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THE THEORETICAL FOUNDATIONS OF THE FORMATION OF FINANCIAL MECHANISMS FOR ATTRACTING FOREIGN INVESTMENT

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A B S T R A C T	K E Y W O R D S
The article reveals the financial mechanisms for effectively attracting foreign investment into the economy: methods, forms, management tools and financial instruments for effectively attracting foreign investment. As a result of the research, the author's conclusion on the financial mechanism for attracting foreign investment is formed, conclusions and recommendations are given.	Foreign investments, bonds, credit, deposit, tax policy, monetary policy, stock market, portfolio investments.

Introduction

Investment activity determines the basis for the successful development of the world economy, and also helps to determine the prospects for modernization and diversification of the economies of various countries of the world. The importance of foreign investment contributes to the international distribution of capital, as well as to the search for more profitable ways of making a profit from entrepreneurial activity abroad, relative to the investor's country.

In recent years, the problem of attracting investments has been in the center of constant attention of the government, various aspects of this multifaceted issue have been reflected in large-scale studies conducted by domestic and foreign scientists and specialists, mainly at the industrial level. In modern conditions, the volume of investments ensures technological growth, improves the quality and quantity of production. This is important not only for attracting investments, but also for their proper use, which, as a result, increases economic efficiency. The level of investment activity and the scope of investment activities have a significant impact on the long-term activities of business entities, their development and competitiveness. The formation of a favorable investment climate creates conditions for increasing the investment opportunities of domestic and foreign investors, allowing them to make strategic and operational investment decisions.

As President Sh. Mirziyoyev emphasized: "Our main goal is to make Uzbekistan a reliable and long-term partner for foreign investors. Our state undertakes to develop market relations, ensure reliable protection of investor rights, further improve a favorable investment and business environment, create broader conditions for fair competition, ensure the inviolability of private property and the independence of the judicial system."[1].

The relevance of this topic is that creating a favorable investment climate in the country, further improving financial mechanisms for effective attraction of foreign investments, studying foreign experience in this regard and, as a result, attracting external investment sources. At the same time, a positive effect is achieved in increasing the volume of investments directed to priority areas and sectors of the economy, which, in turn, will help achieve the strategic goals of the country's socio-economic development. Increasing the attractiveness of the country's investment climate requires in-depth study of such issues as the development of optimal tax and monetary policy, as well as the development of the stock market.

Literature Analysis

In any state, the financial mechanism is an important management element for the successful implementation of financial policy and is used as a regulator of economic relations. This is a set of methods for organizing financial relations used by society in order to ensure favorable conditions for economic and social development.

In the scientific literature, two conceptual approaches can be cited that express the content of the financial mechanism on a global scale. The first approach is that the financial mechanism is understood as the financial activity of enterprises themselves. The material reflection of financial relations is cash flows. The organization and procedure for their implementation of these flows are carried out in accordance with certain rules and directions that characterize the financial "technique". This approach to defining the financial mechanism reflects the internal organization of the financial activities of enterprises. The second approach to considering the concept of "financial mechanism" is that it is understood as a set of methods and forms, ways and means of influencing the state and development of the economy. This approach reflects the external impact of financial relations, characterizes finance as a decisive factor in the influence of the management apparatus of economic entities on the economic state.

Currently, the following issues remain controversial: disclosure of the content and functions of the financial mechanism from the point of view of economics; the internal structure of the financial mechanism; the location of the financial mechanism in relation to the financial resources management system of economic entities; the location of the financial mechanism in connection with the financial management of the enterprise and the differentiation of their functions in the system of financial resources management of the enterprise; the existence of separate financial mechanisms (at the level of the state, region and economic entities). Based on this, in the table below we consider the definitions of the concept of financial mechanism given by various economists (Table 1).

[1]Speech by the President of the Republic of Uzbekistan Shavkat Mirziyoyev at the Third Tashkent International Investment Forum. 02.05.2024. https://president.uz/uz/lists/view/7194

Table 1 Definitions of the essence of the financial mechanism[2]

No.	Author and resource	Definition of financial mechanism
1.	Romanovsky M.V., Beloglazova G.I. Finance and credit: textbook. - M.: Higher education, 2006. - P. 575.	Financial mechanism is a set of types, forms of organization of financial relations, specific methods of formation and use of financial resources and methods of their quantitative determination.
2.	Kovalev V.V. Financial analysis / V.V. Kovalev. - M.: Finance and statistics, 2000. - P. 336.	Financial mechanism is a system of organization, planning and use of financial resources.
3.	Finance: textbook “Пол ред”. G.B. Polyak. — 3rd ed., — M.: UNITY-DANA, 2008. - P. 703	A financial mechanism is a system of forms, types and methods of organizing financial relations established by the state.
4.	Ivanitsky V.P. Mechanism of investment of population savings: [monograph] / V.P. Ivanitsky, E.I. Melnikova. - Chelyabinsk: SUSU, 2002. -P. 254.	The financial mechanism is a set of forms and methods of formation and use of legal funds by business entities to ensure their functions.
5.	Kees van Dijk, Herman Savenije, Volume 21 of Forest policy and institutions working paper, University of Minnesota, FAO 2009.	A financing mechanism is defined as an institutional mechanism that ensures the transfer of financial resources between the provider and the beneficiary.
6.	http:www.businessdictionary.co m/definition/financialmechnism.html	A financial mechanism is considered to be the method or source by which financing is provided, for example, bank loans, bond or stock issuance, reserves or savings, and proceeds from sales.

Based on the opinions of the above scholars and the results of the research conducted, the author concludes that, financial mechanisms for attracting foreign investments are a set of methods, forms, management tools and financial instruments for effectively attracting foreign investments.

Research Methodology

In covering this topic, along with general economic methods, special approaches to data systematization were used, namely, comparison, compilation of theoretical and practical materials, systematic analysis, abstract-logical thinking, generalization, etc.

Analysis and discussion of results.

The financial mechanism can be considered as a set of forms of organizations of financial relations, methods of attracting and using foreign investments used by the state to create favorable conditions for the economic and social development of society (Figure 1). When considering the financial mechanism, it is necessary to identify its functional relationships: attracting foreign investment, its stimulation through legislation, tax holidays and investment tax credits.

[2] Author’s development.

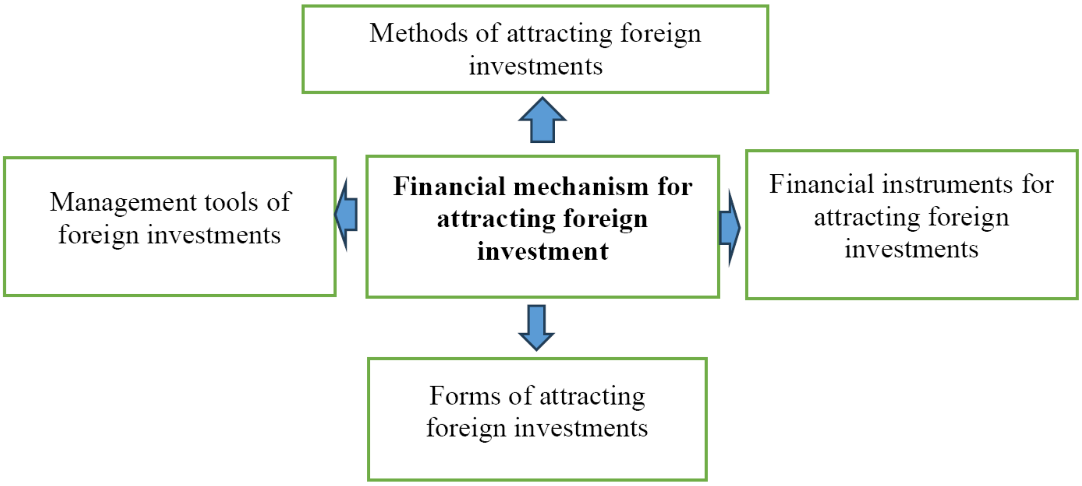

Figure 1. Financial mechanism for attracting foreign investment[3]

Each link of the financial mechanism is an integral part of the whole. The financial mechanism includes a block of mobile elements: tax rates, tax benefits, depreciation rates and refinancing discount rates. These elements should be adjusted taking into account the interests of the subjects of economic relations. The combination of elements of the financial mechanism: forms, types and methods of organizing financial relations, constitutes the “general structure” of the financial mechanism, which is set in motion by determining quantitative parameters for each element. By forming the financial mechanism, the state seeks to ensure full compliance with the requirements of financial and investment policy, which is the key to the full implementation of its goals and objectives.

Forms of attracting foreign investments include: direct (real) foreign investments, portfolio (financial) investments and other investments (medium and long-term international loans and debt).

Despite the widespread tendency in scientific circles to recognize financial instruments as elements of the financial mechanism, a certain evolutionary path has been taken in the interpretation of this concept, but a unified view of the essence of financial instruments has not yet been developed. Thus, initially a rather simplified definition was developed, according to which three main categories of financial instruments were distinguished: cash, credit instruments (bonds, loans, deposits) and methods of participation in the authorized capital (stocks, shares).

In world practice, there are various methods of attracting foreign investment, the most popular of which are: establishing foreign enterprises whose assets are 100% owned by foreign investors; organizing the sale and purchase of financial assets; establishing special economic zones; establishing consortiums, concessions; establishing joint ventures through joint participation, as well as establishing subsidiaries and branches of large foreign companies and firms, announcing tenders, etc.

In order to effectively attract foreign investments, management (influence) tools, which are an integral component of financial mechanisms, are also important, including tax and monetary policy and the level of development of the stock market.

Estimating the impact of the tax system on the development of the national economy is a complex issue. In addition, it should be remembered that there are several main directions of the fiscal system.

[3] Developed by the author.

For example, the system of temporary effects, special tax regimes, rationalization of tax rates and the system of tax privileges.

The Tax Code of the Republic of Uzbekistan provides for the application of special tax benefits in accordance with the procedure established by it to enterprises established with direct foreign investment and specializing in the production of products (rendering services) in sectors of the economy according to the list approved by legislation.

In particular, Chapter 67, Article 471 of the Tax Code of the Republic of Uzbekistan sets out the conditions for taxation of legal entities with direct private foreign investments[4].

According to the legislation of Uzbekistan, state support for investment activities is also carried out on the basis of presidential decrees. In general, after a number of reforms in the tax sphere in Uzbekistan, the tax burden on business entities has been relatively eased. For example, corporate and individual income tax is levied at a single fixed rate (15 percent for legal entities and 12 percent for individuals); the income tax rate on dividends is 5 percent; the value added tax (VAT) rate is 12 percent, and property tax is 1.5 percent. The government of Uzbekistan annually makes adjustments to the rates of collection of certain taxes, fees and duties.

The government's influence on the intensity of investment processes in the economy cannot be imagined without monetary regulation, which is a method of implementing monetary policy in society. Monetary policy is a set of measures implemented by the state through specialized financial and credit institutions and aimed at achieving a predetermined positive economic and social result. This means that monetary regulation, as a practical component of the policy, should be aimed at achieving the same goals. Monetary regulation of the economy should contribute to the activation of investment processes in the real sector of the national economy, stimulate the savings policy of residents and non-residents of the Republic of Uzbekistan in the national currency, and strengthen the country's banking and financial system (Figure 2).

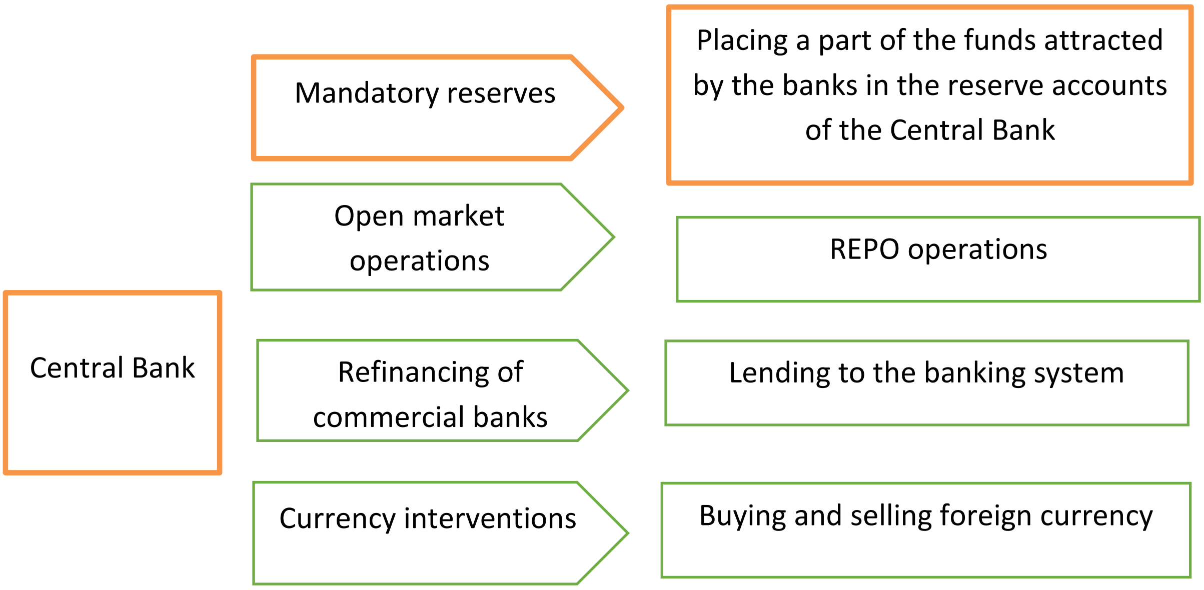

Figure 2. Issuance and regulatory cash flows of the Central Bank[5]

[4] "Tax Code" of the Republic of Uzbekistan dated December 30, 2019. https://lex.uz/docs/4674902.

[5] Author's development

Regarding the rules of mandatory reserves, at present, reserve requirements do not encourage the banking system to form long-term resources that are the basis of investment assets. Required reserves are funds that commercial banks are required to deposit on a separate account opened with the Central Bank. By changing the mandatory reserve requirements, the Central Bank affects the lending activities of commercial banks and interest rates. From July 1, 2024, deposits of legal entities and individuals in the national currency will be set at 4 percent, and deposits of legal entities and individuals in foreign currency at 14 percent.

Monetary policy is conducted by the Central Bank, and the main objective of this type of policy is to achieve price stability. This policy is implemented through money and interest rates (for example, the key rate). The Central Bank can conduct monetary policy in 4 different modes (Inflation targeting mode, monetary targeting, exchange rate targeting, and hybrid mode).

In accordance with the Presidential Decree No. PD-5877 “On improving monetary policy through a phased transition to an inflation targeting regime” dated November 18, 2019 and the Law “On the Central Bank of the Republic of Uzbekistan” adopted in a new edition No. LRU-582 dated November 11, 2019, price stability was established as the main objective of the national monetary policy, and the Central Bank began the transition to an inflation targeting regime.

In addition, the Decree of the President of the Republic of Uzbekistan No. PD-5571 dated September 2, 2017 “On priority measures to liberalize currency policy” is aimed, first of all, at radically reforming the current currency regulation system, liberalizing currency policy, and creating equal conditions for all business entities in carrying out foreign trade activities. This decree definitively resolved the issue of currency conversion for domestic and foreign investors.

Let us dwell on the activities of the securities market as a means of managing foreign investments. The securities market is one of the important components of any modern civilized economy. Therefore, its regulation is of great importance for the entire national economic complex due to its impact on the total mass of investment resources in society. In our opinion, the system of securities market regulation should help solve the following tasks: to form an effective mechanism for attracting private investments to the corporate sector of the economy (primarily, attracting state funds for these purposes); to form a mechanism for covering the state budget deficit without inflation using securities market instruments; to create an effective mechanism for attracting state funds to investment programs using the securities market; to ensure the rights of domestic participants in global financial flows, while promoting the integration of the domestic securities market into world markets; creation of conditions for the emergence of “effective owner” in the domestic economy, etc.

In conclusion, the financial mechanism of attracting foreign investments is closely related to the financial and investment policy of the state.

Conclusion

The following conclusions and recommendations can be made based on the results of the above-mentioned research on the financial mechanisms of effectively attracting foreign investments to the national economy: first, based on the experience of most developed and developing countries, use the "national regime" of regulating capital flows; secondly, it is desirable to develop a fiscal policy of promoting foreign investments specific to developing countries; thirdly, further improvement of the legal framework for attracting foreign investments within the framework of the requirements of the international trade organization; fourth, to use the experiences of the Chinese state in the establishment and effective operation of special economic zones in attracting foreign investment; fifth, the transition from quantitative indicators to qualitative indicators in attracting foreign direct investment; sixth, to create an electronic platform of a truthful and transparent database for foreign investors about the investment potential of the country and its regions, etc.

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