

## Ways of Effective Formation of State Investment Policy in Ensuring Financing of Investment Activities

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**ABSTRACT:** This article discusses the Presidential Decree of 14 May 2019 on measures to transition to a qualitatively new system of formation and implementation of the Investment Program of the Republic of Uzbekistan. This decree states the reasons for the transition to a qualitatively new system of formation and implementation of the Investment Program. Sources of funding for projects included in the program and issues of their improvement were analyzed, conclusions and recommendations were formed.

**KEYWORDS:** Investment, Investment Projects, Investment Program, Innovation, Gross Domestic Product, Investor, Investment Activity, Investment Financing.

### INTRODUCTION

It is known that in a country with an active investment policy, development is observed, production capacity grows, competitive goods are produced that meet world standards.

One of the important requirements for the transformation of the economy is to expand the range of innovation and investment activities and improve the mechanisms of their financing. To do this, it is necessary to create a favorable investment climate in the country. In this regard, on December 25, 2019, the Law of the Republic of Uzbekistan “On Investments and Investment Activities” adopted a new revised Law on the regulation of investment activities in Uzbekistan [1]. This law will create a favorable investment climate. The creation of an investment climate is carried out through financial support instruments (*taxes, insurance, subsidies, subventions, depreciation allowances, loans, etc.*), which are the components of the investment policy pursued by the state. The effective use of tax incentives in the regulation of investment activities leads to an expansion of the role of market mechanisms in financing investment.

### THE MAIN FINDINGS AND RESULTS

The effectiveness of the investment program will depend on the theoretical and methodological, legal framework, the role of the state and the level of coordination of financial (investment) institutions, which are its four components (Figure 1).

Ensuring the coherence and coordination of these components in the formation of investment programs will serve for its full implementation. For example, a well-developed theory and methodology, legal and regulatory framework, strong government institutions, and the lack of financial resources to implement an investment project will make project efficiency very low. In addition, the incomplete formation of the legal and regulatory framework in the context of the role of financial institutions increases the risk of failure to provide guarantees for the protection of investors' funds and property. As a result, the available funds will not be directed to the designated area. As a result of the analysis of views on investment resources and its composition, as well as regulatory documents, it became clear that scientists have not reached a consensus on this issue.

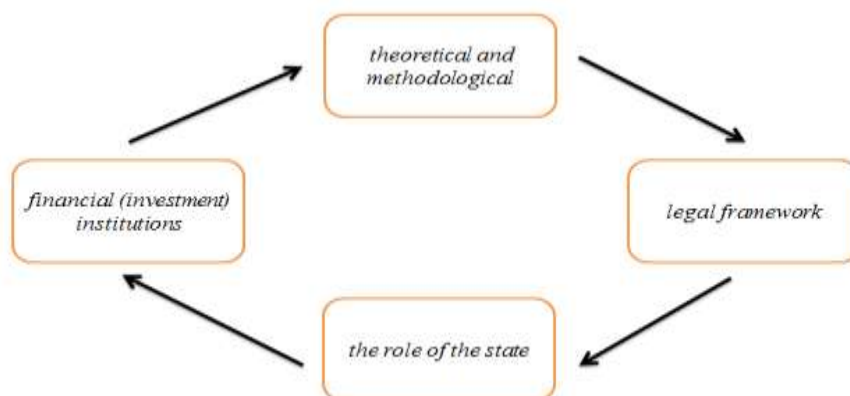


Figure 1. Components that determine the effectiveness of an investment program [2, p. 141]

## “Ways of Effective Formation of State Investment Policy in Ensuring Financing of Investment Activities”

According to the norms established in the Republic of Uzbekistan, the structure of financial (investment) resources includes: [3]

- cash (including foreign currency) and other financial resources, including loans, shares, stocks and other securities;
- movable and immovable property (buildings, structures, equipment, machinery and other tangible assets) and rights to them;
- objects of intellectual property, including those necessary for the organization of this or that type of production; technical, technological, commercial and other knowledge, formalized, patented or non-patented (know-how) in the form of technical documentation, skills and production experience;
- Ownership of land plots and other natural resources; and the right to use them, as well as other property rights arising from property rights.

According to the practice formed in our country, the financing of projects included in the investment program is carried out from centralized and decentralized cash funds. It differs in what sources the composition of cash funds consists of.

Financing of the investment program are sources of centralized funds, which include:

- state budget funds;
  - extra-budgetary funds;
  - foreign loans guaranteed by the government;
  - other sources determined by government decisions.
- Decentralized cash funds, which include:

- funds of enterprises and organizations of all forms of ownership;
- loans from commercial banks, including foreign commercial banks;
- funds of individuals, including foreign individuals;
- other sources that do not contradict the legislation.

Centralized funds are allocated only for the implementation of state target programs and interstate agreements in the priority areas of the economy of the republic, construction of housing to ensure social protection of the needy by the state, construction of water economy, development of engineering infrastructure of settlements, development and strengthening of material and technical base of public administration bodies, defense and law enforcement bodies, construction of facilities in science, education, health, sports, culture and other sectors of social infrastructure, to carry out nationwide nature protection measures; and the construction of disaster protection facilities.

When we observe the dynamic changes of centralized and decentralized financial resources over the years, we see the following situation (Table 1). In 2020, there was a decline in investment activity in the country, the growth rate of investments in fixed assets compared to the same period last year amounted to 91.8%.

In 2020, 202.0 trillion soums of fixed capital investments were disbursed, of which 65.4% or 132.0 trillion soums were financed from borrowed funds, while 34.6% or 70.0 trillion soums were financed from the own funds of enterprises, organizations and the population. In the total volume of investments, the share of investments in fixed assets financed from decentralized sources of financing decreased by 8.0% compared to the corresponding period of 2020 and amounted to 19.5% or 39,310.2 billion soums. Accordingly, 162,289.9 billion soums or 80.5% of the total investments were disbursed from decentralized sources of financing, an increase of 8.0% compared to the same period last year. In 2020, investments in fixed assets financed by own funds of enterprises and organizations amounted to 51,911.3 billion soums or 25.7% of total fixed capital investments. 8.9% or 18,077.8 billion soums of total fixed capital investments were disbursed at the expense of the population. The volume of disbursed investments at the expense of foreign direct investment amounted to 28 740.5 billion soums, which is 5.2% less than in 2019 and amounted to 14.2%.

**Table 1.** Structure of fixed capital investments in the Republic of Uzbekistan by sources of financing [4] (in%)

Types	Sources of funding	Years				
		2016	2017	2018	2019	2020
	Fixed capital investments	100,0	100,0	100,0	100	100
	<i>Including:</i>					
1.	Centralized investments	<b>20.5</b>	<b>22,3</b>	<b>29.7</b>	<b>27.5</b>	<b>19.5</b>
1.1.	Budget funds	4.3	4.8	4.6	9.0	6.5
1.2.	Government earmarked funds	4.6	3,3	4.7	3.4	2.9
1.3.	Water Supply and Sewerage Systems Development Fund	x	x	x	0.9	1.0
1.4.	Children's Sports Development Fund	0.6	0.2	0.2	x	x

“Ways of Effective Formation of State Investment Policy in Ensuring Financing of Investment Activities”

1.5.	Fund for Reconstruction and Development of the Republic of Uzbekistan	6.4	7.9	6.4	3.4	0.9
1.6.	Foreign investment and government-guaranteed loans	6.4	6.1	13,8	14.2	11.1
2.	Decentralized investments	<b>79.5</b>	<b>77.7</b>	<b>70.3</b>	<b>72.5</b>	<b>80.5</b>
2.1.	Enterprise funds	29.5	29.2	30.6	21.3	25.7
2.2	Commercial bank loans and other borrowings	10.8	12.7	17.8	13.8	14.1
2.3.	Foreign direct investment and loans	14.3	17.7	10.5	29.4	14.2
2.4	Population funds	24.9	18.1	11.4	8.0	8.9

Implementation of the investment program at the expense of centralized sources of funding should be aimed at:

It should be noted that centralized funds are allocated for regional projects that need to be developed in the interests of the state, for the implementation of projects that can not be developed at the expense of other sources. Their size is usually determined not only for the benefit of the region, but also for the interests of other regions.

State budget funds are allocated in the form of subsidies, subventions and transfers for the implementation of regional projects. Indeed, in contrast to targeted investment, government support for competitive investment projects provides a basis for targeted and efficient use of state budget funds.

Their own funds serve as the main source for enterprises to invest in investment activities, and they make up the bulk of all financial resources.

The analysis of sources of investment financing in developed market economies shows that the share of domestic sources in total investment resources varies significantly in different countries due to many objective and subjective factors [6, pp. 17-33]. In the economic literature, the ratio between internal and external sources of investment in western countries is assessed differently. In particular, L.L. Igonina's scientific work suggests that some economists believe that in the post-war period in two countries in the financing of investments of non-financial corporations formed a two-way ratio between internal and external sources. One of them is in the Federal Republic of Germany and Japan, where the second direction is characterized by a large amount of own funds in general sources of financing (mainly in the United States and the United Kingdom) and the other is characterized by a relatively large amount of borrowed and borrowed funds. [7]

Today, the cause of the coronavirus pandemic is inconsistency in state economic policy. Indeed, the pandemic has had its consequences for the Uzbek economy. As mentioned above, in 2020 there was a decrease in investment activity in the country, the growth rate of investments in fixed assets compared to the same period last year was 91.8%. [8, p. 7]

Due to the Coronavirus pandemic, the world's leading countries have developed anti-crisis programs and

formed sources of funding for the measures envisaged in these programs. In particular, the U.S., which has the highest prevalence of coronavirus infection, has 2.3 trillion (11% of GDP), Germany 189.3 billion (4.9% of GDP), China 168.7 billion (1.2% of GDP), and Canada. 145.4 billion (8.4% of GDP), Australia 133.5 billion (9.7% of GDP), relatively rare coronavirus infections in Japan 5.2 billion, Argentina 4.45 billion and Indonesia 2.2 billion allocated funds. Over time, we will assess the effectiveness of anti-crisis programs of the G20 countries. [9]

Indeed, the pandemic has had its consequences for the Uzbek economy. A sharp decline in production and consumption in countries with the largest economies; disruption of global production chains and trade relations; The Anti-Crisis Fund (10 trillion soums) has been set up to take effective preventive measures to mitigate the negative effects of falling commodity prices on world financial markets and the deteriorating situation in the Uzbek economy, which is part of the global economic system [10]. In the context of the pandemic, sharp declines in production and consumption in large economies, disruption of global production chains and trade ties, large-scale investment to revive the economy due to falling commodity prices in world financial markets are leading to rising inflation and rising unemployment. . This situation has an impact on GDP, which can lead to a 2% monthly decline in the country's GDP [11].

World experience shows that high rates of savings and investment alone are not enough for economic growth in the current period. At the stage of transition to a market economy, due to the lack of funds, the small share of public funds in gross investment, attracting external sources of investment financing, regulation of investment activities will become an objective necessity.

## CONCLUSION

The basis of investment activity in the state and enterprises are the sources and resources that provide financial support for investment. Therefore, the issues of encouraging private investment and the formation of mechanisms to direct part of public funds to investment will play an important role in public economic policy [12].

1. Sources of investment financing are private companies, enterprises, individuals and the state budget.

Directing funds of private companies, enterprises, individuals and the state budget to investment becomes a source of investment when there is an interest of the owners of these funds. Otherwise, the funds will not serve as a source for investment.

2. Increasing the volume of external funding to finance the investment program at the expense of international financial institutions and foreign government financial institutions, foreign direct investment and other decentralized sources is highly effective.

3. The amount of sources of investment financing depends on the level of economic development of the country. The high level of economic development of the country ensures a high level of savings for investment.

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