



## **SCIENTIFIC-THEORETICAL AND ORGANIZATIONAL-LEGAL FOUNDATIONS OF INVESTMENT ACTIVITY FINANCING**

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| <b>ABSTRACT</b>  | <b>KEY WORDS</b>  |
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| This article examines the foundations of investment financing in Uzbekistan, its theoretical aspects, and promising directions. Investments play a key role in the country's economic development, contributing to industrial growth and improving the population's living standards. The article examines current trends, theoretical concepts, and organizational foundations of investment financing, taking into account Uzbekistan's national context and international experience. The article also discusses existing problems and suggests ways to solve them, including the role of equity financing (share financing) in expanding investment opportunities. | Investments, investment financing, economic development, Uzbekistan, investment policy, equity financing. |

### **Introduction**

In the context of economic globalization, investment activity is an important element of every country's economy. This activity contributes to the expansion and development of industrial production in the country, as well as stable and progressive economic growth. Therefore, each country supporting investment activity develops a roadmap reflecting its specific goals in this regard.

In the Law of the Republic of Uzbekistan "On Investments and Investment Activities" dated December 25, 2019, the concept of "investments" is explained as follows: investments are risks taken by an investor in social sphere objects, entrepreneurship, scientific and other types of activities aimed at making a profit. These are tangible and intangible assets and rights to them, including intellectual property rights, as well as reinvestments.

Various plans and programs have been developed in our country to attract investments in various spheres, expand their flow, and stimulate investment activity. It is worth noting here the Decree of the President of the Republic of Uzbekistan dated January 28, 2022, "On the Development Strategy of New Uzbekistan for 2022-2026" № PD-60. This decree contains specific plans to increase our country's investment attractiveness and improve the business climate.

Among them, special attention is paid to organizing the annual "Tashkent International Investment Forum", which aims to demonstrate Uzbekistan's investment potential to local and foreign investors and establish mutual dialogue with them. These actions to develop investment activity require a

complete understanding and explanation of its essence, including an analysis of equity financing as an essential investment mechanism.

## **Literature Review**

The concept of investment emerged in the mid-20th century. Due attention was paid to this issue by neoclassicists such as A. Pigou, I. Fisher, and R. Hawtrey. They argued that economic development is impossible without investment processes. This is because investments are the beginning of capital goods production and are inseparable from the consumer goods market. Aggregate demand includes investments, the growth of which increases this same demand and, accordingly, the volumes of national production [1]. The term "investments" unlike others in economic literature, has many interpretations and meanings. Thus, in macroeconomics, investments usually refer only to those investments of funds that lead to an increase in gross domestic product and, therefore, the real sector of the economy [2]. Many foreign theorists focus directly on capital as the main component of the concept of investment. J. Keynes understands investments as an increase in the value of capital property, regardless of whether the latter consists of fixed, working, or liquid capital [3].

One of the significant aspects of investment financing is equity financing, which allows companies to attract funds through the issuance of shares. Adam Smith emphasized the importance of dividing labor to enhance business profitability. In the modern context, equity financing plays a similar role by distributing ownership among multiple investors, thereby improving financial sustainability and enabling capital-intensive projects[4].

According to D.K. Zhou, "income should exceed expenses. If the opposite occurs, there will be no enterprise growth." We can accept this idea as true; indeed, growth and profitability are observed in those enterprises where income exceeds costs [5].

## **Research Methodology**

As research methodology, this article used analytical and statistical methods; tables and graphs were widely used, as well as mathematical methods.

## **Analysis and Discussion of Results**

The analysis revealed several key aspects of investment financing in Uzbekistan. The country's legislative framework, enshrined in the Constitution (Article 53 on guarantees of property rights), has undergone significant changes thanks to new laws on investments and investment activities, public-private partnership, and the digital economy.

Investment sources in Uzbekistan can be classified according to various criteria:

Table 1.

Main sources of investment financing in Uzbekistan<sup>1</sup>

| Financing Source                   | Description  | Examples in Uzbekistan   | Advantages  | Disadvantages  |
|------------------------------------|--|--|---|--|
| Enterprise Own Funds               | Profit, depreciation charges, other internal reserves                      | Reinvestment of profits by large companies, own savings of small and medium businesses | Independence from external factors, lower cost of financing   | Limited volume for large projects, dependence on enterprise's financial condition                  |
| Bank Loans                         | Loans provided by commercial banks   | Working capital loans, investment loans for various economic sectors                   | Relative accessibility (depending on lending conditions), variety of products                           | Dependence on interest rates and bank credit policies, collateral requirements                     |
| Foreign Direct Investment (FDI)    | Foreign capital investments directly into enterprise capital               | Investments in oil and gas sector, automotive industry, textile industry, IT sector    | Capital inflow, technology transfer and management experience, access to external markets               | Dependence on global economic situation and investment climate, possible political risks           |
| Venture Financing                  | Investments in innovative and startup projects at early development stages | Developing venture funds, focus on IT startups, "green" energy projects                | Financing high-risk but potentially profitable projects, support for innovation                         | High risk level, long investment return horizon, need for expert project evaluation                |
| Equity Financing (Share Financing) | Raising capital by issuing and selling shares on the stock exchange        | IPO (Initial Public Offering) of some companies, corporate bond issuance               | Expanding investor base, diversification of financing sources, increased transparency                   | Disclosure and listing requirements, market volatility   |
| Government Financing               | Budget funds, state funds (e.g., infrastructure development funds)         | Investments in infrastructure projects, state support programs for priority sectors    | Support for strategically important sectors and projects, implementation of large-scale initiatives     | Limited budget funds, bureaucratic procedures, possible inefficiency in distribution               |
| Crowdfunding                       | Collective project financing through online platforms                      | Developing crowdfunding platforms, support for social and creative projects, startups  | Access to financing for wide range of projects, community involvement, market demand testing            | Limited financing volume for large projects, legal uncertainty, fraud risks                        |
| Public-Private Partnership (PPP)   | Cooperation between state and private sector for infrastructure projects   | PPP projects in road construction, energy, transport, healthcare, education            | Risk and resource sharing, private capital and expertise attraction, accelerated project implementation | Complex agreement structure, need for careful legal documentation, need for transparent procedures |

Statistical analysis shows that in 2024, the volume of foreign direct investment (FDI) in Uzbekistan's economy increased by more than 50%. This is evidenced by Central Bank data. From January to December last year, fixed capital investments grew by 27.6%.

<sup>1</sup> Compiled by the author based on the study of various sources.

The main part of the growth was provided by decentralized investments, which volume increased by 32.8%. Their share in the total investment volume exceeded 90%, which is 3 percentage points higher compared to the previous year.

The development of the stock market and expansion of equity financing have become crucial factors in attracting investment. The country's efforts to increase IPO activities and encourage enterprises to enter the stock exchange reflect the growing role of equity financing in Uzbekistan's financial system. At the same time, in the fourth quarter, centralized investments showed negative dynamics, decreasing by 4.2%.

The volume of foreign direct investment in Uzbekistan's economy grew by 53.6% and reached 11.9 billion US dollars. Their share in the country's gross domestic product (GDP) increased by 2.4 percentage points, amounting to 10.3%<sup>2</sup>.

Investments are part of the gross domestic product (GDP) that is not consumed over a certain period and helps ensure an increase in capital investments in the economy that will be consumed in the future. In production theory and macroeconomics, investment is the process of creating, forming, and increasing existing capital. Thus, the concept of investment includes a wide range of aspects of economic activity aimed at making a profit or achieving other positive results.

Table 2.

Problems and obstacles for attracting investments to Uzbekistan<sup>3</sup>

| Problem                     | Description                           | Possible Solutions                       |
|-----------------------------|---------------------------------------|--|
| Lack of information         | Lack of transparency in market data   | Creation of unified information portal   |
| High risks                  | Political and economic risks          | Improvement of legal environment         |
| Bureaucratic difficulties   | Long business registration procedures | Implementation of "one-window" principle |
| Limited access to financing | High collateral requirements          | Development of SME support programs      |

To improve the efficiency of investment financing in Uzbekistan, it is necessary to:

- Develop institutional infrastructure
- Increase transparency of the investment process
- Stimulate private and foreign investments through tax incentives

Conclusion

Investment financing is the foundation for sustainable economic growth in Uzbekistan. Effective implementation of investment policy will allow the country to reach new heights in its development. The future of investment financing in Uzbekistan is connected not only with changes in legislation and institutional environment but also with a fundamental revision of financing strategies through digital technologies and capital market development, particularly in the field of equity financing. In the changing world economy, Uzbekistan's ability to adapt and implement innovative methods of investment financing will become a determining factor in its economic success.

<sup>2</sup> <https://www.uzdaily.uz/uz/ozbekistonda-asosiy-kapitalga-kiritilgan-investitsiyalar-2024-yilda-276-ga-osdi/>

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