

IMPROVEMENT OF MARKET MECHANISMS FOR INVESTMENT FINANCING IN UZBEKISTAN

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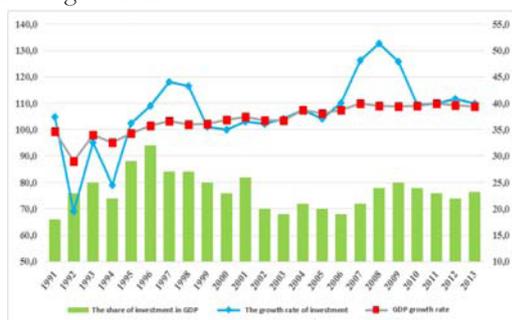
Abstract

The given article highlights the expansion issues of investment attraction in remote provinces and its betterment in ratable branch. As well as the recommendations and scientific propositions on shaping the financial management strategy of investment activities in the remote provinces are given. There exist recommendations on financing the perspective forthcoming investment projects, too.

Keywords: Investment, investment financing, management of finance, investment-financing sources, management investment, financing mechanisms, financial planning.

Investment is one of the most important factors of economic development. In countries with developing economies, the value of the investment is much more as they face major problems addressing issues of economic restructuring and modernization of its manufacturing capacity. In this regard, the most important task of the economies of developing countries and countries with economies in transition is a more effective use of the opportunities and advantages of the domestic private sector and the global market for international investment. Thus, an important role should definitely play public investment. Consider the major trends and challenges in improving market mechanisms for financing investment in Uzbekistan. During the years of the formation and development of the economy of the new independent state was implemented extensive measures to stimulate demand for investment, expand the resource base of investment, the creation of a favorable investment climate. All this has created the conditions for high growth investments in the country. During the years 1991-2012 the volume of investments increased by 14 times (in dollar terms), reaching by 2012 more than 22 trillion. sums, or \$ 11.7 billion[1].

During this period, the share of investment in GDP did not fall below 19%, reaching in some years 25-32%. The most important role in the growth of national wealth investment played during the economic recovery of the country (1995-1999) Moreover, in the years of the global financial and economic crisis (2008-2010) (Figure 1). Due to the active investment policy of Uzbekistan was the first post-communist countries left on the path of economic growth and has become one of the few countries in the world to successfully overcome the negative effects of the Asian and global crisis.



Source: The State Committee of the Republic of Uzbekistan on Statistics – www.stat.uz

Figure 1 - The dynamics of the investment processes and economic growth for the 1991-2013

A significant share of investment in GDP and high growth rates were due to the phased implementation of the

investment policy measures aimed at import substitution and export promotion, creation of new industries and large structure determined by production. This provided a deep diversification of the economy, helped fill the domestic market of modern high-quality domestic production, significantly increase the total volume of exports and, in particular, the production of the final processing.

Legal framework and regulation of attracting foreign investment in the Republic of Uzbekistan base on the acts like law “On Foreign Investments” (1998)[2], law “On investment activity” (1998)[3], law “On guarantees and measures of protection of the rights of foreign investors” [4], decree of the president ¹-3594 “On additional measures of stimulation of private foreign direct investments attraction” (2005) [5], decree of the president ¹-4434 “On additional measures of stimulation of foreign direct investments attraction” (2012) [6] and others.

In most developed countries, social investment groups and investment institutions have improved enough; they provide a mechanism for the transformation of capital accumulation in investment and efficient allocation of financial resources. Consequently, the amount of global investment in fixed capital investment is increasing annually (See: Table 1).

Accordingly, development trends have been studied almost completely analysed in 16 countries in 2011-2012.

Effective work to improve the financing of investment activity in Uzbekistan, optimizing sources of financing of investment and implementation of market-wide investment financing remains relevant. We believe that the establishment of a common investment market infrastructure is essential for the implementation of market mechanisms for financing investment.

Table 1 - Gross fixed capital formation at current prices and current PPPs (Billions of US dollars)

Countries	2009	2010	2011	2012	2013
Canada	289.6	317.2	332.3	354.6	361.5
Denmark	38.6	38.4	40.4	41.6	41.7
France	428.5	440.2	473.5	477.8	469.4
Germany	506.9	546.3	607.7	606.0	603.4
Italy	379.6	386.4	391.9	373.6	357.3
Japan	848.8	864.1	903.7	955.9	..
Korea	376.7	394.1	398.0	400.9	..
Mexico	366.0	366.9	412.7	448.2	..
Netherlands	129.8	120.0	128.5	123.6	117.5
Poland	153.2	154.6	169.3	168.1	166.0
Spain	350.0	324.1	307.2	288.5	266.6
Sweden	62.9	66.9	73.8	77.5	77.2
Switzerland	73.0	76.2	83.5	85.5	..
Turkey	176.9	221.0	286.9	278.2	294.4
United Kingdom	323.2	320.0	316.2	326.7	325.7
United States	2 672.7	2 691.1	2 828.2	3 028.1	..
China	4 981.1	5 537.9	6 152.6	6 891.1	..
Russian Federation	585.9	609.3	661.2	706.9	..

Source: Annual national accounts: Gross domestic product, OECD National Accounts Statistics (database) - <http://www.oecd-ilibrary.org/>



Merchant banks, non-bank financial institutions, investment funds and other financial intermediaries, investment and financial service requirements of economic entities play a major role in the formation of investment market infrastructure.

It is known that the use of the mechanisms of the stock market, which is the main financing technique for investment projects in developed countries, gives opportunity for businesses to accumulate large sums of money in the long term and permanent. For example, a source of investment in the US is 18-20 percent of the total capital investments of corporations. In the theoretical aspects of the financing through bonds and shares is stressed as the main market mechanisms for financing investment activity.

However, market of shares is unable to operate entirely, distribute and redistribute of funds in economics in Uzbekistan. Currently, GDP amount of the stock market operations' total volume in Republic made up less than 2%. Institutional investors (pension funds and insurance company) activity has not shaped completely yet in terms of the stocks and bonds market.

While exploring investment-financing sources, the amount of populace investment in developed countries contains bulk volume than the total amount. For instance, the given amount made up 70% with shared resources of banking system in Japan. The essence of giving populace savings in such way ensures high liquidity of investment and reliability (financial and credit institutes secures danger of investment return). Feeble depositors might also use the same way, which covers little profitability than stock investment.

In Uzbekistan, populace investment activity has been expanding annually because of substantial efforts on securing danger of investment return. In the first half of 2013, over 25 percent of adopted total investment amount has been invested from populace funds. This proves enhancement of populace investment activity.

As well as the leasing is thought to be a basic mechanism for investment financing in economically developed countries. In Uzbekistan, leasing turns to be resistant investment way, which replaces traditional financing ways in terms of dragging financial resources among business structures.

From the worldwide experience, the way on financing investment projects in return of syndicated credits is spread widely. It is known that, syndicate is meant as a cooperation aiming at crediting in large amounts based on contracts signed by different states. Debtor's demand on credit might increase the fixed limit for banks. In such circumstances various banks trust to their clients in syndicated way while gathering own funds.

The main differential feature of such credit lies on the amount of many creditors and accordingly credit risk, its sum are covered by various participant banks. From 2 up to 30-40 credit establishments of various states might participate in syndicate. Launch of large-scale enterprises and their demand for large amount credit causes increase of syndicated credits within international capital market.

According to international experts, syndicated credits plays important role in development of Uzbek banks, expansion of mutual banking confidence and as well as betterment of legal regulatory basis in Uzbekistan.

As well as, it is important to appoint national banks as the only syndicate participant in terms of shaping syndicate credits, appoint foreign financial establishments as leading institutions with broad financial possibilities and experience. Such credit type gives opportunity for banks to learn each another, and introduce credit portfolio that acts as an indicator displaying financial stability of cooperative bank. Thus, syndicate credit is thought to be a banking tool for mutual learning.

Measures on enhancement of international credit role which is taken with governmental guarantee requires considerable provisions on bettering attraction, usage and arrangement of syndicate credits.

Broad attraction of syndicate credits into new projects gives opportunity to produce new techniques and equipment, ecologically clean and advanced technology, sober-minded labour management plays considerable role in radical industry development. We think that attraction and usage of syndicate credits should be led according to long standing target projects. In here measures on detecting participants' rights and duties, adapting syndicate credits, stable sectors and braches with capital request ought to be considered. We think that scientifically proved strategy attracting syndicated international credits to Uzbekistan provinces should be worked out.

The process on strengthening attraction of syndicated credits to remote areas and provinces requires local authority administrations and municipalities to develop effectiveness of investment policy on the following aspects: a) Elaboration and implementation of measurements on strengthening attraction of foreign investment in the scope of working out regional investment developmental strategy. b) Elaboration of market infrastructure and favourable conditions for syndicated credit attraction. c) Elaboration of long-and-medium-term development strategy for each province and necessity of the efficiency indexes on investment projects which are financed against syndicated credits.

Uzbek economics serves to develop foreign investors' interest on fund outlays into transportation and communication, some branches of industry in terms of danger decline in investment activity and attraction growth of investment subjects.

China, Russia, South Korea and Netherlands made up constituent part of attracting foreign capital into Republic economics in terms of state investment program. China owns 35.66 percentage of attracted international investment and bilateral warm cooperation between these countries is seen in this area.

Besides it is necessary to point out that, Russia owns 26.79 %, South Korea possesses 19.50 % of attracted international investment (See: *Table 2*). Table displays that three states own major portion of attracted international investment in the scope of the State investment program of 2012.



Table 2 - Attracted international investment geography in the scope of the State investment program of 2012

No.	Investor states	Share by total attracted international investment (in percentage)
1.	China	35,66
2.	Russia	26,79
3.	Southern Korea	19,50
4.	Netherlands	3,26
5.	Great Britain	2,77
6.	Malaysia	2,50
7.	Germany	1,94
8.	Southern African Republic	1,08
9.	France	0,74
10.	Vietnam	0,73
11.	Turkey	0,71
12.	Singapore	0,66
13.	Sweden	0,65
14.	Japan	0,57
15.	Spain	0,51
16.	Cyprus	0,29
17.	Iran	0,23
18.	Bulgaria	0,21
19.	UAE	0,11
20.	others	1,09

Source: Data collection from the Ministry of Economics of Republic of Uzbekistan, 2012

China takes the first place in manufacture sphere throughout the world and its investment amount, which is attracted to Russian constructional area, is higher in terms of producing innovation products.

Currently it is necessary to develop and better regulatory legal documents on enhancing investment market infrastructure for economically developing states, as well as, establish many directive (leading) financial institutions in comfortable and useful circumstances for subjects demanding free investment fund.

In this regard, basic task of financial institutions is to mobilize investor funds into investment market on beneficial terms. As well as the development of trust and investment funds, companies, pension and insurance, brokerage and dealership company branches operating stocks and bonds seems to be a state request.

It is undoubtedly known that investment is the most important factor of economic development. Likewise, investment plays substantial role in economically developing countries, as these countries ought to solve the large-scaled issue on reconstructing economics structurally, modernizing production capability of economics. Thus, the most important task of developing countries and states in economically transition period is effectively use inner private sector; global market opportunities and advantages of international investment. In this turn, the state investment should play important role.

Thus, investment activity is such an activity, which has its own factors and ways of classification. The solution of such problems requires restoring capital accumulation in equity market, credit area, and loan market, as well; creating favourable conditions for expansion of efficiency use with financial resources, strengthening financial intermediation in terms of capital covert into investment, ensuring beforehand foresee of financial market process, which permits financial planning. Investment decisions are made while comparing contrary

projects in competitive conditions. Thus, selection of any financing mechanism determines price detection of investment resources by means of free market. The selection of financing mechanism is eventually defined by means of specified and future achieved results from project, because investment is related to the exact investment projects.

The usage of financing mechanisms, which corresponds to market economy and their selection, requires eventual formation of free capital market and price determination of resources based on the supply-and-demand.

The production development results in a real price formation on financial resources (stocks and shares) of joint-stock companies based on the supply-and-demand and in this turn, financing with stocks assures itself as the cheapest and the most way prior in selective circumstances.

Financing mechanisms of the market economy helps to determine which financial resources are easy to use and the price as the next effect is closely related to the inaccuracy and risks while considering the current prices of investments and their intension for future. As well as, the development of investment activity requires enhancing economic literacy of investors and bettering information supply of investment market participants.

Information support is not only information about the activities of business entities, which serve as an investment, but also information about upcoming prediction measures the rate of inflation when considering investments for the long term. As well as providing information on profitability, risk and investment attractiveness of the industry, it is important for investors to make investment decisions.

While summing up, mechanisms financing through leasing, corporation, venture, and projects, syndicated credits, credit lines or mechanisms financing through share contribution at the expense of international financial institutions and commercial banks, foreign investment, stock and bonds serve as the market mechanism basis of investment financing.

Likewise, market mechanisms include financing in capital return of off-budgetary funds, directing of business subjects and free populace funds towards investment objects, financing in mixed way, which is appropriate to market mechanisms of investment financing.

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