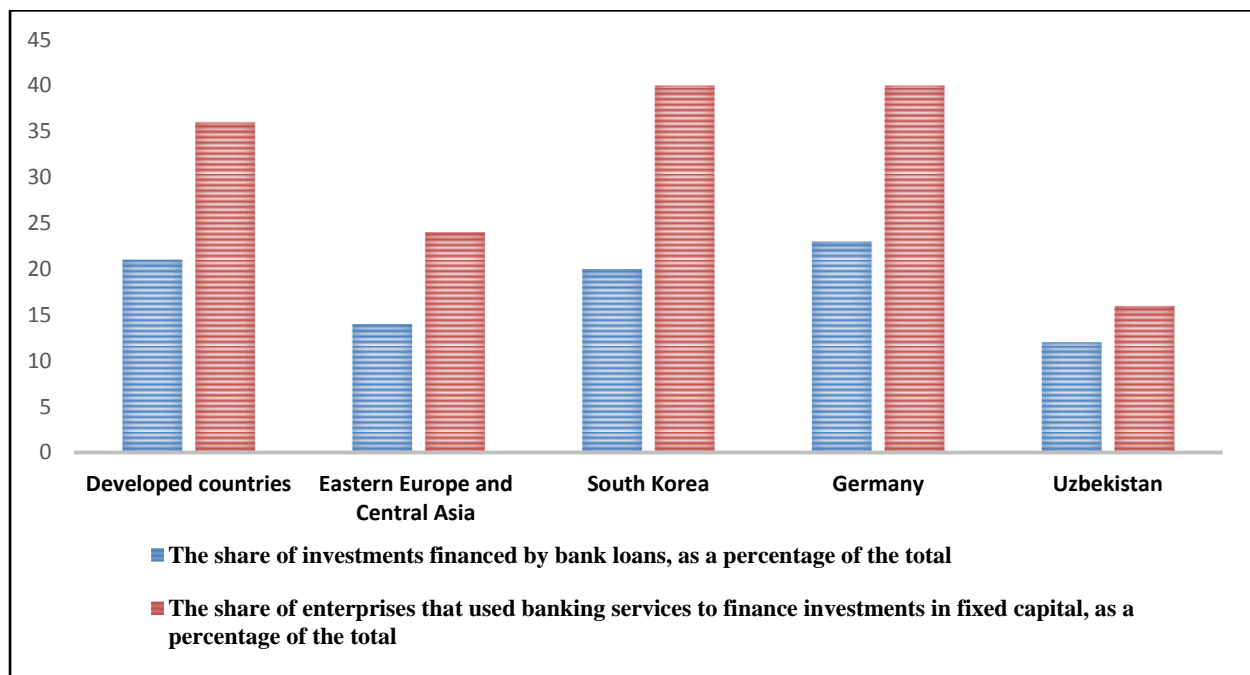
in the field of agriculture, first of all, the construction of modern greenhouses with high energy efficiency, the development of livestock, poultry, fisheries, rabbit breeding, beekeeping, viticulture and horticulture, including intensive gardens;

in the field of processing of agricultural products, including products grown in intensive gardens - organization of logistics centers related to the storage and transportation of these products;

beautification and repair of common areas around high-rise buildings by private housing owners' associations and management companies;

for other areas of business activity determined by the Cabinet of Ministers of the Republic of Uzbekistan.

The limitation of mechanisms and financial instruments that attract long-term funds in the national financial markets is a factor limiting the investment activity of not only local firms and companies, but also enterprises with foreign investments. According to the World Bank, the share of bank credit in financing the investment activities of business entities is higher than 20% on average in developed countries, it is 22.6% in Germany, and 20% in South Korea. In developing countries, the share of bank credit in financing the investment activities of business entities is on average 10-15 percent.



**Figure 2. Importance of bank credit in financing investment activities of economic entities, 2020**

*Source: World Bank data (www.enterprisesurveys.org)*

Due to simplification of lending procedures, improvement of financing mechanisms and increase of capitalization level of commercial banks in our country, the amount of loans allocated by commercial banks to economic entities is growing year by year. In particular, the volume of credit investments directed to the real sector of the economy increased by 25.1% in

2019 and reached 53.4 trillion by the beginning of 2020. amounted to soum. 80% of these loans were long-term loans for investment purposes. Of this, the volume of loans allocated to small businesses and private enterprises amounted to about 15.9 trillion soms, which is equal to 29.7% of the total loans. It should be noted here that loans allocated to small business entities in the Russian Federation make up 6% of total loans.

At the same time, the reforms implemented in recent years, including the government's encouragement of long-term loan financing activities of commercial banks, the introduction of the mechanism of lending to the population and organizations for the purposes of housing construction and reconstruction, and the increase in the size of debt obligations and shares offered on the stock market and steps such as the introduction of continuous reporting of financial and corporate management information on the activities of securities issuers will help to increase the role of financial institutions in investment processes.

The amount of loans allocated to the economy is important in financing business activities and investment processes. According to the World Bank, by the end of 2020, the ratio of the amount of loans allocated to the economy to GDP is over 100 percent in middle-income countries, 155.8 percent in rapidly developing China, 144.8 percent in Korea, 66.5 percent in Turkey, 52.7 percent in Russia, and 52.7 percent in Kazakhstan. Making up 30.5 percent, this indicator reaches 28.6 percent in Uzbekistan. It requires the formation of a long-term resource base in banks, the wider attraction of free funds of the population and economic entities to banks, and the introduction of new financial instruments.

### **Conclusions and suggestions**

Acceleration of modernization and technical renewal of industrial and production enterprises in our republic, improvement of financing mechanisms for long-term investment projects, further expansion of lending to business entities, increase of capitalization of commercial banks and expansion of their resource base, introduction of new banking and financial services. It is necessary to pay attention to the following issues:

Implementation of comprehensive measures related to the expansion of the resource base of commercial banks. In this case, it is appropriate to introduce new financial instruments aimed at attracting free funds of the population and economic entities;

Attracting long-term resources to finance investment projects by placing debt obligations (bonds) by enterprises in local and foreign financial markets;

Development of the infrastructure related to the financing of investment activities, including the establishment of new financial institutions such as investment funds, venture funds, start-up companies, and promotion of their activities;

Further improvement of the process of preparation and examination of documents on investment projects, revision of the activities of separate structures related to the implementation of investment activities in commercial banks at the level of international requirements;

Under the Cabinet of Ministers of the Republic of Uzbekistan, the activities of the state fund for the support of the development of entrepreneurship should be widely covered among business entities, and the scope of providing relevant services in the regions through the network of commercial banks and the Chamber of Commerce and Industry will be further expanded.

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