

# WAYS TO INCREASE THE ATTRACTIVENESS OF THE INVESTMENT ENVIRONMENT

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## Abstract

The dynamics of key indicators determining the efficiency of investment funds have been analyzed. Issues of ensuring a favorable investment environment in our country and further increasing the influx of foreign capital have been discussed. Additionally, factors influencing the attraction of foreign investments and the global experience in addressing them have been studied.

**Keywords:** Investment, investor, foreign investment, foreign experience, Gross Domestic Product, direct foreign investment, ICOR indicator, attractiveness.

## Introduction

A key aspect of increasing the effectiveness of a healthy investment environment in our country is that the investments being made are primarily directed towards establishing and modernizing new production. Currently, more than 70 percent of total investments are directed towards building production capacities, while nearly 40 percent of investments are aimed at purchasing modern equipment. The rates of economic growth achieved in recent years in our country are directly related to the investments directed towards the economy. Achieving macroeconomic stability, deepening economic and institutional reforms, and improving the investment environment in our country will lead to a significant increase in investment activity.

One of the main indicators that determines the efficiency of investment funds, and is convenient from an accounting perspective, is the ICOR (Incremental Capital Output Ratio) indicator, which is used to determine the effectiveness of investments directed towards the country's economy and, in general, the real sector. This indicator (coefficient) represents the ratio of investments made in fixed capital to the additional growth rate of the gross domestic product in the following year, relative to the share of investments in the gross domestic product, and is calculated using the following formula:

$$ICOR = I / \Delta Y_{aIM} \quad (1)$$

Here,  $I$  - the growth rate of investments (the share of gross domestic product volume);  $\Delta$  the annual growth rate of the gross domestic product volume.

The value of the ICOR indicator is considered more significant (positive) the smaller it is, and this indicator is viewed as a measure of inefficient use of capital. In most countries, the average ICOR coefficient is around 3. According to the above formula, the ICOR coefficient or the

indicator of capital productivity (efficiency) can be calculated by dividing the share of investments in gross domestic product by the growth rate of gross domestic product. For example, in developing countries, if the level of investments, that is, the share of investments in the volume of gross domestic product during a specific period (one year) is on average 20 percent and the growth rate of gross domestic product during the same period is 5 percent, then  $ICOR = 20 / 5 = 4$ . The higher the ICOR coefficient, the lower the productivity or efficiency of capital.

### Analysis and Result

We determine the level of the ICOR indicator for the economy of Uzbekistan based on the data in Table 1 below. The data shows that from 2010 to 2024, the volume of Gross Domestic Product and the volume of investments in fixed capital have steady growth rates. Specifically, during the analyzed period, while the volume of Gross Domestic Product increased by 14.4 times, investments in fixed capital grew by 21.6 times (Table 1).

**1-table The dynamics of the change in the ICOR indicator for the economy of Uzbekistan <sup>1</sup>**

Years	GDP (mlrd. sum)	Investments made in the main capital (mlrd. sum)	The share of investments in GDP (as a percentage)	Growth rate of GDP (in percentage)	The growth rate of investments made in fixed capital (in percentage terms)	ICOR coefficient
2010	74042,0	16463,7	22,2	107,1	104,2	3,1
2011	96949,6	19500,0	20,1	107,5	102,6	2,7
2012	120242,0	24455,3	20,3	107,1	110,6	2,9
2013	144548,3	30490,1	21,1	107,3	111,3	2,9
2014	177153,9	37646,2	21,3	106,9	109,8	3,1
2015	210183,1	44810,4	21,3	107,2	109,4	3,0
2016	242495,5	51232,0	21,1	105,9	104,1	3,6
2017	302536,8	72155,2	23,9	104,4	119,4	5,4
2018	406648,5	124231,3	30,6	105,6	129,9	5,5
2019	510117,2	195927,3	38,4	106,8	138,1	5,6
2020	580203,2	210195,1	36,2	101,6	95,6	22,6
2021	738425,2	239552,6	32,4	108,0	102,9	4,1
2022	896617,9	266240,0	29,7	106,0	100,2	5,0
2023	1066569,0	356071,4	33,4	106,3	123,4	5,3
2024	1 454573,9	426261,6	38,3	106,5	127,2	6,1

<sup>1</sup> Muallif tomonidan tayyorlangan.

Based on the research results, several important scientific conclusions can be drawn. The ICOR indicator, which reflects the productivity of capital, the effectiveness of capital investments, and the efficient use of investment resources, represents the relationship between the level of investments made in the economy, that is, the share of investments in GDP and the growth rate of GDP. At the same time, this indicator shows the additional capital or investment required to produce one unit of additional output.

The change in the ICOR indicator for the Uzbek economy generally shows an increase in capital efficiency. Factors such as attracting new investments, implementing technologies, and infrastructure development have helped manage capital expenditure effectively and ensure higher efficiency of economic growth. Thus, a low ICOR indicator indicates the high effectiveness of the Uzbek economy and the optimization of investments. These changes, in turn, have a positive impact on long-term economic growth and sustainable development.

In our country, in order to ensure a favorable investment climate and further increase the influx of foreign capital, we believe that it is appropriate to implement the following measures: considering the increasing integration of the digital economy into various sectors of the economy, first and foremost, to establish remote appeals using digital technologies and to form a database of information on important strategic objects for foreign and local investors; creating public-private partnerships in promoting investments and ensuring their participation; setting clear metrics and standards for the use of enterprise and public funds, as well as commercial bank loans; organizing various training and consulting centers for investment project factories and entrepreneurship activities in the regions of our republic. Additionally, specializing entrepreneurial activities according to the entrepreneurial potential of districts and regions.

The issue of the investment environment and its attractiveness is recognized today as one of the important factors in the economic development and sustainable growth of countries. In general, the concept of investment is one of the key concepts that describes the effective implementation of economic processes, the development of production, and the impact on the economic power of the country. It is known to many that all countries are interested in attracting investments, as financial resources, innovative ideas, technologies, and management practices that come through investment are beneficial. Another significant positive effect of investment is that it leads to the creation of new jobs and effectively contributes to reducing existing unemployment.

Improving the business environment in the country is of great importance in attracting investment, that is, creating conditions for free entrepreneurial activity and developing market mechanisms based on fair competition. From this perspective, the research question is about identifying the priority tasks involved in increasing the investment attractiveness in our country and the prospects for using foreign experiences to effectively organize these objectives. The main principle of a market economy is that economic processes are regulated by the market. In this case, market activity is characterized by freedom, the absence of artificial influences on prices, and the presence of a strong competitive environment based on innovation, scientific research, and technological advancement.

It is not possible to make structural changes in the economy, modernize production technically and technologically, and start producing competitive goods without introducing foreign



investments into the leading sectors and industries of the state economy. The importance of foreign investments in the development of the national economy is determined by the following:

The application of modern techniques and technologies in local production is ensured; modern professions, new to the republic's economy, are created, additional and new jobs are established, the number of employed in the economy increases, and the income of the population rises; the possibility of ensuring the standard of living of the population and meeting their socio-economic needs increases; the production of products aimed at export expands. This, in turn, leads to the development of foreign currency inflow; the production of goods and services that replace imports is established (preventing currency outflow); the morally and physically outdated production capacities of enterprises and organizations are phased out, the material and technical base is updated, and resource productivity increases.

Taking the above into account, in our country, priority is given to deepening structural changes, accelerating the investment activities of real sector enterprises, modernizing production, and implementing programs for technical and technological re-equipment, with a primary focus on attracting direct foreign investments. To achieve this, it is essential to ensure the attractiveness of the investment environment provided by the state.

Providing an attractive investment environment is a key factor in attracting investments and promoting economic growth.

**2-table Main measures to ensure the attractiveness of the investment environment.<sup>2</sup>**

T/r	Incentives	The main advantages of attracting foreign investments
1.	Stability of the political and economic situation	Investors are looking for countries with a reliable political system and a stable economy, where the rules of the game are clear and change infrequently.
2.	Protection of investors' property and rights	It is of great importance to have strong legal and institutional mechanisms in place to ensure the protection of property and investors' rights in the country.
3.	The openness and transparency of the market	Investors value the availability of information about the market, its conditions, and opportunities. Transparency helps reduce risks and increase trust.
4.	The effectiveness and predictability of regulation	The procedures and rules for quickly and efficiently registering a business, along with simple yet effective regulations, help simplify the investment process.
5.	Quality of infrastructure and resource utilization	Investors assess the opportunity to utilize quality infrastructure (transport, energy, communication) and essential resources such as energy and water.
6.	Skilled labor capacity	The presence of skilled and knowledgeable personnel is of great importance in successfully implementing investment projects.
7.	Measures and benefits to encourage investments	Investors can complain about unauthorized landfills, solariums, empty spaces, and vacant areas.
8.	Corruption level	The fight against corruption and the existence of transparent control mechanisms are also of great importance in attracting investments.
9.	Encouraging entry into the market and exports	If the investment environment provides favorable conditions for entering large markets and exporting, it can be attractive.
10.	Innovation ecosystem	A developed innovative ecosystem, the presence of scientific and research centers, support for startups, and the development of technological clusters can also attract investors interested in new technologies and developments.

<sup>2</sup> Based on the research results developed by the author.

Creating a conducive investment environment requires collaboration between the government, the business community, and society as a whole to ensure sustainable economic growth and prosperity.

Methods that can be used to improve the investment environment in a country or region: investors prefer stable market conditions and political predictability. Tax stability guarantees and legislative support for investments serve to improve the investment environment; transparency and simplification of bureaucratic processes. Transparent rules and procedures for business registration, licensing, and accounting can significantly reduce risks and costs for investors; utilizing developed infrastructure, including transport networks, energy, communication, and financial services, creates a more attractive environment for investors; protecting investors' rights and guarantee contracts are crucial for creating a trustworthy and stable investment environment; providing investment incentives such as tax credits, subsidies, or investment privileges can attract new investors and help develop key sectors; investments aimed at education, training, and research can enhance the workforce's qualifications and encourage innovations that are attractive to investors; cooperation between the government and the private sector helps improve the business environment and develop the investment climate; participating in international economic organizations, signing bilateral agreements, and engaging in regional integration processes help attract foreign investments.

### **Conclusion**

In conclusion, comprehensive reforms and increasing openness for foreign investments are actively being undertaken to improve the investment environment in Uzbekistan. Several key measures have been implemented to enhance the attractiveness of the investment environment in Uzbekistan:

A number of economic reforms aimed at creating a more favorable environment for business are being implemented. These include simplifying the procedures for establishing and registering enterprises, reducing administrative barriers, and improving the legal protection of investors' rights;

measures are being taken to liberalize the labor market, which serves to improve the business environment and attract foreign investments;

the government is actively working to attract foreign investors by offering various incentives such as tax benefits, favorable conditions for business, and guarantees for the protection of investments;

Uzbekistan is investing in the development of its infrastructure, including transport, energy, and communication infrastructure, which creates more attractive conditions for investors; attention is being focused on the development of financial markets, which allows investors to make efficient use of their capital and reduce financial risks.

As a result of these measures, Uzbekistan is increasingly becoming an attractive investment destination, drawing the attention of foreign investors and contributing to the stable growth of our economy.



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