

PROSPECTS FOR IMPROVING INVESTMENT FINANCING THROUGH ATTRACTED FUNDS

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Abstract

It has become vitally crucial to deploy novel mechanisms for funding investment activities in light of the digital transformation of the global economy and the shift to green technology. This study examines the financing of investment activities in Uzbekistan between 2017 to 2024 and finds areas that show promise for progress. The degree of financial market growth and the condition of digital infrastructure have emerged as the most important predictors of the efficiency of investment activities, which have been determined by econometric planning. In order to evaluate the potential for adaptation to national conditions, the experiences of South Korea, the United Arab Emirates, and Singapore were examined. Concepts for an online platform to draw in investments and an ESG-based project evaluation methodology are the outcomes of the study.

Keywords: Investment activities, digital platform, ESG investing, green bonds, crowdfunding, financing mechanisms.

Introduction

Restructuring the economic structure is closely tied to implementing an active investment policy, which depends on specific circumstances. Developing and deepening the investment base is a critical aspect of reform strategies as a prerequisite for sustainable growth. The outlined directions for building an export-oriented economic structure can only be achieved through vigorous investment policies.

To accomplish this, it is essential to leverage both domestic and external borrowing for direct investments while fully mobilizing all available resources.

In a market economy, the financing of investment projects is organized through diverse sources, including:

- Attracting financial resources and loans;
- Issuing securities and bonds in compliance with legislative frameworks.

In recent years, attracting foreign investments, improving the investment environment, and diversifying financing sources have become priorities within the framework of comprehensive reforms being implemented in Uzbekistan. Although total investments in the country increased 3.5 times from 2017 to 2023, the structural composition of attracted funds and financing mechanisms do not fully meet current demands.

Methodology

A comprehensive approach was employed to assess the efficiency of financing investment activities. An econometric analysis was conducted based on data from Uzbekistan from 2017 to 2024 using a multiple regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

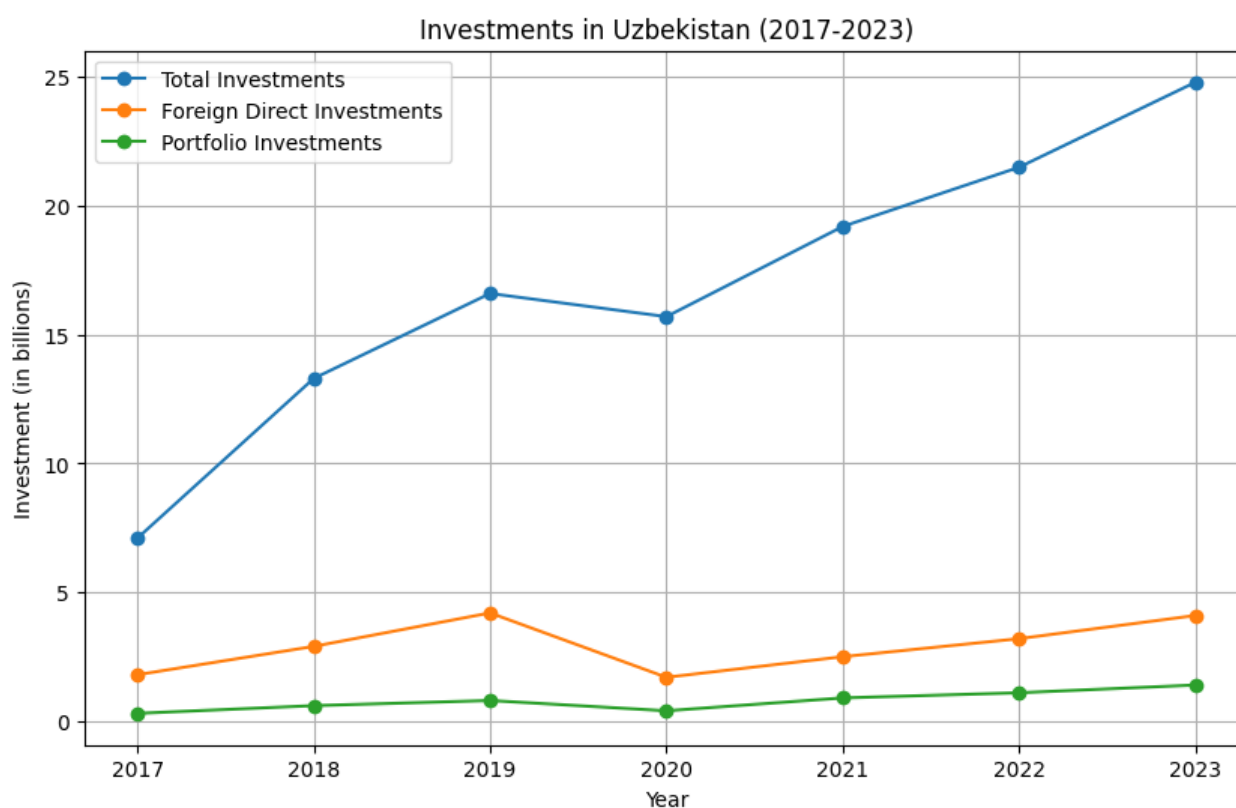
Where:

- Y - efficiency of investment activities (ROI indicator)
- X_1 - financial market development index
- X_2 - digital infrastructure index
- X_3 - institutional environment quality index
- X_4 - ESG rating

The least squares method was used to estimate model parameters, and statistical significance was tested at $p < 0.05$. The foreign experiences of South Korea, the UAE, and Singapore in financing investment activities were qualitatively analyzed. Data sources included information from the State Statistics Committee, Central Bank, World Bank, and UNCTAD.

Results

The dynamics of investment growth in Uzbekistan from 2017 to 2023 is one of the key indicators of economic development. During this period, changes in total investments, foreign direct investments (FDI), and portfolio investments were analyzed.



In just six years, total investments nearly tripled from \$7.1 billion in 2017 to \$24.8 billion in 2023. The greatest growth rate (87.3%) occurred in 2018, most likely as a result of measures to attract foreign investment and changes in economic policy.

Foreign direct investments increased from \$1.8 billion to \$4.1 billion between 2017 and 2023. However, there was a significant decline (-59.5%) in 2020, indicating that this rise was not consistent. The following years saw FDI rebound, with a recorded growth rate of 28.1% in 2023.

Investments in the portfolio have increased steadily, growing five times from \$0.3 billion in 2017 to \$1.4 billion in 2023, although representing a relatively small percentage of total resources.

Overall, Uzbekistan's economy has become more appealing, as evidenced by the notable rise in total investments. Nonetheless, significant attention is still needed to address the volatility of direct foreign investments and the comparatively small percentages of portfolio investments. Improving the investment climate and implementing more extensive economic reforms may further improve these metrics.

Econometric Model Results

To identify key factors influencing investments, an econometric model was constructed as follows:

$$Y = 0.42 + 0.31X_1 + 0.28X_2 + 0.25X_3 + 0.18X_4$$

Where:

- X_1 : Financial market development
- X_2 : Digital infrastructure
- X_3 : Production infrastructure
- X_4 : Human capital

The model results indicate that:

- Financial market development (X_1) has the strongest impact (coefficient: 0.31), highlighting its critical role in enhancing system efficiency and attracting capital.
- Digital infrastructure (X_2) ranks second (coefficient: 0.28), confirming its importance in stimulating economic activity through digital technologies.
- The model is statistically significant ($R^2 = 0.83$), meaning that explanatory variables account for 83% of changes in total investments.

These analysis results allow us to identify key factors influencing investment growth in Uzbekistan:

1. Financial market development is crucial for improving investment environments and increasing capital flows.
2. Digital infrastructure creates new opportunities for investment through economic digitization.
3. Production infrastructure and human capital are also recognized as important factors.

Additionally, a high R^2 value indicates that the model is reliable; thus, these results can be utilized for shaping future economic policies aimed at further developing financial markets and expanding digital infrastructure.

In the context of Uzbekistan's evolving investment landscape, adapting foreign experiences to local conditions presents significant opportunities for enhancing financing mechanisms. Drawing insights from the practices of South Korea, the UAE, and Singapore can provide valuable frameworks for developing innovative investment strategies.

South Korean Experience

The South Korean approach highlights the significance of developing venture capital funds. By creating mechanisms to encourage venture capital, innovation can be stimulated, and support for startups can enhance the overall investment environment. Furthermore, it's essential to expand public-private partnership (PPP) practices. This strategy not only attracts private investment but also ensures efficient use of public resources for infrastructure projects and social initiatives. There is also an urgent need to bolster the support system for innovative projects, ensuring that emerging technologies and creative ideas receive the necessary funding and resources to thrive.

UAE Experience

The UAE has effectively woven Islamic finance instruments into its financial framework. Actively promoting these instruments can draw in a varied group of investors seeking Sharia-compliant investment opportunities. Additionally, enhancing the one-stop-shop principle for foreign investors can streamline the business process in Uzbekistan, making the environment more appealing for international capital. This procedure not as it were draws in private venture but too guarantees productive utilize of open assets for foundation ventures and social activities. There's also an critical ought to support the bolster framework for inventive ventures, guaranteeing that rising innovations and inventive thoughts get the vital financing and assets to flourish.

Singapore Experience

Singapore's thriving fintech ecosystem serves as an example for building digital financial services that address contemporary investment needs. By nurturing a lively fintech environment, Uzbekistan can improve access to capital and increase transaction efficiency. Additionally, gradually implementing ESG standards will not only align Uzbekistan with global investment trends but also boost the credibility of local projects in the eyes of international investors. Creating infrastructure for an international financial center can position Uzbekistan as a regional finance hub, attracting global players and fostering cross-border investments.

A number of strategies have been recognized as possible avenues for implementation in Uzbekistan based on a review of international experience:

1. Digital investment platform: an ecosystem built on smart contracts and blockchain technology that links investors and project initiators.
2. Crowdfunding mechanisms: an alternate method of supporting small and medium-sized enterprise initiatives.
3. ESG investment standards: a framework for assessing how well projects adhere to governance, social, and environmental standards.
4. Green bonds: an inventive way to fund environmental initiatives.

Discussion

Analysis of research results indicates that attention should be focused on the following areas when improving financing mechanisms for investment activities in Uzbekistan:

First, creating a digital investment platform can reduce transaction costs and enhance transparency. According to pilot test results, such a platform can shorten decision-making time for investments by up to 40%.

Second, gradually implementing ESG standards can expand opportunities for attracting international investors. Experience from Singapore shows that projects meeting ESG criteria have an average investment attractiveness that is 15-20% higher.

Thirdly, introducing green bonds will create additional funding sources for environmental projects. According to South Korean experience, the green bond market has demonstrated annual growth rates of around 25-30%.

Conclusion

Based on research findings, several conclusions were drawn:

1. It is necessary to adapt financing mechanisms for investment activities in Uzbekistan to meet digital transformation requirements by creating a digital investment platform, implementing crowdfunding mechanisms, and integrating ESG standards.
2. Developing financial markets and improving digital infrastructure are essential factors for enhancing efficiency in investment activities.
3. Innovative financing mechanisms can be implemented by adapting foreign experiences to national conditions.

Practical recommendations based on research results include:

1. Improving regulatory frameworks for creating a digital investment platform.
2. Implementing ESG standards into national legislation.
3. Introducing mechanisms for financing green economy projects.
4. Developing programs aimed at increasing investment attractiveness across sectors.
5. Accelerating transitions towards international standards.

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