MINISTRY OF HIGHER AND SECONDARY SPECIAL EDUCATION OF UZBEKISTAN

TASHKENT INSTITUTE OF FINANCE

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INVESTMENTS

MANUAL

Area of expertise:	200 000	– Social sciences, business and law
Education sphere:	111000	– Pedagogy
	230 000	– Economics
Fields of study:	5230600	– Finance
	5230700	– Banking

UO’K:_____

KBK:_____

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Investments

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The manual outlines the subject and tasks of science, the organization of investment activity, the role and importance of investment projects in the development of the national economy, the content and main stages of the investment policy, the formation of the public investment program, the forms of attracting foreign investments into the national economy, the methods of capital construction in investment activity, evaluation of the effectiveness of investment projects, the nature, types and methods of assessing investment risks and ways to reduce them, as well as investment development reforms in Uzbekistan and similar topics are reflected in the logical sequence in terms of continuity.

This training manual is written for undergraduate students in fields of study: 5230600 - Finance and 5230700 - Banking, as well as is intended for the students of other fields of study, researchers, teachers and investors interested in investing.

UO’K:_____

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Abstract

The manual covers the main topics outlined in the curriculum and working educational program of the subject “Investments”. The manual meets the requirements of state educational standards and covers all sections of the course.

The training manual outlines the subject and tasks of science, the organization of investment activity, the role and importance of investment projects in the development of the national economy, the content and main stages of the investment policy, the formation of the public investment program, the forms of attracting foreign investments into the national economy, the methods of capital construction in investment activity, evaluation of the effectiveness of investment projects, the nature, types and methods of assessing investment risks and ways to reduce them, as well as investment development reforms in Uzbekistan and similar topics are reflected in the logical sequence in terms of continuity.

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Annotatsiya

Ushbu o’quv qo’llanmada “Investitsiya” fanining o’quv dasturi va ishchi o’quv dasturida bayon etilgan asosiy mavzular yoritib berilgan. O’quv qo’llanma Davlat ta’lim standartlari talablariga mos keladi va mazkur o’quv kursining barcha bo’limlarini qamrab oladi.

O’quv qo’llanmada fanning predmeti va vazifalari, investitsion faoliyatni tashkil etish, investitsiya loyihalarining milliy iqtisodiyotni rivojlanishidagi roli va ahamiyati, investitsiya siyosatining mazmuni va asosiy bosqichlari, davlat investitsiya dasturini shakllantirish, milliy iqtisodiyotga xorijiy investitsiyalarni jalb qilish shakllari, investitsiya faoliyatini moliyalashtirish manbalari va usullari, investitsiya faoliyatida kapital qurilish, investitsiya loyihalarining samaradorligini baholash, investitsiya risklarining mazmuni, turlari va baholash usullari hamda ularni pasaytirish yo’llari, shuningdek, O’zbekistonda investitsiya faoliyatini rivojlantirish borasida olib borilayotgan islohotlar va shu kabi mavzular uzviylik va uzluksizlik nuqtai-nazaridan mantiqiy ketma-ketlikda o’z aksini topgan.

Ushbu o’quv qo’llanma oliy o’quv yurtining 5230600 – “Moliya” va 5230700 – “Bank ishi” ta’lim yo’nalishlarida o’qiyotgan bakalavrlarga, mustaqil tadqiqotchilar, professor o’qituvchilar va investitsiya sohasiga qiziquvchi hamda shug’ullanuvchilarga mo’ljallangan.

Аннотация

Данное учебное пособие охватывает основные темы, изложенные в учебной программе и рабочей учебной программе предмета «Инвестиция». Учебник соответствует требованиям государственных образовательных стандартов и охватывает все разделы данного учебного курса.

В учебном пособии изложены предмет и задачи науки, организация инвестиционной деятельности, роль и значение инвестиционных проектов в развитии национальной экономики, содержание и основные этапы инвестиционной политики, формирование государственной инвестиционной программы, формы привлечения иностранных инвестиций в национальную экономику, методы капитального строительства в инвестиционной деятельности, оценка эффективности инвестиционных проектов, сущность, виды и методы оценки инвестиционных рисков и пути их снижения, а также проводимые в Узбекистане реформы по развитию инвестиционной деятельности и подобные темы нашли свое отражение в логической последовательности с точки зрения преемственности и непрерывности.

Учебное пособие предназначено для бакалавров высшего учебного заведения по направлениям 5230600 – «Финансы» и 5230700 – «Банковское дело», независимых исследователям, преподавателям и студентам, интересующихся инвестиционной сферой.

INTRODUCTION

The subject “Investments” plays an important role in the implementation of structural transformations in the national economy and the deepening of economic reforms, modernization and technical re-equipment of fixed assets, as well as in the use of modern technologies and the production of competitive products and ensuring the socio-economic development of the country. The manual “Investments” includes many relevant topics, as the nature and content of investments, their types, contents and the main stages of investment policy, the formation of a public investment program, forms of attracting foreign investments in the national economy, sources and methods of financing investment activities, capital construction in investment activities, evaluation of the effectiveness of investment projects, the content and types of investment risks and ways to reduce them.

At the present stage of reforms for ensuring sustainable economic growth and improving the quality of living standard of the population, active development of financial services and strengthening the role of investment market in the country are required. In many countries, economic growth is largely due to the efficient use of investments and the high quality of services provided in the financial markets and in that case, the discipline of “Investments” plays an important role in acquiring necessary knowledge and skills in the education sphere of economics.

Moreover, to date one of the important requirements of the state is to carry out investment activities efficiently and qualitatively and it is necessary to study this discipline based on international experience. The role of the discipline in production is determined by the fact that the acquired knowledge and skills are used directly in implementation investment activity and realization of investment projects.

This manual is based on the qualification requarements of Bachelor Degree in the fields of study: 5230600 – Finance and 5230700 – Banking.

The manual defines the theoretical and methodological bases of the course, purpose, objectives and the subject of the discipline, investment markets, the legal and organizational basis of investment activity in the Republic of Uzbekistan, the financial institutions and the mechanism of implementation of investment projects. Studying the subject "Investments" plays an important role in the development of investment activity in the country.

"Investments" is a specialized subject that is closely related to the other disciplines of the curriculum.

The main purpose of "Investments" is to provide knowledge on the theoretical, legal, organizational basis of the organization and financing of investments for students who will be highly qualified economists – specialists in the future, as well as the ability to assess the effectiveness of investment projects and their role in the modernization of the national economy.

The task of the discipline is to teach students the essence of investments, their classification, the meaning of investment process, investment activity and policy, the regulatory and legal basis for attraction foreign investments and the conditions created for foreign investors, the identification of sources of financing, and implementation of traditional and non-traditional methods of financing, the evaluation of the effectiveness of investment projects, the selection of suitable investment projects.

The knowledge and skills acquired on the basis of the implementation of the purposes and objectives of the discipline play an important role in the systematic study and solution of the problems of improving investment activity in the Republic.

The Bachelor must acquire theoretical knowledge on investment activity, legal basis, objects and subjects of investment activity, the relationship between them, the implementation and regulation of investment activity. In the process of learning the subject "Investments" students should know:

- Methods of coordination of investment activities;

- Investment Policy and its content, especially in the modernization of the economy, as well as in coordination of investment activities;
- Legal and economic conditions created for investors;
- Investment process, its meaning and main participants of investment process;
- The procedure of financing of investments;
- Capital construction and and methods of organizing work in capital construction;
- Order of formation and monitoring of the Investment Program of the Republic of Uzbekistan;
- Methods of financing investments;
- The conditions of investment financing from the budget;
- The organization of leasing operations and determining the amount of lease payments;
- Project financing of investments and the management of investment risks.

In the process of learning the subject “Investments” students should have a qualification skills in:

- Organizing investment activities;
- Financing investment activities;
- Formation of investment programs;
- Determination the estimated cost of capital construction;
- Creating favorable conditions for foreign and national investors;
- Lending capital investments;
- Budgetary financing investment, lending, leasing, forfeiting and project financing of investments;
- Managing investment risks and ways to reduce them.

CHAPTER I. THE ECONOMIC CONTENT AND NATURE OF INVESTMENTS

1.1. The main purpose and objectives of the course “Investments”, its relationship with other disciplines

Today it has become clear that strong, sustainable economic growth of Republic of Uzbekistan can be achieved through economic restructuring, developing industrial production through technical upgrading of production facilities, modernization and production of competitive products - all of these require investments for a long period of time. Creating any economic production and non-production facilitation require the diversion of investment resources and their mobilization, effective allocation and use.

Investment is the key factor of economic development of any country and in this regard, The First President Islam Karimov said: “We must all understand one simple fact - without investment, there is no modernization or renewal”[1].

The President of the Republic of Uzbekistan Shavkat Mirziyoyev in his report spoke about necessary of attraction foreign investment into the country and about important role of investment in development of the national economy and he noted that: “Investment is the driver of the economy, in Uzbek words, the heart of the economy. Along with investment, new technologies, best practices, highly qualified specialists come to various industries and areas, and entrepreneurship develops rapidly”[2].

Overall, in 2018 to the economy of the country investment were attracted in amount 13 billion and 300 million dollars USA and this factor grew on 18,1% to the past 2017. The trend of rate of growth of investments is represented in the Figure 1.1.

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[1] Karimov I.A. Asosiy vazifamiz – Vatanimiz taraqqiyoti va xalqimiz farovonligini yanada yuksaltirishdir. – T.: “O’zbekiston”, 2010. P.57.

[2] Message from the President of the Republic of Uzbekistan Shavkat Mirziyoev to the Oliy Majlis Tashkent. December 28, 2018. www.press-service.uz

It can be seen from the Figure-1.1, the volume of investment, and especially the rate of growth of investments in 2008 was very high (128,3%), and after than we can see decrease of the rate of growth of investments due to the global financial-economic crises. Nowadays we can register that the last years the rate of growth of investments was not less than 7-10 percent.

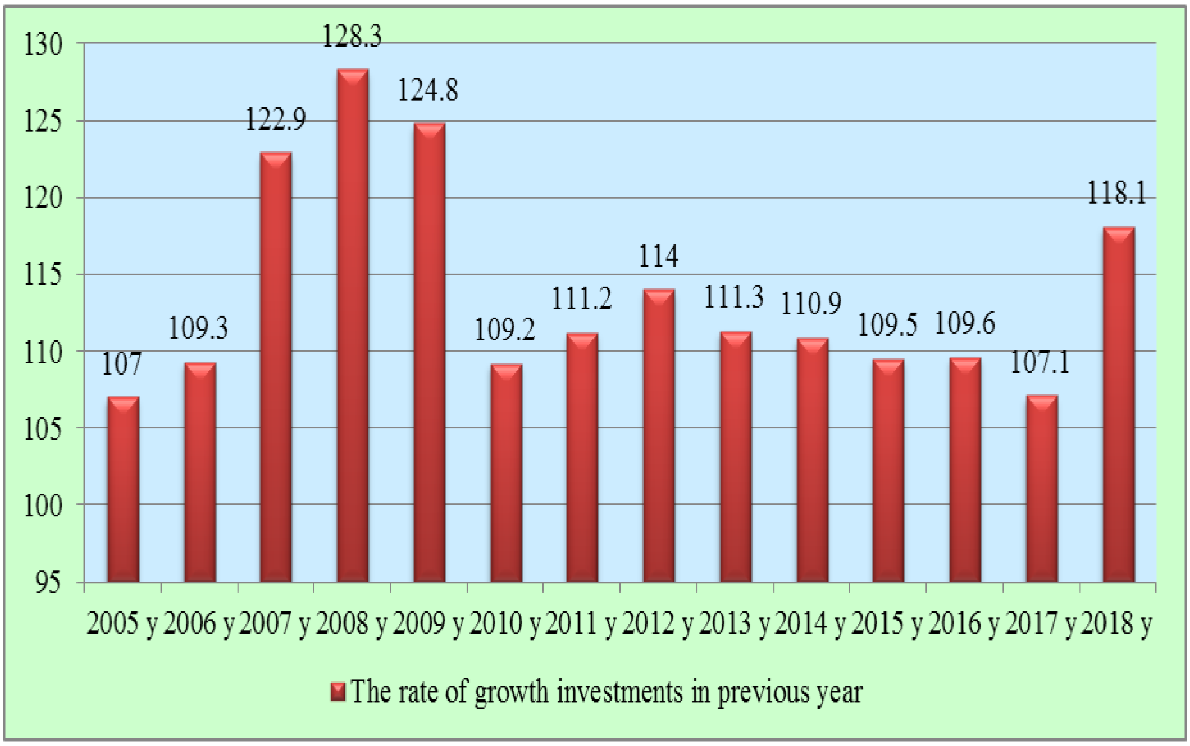


Figure 1.1. Rate of growth investment to the past year , in percent[3]

The most important factor in achieving high growth rates of investments in fixed assets in the current year were the largest projects included in the State Development Program, namely:

construction of the Shurtan Gas Chemical Complex for the production of synthetic liquid fuels based on purified methane;

development of the Kandym group of fields with the construction of a modern gas processing plant, as well as the Khauzak and Shady fields in the Bukhara region;

[3]Prepared on the basis of materials from the site www.stat.uz

development of deposits and the extraction of hydrocarbons in the territories of the Gissar Investment Block and the Ustyurt Region in the Kashkadarya Region;

construction of a new thermal power plant with a total capacity of 900 MW as part of two blocks of combined-cycle plants with a capacity of 450 MW each in the Turakurgan district of the Namangan region;

construction of two combined-cycle plants with a capacity of 230-280 MW at the Takhiatash TPP;

expansion with the construction of a second combined-cycle gas turbine unit with a capacity of 450 MW in Navoi Thermal Power Plant;

construction of a complex for the production of polyvinyl chloride (PVC), caustic soda and methanol at Navoiazot JSC. Uzbekistan has all chances to attract more foreign investments into national economy. The next priority tasks are to create more favorable investment climate in Uzbekistan, create more favorable legislative base and preferential treatment and incentives for foreign investors.

The ratio of investments in fixed assets to GDP was 26,3 %, which is by 3,7 percentage points more than in comparison with the same period of 2017.

"Investments" – a subject designed for 3rd and 4th year students specialized in economics. The main purpose of the subject – is to introduce students scientific and theoretical knowledge about investment, investment policy, sources, forms and methods of investment, development of basic economic categories and concepts in this area.

Based on this goal, the main objectives of the course are defined in the following way:

– study of theoretical foundations of investment and economic nature of investments;

– define the role and importance of investment activity, investment policies in the economic development of the country;

– study of international and domestic experience in the formation of a favorable investment climate and attract foreign investment;

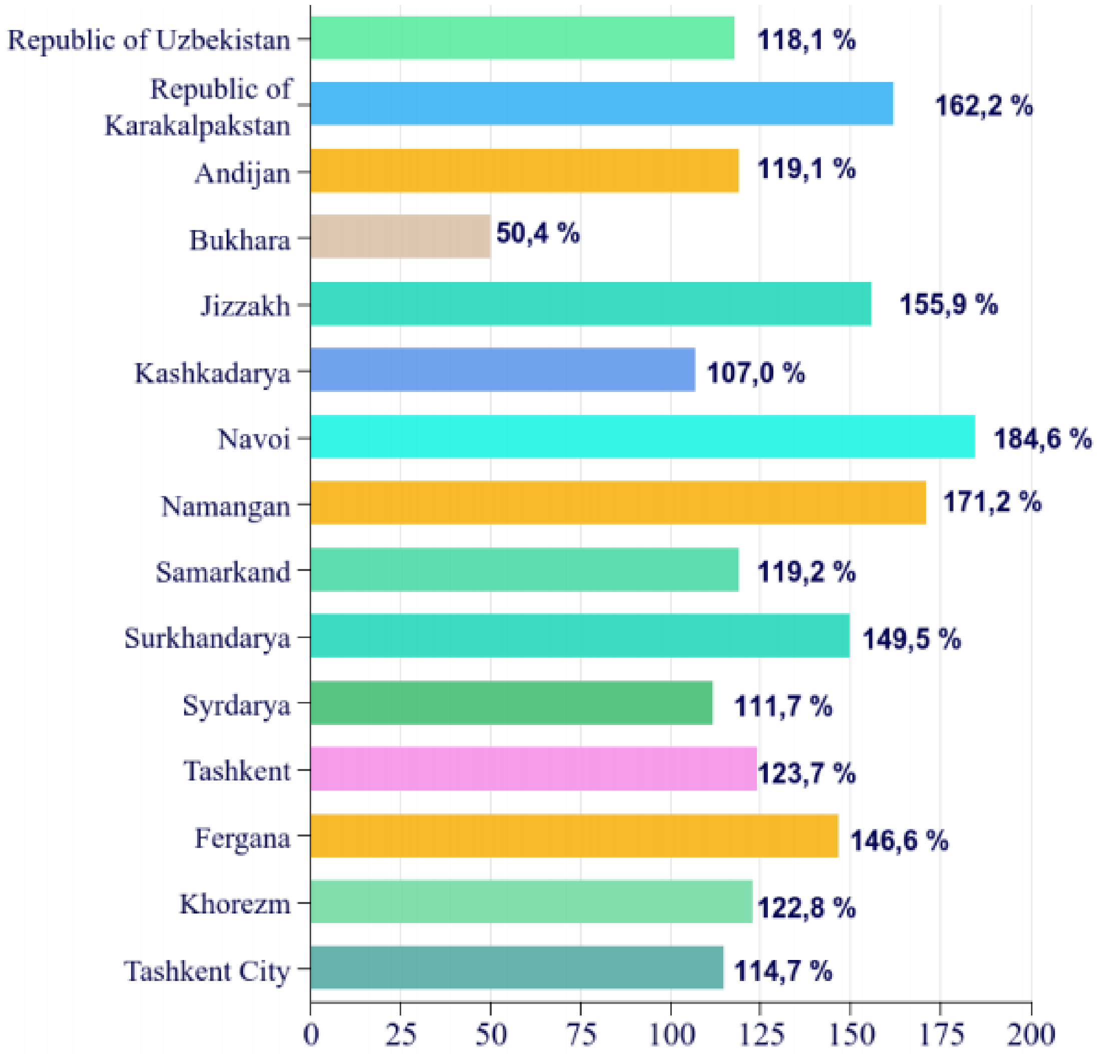


Figure 1.2. Growth rate of investments in fixed assets in 2019 , in percent[4]

- identify the main methods and sources of investment financing;
- research the role and key trends in capital construction sector;
- study of the characteristics and types of project financing;
- study of the mechanisms of financing leases, innovation activities and intangible assets;
- study of investment risk, their types, methods of analysis and management, and the ways to reduce the impact of investment risks on activities of participants;

[4]Prepared on the basis of materials from the site www.stat.uz

– develop the scientific and practical suggestions and recommendations for improvement investment activity in Uzbekistan.

The subject of the course is the economic and scientific literature, the legal framework in the field of investment activity, the statistical information of the State Committee on Statistics, Ministry of Economic Affairs, the Agency for Information Support & Foreign Investments Promotion "Uzinfoinvest" and periodicals. The subject "Investments" is considered to be the subject of general professional. The implementation of program requires sufficient knowledge and skills in following subjects in the curriculum: math (Higher mathematics, probability theory and mathematical statistics, mathematical programming, Information Technology), general professional subjects and special subjects.

Figure 1.3. Relationship of the subject with other discipline

For example, History of Economics, Microeconomics, Macroeconomics, Principles of Management and Marketing, National and the Global Economy, Money, credit, banks, etc. and special subjects (Finance, Banking, Audit, Tax and taxation, Financial management, etc.

The structure of the subject “Investments” is represented in the Figure 1.4.

The structure of the subject	
1	The economic content and nature of investments
2	The content and the main stages of the investment processes
3	Investment activity and investment policy
4	The role of foreign investments in the development of economy
5	The role of foreign investments in the world economic integration and the regulation of their international migration
6	The importance of free economic zones in attracting foreign investments into the economy
7	The role of private investments in the development real sector of the economy
8	The value of investment climate in the development of investment activity
9	Capital construction in investment activity
10	Public Investment Program
11	Evaluation of financial and economic efficiency of investment projects
12	Sources and methods of financing investment activity
13	Financial instruments in financing investment activity
14	Lending to investment activity
15	Leasing mechanism in financing investments
16	Project finance investments
17	Financing innovation activity
18	Financing of investments in intangible assets
19	Investment risks and ways to reduce them

Figure 1.4. The structure of the subject “Investments”

In the process of learning the subject “Investments” bachelor should know and be able to apply:

- Methods of coordination of investment activities;
- Legal and economic conditions created for investors;
- Order of formation and monitoring of the investment program;
- The procedure of financing capital investments;
- The design in capital construction and methods of organizing work in capital construction;
- The conditions of investment financing from the budget;
- The organization of leasing operations and determining the amount of lease payments;
- Project financing of investments and the management of investment risks;
- Have a qualification in organizing investment activities;
- In financing investment activities;
- In formation of investment programs;
- In determination the estimated cost of capital construction;
- In lending capital investments;
- In managing investment risks;
- To have skills in economic nature of investment, their types, functions, objects and subjects;
- On economic nature of foreign investment and the necessity of their attraction to the economy;
- On the factors influencing the investment activities;
- On Investment Policy and its contents, especially in the modernization of the economy, as well as in coordination of investment activities;
- On the legal basis of investment;
- By the Investment Program of the Republic of Uzbekistan;
- On methods of financing investments;

- On budgetary financing investment, lending, leasing, forfeiting and project financing of investments;
- On capital construction and the “construction industry”;
- On investment risks and ways to manage them.

1.2. The economic content of the concepts of “investment” and “capital investment”. The main classification of investments

In a market economy it is inevitable to invest certain financial resources, cash and other assets in the activity of certain companies, as well as it is necessary to create the conditions, prerequisite course of production processes in order to receive certain benefits and return on investment. Any production decision - the creation of new businesses, the expansion of current activities, the provision of additional services, etc. - all these require the diversion of certain resources for industrial purposes.

Funding in fixed and working capital, securities, and other economic objects and processes that require the diversion of tangible and intangible assets for a long time in the framework of the legislation referred to investments.

According to the law of the Republic of Uzbekistan “On Investment Activity” № 719-I dated 9.12.2014, “investments – are tangible and intangible benefits, including rights to intellectual property, as well as reinvestments in business and other activities not prohibited by the legislation”[5]. The purpose of investing is to obtain certain benefits: in commercial (investment) projects it is in a form of obtaining maximum profit from investments, in social (investment) projects, i.e. investmenting in education, health, culture, sports, etc. has a purpose of achieving social benefits or social effects for a population and a society.

1. In finance, investment is the purchase of a financial product or other item of value with an expectation of favorable future returns. In general terms, investment means the use money in the hope of making more money.

[5] 3rd article of the law of the Republic of Uzbekistan “On investment activity” December 9, 2014.

2. In business, the purchase by a producer of a physical good, such as durable equipment or inventory, in the hope of improving future business.

Under investment generally understood cash, securities and other property, including property rights, which have a monetary value, invested in business and (or) other activity for profit and (or) achieving another useful effect. In other words, to any property (including money), as well as property rights were the investments, when the owner or user of the property (or money, or property rights) put it in an object in order to achieve useful effects, i.e. realized investment. Investment activities are all activities related with investment and taking practical action to make a profit and (or) achieving another useful effect.

In the theory of economic literature authors give different interpretations to the concept of “investment”. In Western economic literature investments mean the rejection of the current consumption in favor of future savings. So, Sharp W. in his book “Investments” gave the following definition: “investment - a rejection of some of the funds today in order to maximize profits in the future”[6].

American economists in the most general form, understand the investment as funding assets based on their future profitability, in particular, Campbell R. McConnell, Stanley L.Brue in their famous work “Economics” claim that: “Investments mean expenses for the construction of new plants, for machine tools and equipment with long service life, etc., determined by the expected rate of return and the interest rate”.

In the book “Investments”, edited by the Russian author Alexander Bulatov gives the following definition: “Investment - a funding in capital, both monetary and real. They are implemented in the form of cash, bank deposits, shares, and stocks and other securities, investments in movable and immovable property, intellectual property, property rights and other values”[7]. In fact this definition related with accounting because it covers investments in all types of assets.

[6] W.F. Sharpe, G.J. Alexander, J.V. Bailey. Investments. 2001. P.1
[7] Bulatov A.C.«Investments» textbook, «BEK», 2000 y., p.91

D.G.Gazibekov argues that: “The content of investment is to obtain funds from accurate and reliable sources, their rational use, preservation of cost of capital and obtaining the planned benefits by taking into account the level of risk” [8].

The concept of “investment” recently entered into an economic usage, after gaining independence of our country and by the transition of market reforms. In Soviet times, the concept of “capital expenditure” has been widely used, which involves funding in fixed assets (buildings, machinery, equipment) in tangible assets, construction, reconstruction, etc. The concept of “investment” is much broader than capital expenditure and also includes investments in securities, informational, intellectual resources, the human potential, innovation, intangible assets (licenses, patents, trademarks, etc.).

Therefore, summarizing the above definitions, it can be concluded that the investment is a material, financial and intellectual wealth, which invested by investors in various sectors of economy, in order to obtain certain benefits or social effects and taking into account risks in the future.

It should be noted that the investments require always a certain amount of time - the so-called holding period - between the time of investment and profit (or other positive effects). Therefore, in the most general sense, investment understands as the process of investing today for a profit at the end of the holding period.

According to Article 4 of the Law of Uzbekistan “On investment activity” adopted on December 9, 2014 “Investors can make investments through:

- creation of legal entity or being a shareholder in their capital, including through the obtaining of assets and shares;
- acquisition of securities, including debt securities issued by residents of the Republic of Uzbekistan;
- acquisition of concessions, including concessions for the exploration, development, production or use of natural resources;

[8] Gazibekov D.G. “Questions of investment financing” T.: “Moliya”, 2003., P.26

– acquisition of proprietary rights to the objects of trade and service, immovable property, together with the land on which they are located, as well as the rights of ownership and use of land and natural resources. Foreign investors may invest in other forms, not prohibited by law. Investors can invest in other forms as well, not contrary to law.

There are different types and classifications of investments depending on the subject of investment, source of funding, investment period, purpose, form of reproduction, etc. The most common classification in the world is their division by the object of investing into real and financial investment.

Real investments are investments in fixed assets (buildings, equipment) and objects that necessary for their functioning and working capital (raw materials, supplies, money, etc.), as well as investments in intangible assets (licenses, patents, trademarks, etc.).

Financial investments are investments in securities and other financial instruments (stocks, bonds, notes, certificates of deposit, foreign currencies, government bonds and loans). Also, some scientists consider investing in hoarding items (gold and jewelry, antiques, numismatic coins, collectible items) as a financial investment because such investments have common goals with financial investments: saving the cost of capital and to obtain speculative profits from the sale of financial investments.

Reasonable classification of investment allows to analise the level of their use and to take appropriate action at both the macro and micro levels.

Investments are classified according to the following criteria.

First, by the objects of investments:

in real assets (such as land, buildings, machinery, equipment and other fixed assets). Such investments are called capital expenditures;

in financial assets (primarily in the securities, as well as currency, insurance policies and other financial instruments);

in non-financial assets (for example, precious stones and metals, collectibles);

in intangible assets (such as intellectual property, education, re-training, health, research and development).

Second, by the period of realization investments are divided into:

short-term – investing period is not more than a year;

medium-term – from a year to 3 years;

long-term – more than 3 years.

Third, by the strategic purposes investments may be:

strategic (i.e., investing in securities in order to obtain the right to drive by issuing, as well as directly in the production);

portfolio (i.e., investing in securities for profit, but without the right management of the company-issuer).

Fourthly, by the form of ownership investments are divided into:

public investments (i.e., investments of authorities of federal, sub-federal and local, state budgetary and extra-budgetary funds, state and municipal unitary enterprises);

private investments (that are, investments of individuals and legal entities, non-state);

foreign investments (i.e., investments made by foreign states, legal entities and individuals);

co-investment.

Overall, the classification of investments may be given in the following table-1.1.

By annually adopted State Investment Program of the Republic of Uzbekistan investments by source of funding are divided into two groups: centralized and non-centralized investments.

1. *Centralized investments include:*
   - Budget funds;
   - Extra-budgetary funds;
   - Foreign investments and loans guaranteed by the Government.
2. *Non-centralized investments include:*

- Funds of enterprises;
- Loans of commercial banks;
- Funds of the population;
- Direct foreign investments and loans.

Table- 1.1

Classification of investments[9]

Classification of investments														
By the objects of investments		By the strategic purposes		By the period of realization			By the form of ownership			By the regional characteristic		By the source of funding		
Real investments	Financial investments	Strategic investments	Portfolio investments	Long-term investments	Medium-term	Short-term	State investments	Foreign investments	Private investments	Internal (domestic) investments	Foreign investments	Centralized investments	Non-centralized investments	

According to Article 3 of the Law of Uzbekistan "On investment activity" investment according to the *object purposes* are divided into capital, innovation and social.

Capital investments include investments which are directed to the creation and reproduction of fixed assets, as well as the development of other forms of material production.

Innovative investments include investments which are related with the development and creation of a new generation of engineering and technology (new goods, new services, new technologies).

Social investments include investments in human capital, skills and work experience, as well as development of other forms of intangible benefits.

[9] Сергеев И.В., Веретенникова И.И. Организация и финансирования инвестиций. – М.: «Финансы и статистика», 2001. – С. 16.

Some authors use the term “intellectual investments”, which also means investing in development of employees’ skills, education and work experience, as well as creating know-how and new version of techniques, intangible assets, etc.

Another common classification of investments by the regional characteristic is its division into *internal* (domestic) investment and *foreign* investment. Due to a variety of reasons, for example, lack of internal financial resources and sources of funding, as well as unformed class of property owners, stagnation of production, economic crisis, state budget deficit, international division of labor, globalization and need to integrate into the world economy and so on, many countries have embarked on attraction of foreign investment to the territory of the state.

Types of investors by direction of activity may be:

Individual investors are concrete physical persons or legal entities, realizing investments for development their main economic (operating) activity;

Institutional investors are only legal entities, financial go-betweens, accumulating financial sources of individual investors and realizing investment activity, specialized, as a rule, on operation with securities.

Types of investors by their attitude to investment risk:

not located to risk - avoid average and high risk investment even in spite of equitable compensating the growing risk level additional level investment income;

neutral to risk - agree to take over investment risk only if it will compensate additional level of the investment income;

located to risk - prone to go on investment risk in that events even, when it is not enough compensate additional level of the investment income.

It should be noted that there are many factors that impact on investment level, and following factors are main among them:

- temporal factor;
- interest rate;
- risk factor (uncertainty);
- inflation factor.

Efficient use of investments depends on their structure. Under the term "structure of investments" means their composition by species and uses, as well as their proportion of the total investment. The structure of the investment has six types: technological, reproductive, industrial, territorial, sources of financing and types of property.

Technological structure of real investments gives an idea of the composition of the cost of building and construction works, purchase of machinery, equipment, tools, for other capital expenditures.

The reproductive structure of capital investments characterizes the distribution and the ratio of investments in forms of reproduction of fixed assets, shows the share of capital investments directed to the reconstruction of the operating companies, new construction, and modernization.

Sectored structure refers to the distribution and the ratio of capital investment by industry and economy. It indicates the degree of balance and proportionality in the development of industries and the development of industries, providing acceleration of scientific and technological progress in the country.

Under the territorial structure of capital investments is understood the ratio of their distribution by territories, regions, areas of the country.

Dividing capital investments by sources of financing, it is possible to determine which source plays the most important role in economic development. The structure of the investment by source of financing means the distribution, and the ratio of capital investments by own, attracted and borrowed sources.

The structure of the investment by types of property means the distribution, and the ratio of capital investments in the context of ownership, i.e., state, municipal, mixed, foreign, etc. Analysis of the structure of investments is important, since it allows one to identify trends in the use of investments and develop an effective investment policy.

1.3. The role of investment in the development of macro and microeconomics

Investment as an economic category performs a number of important functions that are essential for the economic development of the state, as well as for continuous and dynamic growth. All functions can be divided into two groups: the functions at the macro level – at the level of the state and function at the micro level – at the level of enterprises and companies.

At the microeconomic level, investment is needed to ensure continuous operation of the business entity. Investments are necessary for:

– creation new businesses or expanding existing facilities;

– improvement the quality and competitiveness of products;

– improvement the technical level of production, avoiding obsolescence and depreciation of fixed assets;

– participation in the assets of other companies using the tools of the securities market;

– implementation environmental measures that business entities meet the established environmental legislation, radiation, health and safety requirements and standards.

Investments at the macro level are play important role in providing monetary and credit policy of the state and provide the basis for:

– implementation of the policy of expanded reproduction, which is, by investing constantly going improvement of production processes in the country, GDP growth, improving the quality of domestic products and its compliance with international standards, the increase in exports, etc.;

– accelerating the pace of scientific and technological progress, updating equipment and technology for the production of competitive products;

– with a balanced investment policy the government is undertaking structural reform of the economy: in addition to mining and agrarian sectors, pays great attention to the development of industrial and processing sectors;

– creating new jobs and improve the problems of employment of the population;

– development of securities market, the involvement of savings and reserves of businesses and people in the trade and economic processes;

– with the help of investment the state implements the most important social programs and projects, for example, the reconstruction of schools across the country, the construction of schools and colleges, equipping villagers with modern housing, reconstruction and protection of cultural monuments, etc.

– support and development of small businesses;

– ensuring the defense of the state and the solution of many other problems.

Questions for discussing and control

1. What is the meaning of “investment”?
2. What is the subject, purpose and objectives of the discipline “Investments”?
3. The relationship and differences between the concepts of “investment” and “capital investment”.
4. How are the concepts “investments” and “savings” connected in the economy?
5. What types of investments do you know?
6. What types of investments are given in the Law of the Republic of Uzbekistan “On investment activity”?
7. Into what types are divided investments by the object of investing?
8. What are the real investments?
9. What are the financial investments?
10. Into what types are divided investments by the form of ownership?
11. Into what types are divided investments depending on the sources of funding?

12. Into what types are divided investments by the strategic objectives?
13. What are the direct investments?
14. What are the portfolio investments?
15. What are the intellectual investments?
16. Into what types are divided investments by the period of realization?
17. Into what types are divided investments in the Public Investment Program?
18. What is the technological structure of investments?
19. What is the reproductive structure of investments?
20. What is the territorial structure of investments?
21. What main factors do impact on a growth (level) of investments?
22. What are the differences between individual and institutional investors?
23. Into what types are divided investors by their attitude to investment risk?
24. What are the characteristics of real investments?
25. What are the differences between real and financial investments?
26. What indicators characterize investment activity of the country?
27. Can you assess the role of investments in the development of Uzbekistan's economy?
28. What is the percentage of investments in GDP in 2018? How do you explain this?
29. What functions of investments at the macro level of the economy do you know?
30. What functions of investments at the micro level of the economy do you know?

CHAPTER 2. THE CONTENT AND MAIN STAGES OF INVESTMENT PROCESSES

2.1. The economic content of the investment processes. Objectives and targets for investment and selection of investment objects

The investment process is a sequence of steps, actions and operations to engage in investment activity. The length of time from inception of the idea of investing until after the receipt of income or other results of the investments called *the life cycle of the investment project*.

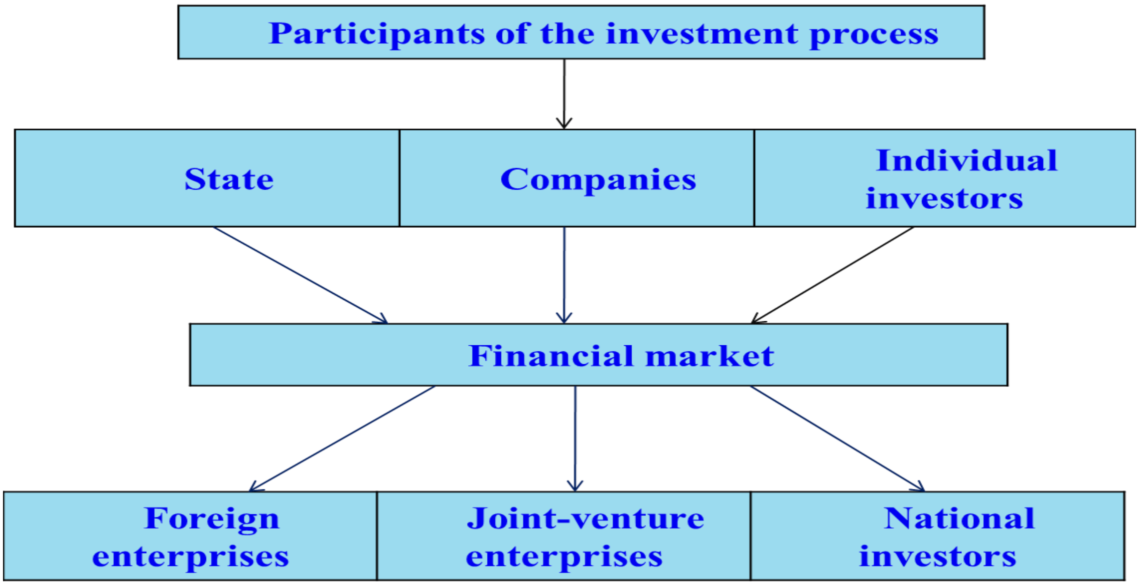


Figure 2.1. Investment process and its participants

Investment process is a process in which all its participants i.e. *emitters* - borrowers of financial resources, *investors* - owners of temporarily free money and *professional participants* of financial market are meet in financial market to invest or to borrow money or other financial instruments.

The progress of the investment process depends on the subject of investing. The object of investment is a means to achieve the main objectives of the investor.

Therefore, the selection of an object depends on the investment objectives set by the investor. In the process of making investment decisions set and define the various goals. Formal objectives derived from the policy of targets of investors and formed taking into account the expected return and the risks involved.

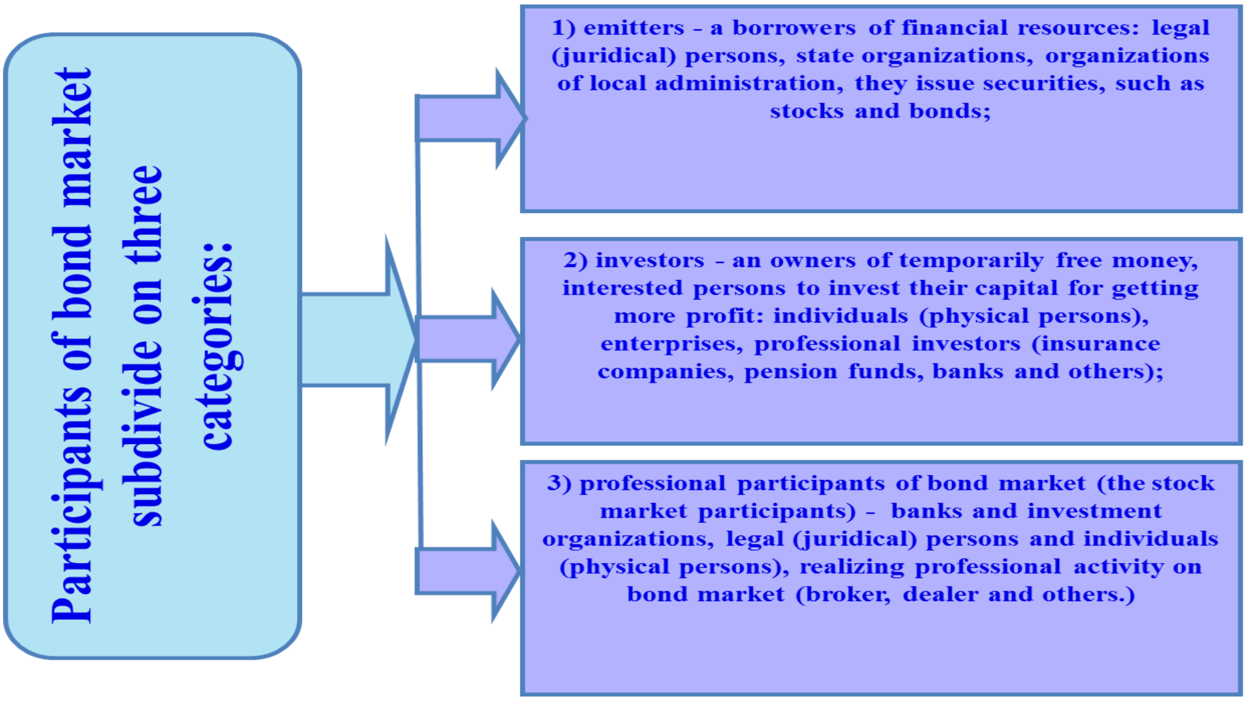


Figure 2.2. Participants of bond market

The main stages of the investment process are:

1. Making the decision to invest. This stage includes:

• Formation of investment objectives;

• Identification of areas of investment;

• Selection of specific investment targets.

2. The implementation and operation of the investment.

The development of strategic directions of investment activity linked to the definition of the relations of various forms of investment in specific stages of the long-term period and orientation of the profile of the investment activities, including the industry component. Set the priority of certain forms of investment at different stages of the function of investor based on a number of internal and external factors.

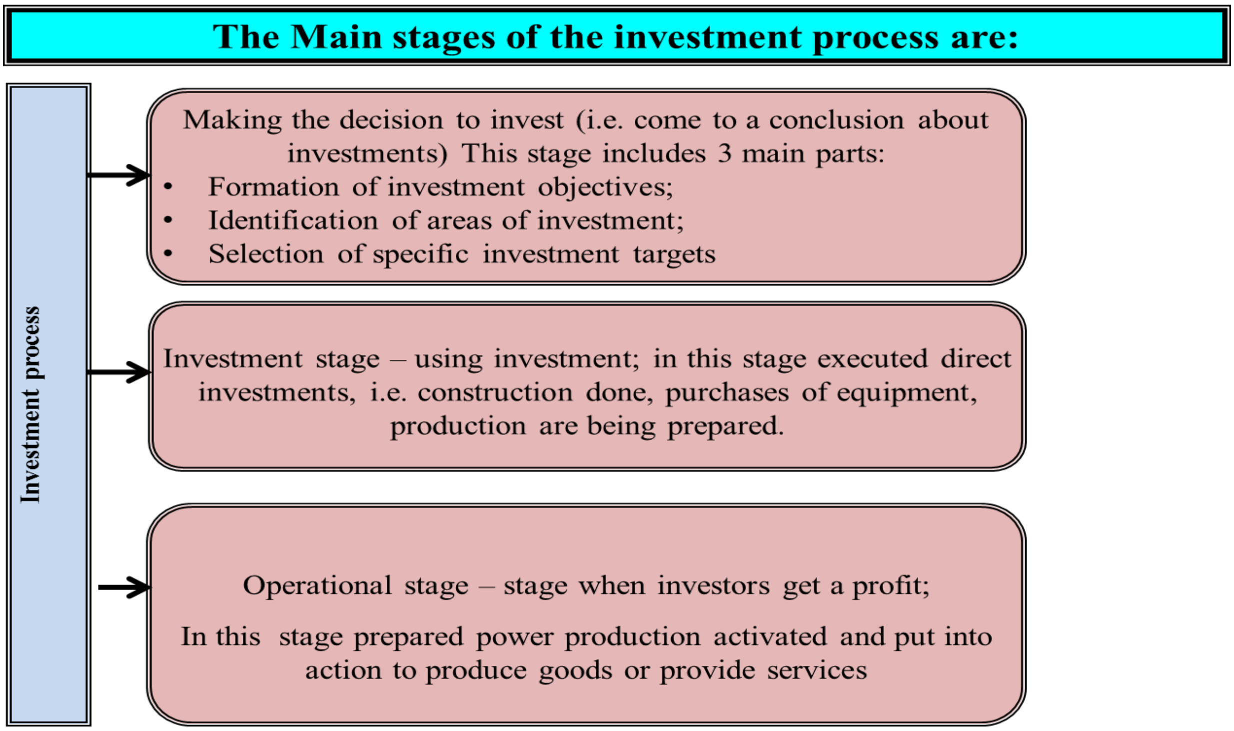


Figure 2.3. The main stages of the investment process

The most important internal factor is the functional orientation, ie, the main activity of the investor (for companies). For example, for the main direction of institutional investors investing activities are - investing in securities. Financial investments are made primarily in the form of acquisitions or equity securities in order to participate in the management of other companies (both partners and competitors), or in the form of a temporary investment of funds for speculative purposes.

For companies in the real sector of the economy engaged in production activities, priority is usually given to investments in the acquisition of tangible and intangible assets.

Among other internal factors, the important role in the selection of areas of investment play strategic direction of operations, the size of the enterprise (organization), stage of the life cycle of investors and others. For companies and organizations of the real sector of the economy growth of financial investment is a character of large enterprises, which have great opportunity to find sources of investment financing, as well as for businesses that are at the stage of "maturity."

At stages "childhood" and "adolescence", the predominant form of investment - investment in tangible and intangible assets.

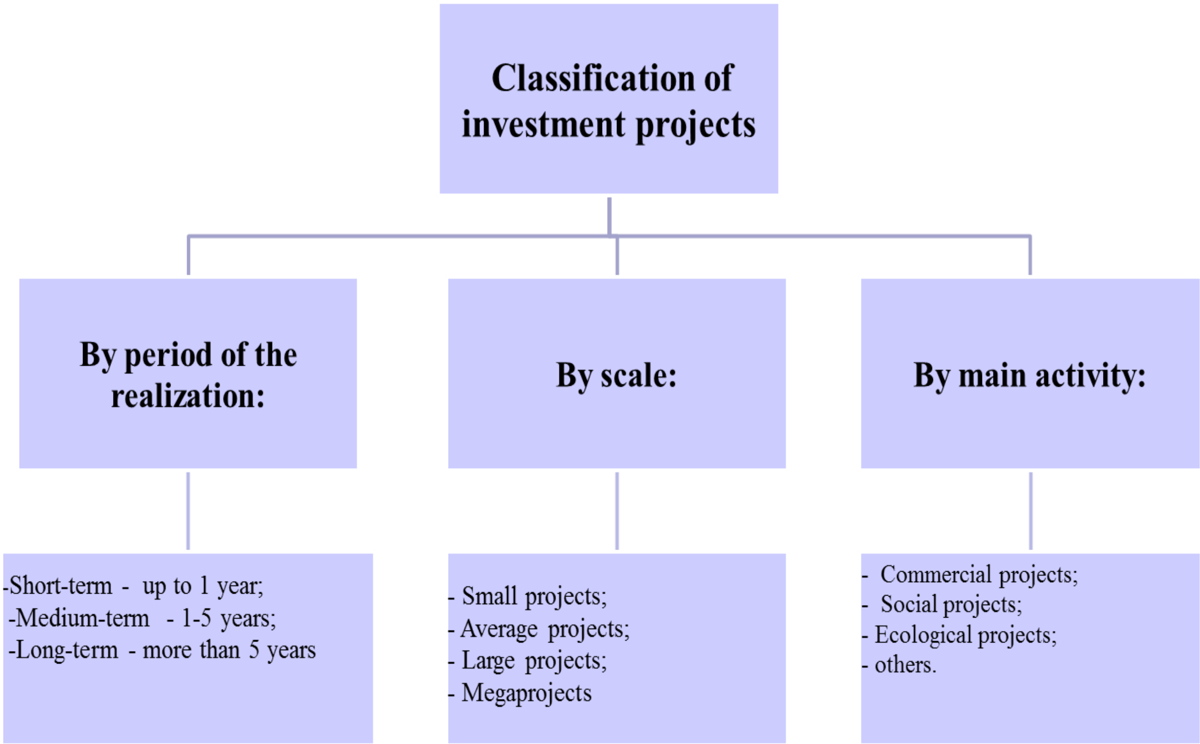
Among the external factors that have a significant impact on the choice of forms of investment, the most important are the rates of inflation and interest rates in the financial market.

As formal goals may make the pursuit of profitable growth, increasing the scale of production (activity), the desire for power and prestige in society, addressing environmental problems, maintain, or increase in jobs, etc.

These goals often not clearly defined or not coordinated by priority or not tested for their feasibility. Therefore, it is important to formulate formal objectives of the real purpose of investing in the establishment of specific targets. For example, the formal goal - increasing profit - must be concretized in the form of a set of indicators against which to determine the extent of achievements. In particular, it may be indicators of the average profit margin for a number of years, or net income, or other indicators of the profit of the investment. Formulated investment objectives simplify the tasks associated with the definition of investment areas. Among them may be as interrelated investment, as well as independent and alternative (mutually exclusive).

The final phase of the first stage of the investment process is the selection of specific investment targets, which implemented in the process of investment planning. Under the investment planning is generally defined the process of forming such a portfolio (investment program) which can be considered as one of the most preferred and alternative options of achieving investment objectives. Investment planning carried out mainly using mathematical models, which may not fully reflect all the factors of investment. Therefore, the simulation results do not guarantee a clear decision on correct solutions that achieve their goals. The final decision on the specific investment targets to be included in the investment program of the enterprise, carried out by senior management on a basis of planning, and taking into account other non-formal factors of investment.

In investment models of planning capital expenditures may vary within a certain period of time for which the plan is developed. In decision-making, the priority given to projects with the earlier time income of investments compared with later.



igure 2.4. Classification of investment projects

Investment project is a set of measures of the implementation of investments in order to obtain certain benefits in the future. The Investment project - a project, in which all actions are described with the position where all financial, material and non-material sources are invested to the object and get expected results.

Investment projects divided into three stages: pre-investment, investment, operational. The total duration of the project is usually associated with the life cycle of the project. During the period of the life cycle, the facility should not only pay for them, but also make a profit.

At the first stage of the investment project developed the project and its feasibility, financial and economic evaluation done as part of a business plan. At this stage, access the cost-effectiveness of the project and the financial condition of the company implementing the investment project. Evaluation of the effectiveness of the investment project should be carried out by comparing the situations not “pre-project” and “after project” but “without project” and “with the project.”

In the second stage implemented direct investmenting, i.e. construction done, purchase of equipment, production are being prepared.

In the third stage, prepared power production activated and put into action to produce goods or provide services.

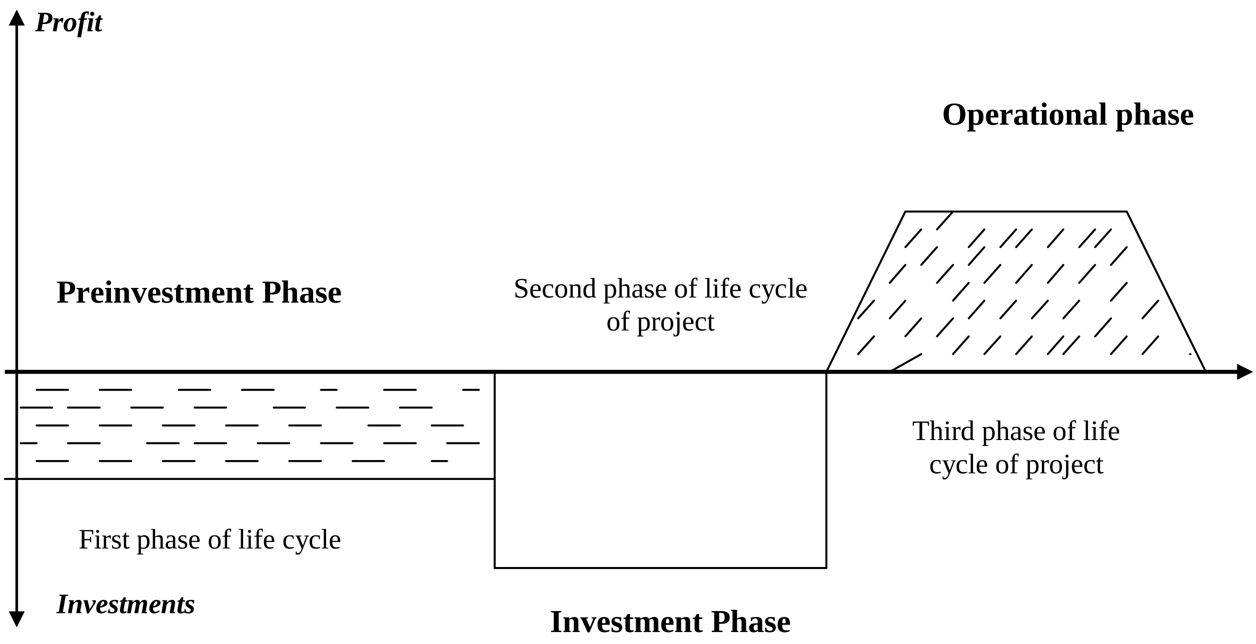


Figure 2.5. Life cycle of the investment project

Not to be confused with the concept of life-cycle with moral or physical deterioration. The life cycle of investment ends as soon as disappears market for the product (services) produced (provided) as a result of this investment project, ie as soon as the product or service is no longer in demand in the market. Period of depreciation of fixed assets and intangible assets used in accounting does not always reflect the real life of investment. Despite this, in the absence of more precise data on the life cycle of an investment you can focus on the period of amortization.

In the design and research of investment processes, the period of the project throughout its life cycle - from the pre-investment studies prior to the liquidation of the project, called the billing period.

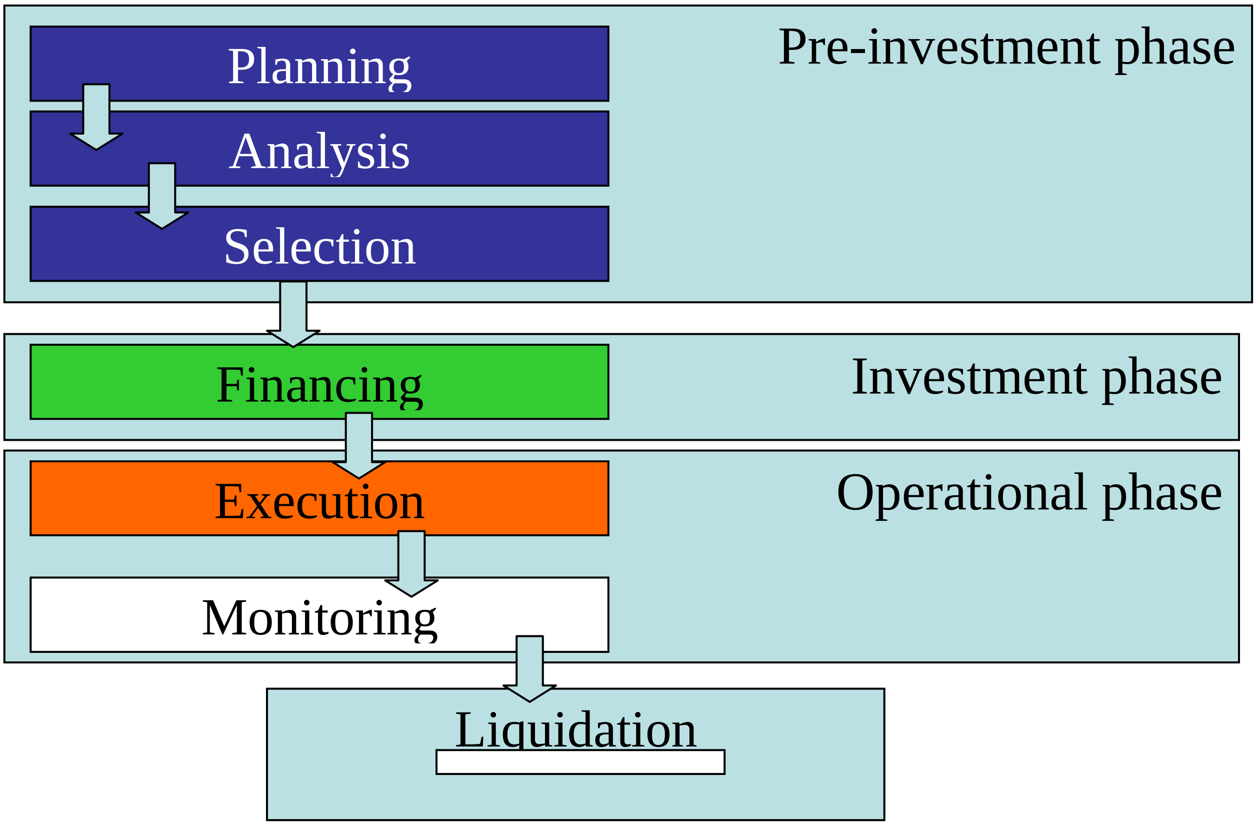


Figure 2.6. Phases of life cycle of investment project

The liquidation of the project may be the result of: the exhaustion of stocks of raw materials and other resources; cessation of production due to changes in requirements (norms and standards) for the products, technology or working conditions in this industry; termination of market demand for products due to its obsolescence or the loss of competitiveness; wear of basic part of production funds; other reasons set out in the specification for the development of the project.

If necessary, at the end of the billing period elimination of the construction of the facility considered.

Investment processes divided into two, in a sense of independent processes - the creation of the production of an object, or the accumulation of capital, and consistent income generation.

These two processes may occur sequentially (with a gap between them or not) or parallel. Both processes may have different distributions (or patterns of change) of cash flows over time, whereas the shape of the distribution in time plays a very important role.

2.2. Implementation and development of real investment processes

In the system of planning and analysis of the effectiveness of financial resources, it is important to select the different types of investments, which have their own specific features and requiring the use of appropriate methods of management.

Real investment for most companies in the current environment is the basis of investment activity. Implementation of the real investment characterized by a number of features, among which are the following:

First, the real investments directly related to the core business, expanding the range of products, improving their quality through the implementation of scientific and technological progress. In other words, manufacturing and real investment processes are interrelated and interdependent.

Secondly, the real investment compared to financial investments exposed to high levels of economic risk, which in turn, grounds (suggests) their ability to provide a higher return compared to financial investments. Economic risks associated with the features of technological processes, factors of obsolescence, etc.

Third, the real investments are less liquid than financial. This is due, usually with a narrow target orientation of the majority of investment in real production and often do not have the possibility of alternative economic use. Therefore, errors in the decision of the real investment is extremely difficult to compensate.

Real investments are carry out in a variety of forms. The main forms of real investments are capital expenditures, investments in growth of current assets and investments in intangible assets. In turn, capital investments are also implemented in various forms, primarily in the form of new construction, renovation, modernization, technical re-equipment, and the acquisition of integral property complexes.

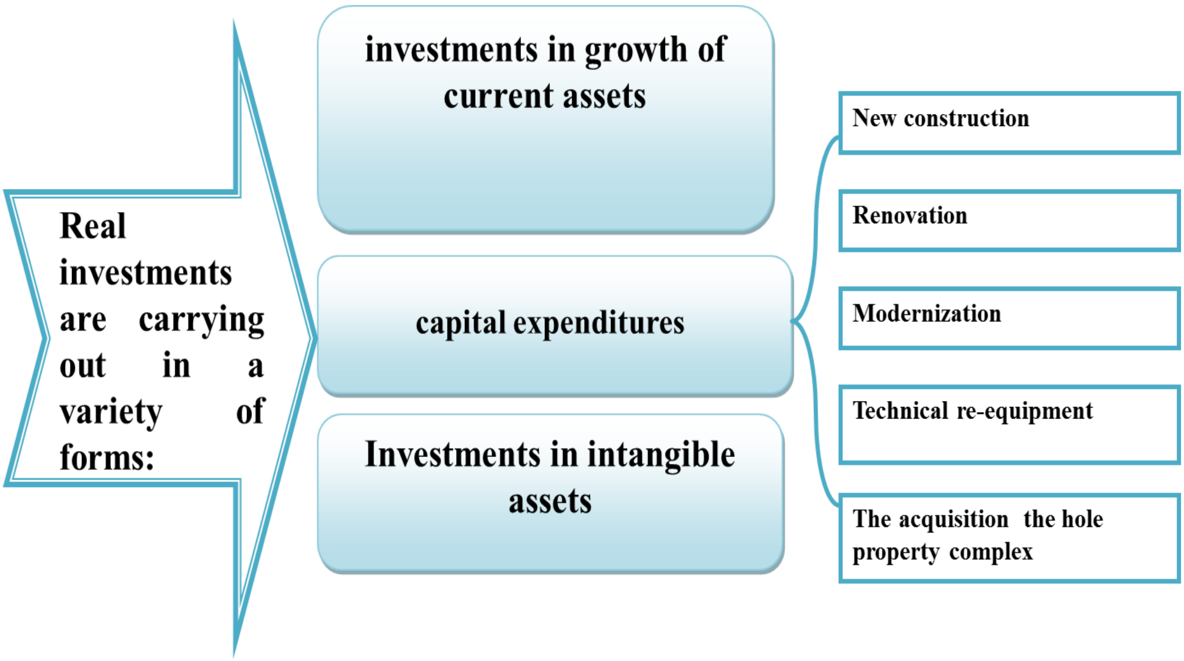


Figure 2.7. Forms of implementation of the real investment

Acquisition of integral property complexes is the prerogative of the largest companies, as a rule, with the aggressive policies aimed at increasing its influence in the individual markets. This form of a real investment provides growth in the total value of assets of the business of the investor at the expense of increasing the financial capacity, the possibility of sharing distribution system, reduce production costs etc. New construction typically associated with investments in modern manufacturing, providing a higher level of productivity; satisfy the requirements of environmental safety, with the construction of new facilities.

Reconstruction in most cases involves the transition to modern technology, taking into account the achievements of scientific and technical progress. Typically, it is associated with the introduction of resource-saving technologies, with the transition to the modern standards of product quality, etc. The reconstruction may also include the construction of new facilities. Modernization is most often associated with reduction of the active part of fixed assets in compliance with the current requirements of the technological processes.

Technical re-equipment includes replacement, purchase of new equipment, machinery, whole complexes of technical systems for the effective implementation of technological processes. A clear distinction between the technical re-equipment and modernization is not always possible to carry out.

Investment in current assets directed generally to increase the use of working capital funds of the enterprise for extended reproduction. Investments in current assets, in most cases, carried out after the implementation of capital investment and in fact are the result of capital investments.

Investment in intangible assets primarily involves innovative investment and carried out in two basic forms:

- In the form of the acquisition of finished scientific and technical products, patents for scientific discoveries, inventions, trademarks etc.;
- By means of self-development of scientific and technical products.

Most forms and varieties of real investments, other than investments in current assets, renovation of certain types of equipment, machinery, etc., carried out as a real investment projects with the relevant business plans.

2.3. Features of financial investments

For businesses, non-institutional investors, the main focus on investment activities, as a rule, is the implementation of real investment. At the same time, when the situation on the financial market can get much higher rate of return on invest than the operating activities of the markets, or in the presence of temporarily free funds businesses actively invest in highly liquid financial instruments. In addition, to diversify their activities, participation in the management of other companies, organizations invest their capital in the share capital of other companies.

From an economic point of view, financial investments are the tools to solve strategic and operational objectives of efficient allocation of capital of enterprises in domestic and foreign financial markets.

Financial investments made primarily if the enterprise has free financial resources. They take the form of foreign investments (except in cases when companies buy back their own securities, such as shares).

In developed countries, a number of major companies actively pursuing strategic financial investment through the acquisition of controlling share, including through the mechanism of bankruptcy, diversifying its activities by absorbing company and competitors, etc. Due to an underestimate value of the shares of “absorbed” enterprises, such investments provide, in many cases, strategic investors with huge profits. At the same time, the strategic financial investment can be carried out in the absence of current investment income on long-term capital gains.

The vast majority of enterprises perform financial investment to generate additional investment income from the use of free cash flow (speculative income). The choice of specific instruments of financial investment, even in transition economies is quite wide.

The rate of return of investments in certain financial instruments directly related to the level of risk. If there is the higher the yield, the higher the risk of financial failure.

The features of financial investment are:

- high level of income and risk;

- providing additional (speculative) income independent of the main activities of the company;
- high liquidity of the securities;
- require operative management due to the rapidly changing market conditions.

Figure 2.8. The process of obtaining desired level of profitability

In order to diversify risk and achieve the desired level of return on financial investment companies (investors) acquire various financial instruments with appropriate levels of risk and return, or, in other words, form a portfolio of financial investments with speculative nature.

Due to the variability of financial market conditions, the process to obtain the desired level of profitability involves constant monitoring of return, risk and liquidity of various financial instruments and appropriate management decisions to change the structure of the financial portfolio, ie, the decrease or increase of the share of the various financial instruments in the total portfolio.

Such an adjustment called “portfolio restructuring,” and is the main content of the operational management of financial investments in enterprises.

Investment resources are a variety of forms of capital in cash or in natural forms used in the implementation of financial and real investment. Formation of the investment resources of enterprises associated with the processes and the accumulation of savings within enterprises themselves, and in the country as a whole. The scale, the rate of savings and investment capital accumulation predetermines the level of economic development, incomes and the cyclicality of the economy.

Questions for discussing and control

1. What is the meaning of "Investment process"?
2. Who are the main participants of investment process?
3. What is the basis of investment?
4. What are the investment resources?
5. What are the investment resources in accordance with the Law of the Republic of Uzbekistan "On Investment Activity"?
6. Describe the stages of investing.
7. Can you explain investment goals of investor?
8. Explain the role of real investment in the development of the national economy.
9. What are the direct investments?
10. Explain the elements of real investments?
11. What are the main purposes of attracting FDI?
12. Do you know the specifics of FDI?
13. What is the meaning of "Investment Project"?
14. Do you know the definitions of the "Investment Project" by economists?
15. What is the role and importance of investment projects in national economic development?
16. Describe the main elements and directions of the investment project?

17. What strategic projects have been implemented in our country in recent years?
18. What are the main stages of life cycle of the investment project?
19. From what starts pre-investment phase of the project?
20. What kinds of works are included in the investment phase of the project life cycle?
21. What kinds of works are included in the operational phase of the project life cycle?
22. What kinds of works are included in the liquidation phase of the project life cycle?
23. What factors influence the choice of investment object?
24. What independent processes are the investment processes divided into?
25. What are the features of real investment?
26. In what forms are capital investments made?
27. What is the difference between reconstruction and technical re-equipment of fixed assets?
28. What are the features of financial investments?
29. What work is included in the selection of specific investment goals?
30. What is the process of earning a profit from financial investment?

CHAPTER 3. INVESTMENT ACTIVITY AND INVESTMENT POLICY

3.1. Investment activity, its objects and subjects

Investment activity a set of actions of the subjects of investment activity related to the implementation of investment. *Investment activity* is a process that includes both the investments and the following other actions in order to obtain certain benefits or social effects in the future. The subjects of investment activity (investors and participants) may be:

- Residents of the Republic of Uzbekistan - individuals or legal entities;
- Public administration and local government bodies;
- Foreign government bodies;
- International organizations;
- Foreign legal entities and individuals;
- Stateless persons.

A number of concepts related with investments are described in the law of the Republic of Uzbekistan “On Investment Activity” № 719-I dated 9.12.2014:

investor - the subject of investment activity, carrying out investment of own resources and attraction of other investment resources on objects of investment activity; investors may be clients, creditors, customers, and can be as acting member of the investment activity.

investment obligation - the obligation of the investor himself to achieve certain objectives provided by the investment project;

participant of investment activity - the subject of investment activity providing execution of orders of the investor;

reinvestment - any income received from investments in business and other activities not prohibited by the legislation, including profit, interest, dividends, royalties, licenses and commissions, technical assistance, maintenance and other rewards.

According to the Law, *investment objects* are objects producing tangible and intangible benefits. Prohibited to invest in facilities, the creation and use of which do not satisfy the laws of hygiene, radiation, environmental, architectural and town planning and other requirements.

Investors can make investments in the following forms:

- creation of legal entities or equity participation in their authorized capital (authorized capital), including the acquisition of property and shares;
- acquisition of securities, including debt instruments issued by residents of the Republic of Uzbekistan;
- acquisition of concessions, including concessions for exploration, development, production or use of natural resources;
- acquisition of the right of ownership in accordance with the law, including the right of ownership to intellectual property, as well as to objects of trade and services, together with the land plots on which they are located;
- acquisition of the right to own and use land (including on a rental basis) and other natural resources.
- investments can be made in other forms that do not contradict the law.

Investor has the right:

- independently determine the volumes, types, forms and directions of investment;
- conclude agreements with legal entities and individuals for investment activities, as a rule, based on the results of competitive (tender) tenders;
- own, use and manage their investments and the results of investment activities in the manner prescribed by law;
- independently and freely manage the income received as a result of investment activity, after paying taxes and other obligatory payments;
- use property and any property rights belonging to it by right of ownership as security for all types of obligations assumed by it, including obligations aimed at attracting borrowed funds in accordance with the law;

- receive adequate compensation in case of requisition of his investments and other assets;
- receive compensation for losses incurred as a result of illegal actions (inaction) and decisions of government bodies, local government bodies and their officials.
- investor may have other rights in accordance with the law.

Investor is obliged:

- pay taxes and other obligatory payments in accordance with the law;
- fulfill contractual obligations assumed by him in connection with investment;
- receive an expert opinion on investment projects regarding compliance with sanitary-hygienic, radiation, environmental, architectural, urban and other requirements;
- reimburse losses incurred by a participant in investment activity by failure to fulfill or improper performance of contractual obligations;
- comply with the requirements of state and local government bodies, presented within the limits of their authority.
- investor may carry other obligations in accordance with the law.

A participant in investment activity has the right:

- be a participant in competitive (tender) bidding;
- conclude agreements with investors on the execution of their orders;
- involve other persons in the execution of their contractual obligations to the investor, unless otherwise provided by law or by agreement;
- independently manage the savings achieved as a result of a decrease in the actual value of the object of investment activity, unless otherwise provided by law or contract.
- a participant in investment activity may have other rights in accordance with the law.

A participant in investment activity is obliged:

- comply with the norms, rules and requirements of technical regulation established by law;
- timely and proper execution of contracts;
- reimburse losses incurred to the investor by failure to fulfill or improper performance of contractual obligations;
- comply with the requirements of state and local government bodies presented within the limits of their authority;
- use funds for their intended purpose;
- obtain a license to carry out activities subject to licensing.

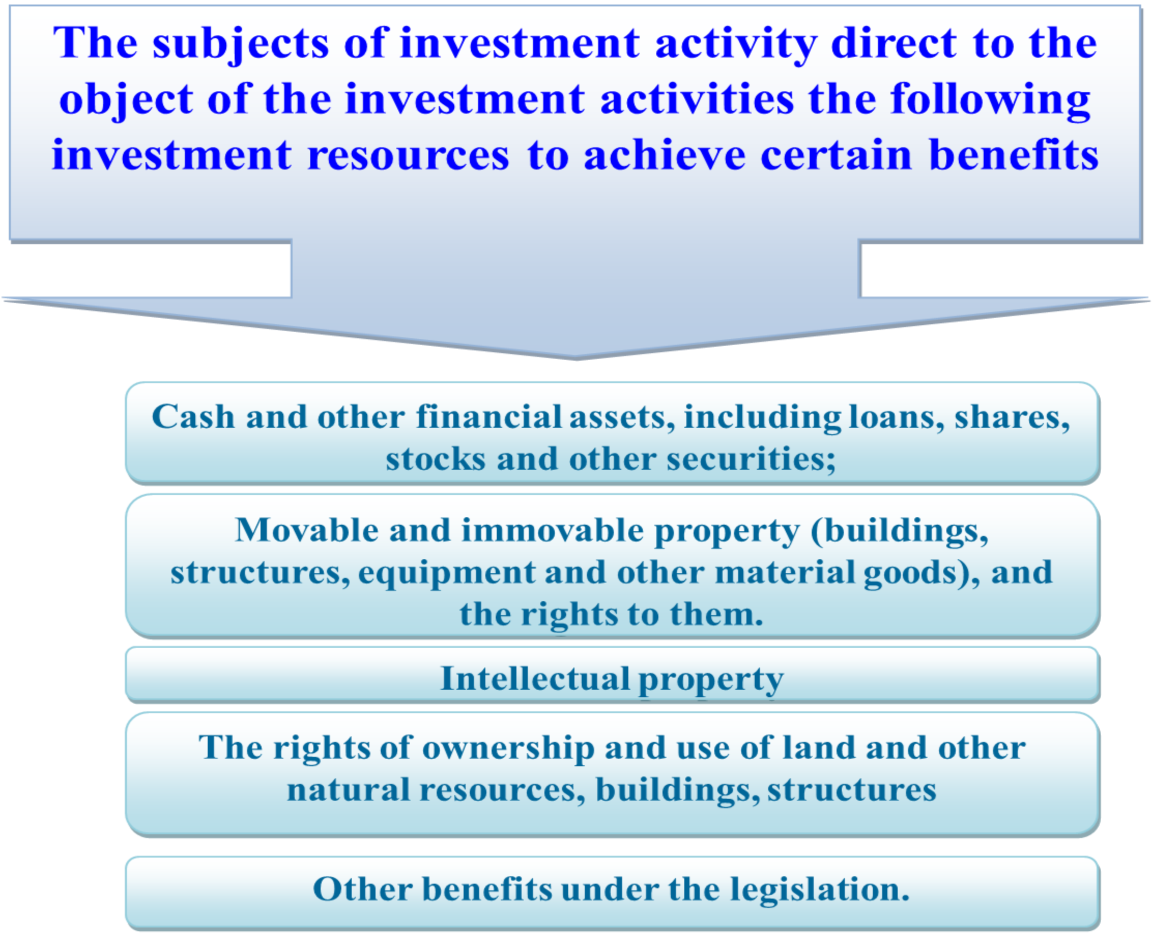


Figure 3.1. Investment resources

The subjects of investment activity direct to the object of the investment activities investment resources to achieve certain benefits (in economic projects that benefit is in the form of profit, social projects form social benefits). Investment resources include (Figure 3.1.):

- cash and other financial assets, including loans, shares, stocks and other securities;
- movable and immovable property (buildings, structures, equipment and other material goods), and the rights to them.
- intellectual property;
- rights of ownership and use of land and other natural resources, buildings, structures, and rewards of ownership entitlements;
- other benefits under the legislation.

3.2. The state's role in coordination of investment activity

On the shoulders of the state as a major reformer assigned a certain number of functions, the implementation of which corresponds to the overall development strategy of the country. Public authorities are paying great attention to investment and investment processes taking place in the country, using the methods of economic and administrative impact. With the help of laws, rules, standards, requirements or limits the government encourages investment activities in the country, when necessary, depending on the cycle of economic development. Legal documents establish the legislative framework for the investors, their rights and obligations, guarantees the rights and protections, dispute resolution, the degree of state involvement in the investment market, reflecting the overall investment policy of the state and the priority sectors of the domestic economy.

As can be seen on the Figure-2, state in the investment market can act as:

• Legislator;

• Regulator;

• Coordinator;

• Investor;

• Investment object.

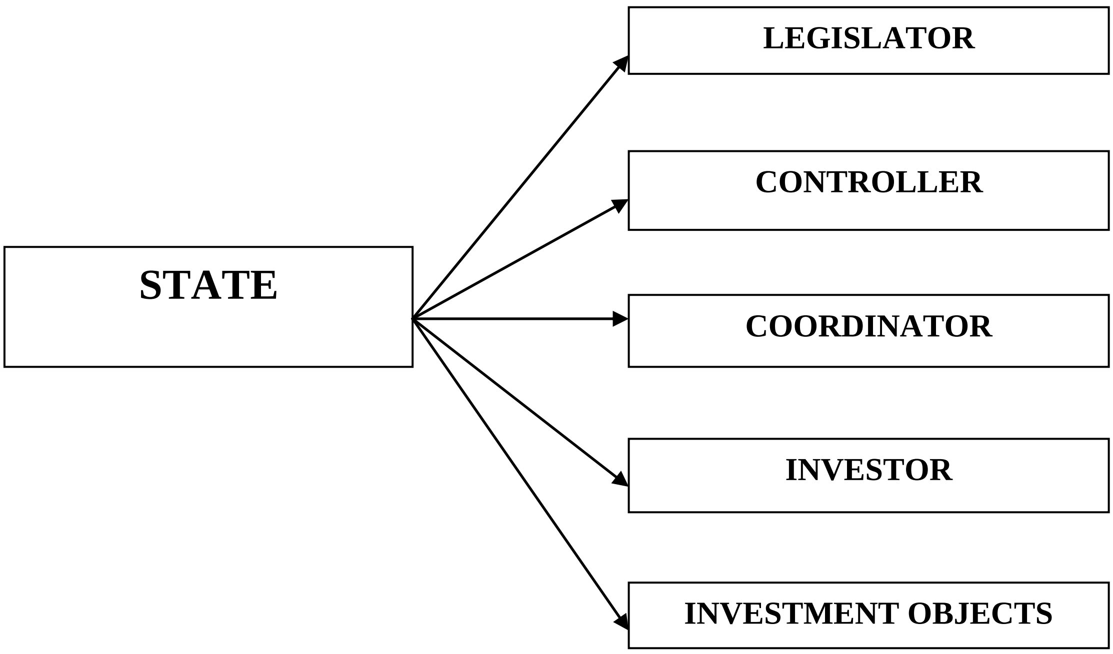


Figure 3.2. The role of state in coordination of investment activity

As a legislator, state creates and continuously improves the legal and regulatory framework, governs the relations of the investment activity, their rights and obligations to the state and to each other.

Uzbekistan has created all necessary legal frameworks for the regulation of investment activities, including:

- Law of the Republic of Uzbekistan "On investment activity" dated 9.12.2014;
- Law of the Republic of Uzbekistan "On foreign investments" dated 30.04.1998;
- Law of the Republic of Uzbekistan "On guarantees and measures of protection of the rights of foreign investors" dated 30.04.1998;
- Law of the Republic of Uzbekistan "On guarantees of freedom of entrepreneurship" dated 25.05.2000;
- Annually accepted government investment program of Uzbekistan approved by the President of Uzbekistan;

- Decree of the President of the Republic of Uzbekistan “On additional measures to stimulate the attraction of direct foreign investments” dated 11.04.2005;
- Decree of the President of the Republic of Uzbekistan “On establishment of free industrial and economic zone in Navoi» № UP -4059 dated 02.12.2008;
- Decree of the President of the Republic of Uzbekistan “On measures to improve the process of attraction and development of foreign investment and loans”, №PP-927 dated 24.07.2008;

As well as other legal documents regulating the banking, insurance, foreign exchange, stock, money market, capital construction at the expense of centralized funding, stimulate the development of small businesses, domestic investment, innovation, tax and customs legislation, and others directly affected by investment activities in the country and the choice of investors objects of their investments.

Availability and completeness of the legislation on the regulation of investment decreases political risks to investors associated with the possible loss of inputs and expected profits because of nationalization, requisition or limit repatriation of capital.

Law of the Republic of Uzbekistan “On investment activity” was adopted on 9.12.2014, and is one of the first legislative acts regulating the investment process in the country. The Act provides definitions of the terms “investment”, “investment activity”, types of investments, forms of investing, consider the composition of investment resources, objects and subjects of investment activities, rights and obligations of investors and investment activities, government regulation, dispute resolution, etc.

Law of the Republic of Uzbekistan “On foreign investments” dated 30.04.1998, defines the legal framework and the procedure for making foreign investments on the territory of Uzbekistan.

Foreign investments in the Republic of Uzbekistan recognizes all types of tangible and intangible benefits and their rights, including intellectual property rights, as well as any income from foreign investments invested by foreign investors in the business and other activities not prohibited by law, mainly for profit (income).

The main objectives of the Act are:

- Promote the development of the economy of Uzbekistan and its integration into the world economy by stimulating the inflow of foreign investment;
- Recruitment and management of foreign financial, material, intellectual and other resources, advanced foreign technology and management experience.

Law of the Republic of Uzbekistan "On guarantees and measures of protection of the rights of foreign investors" aims to create a set of measures for guarantees and protection of the rights of foreign investors in accordance with international treaties.

In the law, foreign investors granted such assurances as a guarantee against nationalization, requisition, guarantee of funds at the discretion of the investor, guarantee the free transfer of funds and the return of foreign investment due to the termination of investment activities, free access to information, guarantee free movement on the territory of the Republic of Uzbekistan , protection of rights and the provision of additional guarantees established by law, depending on the nature of the investment project.

As the regulator, the state on behalf of public authorities monitor compliance with the law the subjects of investment activities, the implementation of their commitments through the court system to settle economic disputes, sanctions are imposed to violators of the law, with the help of the State Investment Program State predicts the trends of investment activity in the country.

As coordinator, the state can influence the activity of domestic and foreign investors. Therefore, with the help of such economic measures as a change in the refinancing rate of the Central Bank, a change in tax rates, tax breaks, the provision of a Government guarantee on borrowed funds, the liberalization of foreign relations, etc., the state actively intervenes in investment activity.

As an investor, state funds from state and local budgets and extra-budgetary funds of the realization of economic and social investment projects, is one of the founders of major economic projects, initiator of national investment programs, member of concession contracts.

Foreign investors in making investment decisions do not consider specific areas or sectors of the economy, and the entire state as an investment - the investment climate in the country, political, economic, and socio-cultural and other factors that affect the investment activities in the area. In this situation, the state acts as an investment object.

3.3. Investment policy: the nature, role, key trends and realizations of the stages

Investment policy - it is an integral part of the financial policy of the state, which is a set of methods and measures to attract, distribution and effective use of internal and external investment resources.

The purpose of the state investment policy – is the implementation of structural reforms in the economy, GDP growth, higher living standards and welfare of the population through the mobilization and effective use of investments.

In modern conditions of transition to market relations of special importance for the Republic of Uzbekistan, attraction and use of foreign investment for sustainable economic growth. The important conditions for attracting foreign capital into the economy of the republic are:

- Achieved socio-political and economic stability in society;

- The availability of strategic directions and programs of socio-economic development in the long term;

- Formation of the basis a mixed economy in transition and determining the major directions of its reform;

- Implementation of the processes of liberalization and deepening of economic reforms;

- Increasing role of investment as the main factor of economic growth of the Republic of Uzbekistan.

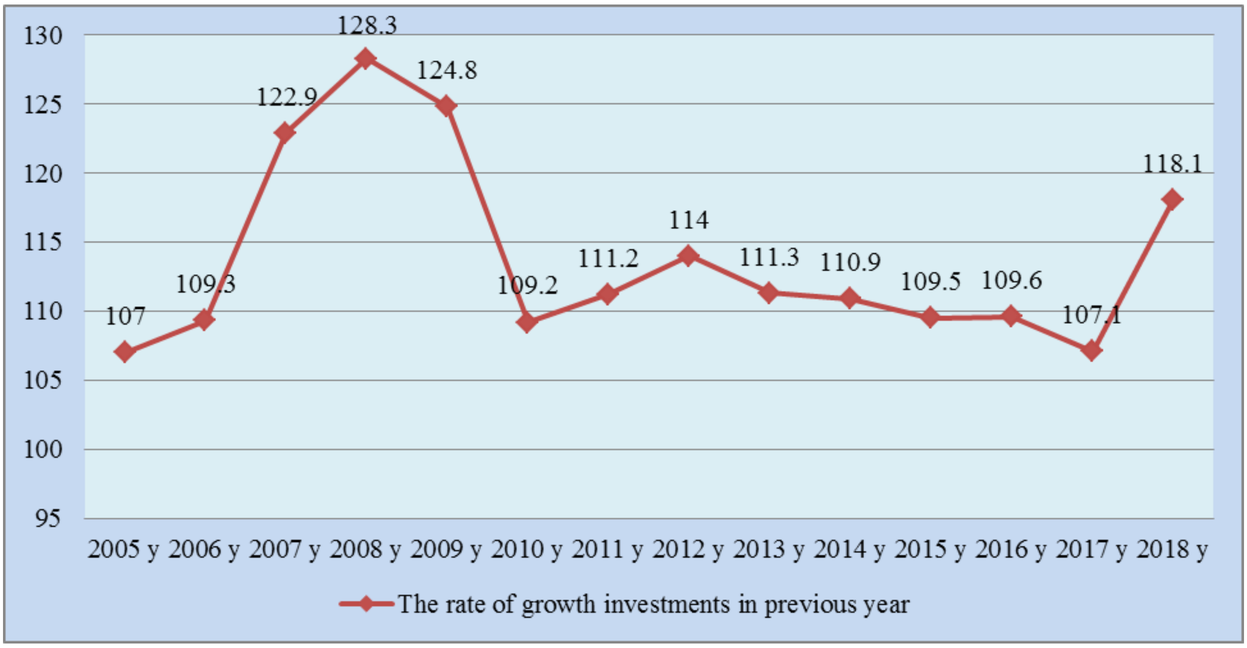


Figure 3.3. Rate of growth attracted investment in the Republic of Uzbekistan, in percent[10]

The above conditions for wide attraction of foreign investments are backed by the established sufficiently developed industrial, construction and agricultural potentials, developing sectors of society infrastructure (transport, communications, trade and others.), the availability of qualified engineers and technicians and skilled workers, their experience and ability to solve complex industrial and scientific-technical problems of the modern economy. This creates a solid

[10] Prepared on the basis of materials from the site www.stat.uz

foundation for attracting foreign capital. It should be noted the positive trends that emerged in the course of investment process in the country in recent years.

Last year (in 2018) to the economy of the country investment were attracted in amount 13 billion and 300 million US dollars and this factor grew on 18,1 % to the past 2017.

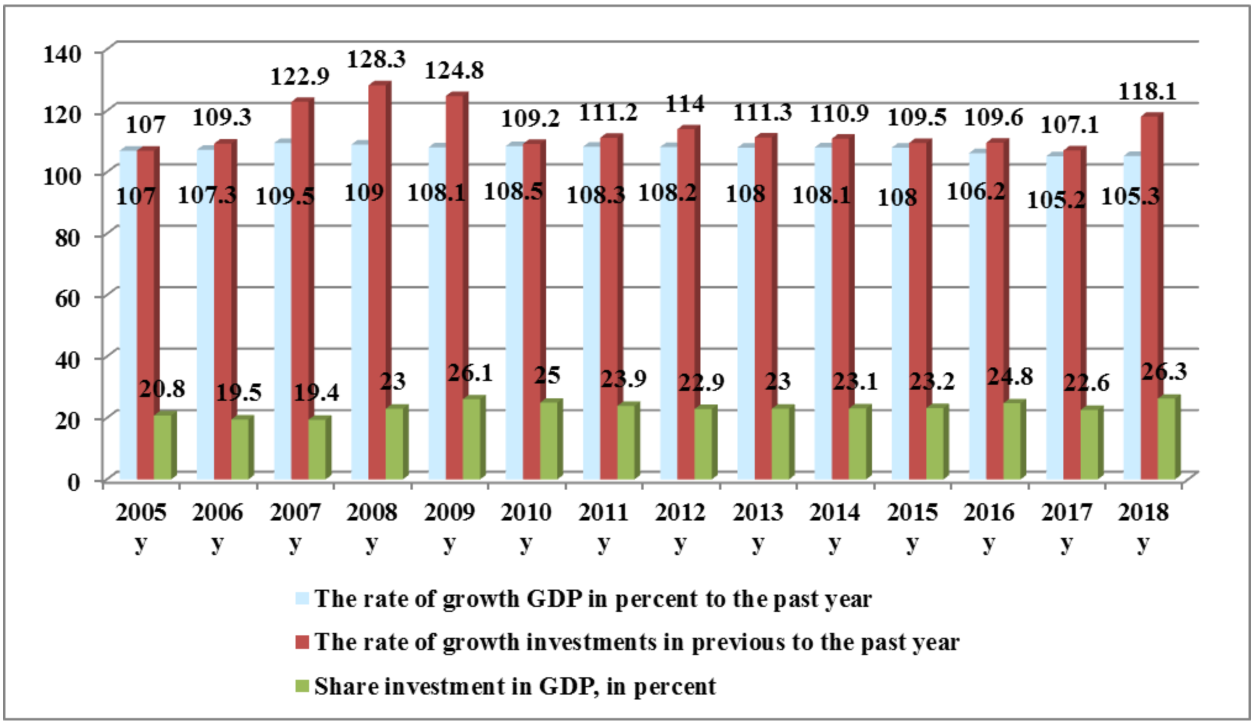


Figure 3.4. Share investment in GDP, in percent[11]

As can be seen on the Figure 3.4, during the last ten years the rate of growth investments in percent to the past year was approximately 10-12%, rate of growth GDP in percent to the past year was approximately 7-8% and share investments in GDP last ten years was about 23%, and it is good result for our economy.

An important condition of social and economic development of the country - growing activity, manifested in recent years in the Republic of Uzbekistan in the steady and consistent growth in the scale of investment, invested in the development of the economy.

[11] Prepared on the basis of materials from the site www.stat.uz

Hence, an important economic prerequisite for increased investment in the development of the economy - is to ensure the continuous growth of all kinds of investment to economic growth of the republic.

This is especially important in the conditions of deepening economic reforms and implementation of economic liberalization program. Implementation of this program will ensure the balanced and harmonious development of the economy, the opportunities and benefits of market-based mechanisms to raise the interest of labor collectives in the results of their labor. To achieve: this purpose the President of the Republic of Uzbekistan Islam Karimov staged: "The first and main task facing us - it is the problem of achieving macroeconomic and financial stability as a major condition for sustainable economic growth, the implementation of deep structural reforms, modernization and technological re-equipment of production."

Carrying out deep structural changes in the national economy determines the activation of the investment policy, making full use of all sources of funding, both its own and external (foreign loans and foreign direct investment). Evaluation of own sources of financing, which include budget allocation, funds of enterprises and organizations, funds of the population, testifies to the fact that they are limited.

This is understandable, because in the course of reforming the economy a significant portion of GDP was aimed for consumption purposes. However, such a policy in the conditions of liberalization of the economy and economic growth cannot be justified, as should be based on long-term on the basis of the accumulation fund as a source of investment. However, to ensure the accelerated development of the economy, taking into account the strategic interests of the republic for the future of one insufficient domestic savings. It is therefore necessary large-scale foreign investment as an important condition for achieving structural changes in the economy. In recent years, this principle became a major in the implementation of the investment policy. Attracting foreign capital into the country was carried out in the form of direct investment, government loans, credit resources provided by the international financial and economic organizations, portfolio investments.

The first President of the Republic of Uzbekistan Islam Karimov in his report noted that: “It should be created more favorable legal conditions, guarantees and economic incentives for the attraction of foreign investments into the economy of the country, especially direct investment. It is necessary to ensure that foreign investment is actively involved in the structural transformation of our economy, the acceleration of technical re-equipment and modernization of production facilities.”

Further deepening liberalization and economic reform leads to the formulation and implementation of a new strategy to attract foreign investment, based not on the “point” approach to the investment of individual sectors, industries, and on the complex, program-oriented approach. It provides for the development and implementation of targeted and integrated investment programs covering a number of cases, not individual industries and enterprises, and interrelated set of different branches located in a particular territory. It may be territorial-production complexes, special economic, export, or other areas. An important development is not current short-term investment programs (projects), and long term, designed to achieve important strategic goals and objectives of liberalization of the economy.

To achieve strategic and priority goals of the investment policy will need to solve a number of strategic objectives set by President of Uzbekistan Shavkat Mirziyoyev. These include: the expansion and strengthening of foreign economic relations, active attraction of foreign investments into the economy of the country, the increased presence of foreign capital in the banking and financial sector, the real economy, and especially in basic industries. In addition, Uzbekistan continues to work on the formation of market infrastructure institutions and improve the relevant legislation.

For successful solution selected tasks investment policy of the republic should be carried out in the areas of:

- The active participation of foreign capital in the structural transformation of the economy, the acceleration of modernization and upgrading of production;

- The creation of all necessary conditions for the broad integration of Uzbekistan's economy into the world economy;

- Consistent implementation of the policy of “open doors” to investors, delivering to the republic of world-class technology and assisting in the creation of the joint structure of the economy;

- Promote investments directed to production projects, providing currency self-sufficiency;

- Support the national creditworthiness and reputation of Uzbekistan as a country - a prime borrower;

- Promote investment aimed at solving social and environmental problems in some regions of the country.

Noted Directions of Investment Policy implemented in the country, depending on specific conditions, the nature and scale of the strategic and tactical problems of economic development. Now favorable conditions in the country have matured for the introduction of resource-saving innovations in basic capital-intensive mining, processing industry. This creates opportunities to reduce excessive resource costs, especially for those commodities whose prices are below world. The introduction of resource-saving technologies in basic industries provide a solid basis for investment to high-tech manufacturing and high technology. The fact that the widespread introduction of resource-saving technologies can reduce investment in capital-intensive industries and the resulting effect is used in high-tech and high-tech industries.

Experiences of the Middle and other foreign countries show that they become the most important factor in the formation and development of investments in the transitional period of the market economy, providing not only the reconstruction and renovation of production facilities, but also the formation of new industries and businesses. Therefore, the involvement and use of foreign capital into the economy of Uzbekistan become a regular trend of the investment process at the present stage.

As a result of targeting foreign investment structural policy in Uzbekistan, carried out on the basis of a national model of economic reforms, primarily directed at ensuring economic independence, including energy and food, as well as the accelerated development of strategically important sectors of the mining industry, related to the use rich mineral resources. Improved sectoral structure of industry at the expense of priority development of basic industries - oil, gas, non-ferrous metallurgy, automobile, aircraft, electronics, chemical and petrochemical industries. Priority development will have light industry, food, chemical industry, agriculture, tourism. In the structure of exports and reduced the proportion of cotton will increase dramatically the range of finished products.

For the benefit of export-oriented manufacturing industry as the basis of the adopted model show its advantages, tested in the course of implementation of the model in some countries in South-East Asia (South Korea, Taiwan, etc.). These include:

- To overcome the narrowness of the domestic market, which is especially important for low-income countries, and hence to the low demand from the population, the total demand in this case will expand through exports;

- The mobilization of additional sources of investment financing (export revenues);

- The inevitability of the introduction of modern technology and quality standards, as products must be competitive on the world market;

- The use of the natural advantages of developing countries (cheap labor and raw materials, low requirements for environment, safety, social protection of workers).

Public Investment Program (PIP) of the main document, which provides a mechanism for the prioritization of investment decisions in accordance with the strategic objectives of the Government. In this program, we carried a clear separation of the projects funded by the centralized sources of projects funded from non-centralized sources or public funds. PIP, designed for the medium term (3 years), is the basis for the approval of annual investment programs. Based on the PIP, the relevant Government Decree approves the annual "Investment program of the Republic of Uzbekistan". The development program involves ministries, agencies, associations, companies, the Central Bank of the Republic.

However, in order to implement long-term projects, we need favorable conditions, in the first place, such incentives to attract foreign investment, which would fully meet the requirements of a liberalized economy. Particularly relevant is represented improvement of tax system in the direction of strengthening its enabling role, mainly private businesses. Due to the high interest rates existing mechanism of income tax on profits discourages achieve significant results in business.

To raise the interest of small and medium foreign investors to invest in the economy of the country, and it is advisable to give them state guarantees. An important issue to stimulate investment in Uzbekistan is to ensure that the process of "jointing" the productive integration of the manufacturing and banking capital on a base of organizing of bank-management, industrial, agrarian and other companies experiencing financial difficulties.

The main areas of investment policy of Uzbekistan are:

- creating and improving the regulatory framework, governing investment activities in Uzbekistan;
- implementation of centralized investment to fundamental structural transformation of the economy of the republic, the growth of industrial production;
- creating a favorable investment environment and preferential treatment to attract foreign investment;
- promote the investment activity of local people and businesses;
- monitoring the protection of investors' rights and fulfill their obligations, the improvement of the public administration, carry out the functions of regulation and control.

The investment policy aimed at creating a favorable investment climate for foreign and domestic owners of assets, opening and smooth operation of foreign and joint ventures, technical re-equipment of the domestic industry, to support small business.

Investment policies implemented by public authorities on the above priority areas did not occur immediately after the republic gained independence. Its formation took several steps:

Phase 1. (1991-1994) - This stage was characterized by the process of large-scale privatization and denationalization and forming the foundations of a mixed economy, the emergence of private, mixed forms of property, the main source of investment at this stage served the state budget, allocated for the social sector.

Phase 2. (1995-2003) - At this stage occurred:

- The creation of the legal framework for investment;
- The use of different sources of funding;
- The process of attracting foreign investment, the establishment of joint ventures and wholly foreign-owned enterprises;
- The inflow of investments in the real sector of the economy;
- State support investment projects by both direct appropriations and government guarantees;
- Funding of projects already started on a competitive basis.

Phase 3. (2004 - 2008) - This stage is characterized by:

- Liberalization of currency and credit relations;
- The protection of the rights and interests of investors, the creation of additional benefits and incentives for their production activities;
- Technical re-equipment and modernization of enterprises;
- Embarked on the production of import-substituting and export-oriented production;
- Mobilization of domestic savings and savings in the banking sector;
- Economic incentives for domestic investors to set up small businesses.

Phase 4. (2009 - 2016) - This stage is characterized by:

- Used of measures against financial economic crises;

- Improved investment activity of commercial banks;

- Created special economic zones;

- Coordinated liberalization of currency and credit relations;

- Improved investment activity of population and state.

Phase 5. (2017 - 2021) - This stage is characterized by adopting *The Decree of the Republic of Uzbekistan "On Strategy of actions on five priority directions of development of the Republic of Uzbekistan in 2017-2021".*

The draft strategy was developed based on the results of a comprehensive study of current issues of concern to the population and entrepreneurs, analysis of legislation, law enforcement practice and foreign experience.

The strategy of action will be implemented in five stages, each of which provides for approval of a separate annual state program for its implementation in accordance with the declared name of the year (2017 - Year of Dialogue with the People and Human Interest; 2018 – Year of Support active entrepreneurship, innovative ideas and technologies).

Priority directions of the country's development in 2017-2021 are given below:

improvement of state and public construction aimed at strengthening the role of parliament and political parties in deepening democratic reforms and modernization of the country, reforming the system of public administration, developing the organizational and legal basis for public service, improving the system of e-government, improving the quality and efficiency of public services, practical implementation of public control mechanisms, strengthening the role of civil society institutions and tv of mass information;

ensuring the rule of law and reforming the judicial and legal system aimed at strengthening the genuine independence of the judiciary and guaranteeing the reliable protection of citizens' rights and freedoms, improving administrative, criminal, civil and economic legislation, improving the effectiveness of the system of combating crime and preventing violations; judicial process, improvement of the system of rendering legal assistance and legal services;

development and liberalization of the economy aimed at strengthening macroeconomic stability and maintaining high economic growth rates, increasing its competitiveness, modernizing and intensively developing agriculture, continuing institutional and structural reforms to reduce the state's presence in the economy, strengthening protection of rights and priority development of private property, stimulating development of small business and private entrepreneurship, integrated and balanced socio-economic calling regions, districts and cities, actively attracting foreign investment in the economy and regions of the country by improving the investment climate;

development of the social sphere aimed at the consistent increase in employment and real incomes of the population, the improvement of the social protection and health protection system of citizens, the increase in the socio-political activity of women, the implementation of targeted programs for the construction of affordable housing, the development and modernization of road transport and engineering and communications infrastructure, development of the sphere of education, culture, science, literature, art and sports, improvement of the state youth policy;

ensuring security, interethnic harmony and religious tolerance, implementing a balanced, mutually beneficial and constructive foreign policy aimed at strengthening the independence and sovereignty of the state, creating a security belt around Uzbekistan, stability and good-neighborliness, strengthening the country's international image.

Public authorities and administrations, as well as local authorities hold state investment policy. The subjects of the investment policy are the various departments and agencies listed in Table 3.1.

Table 3.1.

Official institutions involved in regulating and attracting investments in the Republic of Uzbekistan

Complex of Cabinet of Ministers on investment, innovation development, coordination of activities of free economic and small industrial zones, tourism	Coordinates the following processes: - development of necessary governmental decisions on state support of investment activity, first of all projects with foreign investments; - organization of work of state governing bodies, ministries and agencies.
National Project Management Agency under the President of the Republic of Uzbekistan	Reviews the effectiveness of projects included in the State Development Program of the Republic of Uzbekistan. Investment conducts project expertise.
Ministry of Investment and Foreign Trade	- creation of a database on investment proposals of the state and foreign investors; - study of investment climate; - providing information and other services to foreign investors; - assistance to domestic and foreign investors in the implementation of investment projects; - monitoring of implementation of investment projects with participation of foreign capital; - assistance to foreign investors as legal entities after state registration (in cooperation with the Chamber of Commodity Producers).
Ministry of Economy, Ministry of Finance and other ministries	Development of investment policies and programs
State Competition Committee of the Republic of Uzbekistan	Regulation of foreign investments in the process of privatization and disposal of state-owned property
Ministry of Finance	Debt policy and government guarantees
Ministry of Justice	Registration of enterprises with foreign investments
Ministry of Foreign Affairs	Visas for foreign investors and foreign citizens working in Uzbekistan
Ministry of Internal Affairs	Registration of foreign investors and foreign citizens working in Uzbekistan
State Tax Committee	Taxation of enterprises with foreign investments and customs regulation
Cental bank	Debt policy, regulation of exchange procedures, as well as transfer and use of foreign currency
National Bank for Foreign Economic Activity	Provision of banking services to foreign economic activity and project financing.
Uzbekinvest National Export-Import Insurance Company	Foreign investment insurance against investment risks
The Center for Coordination and Control over the Securities Market under the State Property Committee	Implementation of state policy in the field of formation, development, control and regulation of the securities market. To make complex investments by purchasing securities of domestic and foreign issuers

As can be seen on Table 3.1, the state investment policy pursued by the national authorities - the subjects of the investment policy is a set of measures to improve the investment climate in the country, the development of the investment market segments and other components of the overall financial sector - banking, insurance, foreign exchange, equity, money market, and the main instrument to promote, regulate and control the state of a legal framework of investment.

Attracting foreign investment is one of the priorities of the state investment policy of the Republic of Uzbekistan. Foreign investments, organically connecting with local natural raw materials, work force serve as catalyzer of rapid economic growth of the state, acting as the investment at the macro and micro levels. Moreover, foreign investors in addition to its investments in the country bring the elements of a civilized market: quality management, management experience, marketing, innovation resources, information technology, international norms of partnership and cooperation, provide access to the world market already-established contacts and their areas of distribution.

Questions for discussing and control

1. What is the meaning of “investment activity”?
2. Do you know the definitions made by economists on the nature of investment activities?
3. What is the definition of investment activity according to Law of the Republic of Uzbekistan “On Investment Activities”?
4. What is the structure of investment activity?
5. What are the objects of investment activity?
6. Who are the subjects of investment activity?
7. What are the factors that influence investment activity in macro-level?
8. What are the factors that influence investment activity in the micro-sector?
9. Explain how inflation affects investment activity?

10. What do you mean by nominal and real interest rates? How is inflation related to these rates?
11. Can you explain the impact of small business and private entrepreneurship on investment activities?
12. Describe the role and importance of infrastructure in the development of investment activities?
13. In what forms are investments attracting to the country in accordance with the laws of Uzbekistan?
14. How is the government regulating investment activities?
15. What objects cannot be objects of investment activities under the legislation of Uzbekistan?
16. What guarantees do foreign investors have in the territory of Uzbekistan?
17. What rights do investors have in accordance with the legislation of the Republic of Uzbekistan?
18. What are the basic obligations of investorsin Uzbekistan?
19. Do you know the legal framework for regulating investment activities in the Republic of Uzbekistan?
20. Explain foreign investment regulation and management practices.
21. Do you know which ministries and agencies are directly involved in regulating investment activities in the Republic of Uzbekistan?
22. What is the meaning of “investment policy”?
23. How can you define an investment policy of the country and investment policy of the company?
24. What are the main objectives and the main tasks of investment policy?
25. What are the principles behind conducting investment policy in Uzbekistan?
26. Describe the stages of development of investment policy in Uzbekistan?
27. What are the priorities of the state investment policy?

CHAPTER 4. THE ROLE OF FOREIGN INVESTMENTS IN THE DEVELOPMENT OF ECONOMY

4.1. The objective necessity of attracting foreign investments into the economy of Uzbekistan

In the second half of the 20th century, three groups of countries represented the political map of the world: developed, developing and underdeveloped countries. In developed countries, fierce competition and high levels of indicators such as labor and raw materials in production costs, prompted entrepreneurs in these countries to find better accommodation facilities of their capital and maximize profits. On the other hand, the process of globalization, the international division of labor and the need to integrate into the world economy, the lack of internal reserves and resources in developing countries, unformed class of property owners, the stagnation of production, the economic crisis, the state budget deficit were the reasons that many developing countries took direction of attracting foreign investments to the territory of the state. Thus in the world practice formed a mutually beneficial partnership - an international movement of capital and other assets.

Foreign investments, organically connecting with local natural raw materials, work force serve as catalyzer of rapid economic growth of the state, acting as the investment at the macro and micro levels. Moreover, foreign investors in addition to its investments in the country bring the elements of a civilized market: quality management, management experience, marketing, innovation resources, information technology, international norms of partnership and cooperation provide access to the world market already-established contacts and their areas of distribution.

Financial markets have evolved into a more globally integrated framework as a result of increasing liberalisation of exchange controls and market access. This integration, accelerated by increasing competition amongst market *participants, has led to the introduction of new financial instruments with broad market access and lower transaction costs, attracting investors of many nationalities and countries (economies). The expansion of cross-border financial flows has been further accelerated by technological innovations in communications and data processing.*

Foreign direct investment (FDI) is a key element in this rapidly evolving international economic integration, also referred to as globalisation. FDI provides a means for creating direct, stable and long-lasting links between economies. Under the right policy environment, it can serve as an important vehicle for local enterprise development, and it may also help improve the competitive position of both the recipient ("host") and the investing ("home") economy. In particular, FDI encourages the transfer of technology and know-how between economies. It also provides an opportunity for the host economy to promote its products more widely in international markets. FDI, in addition to its positive effect on the development of international trade, is an important source of capital for a range of host and home economies.

The significant growth in the level of FDI in recent decades, and its international pervasiveness, reflect both an increase in the size and number of individual FDI transactions, as well as the growing diversification of enterprises across economies and industrial sectors. Large multinational enterprises (MNE) are traditionally the dominant players in such cross-border FDI transactions. This development has coincided with an increased propensity for MNEs to participate in foreign trade. In recent years, it is believed that small and medium-size enterprises have also become increasingly involved in FDI.

Internationally harmonised, timely and reliable statistics are essential to assess the trends and developments of the FDI activity, and to assist policy makers in dealing with the challenges of global markets. The usefulness of direct investment statistics depends on their compliance with several quality parameters: a) alignment with international standards; b) avoiding inconsistencies between countries and reducing global discrepancies; c) achieving consistent statistical *series over time; d) timeliness; and e) allowing a meaningful exchange of data between partner countries.*[12]

For a variety of reasons - lack of internal resources and sources, as well as unformed class of property owners, the stagnation of production, the economic crisis, the state budget deficit, the international division of labor, globalization and the need to integrate into the world economy many countries have embarked to attract foreign investment to the territory of the state.

On the other hand, the intense competition in developed countries and high-level indicators such as labor and raw materials in production costs prompted entrepreneurs of developed countries to find better accommodation facilities to their capital and maximize profits. Thus in the world practice formed a mutually beneficial partnership - an international movement of capital and other assets.

Global experience has shown that countries with open investment policy is often solve part of their economic problems with the help of foreign investment and achieved economic success (China, South Korea, Southeast Asia, etc.), thanks to foreign investment - it has led to some rivalry countries in the international capital market to attract foreign investment into its territory. States should establish a favorable investment climate, and special preferential treatment for foreign investors. Therefore, the factors that make the investment climate in Uzbekistan is relevant at the present stage and has both scientific and practical importance.

All the factors that influence the favorability of investing in the region and benefit from them form the country's investment climate. Economic activity of both foreign and domestic investors, as well as the volume, direction, and duration of foreign investments, their desire to mutually beneficial cooperation and participation in the creation of GDP and establishing sales channels to the world market depend on the investment climate.

Foreign capital investment can have on the economy of host countries, both positive and negative effects. As international practice shows, positive effects of foreign capital are following:

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[12]OECD Benchmark Definition of Foreign Direct Investment. Fourth edition. OECD. 2008. P.14.

- increase in real investment, accelerating the rate of economic development of the country;
- delivery of advanced foreign technology, organizational and managerial experience, R & D results, in a form of new technology, patents, licenses, know-how, etc.;
- fuller use of local natural resources;
- increase employment , qualifications, productivity of the local workforce;
- expand the range of products;
- development of import-substituting production and reduction of foreign exchange (currency) for the import expenses;
- expansion of exports and foreign exchange earnings;
- increase in tax revenues;
- improvement of living standards and purchasing power of population;
- use of higher environmental quality standards, expanding access to cleaner technology, reducing the overall level of environmental pollution;
- development of infrastructure and services;
- increased competition in the national economy and the reduction of its monopolization;
- improvement of the socio-cultural situation in the country, the spread of international standards, not only in production but also consumption.

The negative effects of foreign investment on the economy of host countries include the following:

- repatriation of capital and transfer of profits in various forms (dividends, interest, royalties, etc.) that impairs the balance of payments of the host country;
- increase in imports of equipment, materials and components, requiring foreign exchange (currency);
- suppression of local producers and the restriction of competition;
- increased dependence of the national economy, threatening its economic and political security;
- ignoring by foreign investors local conditions and customs;

- possible deformation of the structure of the national economy;
- decreasing of traditional industries of the national economy;
- strengthening of social tension and differentiation (in particular, due to the higher wages at foreign enterprises);
- weakening incentives for national R & D as a result of the importation of foreign technology that may increase technological dependence;
- environmental degradation as a result of transfers to "dirty" industries and predatory exploitation of local resources;
- negative impact on the socio-cultural conditions associated with ignoring the national traditions, characteristics, etc., with the bringing of alien national culture standards and forms of organization of production, consumption, lifestyle and others.

4.2. The nature, value and basic forms of attracting foreign investments

Foreign investments in the Republic of Uzbekistan recognizes all types of tangible and intangible benefits and their rights, including intellectual property rights, as well as any income from foreign investments invested by foreign investors in the business and other activities not prohibited by law, mainly for profit (income).

According to the Article-4 of the Law of Uzbekistan “On foreign investments”, “foreign investors in the territory of the Republic of Uzbekistan may be:

- Foreign states, administrative or territorial agencies of foreign states;
- International organizations based in accordance with the agreements or other agreements;
- Legal entities, any other partnership or association, founded and operating in accordance with the legislation of foreign states;
- Individuals who are nationals of a foreign country, stateless persons and citizens of the Republic of Uzbekistan residing abroad”.

By its nature and forms of foreign investments may be different. The following types of foreign investment can be identified by source of origin.

Talking about foreign investments, it is first necessary to distinguish between public and private investment.

Public investment (in international practice is also called formal) - it means from the state budget, which are sent abroad or taken out to address either directly to governments or intergovernmental organizations. This government loans, loans, grants (gifts), help the international movement of which is determined by inter-governmental agreements. This includes loans and other funds from international organizations (for example, loans from the IMF). In this case we are talking about the relations between the states, which are governed by international treaties and to which the rules of international law. There may be diagonal relationship, when a consortium (group) private bank provides investment state as such.

Private investment refers to investments of firms, companies which belonging to the private sector or citizens of one country provide to the relevant entities of another country.

Investment relations are so complex and diverse that relations between states are often closely linked with relations between private individuals. A more complex construction of relations is also possible when the material obligations of the debtor state on loans received by it (for example, interest payments) are satisfied at the expense of the full or partial value of the property rights of a private investor in the country of the debtor (for example, representing rights to develop own resources).

in legislative acts and international treaties, the list of types (forms) of foreign investment is usually approximate, and not exhaustive, since the concept of investment covers all types of property values that a foreign investor invests in the territory of the host country.

This list includes: immovable and movable property (buildings, structures, equipment and other material values) and related property rights, including the right to pledge; cash; shares, deposits, bonds or any other forms of participation in partnerships, enterprises, including joint ones; the right to claim money that is invested to create economic values, or services of economic value; rights to the results of intellectual activity, often defined as rights to intellectual (including industrial) property; rights to carry out economic activities granted on the basis of a law or an agreement, including, in particular, the rights to explore and exploit natural resources.

By the period of realization foreign investments are divided into short-term, medium-term and long-term. The latter include investments for more than 15 years. This group includes the most significant capital investments, since long-term investments include all entrepreneurial capital investments in the form of direct and portfolio investments (mainly private), as well as loan capital (public and private loans).

By the nature of the use of foreign investment are divided into loan and entrepreneurial investments.

Loan investments mean lending for interest. In this area, capital from government and investments from private sources are quite active.

Entrepreneurial investments are directly or indirectly invested in production sphere and are associated with obtaining rights to profit in the form of a dividend.

By objectives, entrepreneurial investment is divided into direct (strategic) and portfolio.

Direct investment is the main form of export of private entrepreneurial capital, which ensures the establishment of effective control and gives the right to direct control over a foreign company. They are an investment in the name of obtaining long-term interest. According to the IMF definition, foreign direct investment is when the foreign investor owns at least 10 % of the authorized capital of the joint-stock company. Under US law, at least 10%, in the countries of the European Community, 20-25%, and in Canada, Australia and New Zealand - 50%.

Direct investments are divided into two groups:

- *transcontinental capital* investments due to possible best market conditions, that is, when it is possible to deliver goods from a new production complex directly to the market of a given country (continent). Costs play a small role here, most importantly being in the market. The difference in production costs compared to the parent company is a lesser factor in influencing the location of production on this continent. Production costs are critical to determining the country of a given continent in which it is necessary to create new production facilities;

- *transnational investments* - direct investments, often in a neighboring country. The goal is to minimize costs compared to the parent company.

Features specific to direct (strategic) investment:

- with foreign direct investment, investors, as a rule, lose the opportunity to quickly leave the market;

- a greater degree of risk and a large amount than with portfolio investments;

- a longer investment period, they are more preferable for countries importing foreign capital.

Foreign direct investment is directed to host countries in two ways:

-organization of new enterprises;

- purchase or takeover of existing companies.

"Portfolio" investments are such capital investments, whose share in the capital of firms is below the limit designated for direct investments. Portfolio investments do not provide control over foreign companies, limiting investor prerogatives to receiving a share of profit (dividends).

In some cases, international corporations actually control foreign enterprises, possessing portfolio investments, for two reasons:

- due to the significant dispersion of shares among investors;

- due to the presence of additional contractual obligations limiting the operational independence of a foreign company.

This includes licensing and agreements, contracts for marketing services and maintenance.

The increasing role of portfolio investment in the last decade is associated with the possibility of speculative operations, the scale of which was facilitated by a number of factors: the internationalization of stock exchanges, the removal of restrictions on the admission of foreign companies on many major stock exchanges, the expansion of international operations of banks with securities of pension funds and other savings institutions.

Other investments - a group of investments, which mainly includes international loans and bank deposits.

The forms of foreign investment in the above scheme are all the same. Meanwhile, it is not completely clear which forms of investment are more important from the point of view of managing real production. The basis of these discrepancies, which go to the level of legislative acts and government decrees, is, as a rule, the personal or group interest of the relevant financial and industrial circles. But the priority importance of direct investments as the most successfully uniting national (or state) interests of various sectors of society is increasingly recognized. In addition, they are mainly associated with specific international operating factors, financial and industrial groups, therefore they are more manageable, their “rules of the game” are more defined, which is especially important from the standpoint of ensuring real competitive standards for the national economy.

Thus, there are various forms of foreign investment. Before choosing one or another form of capital investment, foreign investors must be sure that the recipient country has a favorable investment climate, which is determined by the level of political and economic stability, investment policy, monetary stability and other factors.

From table-4.1 it is seen that for the period 2001-2018. the volume of foreign investment increased, while the share of foreign direct investment in the overall composition had a growth dynamics. So, if in 2002 foreign direct investment amounted to only 15.5% of the total volume of foreign capital, in 2018 their share was 46.8%, which indicates an increase in the confidence of foreign investors in the course of economic reforms in Uzbekistan.

Table-4.1.

The dynamics of growth in foreign and direct foreign investment in the Republic of Uzbekistan[13]

Years	Foreign investments (USD mln.)	FDI (USD mln.)	The proportion of foreign direct investment, %
2002	516,5	80,1	15,5 %
2003	602,1	166,7	27,7 %
2004	754,6	333,8	44,2 %
2005	746,6	545,5	73,0 %
2006	895,7	683,8	76,3 %
2007	1009,3	768,4	76,1 %
2008	1700	1258	74,0 %
2009	2869,6	2522	87,9 %
2010	2793,6	2400	86,0 %
2011	2900,1	2285	78,8 %
2012	2500	1975	79,0 %
2013	3055	2200	72%
2014	3095,2	2321,4	75%
2015	3248,5	2387,6	73,4%
2016	3578,1	2479,6	69,2%
2017	3348,2	2493,3	74,4%
2018	3885,3	1816,9	46,8 %

Under the enterprises with foreign investment in the territory of the Republic of Uzbekistan are meant enterprises in which foreign investment comprises at least 30% of the shares (shares, units) or authorized capital. The law also stipulates the forms of foreign investment, the rights and obligations of foreign investors, their economic activities, obligations and powers of state bodies on foreign investment.

Forms of foreign investment:

• Equity participation in the authorized funds and other property of business entities and partnerships, banks, insurance organizations and other enterprises created jointly with legal entities and individuals of the Republic of Uzbekistan;

[13] Prepared on the basis of materials from the site www.stat.uz

• Creation and development of business companies and partnerships, banks, insurance organizations and other enterprises wholly owned by foreign investors;

• Acquisition of property, shares and other securities, including debt instruments issued by residents of the Republic of Uzbekistan;

• Investments in intellectual property rights, including copyrights, patents, trademarks, know-how, and business reputation;

• Acquisition of concessions, including concessions for exploration, development, production or use of natural resources;

• Acquisition of property rights to objects of trade and services, to residential premises together with the land plots on which they are located, as well as the rights to own and use land and natural resources;

• acquisition of the right to search, explore deposits and extract mineral resources in subsoil areas in accordance with production sharing agreements.

Foreign investors can make investments in other forms that do not contradict the law.

Thus, the most beneficial form of attracting foreign investment for developing countries is foreign direct investment. The Government of the Republic of Uzbekistan has created favorable conditions for the activities of foreign direct investors, which affects the volume of attraction of this form of foreign investment.

4.3. Legislation and preferential treatment created for foreign investors

Law of the Republic of Uzbekistan "On foreign investments" dated 30.04.1998, defines the legal framework and the procedure of making foreign investments on the territory of Uzbekistan.

The main objectives of the Act are:

- Promote the development of the economy of Uzbekistan and its integration into the world economy by stimulating the inflow of foreign investment;

- Recruitment and management of foreign financial, material, intellectual and other resources, advanced foreign technology and management experience.

The Law of the Republic of Uzbekistan "On guarantees and measures to protect the rights of foreign investors" is aimed at creating a set of measures for guarantees and protection of the rights of foreign investors in accordance with international treaties.

According to this regulatory document (Article-3), "if subsequent legislation of the Republic of Uzbekistan worsens the conditions for investment, then foreign investors shall be subject to the law applicable on the date of investment for ten years from the date of investment. "A foreign investor has the right, at his discretion, to apply those provisions of the new legislation that improve the conditions for his investment."

The state guarantees and protects all the rights of foreign investors in carrying out investment activities in the Republic of Uzbekistan.

Foreign investors and foreign investments are provided with a fair and equal treatment, their full and constant protection and safety. Such a regime cannot be less favorable than the regime defined in international treaties of the Republic of Uzbekistan.

The legal regime for foreign investment cannot be less favorable than the corresponding regime for investments made by legal entities and individuals of the Republic of Uzbekistan.

The law provides foreign investors with guarantees such as a guarantee against nationalization, from requisition, a guarantee of the use of funds at the discretion of the investor himself, a guarantee of the free transfer of funds and the return of foreign investment in connection with the termination of investment activity, free access to information, a guarantee of free movement within the territory of the Republic Uzbekistan, guarantees of protection of rights and the provision of additional guarantees established by law, depending on the specifics of the investment project.

Enterprises with foreign investment independently carry out export-import operations in compliance with the requirements of the legislation of the Republic of Uzbekistan. Export of products of own production is not subject to licensing and quotas.

Enterprises with foreign investments are entitled to import products without a license for their own production needs in accordance with the legislation of the Republic of Uzbekistan (Law of the Republic of Uzbekistan "On Foreign Investments".

The legislation, along with general guarantees and measures to protect foreign investors, may provide additional guarantees and protection measures, including ensuring the unconditional fulfillment by partners of their obligations to foreign investors.

Additional guarantees may be provided to foreign investors in each case when investing:

- priority sectors providing sustainable economic growth, progressive structural changes in the country's economy;
- in priority projects that ensure the strengthening and expansion of the export potential of the republic, its integration into world economic relations;
- in projects in the field of small business, the implementation of which is aimed at the processing of raw materials and materials, the production of consumer goods and services, employment.

The decree of the President of the Republic of Uzbekistan "On additional measures to stimulate the attraction of direct private foreign investment" of April 11, 2005, which was adopted with the aim of further improving the investment climate in the country, and broadly attracting private, played a huge role in attracting foreign investment into the territory of the Republic of Uzbekistan. foreign direct investment to implement programs of privatization, modernization, technical re-equipment and reconstruction of production, creation of new jobs in labor excess regions of the republic, as well as providing reliable legal protection and guarantees for foreign investors.

According to this regulatory document, from 11.04.2005, enterprises of sectors of the economy that attract direct private foreign investment are exempt from paying income tax, property tax, tax on the improvement and development of social infrastructure, a single tax payment for small enterprises, as well as mandatory contributions to the Republican Road Fund for a period of:

- If the volume of direct private foreign investment is from 300 thousand US dollars to 3 million dollars - for a period of 3 years;
- From $ 3 million to $ 10 million for a period of 5 years;
- Over 10 million US dollars - for a period of 7 years.

These tax benefits are subject to the following conditions:

- the location of these enterprises in all cities and rural settlements of the republic, with the exception of Tashkent and the Tashkent region;

- investments are attracted without providing the Guarantee of the Government of the Republic of Uzbekistan;

- the share of the foreign partner should be at least 33% of the authorized capital;

- investments of a foreign investor should be in the form of a freely convertible currency or new modern technological equipment;

- At least 50 percent of the income received as a result of tax benefits should be reinvested in the main activity with the aim of further development of the enterprise.

According to *the Decree of the President of the Republic of Uzbekistan "On the creation of a free industrial and economic zone in the Navoi region" No. UP-4059 dated December 2, 2008*, it was also created with the aim of creating favorable conditions for attracting foreign investment, especially direct ones, for organizing modern high-tech industries providing production of products that meet international standards and are in demand on world markets, as well as the development of industrial potential, production, transport and transit, social infrastructure in Navoi th field.

During the functioning of the free zone on its territory, special tax, customs, currency regimes, a simplified procedure for entry and exit, as well as obtaining permits for labor activities by non-resident citizens of the Republic of Uzbekistan are applied.

Also, under this Decree, special customs and currency regimes are established.

According to the Decree of the President of the Republic of Uzbekistan dated August 26, 1997 No. UP-1831 “On additional measures to stimulate the export of products manufactured by enterprises with foreign investments” for manufacturing enterprises with foreign investments exporting products of their own production for freely convertible currency, the following additional benefits are established and preferences:

- export customs duties on products of own production have been canceled;

- the right was granted to export their own products without prepayment and opening a letter of credit, if there are guarantees of authorized banks serving customers, and the terms of receipt of foreign currency proceeds provided for by applicable law are observed;

- it is allowed to open trading houses and representative offices abroad for marketing research of foreign markets and advertising products with the delivery of goods for them on a consignment basis;

- registration of export contracts for the supply of products of own production (except for the export of licensed goods) was canceled at the Ministry of Foreign Economic Relations, Investments and Trade of the Republic of Uzbekistan, while maintaining the current procedure for recording them in authorized banks and customs authorities;

- it was determined that enterprises independently form contractual prices for exported products of their own production on a contractual basis

All of the above legal documents indicate that the legislative framework for investment activity has been fully formed and is constantly being improved in the Republic of Uzbekistan, the created preferential treatment for foreign investors serves as an additional motive and one of the most important factors in a favorable investment climate in Uzbekistan.

The proposed economic methods and techniques for solving financial problems of economic development will improve the process of attracting investment. It is also important to consider the nature and direction of change in methods of state regulation of FDI in developing countries around the world. It will be advisable to set up a special information center to ensure that foreign donors in the developed reliable and promptly updated information. This approach is necessary, because they do not fully implemented the requirements set out in the article “Free access to public information” of the Law of the Republic of Uzbekistan “On guarantees and measures of protection of the rights of foreign investors”adopted on April 30, 1998. It notes that: “governments and public authorities in the field are required to provide for the needs of of foreign investors, they are interested in the information in the manner prescribed by law”.

The analysis of this act leads to the conclusion that the individual guarantees contained in it in a very general way and does not disclose specific mechanisms for their implementation in real life. For example, Article-4 of the Law lists additional guarantees and measures of protection in each case when investing:

- in the priority sectors to ensure sustainable economic growth, progressive structural changes of the economy;

- in the priority projects to ensure the strengthening and expansion of the export potential of the republic, its integration into the world economy;

- in projects in the field of small and medium-sized enterprises, the implementation of which is aimed at processing of raw materials, consumer goods and services, provision of employment.

This is not specifically disclosed, in which cases the guarantee provided by the Government of Uzbekistan, to assist in the financing of investment projects - to create a special tax and payment regimes, or in the exercise of state monitoring of the implementation of projects. However, there are cases when even hitting a national program received investment loans are not being developed. This demonstrates the shortcomings in the specific mechanisms of state regulation and control of the implementation of investment programs.

It would be fair to establish tax incentives to joint ventures based not on quantitative (size of the authorized capital), and on the qualitative indicators of foreign investments and their possible consequences, such as:

- FDI to create more jobs, it is necessary to create the most favorable conditions, as they help to reduce the level of unemployment in the country;

- An indicator of the share of value added in Uzbekistan largely determines the role of FDI in the national economy;

- To encourage foreign investment in sectors where there is the smallest share of foreign investment, tourism, science, etc.;

- To encourage the flow of foreign investment into the regions with low inflows to maximize the opportunities for all regions of the country;

- Should create the most favorable business environment for FDI, which use local resources such as raw materials and semi-finished products in large volume. In this way they stimulate the growth of small and medium-sized businesses.

Strengthened implementation of these measures will improve the taxation of FDI and raise their interest in additional investments.

Questions for discussing and control

1. What is the meaning of “Foreign Investments”?
2. What is the meaning of “Foreign Direct Investments”?
3. What is the meaning of “Foreign Portfolio Investments”?
4. Explain the nature and specific features of foreign investments.
5. What are the definitions of foreign investments by economists?
6. What is the definition of foreign investments in the Law of the Republic of Uzbekistan “On Foreign Investments”?
7. How do foreign investments differ from domestic investments?
8. What types of foreign investments do you know?

9. What risks of foreign investments do you know?
10. What do you think about the role of foreign investment in the development of Uzbekistan's economy?
11. Who may be foreign investors in accordance with the Law of the Republic of Uzbekistan “On Foreign Investments”?
12. What is the role of FDI in the development of Uzbekistan's economy?
13. What are the advantages of investing in Uzbekistan for foreign investors?
14. Why do you think it is necessary to attract foreign investments in the priority sectors of the national economy?
15. Do you know the legal framework for attracting foreign investments in the Uzbek economy?
16. What are the main objectives of the Law of the Republic of Uzbekistan “On Guarantees and Measures of Protection of Foreign Investors' Rights” dated April 30, 1998?
17. What tax incentives are defined in the Decree of the President of the Republic of Uzbekistan dated April 11, 2005 “On additional measures to stimulate the attraction of direct foreign direct investments”?
18. Explain the importance of the Decree of the President of the Republic of Uzbekistan “On additional measures to stimulate modernization, technical and technological re-equipment of production” of March 14, 2007 in active attraction of foreign investments to the republic?
19. Do you know the economic significance of FDI?
20. What factors determine the attractiveness of the country (region) in attracting FDI?
21. Explain the positive and negative effects of foreign investments on the economies of the host countries.
22. What tax, customs and other privileges and preferences do foreign investors have in the territory of the Republic of Uzbekistan?
23. What is the impact of FDI on enhancing investment activity in the country and creating a strong competitive environment?

24. What is the impact of FDI on innovation?
25. What forms of attracting of foreign investments do you know?
26. What do you understand by the term “Enterprises with foreign capital in Uzbekistan”?
27. How to establish an enterprise with foreign investments?
28. What are the rights of enterprises with foreign investments in accordance with the legislation?
29. Can you explain the reasons for the formation of the “Enterprises with foreign capital in Uzbekistan”?
30. What are the opportunities for establishing joint ventures with foreign investors?
31. Explain the aim of cooperation of Uzbekistan with IDRD.
32. Explain the goals and objectives of cooperation of Uzbekistan with EBRD.
33. Explain the goals and objectives of cooperation of Uzbekistan with IMF.
34. Explain the goals and objectives of cooperation of Uzbekistan with MIGA and ICSID.
35. What are the goals and objectives of cooperation of Uzbekistan with ABD?
36. What are the goals and objectives of cooperation of Uzbekistan with Islamic Bank for Devolopment?

CHAPTER 5. THE ROLE OF FOREIGN INVESTMENTS IN THE WORLD ECONOMIC INTEGRATION AND THE REGULATION OF THEIR INTERNATIONAL MIGRATION

5.1. International economic integration: content and process. Necessity and importance of activation and integration in the international economy for the development of the national economy

International economic integration is an economical, social-political and cultural integration of states which developed stable relationships among the states' economy. Nowadays there is no exact conception about process of integration. A group of economists emphasize that integration is a way to eliminate the problem by formation of a new flow of goods in condition "limited resources" in the world. It helps to reduce the cost of the producing . Others say that uneconomic factors which require the integration. For example, consolidate the country's defence and others. The third group of economists say that the integration helps to achieve easier and faster the developing of producing, economical, political and social stability. In a word integration is anapproaching of combination of countries national economies by creating new economic environment.

Integration is carried out in 2 views in world economy:

1. Micro- by creating transnational corporations;

2. Macro-by corresponding the economical policy among the countries.

Micro-scale integration processes in the countries geographically close to each other economic entities carried out by circling the scope of influence of the capital. Clearly, this system of integration process is happened by creating economical agreements, small enterprises. . The improving of relation between the companies and firms helps to circling the exchange of goods and services sectors, the free movement of capital and labor force in the country extending the social, economic, scientific and technological, economic and defense, financial and exchange currency in the field of procedures.

Macro-scale integration processes are carried out by establishment of countries'economic integration and agreement of economic policy.

There are a number of objective factors in the process of economic integration of the world:

- getting international of economy;
- intensification of the international division of labor;
- universal important fields of scientific and technical revolution (STR);
- increasing the degree of openness of the national economy, and others.

STR is an important factor that increase the role of social reproduction in foreign economic relations . Thus, to ensure the development of this or that country is not developed in isolation from a separate closed. The degree of openness of countries'economy is essential for entering to the economic relations in the world economy. Stimulating the export which is aimed at production operations carried out by the external economic strategy plays an important role the development of the national economy.

The international economic integration with the nature of the content, firstly, the countries of the world while processing a deep economic, social and political progress in the field of integration processes and, secondly, strong economic connection circling. According to the process of international economic integration reaching an adjacent countries in the fields of economic agreements, and to find the section of foreign countries, economic subjects (companies, enterprises) to show any connection to reaching an assignment capital. Interstate economic integration processes circling the economic integration of the countries and their national policy on the basis of agreements.

Basic types of economic integration:

1. Free trade zone;
2. Customs union;
3. Common market;

4. Economic or monetary union;
5. Full integration.

As a result of the international economic integration process as a whole unit of currency (sums, rubles, euros, dollars and disseminating), the financial budget, state or national management based on the establishment of regional economic networks (the EU, the NAFTA countries in the Asia-Pacific region). International economic integration is one of the most common appearance, the smaller the establishment of free economic zones in the areas of trade, economic integration is one of the sophisticated appearance of foreign trade tariffs on the basis of the occurrence of the important role of the Customs Union.

Keeping any connection to reaching an international economic integration process between the countries of the world that generates a number of advantages, first of all, to protect enterprises (producers) with a multitude of resources (labor and new technical and technological materials) with the support at the same time to produce competitive products for global markets allows.

Secondly, the international economic integration process in all countries make an economic, social, political and cultural nearness . It protect the member countries from crimp and competition which can be happen. Third, international economic integration between countries participating in the processes of economic, social, political and cultural ability to solve problems. As a result, the progress of the processes of international economic integration and economic development, and promote the development of underdeveloped regions, areas, and the improvement of the international situation in the labor market, economic, low-income population of the possibility of economic improvement of the delivery.

5.2. The role of foreign investments in the world economic integration

Integration with the countries of Central Asia in Uzbekistan, the country's foreign economic relations in the region to increase the effectiveness of the impact of all aspects of the service. There are a number of advantages because of this combination of integration. The integration of the countries of Central Asia by the participating countries is voluntary and itis based on the Economic Union to be aware of the necessity and convenience of the evolutionary process. This alliance members additional comparative advantages of the country's economy more dynamic and provides access to the trajectory of the economic hanged. Possible advantages of such an alliance, the following:

- mineral, agricultural and energy raw materials consecutive region, full of all kinds of fewer less; Joint strong export potential;

- cooperation and joint investments that allows the creation of competitive products on the basis of the total production capacity;

- high level of education and the work force, characterized by the low cost of labor resources;

- favorable geographical-political position between the countries of the East;

- rational use of water resources and other natural resources, and the opportunity to achieve environmental security.

Especially transnational corporations (TNC) help actively to improving the internationality. Transnational corporations are national monopolies which owner of assets in foreign. Their production trade activity out of the scope of a state. Capital asset is an important factor in the development and establishment of international corporations. The economy development will be successful and develop when the international labor device and relaships among the corporations is very high. In the future, the following fields will be developed : fuel and energy resources, engineering, including mining, metallurgy, agriculture (irrigation) of production equipment, grain processing, food industry, especially, coexistance and producing corporation in grain market.

Making a decision on investments in the economy of a country, a potential foreign investor evaluates all the conditions necessary for a successful and stable entrepreneurial activity. First of all, this is the level of socio-political and economic stability, the presence of a developed legislative framework, a favorable and stable tax regime, etc., i.e. the whole set of conditions that determine the investment climate.

Here, it should be noted that in recent years many countries have taken measures to liberalize national laws on foreign investment, introducing amendments to them or adopting new laws that provide more favorable conditions for foreign investors. The experience of many countries, especially developing countries and countries with economies in transition, shows that the following are the main areas of liberalization of national legislation on foreign investment:

1. Simplification of procedures for obtaining investment permits; in some cases, such permission is not required, for example, when the amount of investment does not reach a certain level, when creating joint ventures, when reinvesting profits, etc. In some countries, one-time implementation of all formalities is introduced when making investments through one institution (singlewindow approach or one-stop services).

2. Easing restrictions on property ownership, including permission to create enterprises with 100 percent foreign ownership.

3. Provision of new or extension of the terms of the previously granted “tax holidays”.

4. Full or partial exemption from certain taxes and fees.

5. The deduction from the taxable amount of the costs of training local staff, research and development.

6. The introduction of accelerated depreciation.

7. The lifting or easing of restrictions on the repatriation of profits, capital, wages of foreign personnel and income from liquidation of the enterprise.

8. Full or partial cancellation of requirements for foreign investors regarding the use of local raw materials, components and the hiring of local labor.

9. An increase in the length of the permissible period of use of foreign personnel.

10. Cancellation or reduction of the minimum amount of invested capital.

11. Removing restrictions on the activities of foreign investors in certain sectors of the economy.

Despite their interest in raising capital, developing countries and countries with economies in transition are taking various measures at the same time to protect their sovereign rights to natural and other resources, developing multilaterally standards for regulating the activities of foreign investors.

To date, world practice has developed a universal set of measures used to attract foreign capital. Among them, the most important are the following:

1. Tax incentives: tax benefits, “tax holidays”, exemption from customs duties and fees, etc.

“Tax holidays” - full or partial exemption of a commercial organization from paying income tax for a certain period of time after investing process.

The meaning of such exemption is to increase the attractiveness of investing and thereby increase the future tax base. At the same time, a temporary decrease in income from income tax to the budget is offset by additional non-tax benefits associated with attracting foreign capital, such as creating new jobs, developing production and infrastructure, the influx of financial resources, advanced technologies, etc. The practice of applying “tax holidays” is typical for many countries of Eastern Europe, Southeast Asia, etc.

2. Financial incentives - various kinds of subsidies, the provision of loans and loans on preferential terms, guarantees for their receipt.

3. Non-financial incentives - the creation of a favorable climate for the effective functioning of foreign capital, the development of the legislative framework and the necessary infrastructure (transport, communications, etc.), the creation of free economic zones, etc.

In various combinations, these measures to attract foreign investment are used in all countries. However, the experience of recent decades allows us to highlight the following features of the methods of their attraction, characteristic of various groups of countries.

Firstly, industrialized countries prefer financial incentives over tax ones. This is because financial incentives allow the government to focus on achieving specific goals, for example, attracting foreign investors to certain industries or “depressed” regions that are experiencing economic difficulties. In contrast, developing countries prefer tax measures, due to a lack of necessary financial resources.

Secondly, there has been a steady trend towards a wider use of non-financial measures, such as simplifying administrative procedures, creating free economic zones, etc.

Each country applies the above-mentioned universal measures in its own way. Let us turn, for example, to the experience of the United States, which for many decades has been a net exporter of capital, i.e. the volume of their foreign investments (capital exports) far exceeded the volume of foreign investments (capital imports in the USA). Since the mid-80s, the United States has become a major importer of capital, which was associated with factors such as the stability of the economic and political situation of the country, stable economic growth, which opened up great opportunities for investment, stability and the internationally recognized role of the American currency - the dollar and etc. However, in addition to these objective factors, an increase in the inflow of foreign capital in the United States was also affected by policies aimed at attracting foreign investors.

Among economic policy measures that stimulated the inflow of foreign capital into the United States, for example, the following can be mentioned:

- the introduction of restrictions on the import of certain goods into the United States, which prompted foreign companies in the struggle for the American domestic market to create their own production in the United States;

- the abolition of the 30-percent tax on the income of foreigners from American securities;

- Creation of special economic zones in relatively poorly developed regions of the country;

- The policy of state authorities that provide foreign investors with tax and other benefits. For example, in Missouri, 50% of the net income of corporations with foreign participation is tax exempt; in Connecticut, a foreign investor is provided with compensation of $ 1,000 for each new job; In Louisiana, corporations with foreign investment are fully exempt from taxes for 10 years.

Particular attention is paid to attracting foreign investment in the so-called development zones - territories that require additional attraction of financial resources in order to develop high-tech industries or reduce unemployment. An example in this regard is Ireland, which attracted in 1994-1996. foreign investments in the amount of $ 5 billion due to the provision of the following benefits:

- reduction in individual industries of the income tax rate to 10% over five years;
- financing up to 50% of R&D expenses (up to 250 thousand Irl. pounds);
- subsidies for rent (in the amount of 45-60%) and the purchase of real estate (in the amount of 45-60%);
- the maintenance of the agreed number of employees and the training of managers.

One of the most common ways abroad to ensure stability conditions for foreign investors is to include the so-called “stabilization clause” in the laws governing their activities or in agreements on joint business and investment cooperation.

A stabilization clause is a clause of an agreement that allows the investor to remain unchanged the conditions that existed before the adoption by the state of new legislation that worsens the conditions for the investor.

As the experience of Western countries shows, stabilization clauses do not automatically apply to all cases of worsening investment conditions in connection with the adoption of new legislation. Thus, an investor cannot demand the application of a stabilization clause in it if the newly adopted legislation deals with issues of state defense and security, public order, and public health.

In general, it can be concluded that many countries, including developing countries and countries with economies in transition, include provisions in their national laws that guarantee foreign investors:

- The right to enjoy a fair and non-discriminatory treatment, i.e. conditions conducive to their activities;

- The right to freely dispose of profits;

- the right to repatriate profits - the export of profits by a foreign investor from the country of its receipt;

- the right to adequate compensation - the fair market value of the nationalized foreign property;

- Prevention of the so-called creeping expropriation, i.e. the introduction by the host country of such methods of regulation of foreign investment that are aimed at their actual confiscation;

- inclusion in the legislative acts and texts of the agreements of stabilization ("grandfather") reservations;

- the possibility of using means of protection of investor rights, providing objectivity in the consideration of various economic and other disputes.

5.3. Bilateral agreements on regulation of investment relations

Attracting foreign investment is an important part of the macroeconomic policy of any state and especially countries with economies in transition.

However, in recent decades there has been a sharp increase in the need to develop international legal frameworks for regulating the movement of international investments. It is no coincidence that in recent years the number of various agreements on investment issues has been growing rapidly. These agreements differ among themselves in the composition of the participants, the range of issues addressed and the sectors covered. Of course, the conclusion of such agreements does not yet allow us to assert that the world has already created an international legal framework for foreign direct investment.

The Law on Foreign Investment consists of general international law, general standards of international economic law and individual rules specific to its field. The study of this area should take into account and include all three of these levels of law. Moreover, it has long been noted that the rules on foreign investment also necessarily include aspects of the laws of the host state. Depending on the setting of a particular case and the issue, the relationship between the relevant internal rules of the host state and the applicable rules of interstate law may become a central element of the necessary analysis of the case; for example, an internal definition of investment, internal rules regarding the jurisdiction of international tribunals, or internal rules on citizenship may determine the nature and outcome of a particular problem.

However, the fact of its gradual formation is undeniable. The structure of the emerging base may include:

- bilateral intergovernmental agreements on the promotion and mutual protection of investments;

- regional regulatory instruments;

- multilateral agreements.

For the object of regulation, bilateral agreements on the regulation of investment relations are divided into two groups:

- bilateral agreements on mutual encouragement and protection of investment;

- bilateral double taxation treaties.

Double taxation - taxation of the profit of a foreign investor in the territory of the country of location of its branch or joint venture and in the territory of its country of origin.

In the late 1990s, there were 1,160 bilateral intergovernmental agreements on the promotion and mutual protection of investments in the world, two thirds of which were concluded in the 1990s. In the vast majority of cases, their participants are, on the one hand, developed countries - the main exporters of capital, and on the other - developing countries and countries with economies in transition, seeking to attract foreign investment.

Bilateral intergovernmental agreements on the promotion and mutual protection of investments are agreements between the two states aimed at resolving all issues that arise before the parties during the investment process.

The preamble of such agreements, as a rule, sets forth the readiness of partner states to create favorable conditions for private investments of the other party, taking into account the fact that the encouragement and mutual protection of investments leads to the development of comprehensive and mutually beneficial economic cooperation. Further, the agreement states that the investments of the other party will be carried out in accordance with the national legislation of the country of capital application, i.e. host country. They are guaranteed full and unconditional legal protection. In addition, foreign investment may be provided:

- a national regime in which foreign investors are granted the same economic regime as local enterprises (with exemptions established by law);

- the most favored nation treatment, in which representatives of all foreign states enjoy equal rights in this country, which excludes the possibility of discrimination of any investors compared to investors from third countries.

In recent years, another broader wording has been used more and more often - to provide foreign investors with “fair and equitable conditions”.

The main danger for a foreign investor is the possible loss of their investments as a result of nationalization or expropriation of their property. In this regard, bilateral agreements contain guarantees against expropriation of investments, and if they are nationalized, fair compensation is provided not only for the investments themselves, but also for the benefits associated with them. Agreements oblige the parties to seek resolution of emerging economic disputes through negotiations. At the same time, foreign investors can defend their interests in national courts, in the arbitration court or in international arbitration.

The agreements guarantee investors the free export of profits from investments, as well as the possibility of repatriation of fixed capital. Some agreements have other important provisions: on the prohibition of unfair competition, the inadmissibility of restrictive business practices, on the obligation of the investor to gradually increase the share of national goods in manufactured products, provide the necessary data on their activities, etc. As a rule, bilateral agreements take precedence over national legislation.

An important element of the modern international legal framework for foreign investment is another type of intergovernmental bilateral agreement, namely, double taxation avoidance agreements, i.e. agreements to prevent taxation of income from investments simultaneously in the country of capital application and in the country of its origin. These agreements provide certain rules for the distribution of investment income between partner countries. On the one hand, they reduce the possibility of investors bypassing tax legislation, and on the other, they create a clearer picture for investors in taxation and the ability to manage their income most rationally.

The countries of the European Union (EU) have about 800 double taxation avoidance agreements, more than two thirds of which have been concluded with other developed countries. This is due to the fact that the bulk of direct investment is concentrated so far in the region of industrialized countries, which at the same time are the main exporters and importers of capital in the world.

5.4. Multilateral regulation of foreign investments

Unlike the regional agreements discussed above, which cover only countries participating in regional groupings, multilateral agreements are understood to mean agreements in which most countries of the world — developed, developing, and countries with economies in transition — are participating. In recent years, work on multilateral investment agreements has developed mainly within the framework of three international organizations: the United Nations (UN), the World Bank and the World Trade Organization (WTO) - the successor to the General Agreement on Tariffs and Trade (GATT).

It should be noted that a common feature of multilateral documents relating to international investment is the protection of the principle of establishing a “fair and non-discriminatory regime” for foreign investors, which creates favorable conditions for their activities.

Within the UN, this work was most actively carried out in the 60–80s. It reflected the desire of many developing countries to gain not only political but also economic independence, to establish sovereignty over natural resources and to attract and use foreign capital in accordance with national interests. In 1964, the United Nations Conference on Trade and Development (UNCTAD) was established, which analyzes issues related to foreign investment in developing countries, prepares reports on international investment and monitors countries' policies to attract foreign capital.

In 1975, the UN General Assembly approved the "Charter of Economic Rights and Obligations of States", in which:

- the right of all countries to freely exercise full and permanent sovereignty over their wealth and economic activity was affirmed;

- it was recorded that each state has the right to regulate foreign investment in accordance with national laws and regulations, goals and priorities;

- It was emphasized that no country can be forced to provide preferential treatment for foreign investors;

- the right of the host states was established to exercise control over the activities of transnational companies (TNCs) and to take measures to ensure that these activities comply with the rules, laws and regulations of host countries, as well as the goals of their socio-economic policies;

- The need was pointed out to resolve disputes related to foreign investment peacefully.

In the mid-80s, the Code of Multilateral Agreed Equal Principles and Rules for the Control of Restrictive Business Practices was adopted, which contained a number of provisions that were designed to strengthen the position of developing countries in relations with foreign TNCs and their branches. Some other documents were adopted aimed at expanding the inflow of foreign capital to developing countries, taking into account the national interests of the latter.

Of course, all documents of the UN and its organizations on foreign investment issues are not binding. In addition, some of them were adopted with direct opposition or abstinence from developed countries - the main exporters of capital, which is explained by their desire to protect the interests of Western investors. For example, for this reason, many years of negotiations over the development and adoption of a “Code of Conduct for Multinational Companies” ended, which was designed to create conditions for equal cooperation between host (mainly developing) countries and TNCs, to establish certain standards for foreign investors to comply with national sovereignty and national interests of host countries.

However, even a discussion of all these problems within the framework of international organizations, of course, contributed to a better understanding and understanding of the problems associated with the use of foreign investment in modern conditions on the basis of mutual benefit and with due regard to both the interests of investors and the national interests of host countries, which in the past they were often ignored or insufficiently taken into account.

It is also important to note that the above-mentioned documents and other UN resolutions on investment issues had important moral and political significance, as they contributed to the formation of world public opinion on foreign direct investment and the development of a new approach to assessing their role in the development of individual countries and the world economy generally.

The activities of the IMF and the World Bank, which includes five organizations, were narrower in nature:

1) International Bank for Reconstruction and Development (IBRD), founded in 1945; Its members are 180 states that must simultaneously be members of the IMF. The IBRD and the IMF jointly adopted the “Guidelines on the Foreign Private Investment Scheme” - a document designed to help states regulate the rules for admitting foreign capital into the country;

2) The International Development Association (IDA), created in 1960 to help the poorest countries with per capita incomes of less than $ 865;

3) International Finance Corporation (IFC), created in 1956 with the aim of financing commercial enterprises by providing loans and participation in their capital;

4) Multilateral Investment Guarantee Agency (MIGA).

5) The World Bank has signed a Convention on the Settlement of Investment Disputes between Host States and Foreign Investors. This convention provided for the possibility of the conflicting parties to appeal to the jurisdiction of the International Center for the Settlement of Investment Disputes (ICSID), established under the convention, which acts as an intermediary for the settlement of disputes arising between foreign investors and countries importing capital.

In the mid-80s, the World Bank developed and then adopted the "Draft of the main provisions of the convention on the establishment of the Multilateral Investment Guarantee Agency (MIGA)", which is designed to insure foreign direct investment in developing countries against non-commercial risks. The idea of creating such an agency arose back in the 50s and was discussed more than once in the framework of the IBRD. This convention was the first international legal instrument to provide investors with guarantees of protection against non-commercial risks at the international level.

Currently, more than 120 countries have acceded to the Convention. MIGA offers four types of insurance:

- currency non-convertibility insurance, which protects the foreign investor from losses associated with the inability to convert the currency received in the host country to transfer it to the territory of the investing country;

- expropriation insurance, which protects the foreign investor from the consequences of the actions of the host government, which may reduce or annul the investor's right to own insured investments or their right to control them;

- insurance against war and unrest, which protects a foreign investor from losses associated with hostilities or unrest that violate the normal activities of this enterprise;

- insurance against breach of contract protecting a foreign investor from losses associated with his inability to enforce a judicial or arbitral award made in respect of the host country that terminated or violated the investment agreement on its territory.

In the course of consideration of investment insurance applications at MIGA, the proposed projects are carefully scrutinized. The minimum size of investments subject to insurance has been officially re-established, and the maximum limit of insurance coverage is $ 50 million for one project and 150 million for one country.

Since the establishment of MIGA in 1988, guarantees of $ 13.5 billion have been provided for investment projects in 85 developing countries. These guarantees protect investments from the risks of currency inconvertibility and restrictions on the transfer of funds abroad, military operations and civil unrest (including acts of terrorism and sabotage), expropriation and violation of contractual obligations. As of June 30, 2004, the total amount of current MIGA guarantees amounted to $ 5.2 billion. Projects supported by MIGA provide job creation in host countries, employees acquire the necessary skills and governments receive tax revenues.

MIGA provides guarantees only to those investors who meet their established social and environmental standards, considered the highest in the world. MIGA protects investors from actions by governments that threaten investment. In the event of a dispute, MIGA enforces the failure of a mediation program to resolve disputes, helping governments and investors resolve disagreements without resorting to costly arbitration procedures. This program has two objectives: it ensures the continuity of investment and helps countries maintain a reputation for reliable investment. MIGA's unique opportunity to act as a kind of impartial broker strengthens investor confidence in the reliability and security of investing in developing countries.

In the mid-90s, attempts were made to develop multilateral investment agreements within the framework of the World Trade Organization (WTO), the successor to the GATT, whose main goal is to further strengthen the multilateral trading system and expand it into new areas of international economic relations. The question of the inclusion of foreign direct investment regulation in the GATT's sphere of activity was raised during the “Uruguay round” of trade negotiations, as a result of which the decision was made to create the WTO. This initiative, coming from the EU, has caused mixed reactions from not only developing, but also developed countries. Developing states feared that within the framework of the multilateral organization, which is the WTO, they might be imposed on decisions unfavorable for them to liberalize the access regime of foreign capital. As a result, foreign investment regulation issues were not included in the Uruguay Round agenda for multilateral trade negotiations under the GATT. However, the problem was not completely withdrawn from consideration and passed on to the WTO by inheritance.

But even in the course of the Uruguay Round, some agreements were adopted that included investment issues. One of them was an agreement on investment measures related to trade. In order to "encourage the expansion and gradual liberalization of world trade and facilitate the movement of investments across national borders" and given the fact that some investment measures may violate freedom of competition in world trade, this agreement lists the investment measures that the parties to the agreement undertook to eliminate within two years from the date of entry into force of the agreement. For developing countries, this period is set to five years, in addition, he is presented with a number of exceptions.

Issues of foreign investments were also included in the General (general) agreement on trade in services (it is known by the abbreviation GATS). At the beginning of 1997, negotiations on the trade in communications services were completed. The parties to the new agreement are 69 countries, which account for

90% of the global trade in communications services. The countries that signed the agreement committed themselves to open (albeit to varying degrees) their national communications markets for external competition and for access of foreign capital. The agreement covers telephone calls, data transmission, telex, facsimile communications, private leasing channels, satellite and mobile telephone communications, paging operations. The cost of international telephone calls is expected to fall by 80% as a result of this agreement.

At the end of 1996, at the first WTO ministerial session, which was attended by ministers of 128 countries, it was decided to include in the WTO's program of activities a study of the relationship between world trade and investment. It cannot be ruled out that in the future the WTO may return to the idea of concluding a special multilateral agreement on foreign investment.

5.5. The role of financial institutions in actively attracting foreign investments for the international integration of the economy

Uzbekistan has trustable partnership with financial-credit institution such as: International Monetary Fund, European Bank for Reconstruction and Development, Asian Development Bank, Islamic Development Bank and others. Uzbekistan’s economical strategy orients long term stability of macroeconomy, providing with high rates growth of economy, to implement continuously the economical changes and modernization of social infrastructure and the strategy will help to wide the partnership with international financial institutions.

International Monetary Fund was established in 1945 and it has 186 members. The main goal of IMF is adapting member countries’ currency and financial policy, and payment balance and supporting stabilization of the rate of currency. The fund financing its member-countries which have difficulties in balance payment and helps to improve their economy.

The IMF assists countries hit by crises by providing them financial support to create breathing room as they implement adjustment policies to restore economic stability and growth. It also provides precautionary financing to help prevent and insure against crises. The IMF's lending toolkit is continuously refined to meet countries' changing needs.

IMF lending aims to give countries breathing room to implement adjustment policies in an orderly manner, which will restore conditions for a stable economy and sustainable growth. These policies will vary depending upon the country's circumstances. For instance, a country facing a sudden drop in the prices of key exports may need financial assistance while implementing measures to strengthen the economy and widen its export base. A country suffering from severe capital outflows may need to address the problems that led to the loss of investor confidence – perhaps interest rates are too low; the budget deficit and debt stock are growing too fast; or the banking system is inefficient or poorly regulated.

In the absence of IMF financing, the adjustment process for the country could be more abrupt and difficult. For example, if investors are unwilling to provide new financing, the country would have no choice but to adjust – often through a painful compression of government spending, imports and economic activity. IMF financing facilitates a more gradual and carefully considered adjustment. As IMF lending is usually accompanied by a set of corrective policy actions, it also provides a seal of approval that appropriate policies are taking place.

The IMF's various lending instruments are tailored to different types of balance of payments need as well as the specific circumstances of its diverse membership (see Figure 5.1). Low-income countries may borrow on concessional terms through facilities available under the Poverty Reduction and Growth Trust (PRGT; see IMF Support for Low-Income Countries), currently at zero interest rates. Historically, for emerging and advanced market economies in crises, the bulk of IMF assistance has been provided through Stand-By Arrangements (SBAs) to address short-term or potential balance of payments problems. The Standby Credit Facility (SCF) serves a similar purpose for low-income countries. The Extended Fund Facility (EFF) and the corresponding Extended Credit Facility (ECF) for low-income countries are the Fund’s main tools for medium-term support to countries facing protracted balance of payments problems. Their use has increased substantially since the global financial crisis, reflecting the structural nature of some members’ balance of payments problems.

Purpose	Facility	Financing	Duration	Conditionality
Present, prospective, or potential BoP need	SBA	GRA	Up to 3 years, but usually 12-18 months	Ex-post
	SCF	PRGT	1 to 2 years	
Protracted BoP need/ medium-term assistance	EFF	GRA	Up to 4 years	Ex-post, with focus on structural reforms
	ECF	PRGT	3 to 4 years, extendable to 5 years	
Actual and urgent BoP need	RFI	GRA	Outright purchase	No Fund-supported program/ex-post conditionality, but prior actions possible
	RCF	PRGT	Outright disbursement	
Present, prospective, or potential BoP need (very strong fundamentals and policies)	FCL	GRA	1 or 2-year	Ex-ante (qualification criteria) and annual reviews for the two-year arrangements
Present, prospective, or potential BoP need (sound fundamentals and policies)	PLL	GRA	6 month (liquidity window) or 1 or 2-year	Ex-ante (qualification criteria) and ex-post
Non-financial/ signaling instruments	PSI	n/a	1 to 4 years, extendable to 5 years	Ex-post
	PCI	n/a	6 months to 4 years	

Figure 5.1. The IMF’s various lending instruments[14]

[14] www.imf.org/en/About/Factsheets/IMF-Lending

To help prevent or mitigate crises and boost market confidence during periods of heightened risks, members with already strong policies can use the Flexible Credit Line (FCL) or the Precautionary and Liquidity Line (PLL).

The Rapid Financing Instrument (RFI) and the corresponding Rapid Credit Facility (RCF) for low-income countries provide rapid assistance to countries with urgent balance of payments need, including from commodity price shocks, natural disasters, and domestic fragilities.

The IMF provides financial support for balance of payments needs upon request by its member countries. Unlike development banks, the IMF does not lend for specific projects. Following such a request, an IMF staff team holds discussions with the government to assess the economic and financial situation, and the size of the country's overall financing needs, and agree on the appropriate policy response.

Typically, a country's government and the IMF must agree on a program of economic policies before the IMF provides lending to the country. A country's commitments to undertake certain policy actions, known as policy conditionality, are in most cases an integral part of IMF lending (see table). This policy program underlying an arrangement is in most cases presented to the Fund's Executive Board in a "Letter of Intent" and further detailed in a "Memorandum of Understanding".

Progress is typically reviewed by monitoring the implementation of the policy actions. However, for some arrangements, countries can use IMF resources with no or limited conditionality if they have already established their commitment to sound policies (FCL, PLL) or where they are designed for urgent and immediate needs, for instance, because of the transitory and limited nature of the shock or where policy implementation capacity is limited, including due to fragilities (RFI, RCF). A country's return to economic and financial health ensures that IMF funds are repaid so that they can be made available to other member countries.

Once an understanding has been reached on policies and a financing package, a recommendation is made to the IMF's Executive Board to endorse the country’s policy intentions and extend access to IMF resources. This process can be expedited under the IMF’s Emergency Financing Mechanism.

The World Bank is like a cooperative, made up of 189 member countries. These member countries, or shareholders, are represented by a Board of Governors, who are the ultimate policymakers at the World Bank. Generally, the governors are member countries' ministers of finance or ministers of development. They meet once a year at the Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund.

The governors delegate specific duties to 25 Executive Directors, who work on-site at the Bank. The five largest shareholders appoint an executive director, while other member countries are represented by elected executive directors.

The World Bank Group President chairs meetings of the Boards of Directors and is responsible for overall management of the Bank. The President is selected by the Board of Executive Directors for a five-year, renewable term.

The Executive Directors make up the Boards of Directors of the World Bank. They normally meet at least twice a week to oversee the Bank's business, including approval of loans and guarantees, new policies, the administrative budget, country assistance strategies and borrowing and financial decisions.

The World Bank operates day-to-day under the leadership and direction of the president, management and senior staff, and the vice presidents in charge of Global Practices, Cross-Cutting Solutions Areas, regions, and functions.

The World Bank Group has set two goals for the world to achieve by 2030:

- End extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3%;
- Promote shared prosperity by fostering the income growth of the bottom 40% for every country.

The World Bank is a vital source of financial and technical assistance to developing countries around the world. It is not a bank in the ordinary sense but a unique partnership to reduce poverty and support development. The World Bank Group comprises five institutions managed by their member countries.

Established in 1944, the World Bank Group is headquartered in Washington, D.C. It has more than 10,000 employees in more than 120 offices worldwide.

The World Bank Group provides low-interest loans, zero to low-interest credits, and grants to developing countries. These support a wide array of investments in such areas as education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management. Some of its projects are cofinanced with governments, other multilateral institutions, commercial banks, export credit agencies, and private sector investors.

Financing Instruments of the World Bank Group are followings:

- Investment Project Financing provides IBRD loan, IDA credit/grant and guarantee financing to governments for activities that create the physical/social infrastructure necessary to reduce poverty and create sustainable development.
- Development Policy Financing provides IBRD loan, IDA credit/grant and guarantee budget support to governments or a political subdivision for a program of policy and institutional actions to help achieve sustainable, shared growth and poverty reduction.
- Program-for-Results links disbursement of funds directly to the delivery of defined results, helping countries improve the design and implementation of their own development programs and achieve lasting results by strengthening institutions and building capacity.
- Trust funds and grants allow scaling up of activities, notably in fragile and crisis-affected situations; enable the Bank Group to provide support when our ability to lend is limited; provide immediate assistance in response to natural disasters and other emergencies; and pilot innovations that are later mainstreamed into our operations.
- Private sector options for financing, direct investment and guarantees are provided by MIGA and IFC. Guarantees can also be provided through World Bank (IBRD/IDA) for private sector projects.

- Customized options and risk management
- Multiphase Programmatic Approach (MPA) allows countries the flexibility to implement an approach to achieve development objectives in stages when: the development challenge is complex; it would take a longer time to achieve the objectives; it would take a longer time to prepare one large project; the solution needs a broader and comprehensive approach; or when a stop-and-go approach is not feasible. Projects under an MPA program may be financed by Investment Project Financing; or Program-for-Results Financing, or their combination.

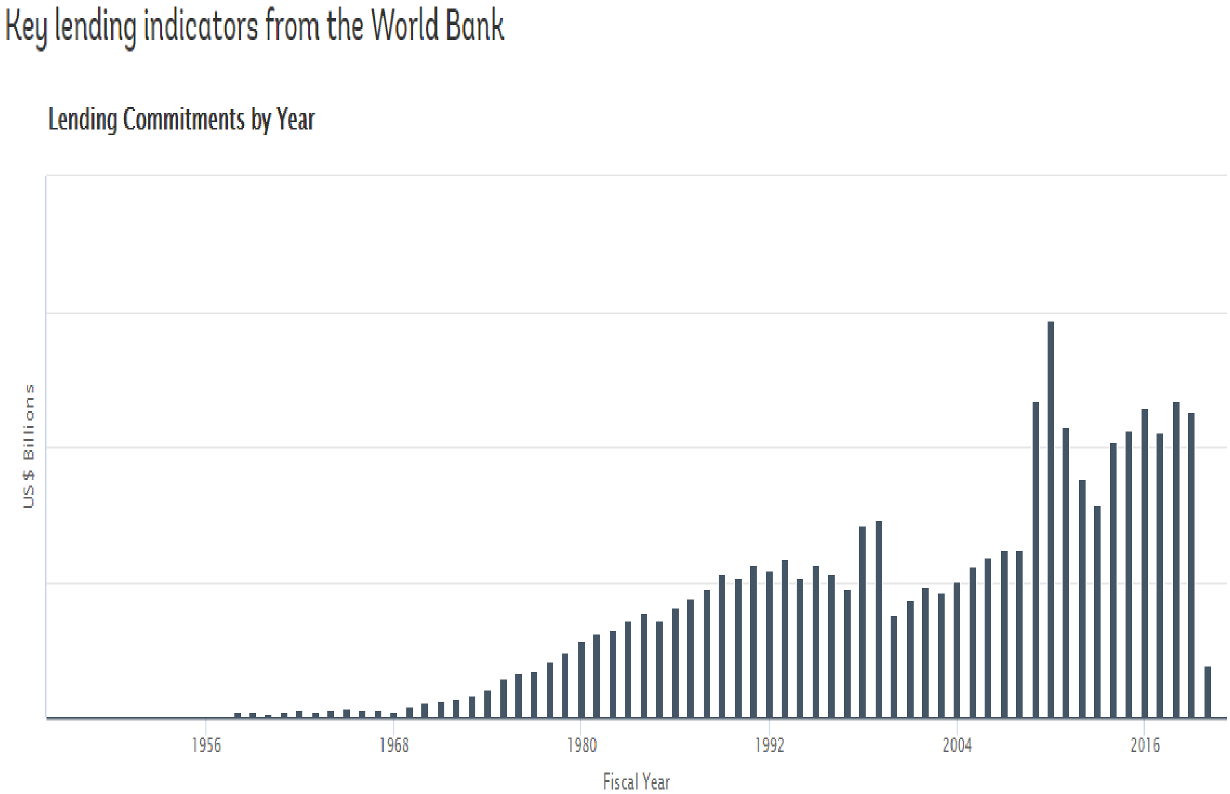

Figure 5.2. World Bank Operations at a Glance[15]

International Finance Corporation (IFC) - Established in 1956, IFC is owned by 185 member countries, a group that collectively determines our policies. Through a Board of Governors and a Board of Directors, our member countries guide IFC's programs and activities.

[15]www.projects.worldbank.org/

Each of our member countries appoints one governor and one alternate. Corporate powers are vested in the Board of Governors, which delegates most powers to a board of 25 directors. Voting power on issues brought before them is weighted according to the share capital each director represents.

The directors meet regularly at World Bank Group headquarters in Washington, D.C., where they review and decide on investments and provide overall strategic guidance to IFC management.

IFC is the only multilateral source of debt and equity financing for the private sector with global reach.

Its bonds offer a high-quality investment, even in volatile financial market conditions. IFC has consistently been rated AAA/Aaa rated by Moody's and S&P since our initial rating, in 1989.

IFC issues bonds in a variety of markets, formats and currencies, including global benchmarks bonds, green and social bonds, uridashi notes, private placements, and discount notes.

Multilateral Investment Guarantee Agency (MIGA) - organized in 1988, in order to promote attracting foreign investments to the countries which are members. The number of its members are 174 countries. The total volume of guarantees issued $20,9 billion. In 2009s, in the amount of $1,4 billion guarantees issued according 26 projects. This agent offers services insuring or guaranteeing from social risks in order to promote FDI.

International Center of Regulation Investment Disputes (ICSID) - organized in 1966, the main purpose is to regulate international investment disputes between countries which attracts foreign investors and investments. The number of its members are 143 countries.

Also regional financial institutes play an important role in regulating foreign investments in international levels (Figure 5.3).

European Bank for Reconstruction and Development (EBRD) - organized in 1991, the number of its members are 56 countries. EBRD helps countries of Central and Eastern Europe to reform in transitioning into a market economy.

Main activities of EBRD:

- Developing infrastructure;
- Leading and financing private companies' projects (in this 60% of resources designed to the private sector, 40% to the public sector);
- Guaranteeing private equity investment;
- Recommending to reconstruct component structure of finance.

Unlike other development banks, the EBRD doesn't participate in social credit system, and it is specialized in supportig and funding the private sector.

The bank fee, which will provide a minimum of $ 5 million. euros. Interest rates consists of market rate (usually LIBOR) and margin. Kredits are defined in floating interest rate (by using swap transactions) or strictly rate. Amount of Margin comes from conditions of the credit.

Regional Developing Banks
Regional Banks work in special economic zones and their purposes comes from the needs of that region; They carry out tailored credit policy about economic development rate among the countries which are members of Regional Banks; The most authoritative is EBRD among Regional Banks. The number of the members are 56 counties; EBRD aspects social activities like the existence of pluralism, parties and market reforms; Consists of the largest Regional Bank of Asia, Africa and Latin America, American Development Bank, Asian Development Bank.

Figure 5.3. Regional Developing Banks

Uzbekistan became a member of the EBRD in 1992. EBRD supports the global development of the private sector in Uzbekistan is known as one of the major investors. EBRD funded amount of 550 million more than 50 projects in variety sectors of the economy from 1992 to the present time.

Large credits from EBRD are directed to the real sector of the economy.

Asian Development Bank (ADB) was established in 1966, and includes 57 countries (41 Regional and 16 countries outside the region). Countries in the Asian region (if they are members of the United Nations or specialized agencies) can easily be members of ABD.

Japan, U.S, China, India, Australia, Indonesia, Canada is major shareholders of ABD. China, India, Pakistan, Indonesia, Bangladesh is considered as main borrower countries.

The main purposes of ABD: to support Asian developing countries in economic development, regional cooperation, encouragement and technical assistance to member countries on the following efforts of coordination of their economic policies.

ADB funds(finances) transport and communications, energy projects, agriculture and natural resources, finance and infrastructure finance.

In the ADB has Asian Development Fund (20.5 billion. USD.), and the Technical Assistance Special Fund (721,7 mln. US dollars.). In 1988, Between Bank and the Government of Japan organized Japan special fund in order to help technically.

ADB gives credits to the developing countries from of the following funds:

1) a 25-year term at the expense of ordinary stock commercial terms (nearly 2/3 of all loans);

2) preferential rates by 1-3% for 40 years, from the Asian Development Fund to the poor countries.

Like other development banks ADB's lending balance of loans for the public sector to ensure the project does not exceed 20% of the total. ADB feature is that it gives their 30% of loans on preferential terms from the special fund. It directed that funds to the European markets. In addition, most of the loans issued by the ADB are investment credits. This is an essential aspect of the ADB, and this side is differ ABD from commercial banks. Because in commercial banks the main part of is the short-term loans. Therefore, the ADB increasing role in the financing of investment projects in an instant.

Uzbekistan became a member of the ADB in 1995 and member fields are estimated to be members of the regional bank 15 spots in the list of major shareholders of the 22 spots in the list. Uzbekistan is owner 23 834 shares (0.67%) and 37 066 votes (0,84%) of ABD.

According to analysis, from 1996 to 2006, credits had been given from ordinary capital resources of the ABD. Since 2006, ABD has given privileged credits to Uzbekistan, and in 2007, these credits amounted to 8.7%.

The majority of credits are directed to develope infrastructure. It means that the Bank allocate credits to fund the social sphere. In addition, the transport and communications sectors also paid great attention to.

In addition, the cooperation between ADB and Uzbekistan promising to develop ways and automatic network, refers to the activation of work on the improvement of water supply system in rural areas.

Also foreign investments are attracted in order to develop small business and private entrepreneurship in our country. In particular, the Asian Development Bank, Islamic Development Bank, the German Development Bank (KfW) and the Government of the Republic of China and other foreign investors are allocating the large amount of credits.

The Islamic Development Bank (IDB) was established in 1974. Includes 35 islamic countries.

The purpose of the IDB is to invest capital of the industrial companies and leading projects of development and foreign trade of the member countries.

In 2003, on September 3, Uzbekistan joined to the IDB, and during 2003-2009 years there were services from that bank in amount of $150 mln.

Privileges have been implemented in order to improve foreign trade relations. At the same time also the other forms of economic co-operations have been improved significantly. The establishment of enterprises with foreign capital participation, the participants of foreign economic activity registration procedures and the procedure for the issuance of permits issued for the product much easier and more convenient.

Expansion to liberalize the economy and attract foreign investment, depending on the level of state regulation of investment activity, FDI should focus on attracting new projects and joint ventures. As well as, the regulation of private businesses is also meant to attract a large part of the activities of the investment. At the same time, foreign investments, including direct subjects of the national economy as well as to promote access to private capital flowing participate in this activity will be an important place. Thus, the task of regulating, on the one hand, to increase the flow of FDI, on the other hand, the expansion of the subjects of the national economy, private property investments.

Questions for discussing and control

1. What is the meaning of “international economic integration”?
2. The main stages of international economic integration?
3. Why is it necessary to revitalize the national economy and integrate into the global economy?
4. What are the main directions and modern requirements for the country's integration into the global economy?
5. What foreign experience of active international integration for modernization, diversification and economic development do you know?
6. What are the main goals and directions of the state policy of Uzbekistan based on the country's integration into the global economy?
7. How do foreign investments influence the country's entry into international integration?
8. What is the role of financial institutions in actively attracting foreign investment for international economic integration?

9. How do foreign direct investment contribute to enhancing the international integration of the economy?
10. What does the international regulation of foreign investment mean?
11. Why is international regulation of foreign investment necessary?
12. What are the bilateral intergovernmental agreements on the promotion and mutual protection of investments?
13. What are the multilateral investment agreements?
14. What is the double taxation?
15. What is a national treatment?
16. What is the most favourable regeme?
17. What is the main goal of the International Bank for Reconstruction and Development (IBRD)?
18. When was established IBRD?
19. What is the main goal of the International Development Association (IDA)?
20. When was established IDA?
21. What is the main goal of International Finance Corporation (IFC)?
22. When was established IFC?
23. What is the main goal of Multilateral Investment Guarantee Agency (MIGA)?
24. When was established MIGA?
25. What is the main goal of the International Center for the Settlement of Investment Disputes (ICSID)?
26. When was established ICSID?
27. What do you know about goals of other international financial organisations?
28. What do you know about cooperation of Uzbekistan with international financial organisations?

CHAPTER 6. THE IMPORTANCE OF FREE ECONOMIC ZONES IN ATTRACTING FOREIGN INVESTMENTS INTO THE ECONOMY

6.1. The meaning and significance of free economic zones. Types of free economic zones

An integral part of international economic in the second half of the XX century are free (special) economic zones (SEZs). For world economic relations, free economic zones appear mainly as a factor in accelerated economic growth due to the intensification of international trade, the mobilization of investments, and the deepening of integration economic processes. Since the signing of the Kyoto Convention in 1973, which defined the free zone as a kind of foreign trade enclave where goods are considered to be outside the customs territory, free economic zones have become widespread in many countries. In the 90s, several thousand different kinds of free economic zones functioned in the world. According to experts, by the year 2000, up to 30% of world trade will go through various free economic zones. International corporations, in search of preferential conditions for their activities, consider free economic zones as favorable territories where superprofits can be obtained. The largest transnational corporations consider the organization of their own production in free economic zones as the most important direction of their expansion. Free economic zones are part of the national economic space where a special system of benefits and incentives is used, which is not applied in other parts of the country. As a rule, a free economic zone is a separate geographic territory to one degree or another. In the scientific publications and reports of international organizations, the term "free economic zones" is used to characterize various kinds of zones. However, this term does not fully reflect the essence of this phenomenon. Thus, the economic rules, levers, and special administrative laws used in many of them do not exempt from a certain legal and economic regime, but only facilitate it and provide incentives that stimulate entrepreneurship. In fact, the state in these zones only reduces the scale of its interference in economic processes. For some countries, "free zones" are essentially special in the sense of extraterritoriality, according to the conditions of living standards of workers in the zone, concentration of production potential, etc. The term "special economic zones" is more suitable for such zones. Why do they create free economic zones. Why did they get is this spread in the world?

Ask three people to describe a special economic zone (SEZ) and three very different images may emerge. The first person may describe a fenced-in industrial estate in a developing country, populated by footloose multinational corporations (MNCs) enjoying tax breaks, with laborers in garment factories working in substandard conditions. In contrast, the second person may recount the "miracle of Shenzhen", a fishing village transformed into a cosmopolitan city of 14 million, with per capita gross domestic product (GDP) growing 100-fold, in the 30 years since it was designated as an SEZ. A third person may think about places like Dubai or Singapore, whose ports serve as the basis for wide range of trade- and logistics-oriented activities.

In fact, all three of these are correct descriptions of this diverse instrument: Table-6.1 provides a brief summary of the different types of zones in existence. This table highlights the many ways in which the concept of "special" economic zones has been operationalized and underscores the challenge of attempting to say anything specific about such a heterogeneous policy tool. But despite the many variations in name and form, all SEZs can be broadly defined as demarcated geographic areas contained within a country's national boundaries where the rules of business are different from those that prevail in the national territory. These differential rules principally deal with investment conditions, international trade and customs, taxation, and the regulatory environment; whereby the zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative perspective than that of the national territory.

But we are most concerned with two specific forms of those zones: (1) the export processing zones (EPZs) or free zones (zona francha in our case studies on

Honduras and the Dominican Republic), which focus on manufacturing for export; and (2) the large-scale SEZs, which usually combine residential and multiuse commercial and industrial activity. The former represents a traditional model used widely throughout the developing world for almost four decades. The latter represents a more recent form of economic zone, originating in the 1980s in China and gaining in popularity in recent years. Although these models need not be mutually exclusive (many SEZs include EPZ industrial parks within them), they are sufficiently different in their objectives, investment requirements, and approach to require a distinction in this book.

SEZs have a long-established role in international trade. Entrepôts and citywide free zones that guaranteed free storage and exchange along secure trade routes – such as Gibraltar, Hamburg, and Singapore – have been operating for centuries. The first modern industrial free zone was established in Shannon, Ireland, in 1959.1 Before the 1970s, most zones were clustered in industrial countries. But since the 1970s, starting with East Asia and Latin America, zones have been designed to attract investment in labor-intensive manufacturing from MNCs. These zones became a cornerstone of trade and investment policy in countries shifting away from import-substitution policies and aiming to integrate into global markets through export-led growth policies.

SEZs normally are established with the aim of achieving one or more of the following four policy objectives (FIAS 2008):

1. To attract foreign direct investment (FDI): Virtually all zones programs, from traditional EPZ to China's large-scale SEZs aim, at least in part, to attract FDI.

2. To serve as "pressure valves" to alleviate large-scale unemployment: The SEZ programs of Tunisia and the Dominican Republic are frequently cited as examples of programs that have remained enclaves and have not catalyzed

Table-6.1

Summary of Types of Zones

Type of zone	*Development objective*	*Typical size*	*Typical location*	*Activities*	*Markets*	*Examples*
Free trade zone (commercial-free zone)	Support trade	<50 hectares	Port of entry	Entrepôt and trade-related activity	Domestic, re-export	Colon Free Zone (Panama)
Traditional EPZ	Export manufacturing	<100 hectares	None	Manufacturing or other processing	Mostly export	Bangladesh, Vietnam[1]
Free enterprises (single unit EPZ)[2]	Export manufacturing	No minimum	countrywide	Manufacturing or other processing	Mostly export	Mauritius, Mexico
Hybrid EPZ	Export manufacturing	<100 hectares; only part of area is EPZ	None	Manufacturing or other processing	Export and domestic	La Krabang, Thailand
Freeport/SEZ	Integrated development	>1,000 hectares[3]	None	Multiuse	Internal, domestic, and export	Aqaba, Shenzhen

Sources: Derived from FIAS (2008) and Farole (2011).

Note: EPZ = export-processing zone; SEZ = special economic zone.

1. Bangladesh passed a new Economic Zones Act in 2010 that will open up the potential of zone activities beyond the traditional EPZs; Vietnam has various forms of economic zones, among which are EPZs.

2. Many EPZ programs offer licenses for both EPZ industrial parks and "single unit" EPZs. Examples include Dominican Republic, Honduras, and Kenya.

3. Some multiuse SEZs, particularly those that do not include a resident population, may be smaller in scale.

dramatic structural economic change, but that nevertheless have remained robust, job-creating programs.

3. In support of a wider economic reform strategy: In this view, SEZs are a simple tool permitting a country to develop and diversify exports. Zones reduce anti-export bias while keeping protective barriers intact. The SEZs of China; the Republic of Korea; Mauritius; and Taiwan, China, follow this pattern.

4. As experimental laboratories for the application of new policies and approaches: China's large-scale SEZs are classic examples. FDI, legal, land, labor, and even pricing policies were introduced and tested first within the SEZs before being extended to the rest of the economy.[16]

The goals of creating SEZs depend on the level of socio-economic development of the countries that organize them, their strategic economic plans, etc. Therefore, the reasons and goals for creating free economic zones in each case may differ from each other. So in industrialized countries, such as the USA, Great Britain, France, free economic zones were often created to enhance foreign economic relations, implement regional policies aimed at revitalizing small and medium-sized businesses in depressed areas, and equalizing inter-regional differences. For this purpose, this category of entrepreneurs was provided with various kinds of tax benefits fixed by national laws. A common feature of various types of free economic zones is the presence of a favorable investment climate, which includes customs, financial, tax benefits and advantages compared with the general regime for entrepreneurs existing in a particular country.

Specific benefits and incentives have some quantitative differences in the zones of different countries, in fact, they are usually similar. There are four main groups of benefits:

1. Foreign trade benefits. They provide for the introduction of a special customs tariff regime (reduction or abolition of export-import duties) and a simplified procedure for conducting foreign trade operations.

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[16] T.Farole, G.Akinci. Special Economic Zones.Progress, Emerging Challenges, and Future Directions. The International Bank for Reconstruction and Development/The World Bank.Washington. 2011. P.2.

2. Tax incentives contain rules related to tax incentives for specific types of activities or behavior of entrepreneurs. These benefits may affect the tax base (profit, property value, etc.), its individual components (depreciation, salary costs, research and development, transportation), the level of tax rates, issues of permanent or temporary exemption from taxation.

3. Financial incentives include various forms of subsidies. They are provided in the form of lower prices for utilities, lower rents for the use of land and industrial premises, soft loans, etc.

4. Administrative benefits are provided by the administration of the zone in order to simplify the procedures for registering enterprises and the regime of entry and exit of foreign citizens, as well as the provision of various services.

These benefits apply in a variety of combinations. The privileges granted to free economic zones are not always the main incentive for the inflow of foreign capital into the country. Such factors as political stability, investment guarantees, quality of infrastructure, qualification of the workforce, simplification of administrative procedures, etc., may turn out to be more significant in this respect. However, under such equal conditions, the benefits provided by the zone come to the fore.

The creation of free economic zones (SEZs) provokes discussions in various circles of society about the advisability of establishing such zones, their goals and objectives, locations, etc. These discussions are inevitable, necessary and are an integral part of the process of establishing a new phenomenon in the life of the country. Support from progressive political and public organizations, the government, individual politicians and business circles plays an important role and can make the concept of free economic zones in the country both acceptable and workable.

Equally important is the resolution of the issue of participants in free zones - foreign and national investors. It is the composition of the participants that determines the success or failure of this new form of management in the country's economic system, and they depend, first of all, on the reaction of investors who would like to invest their capital in zones. An analysis of world experience shows that the developers of free economic zones face difficulties associated not only with the difference in stimulating factors for foreign and national investors, but also with the opposite, and sometimes mutually exclusive, nature of such incentives. What may be the main incentive for a foreign investor (for example, entering the domestic market) may be of secondary importance to a national investor.

The work of the creators of the zones is further complicated by the fact that they themselves do not yet realize that incentives and incentives can be understood differently by foreign and national investors. For example, for local investors, the presence of well-developed infrastructure in zones can be of great stimulating importance for making investments, and for a foreign investor, such an “incentive” is a prerequisite for considering the possibility of investing in the zone. At the same time, the starting point for a foreign investor will not be the level of infrastructure in the zone, but the level and quality of infrastructure in their own country or in other foreign countries. Local investors can consider the conditions created in a particular zone more than exceptional and technically modern (for example, a management system), while foreign investors can be more critical. This contradiction seems insurmountable and must be taken into account when developing and implementing zone projects.

The discrepancy in the assessments of the attractiveness of free economic zones does not exclude the possibility of a “consensus” with foreign investors. The factor encouraging a foreign investor to participate in the zone is not the quality of the infrastructure (this is only a precondition) for duty-free import of goods and services, tax exemptions and other benefits, but the possibility of obtaining direct access to the domestic market. No less important for them is the volume and ability to use the funds received as a result of their activities in the zone. The problem here is the need to transfer profits abroad, including dividends on outstanding shares. Without resolving this issue, many firms will refrain from investing significant capital in free economic zones.

Foreign direct investment in free economic zones can be considered as a method of gradual integration of foreign firms into the national economy. Therefore, already at the planning stage of SEZ, it is necessary to provide for the possibility of establishing direct and feedback links of foreign firms with local entrepreneurs. Such relationships are designed to ensure the receipt of local commodities, components, semi-finished products, integrated equipment and services. Access to local resources is an important incentive for foreign investors. But in practice, achieving this for foreign firms operating in the zone can be quite difficult and may take a long time. Paying great attention to this factor, the developers of the zone try to take into account the following points.

First, many local resources that could be purchased by foreign firms are already scarce in the country. And the growth in demand as a result of the appearance on the market of foreign firms operating in the zone can only complicate the situation. If we are talking about the near future, then foreign firms, guided by their own interests, can overcome the deficit by paying for these resources at higher prices. But this can accelerate the development of inflationary processes and exacerbate the problem of resource shortages for other firms operating in the country. In the long run, the additional demand from firms operating in the zone will force local suppliers to increase production capacity to meet this new demand. But such a process takes several years.

Secondly, the quality and technological level of local resources may not correspond to the standards imposed on these resources by foreign firms operating in the zone. This is a problem that foreign firms face in all cases when they use local resources. Over time, local suppliers gradually increase the technological level of their production. However, this technological improvement is not automatic. If the gap in technology levels is large enough, foreign firms may decide to break off ties with local suppliers and continue to operate in the zone, relying on their traditional suppliers. From this it follows that a system of methods, incentives and organizational forms for establishing economic and technological ties between foreign firms in free zones and local enterprises working outside it is needed.

Thirdly, the need to take into account the magnitude and level of costs required to establish direct relations between foreign firms operating in the zone and local enterprises. It is a mistake to assume that local firms, without hesitation, will supply foreign firms with goods and services that meet the buyer's technical standards and are available in sufficient quantities. This situation is the exception rather than the rule. This means that solid investments should be made in expanding production capacities and raising the technological level of local enterprises located outside the zone, as well as in ensuring production relations between these enterprises and firms operating in the zone. Such investments will benefit the entire economy (provided that firms that have received new development in this way will also supply goods and services to the local market). Solving the problem requires financial costs that previously may not have been foreseen, and this increases the volume of investment in creating free economic zones.

The presence of these problems – the lack of raw materials and financing, the low technical level of local enterprises, the low quality of local goods and services – makes it difficult to solve the problem of establishing a connection between foreign firms operating in the zone and local enterprises operating outside the zone. It follows that in the early stages, access to local raw materials markets is not a strong motive for potential foreign investors. Nevertheless, the ability to have access to local resources in the long run can be a powerful argument for them.

The development of the supply of foreign firms in the SEZ with local resources falls into the category of early events and there is no serious reason to doubt that at least a small number of potential investors may be willing to participate in the development of such resources. Zone developers often assume that one of the main advantages for foreign participants in free economic zones is the level of financial or other incentives provided by the government of the country creating the SEZ. Indeed, this was the case when creating the first free economic zones. However, over the past decades, the number of zones in the world has grown so much that the relative advantages for foreign investors (tax incentives, subsidies, exemption of duties from import, partially duty-free exports, and others) have largely, if not completely, lost their stimulating significance.

Since all countries that want to have or have free economic zones provide almost the same benefits, a country that wants to use these benefits as the main incentive to attract foreign investment will have to provide more substantial benefits than other countries. It will be so burdensome for the country financially that it will call into question the general economic and financial feasibility of establishing such zones.

A study of world experience shows that no zone can operate successfully without the appropriate infrastructure: equipped territory, telecommunications network, water supply, electricity, without access to the airport, without housing for local and foreign personnel. What investors considered as a comparative advantage 15-20 years ago (a nearby international airport, good telephone service, etc.) is now considered one of the initial conditions, without which a foreign company will simply not consider participating in zone. The gradual averaging of material and economic benefits confirms that these two groups of benefits will not be a long argument for attracting foreign investors to the zones. They are only a precondition for an investor to make a positive decision about making investments or about the possibility of future investments. The final decision whether or not to invest in the zone depends on the tactical and strategic considerations of the investor.

Based on the fact that the zones from the very beginning will be focused on placing both foreign and local enterprises in them, it is also necessary to develop conditions for attracting national firms and investors to the zones. At first glance, it seems that attracting national investors is not difficult, since they are interested in using the developed infrastructure and benefits provided by the zone. But as practice shows, the situation can be completely different. National investors can take a rather wait-and-see attitude or, having shown interest at first, then may refuse to participate in the zones. This is explained by the fact that the very real advantages of the zone may exceed the possible difficulties of working in the unusual working conditions in national zones for national firms. Very difficult for them is given the transition from the methods of organization and production management that they use to work in new production, technological and organizational conditions.

Thus, when developing projects of free economic zones, it is necessary to pay appropriate attention to the problem of attracting national enterprises that would successfully operate in this free economic zone.

A common feature of various types of free economic zones is the presence of a favorable investment climate, which includes customs, financial, tax benefits and advantages compared with the general regime for entrepreneurs existing in a particular country. Specific benefits and incentives have some quantitative differences in the zones of different countries; essentially, they are generally similar.

6.2. World experience in organizing free economic zones

The functioning of free economic zones in industrialized countries indicates that the basis for their success is, on the one hand, good planning of the initial stages of their development, and on the other, the flexibility of zone management. The changing situation in the world economy (scientific and technological revolution, competition between international corporations, changes in exchange rates, in the system of international exchange, etc.) affects the development of free economic zones and accordingly requires an adequate response to these changes. The socio-economic benefits of creating zones (foreign trade in the United States, Shannon in Ireland, etc.) are quite significant.These zones have created a significant number of jobs, revitalized international trade exchange, increased foreign trade performance, research and production potential of these countries, etc. An important aspect of the activities of SEZs in industrialized countries is that they work not only on the world, but also on the domestic market.The free economic zones operating in developing countries have a number of common features and points So, the most widespread in these countries is, firstly, export-production zones.As mentioned above, the feasibility of creating export-production zones is determined by a number of economic reasons, and above all: the need to develop industry and manufacture industrial goods for export, attracting to the country of foreign capital, advanced science and technology, modern technical information, and secondly, the special economic regime in the CE3 of developing countries is becoming more liberal and benefits nym for foreign entrepreneurs.

This is due to increased international competition between the zones and, accordingly, attempts to demonstrate its comparative advantages over other similar free economic zones. Thirdly, in the process of functioning of free economic zones, commercial and industrial diversification of their activities, integrated development takes place. The modern scientific and technological revolution brings to the forefront such economic zones in which high-tech industries are concentrated, associated with the development of new and high technologies. Among developing countries, the free economic zones of China have received very noticeable development and resonance. Starting with small territories united by special zones in the early 80s, the Chinese leadership extended their regime to hundreds of square kilometers by the mid-90s. In addition to the most well-known free economic zones in the country and abroad - Shen-zhen, Zhuhai, Xiamen, Shantou, which have a long history, as well as the Hainan zone, which has existed since 1988, the country has a notable The zones of technical and economic development (more than two dozen) and the zones of development of new and high technologies — technoparks — were developed. A special role is given to the Shanghai Pudong Economic Development Zone. The significance of the project, designed for several decades, is determined not only by the fact that the Pudong zone should become a major center of industrial production in China in the future, but also aims to contribute to the transformation of Shanghai into the largest trade and financial center of the Asia-Pacific region. The creation of special economic zones (SEZs) has become an important part of an open foreign economic policy, proclaimed by the Chinese leadership in the late 70s. When choosing a model for the development of SEZs, the Chinese leadership proceeded from the current needs of the country and the experience of the functioning of such zones in other countries. The most detailed experience was studied in Singapore, Taiwan, and the USA. In the course of preparing the organization of special economic zones, several options for the mode of their operation were proposed and as a result, the path was chosen to create an export-oriented economy within them, to attract foreign capital in every possible way, and to significantly improve production technology. Special economic zones began to play a connecting (buffer) role with other regions of the country, implementing the “open door” policy. Since the beginning of the 1990s, free customs territories - free (duty-free) trade zones (FTZs) began to appear in port cities and China's special economic zones.). Free trade zones, according to Chinese experts, will be developed according to models similar to those that exist in other countries. According to the Chinese leadership, the development of free trade zones will be one of main directions of the implementation of an open foreign economic policy until 2000.

The practice of functioning of the Chinese free economic zones and other areas with a favorable investment climate has demonstrated undoubted success. Among the achievements of the SEZ, both Chinese and foreign experts include, first of all, high, steady rates of economic growth, large volumes of foreign investment attracted to the zones, a significant increase in labor productivity and, finally, a significant increase in the standard of living of the population. Free economic zones in the PRC (in addition to the goals of special zones common with other countries) are, on the whole, an experiment in the use of market relations in the prevailing state ownership. The transition "all at once" to a market economy is recognized in China as unacceptable, fraught with serious upheaval for the people and the economy as a whole. The specifics of the Chinese experience in regulating free economic zones is that for modern China they are more than special areas for stimulating foreign and domestic entrepreneurship. In the free economic zones of

China, the formation and running-in, as Chinese economists point out, of the economic model, according to which almost all of China will live in the 21st century. The noticeable role of free economic zones in the socio-economic development of individual isolated regions of different countries, of one industry or another, in attracting foreign capital or revitalizing small and medium-sized domestic enterprises, however, is not sufficient reason to consider them as a universal way to modernize the economy . The degree of influence of free economic zones on the rest of the territory of many developing countries is rather limited. This is especially true for industrialized countries, where, as a rule, there is no special task of spreading such influence. The organization of free economic zones plays a supporting, stimulating role in revitalizing the entrepreneurial activity of a given region or in focusing attention on the development of a particular branch of the economy. At the same time, although the functioning of free economic zones in developing countries is not a panacea for solving their diverse socio-economic problems, they play a very prominent role in the economy and society of these countries. For many developing countries, free zones are becoming poles of trade, economic, scientific, technological and social growth. In addition, they are working out a model of an open economy to one degree or another, and ways of integration into the global economy. The formation of free economic zones, especially in developing countries, is associated with significant investments and subsequent substantial efforts by the state to develop them. Without well-defined centralized support, they are virtually unviable.

According to a survey conducted by the Institute of Oriental Studies of the Russian Academy of Sciences for 26 countries, own costs for attracting foreign investment in free economic zones averaged $ 4 per $ 1 of foreign investment. In China, for example, foreign investments in four free economic zones amounted to $ 4 billion by the end of the 80s, while initial own investments exceeded $ 22 billion, which is 5.5 times more. In essence, the entire infrastructure of the free economic zones of the PRC was created at the expense of centralized state funds. With numerous examples of the successful functioning of free economic zones, unsuccessful attempts to organize them also take place. Thus, the creation of various kinds of free economic zones in Sri Lanka, Guatemala, Liberia, Senegal and other countries was not only unsuccessful, but many of them ceased to function at all. Later attempts were made to resuscitate them, to one degree or another successful. The main reasons for the failure of the SEZ in these countries include political, economic, and organizational. Political reasons are associated with general political instability in the country, civil unrest, up to military action. For economic reasons, first of all, include overly complicated, confusing, from the point of view of the investor, legislation on the investment regime in the zone.

6.3. Geographical structure of offshore zones and their grouping

Offshore (offshore - “outside the borders”) - a legal entity registered in a jurisdiction with preferential taxation, in the absence of currency control. This is a company that does not conduct business in the country of its registration, and the owners of these companies are non-residents of these countries. The basis for the emergence of offshore companies are the laws of countries that partially or completely exempt from taxation companies that do not conduct business in the country of registration. It is important to note that preferential taxation of offshore companies exists only in terms of carrying out activities outside the country of registration. For the full-fledged work of offshore in any other country, an intercountry agreement is required to avoid double taxation of this country with the country of registration of the offshore. Otherwise, the offshore is subject to taxation of the country where it operates.

From the point of view of international law, an offshore company is an independent legal entity and conducts its activities in accordance with the laws of the country of registration. Currently, there are about 60 countries in the world that provide tax incentives for offshore companies. Offshore companies are entitled to open an unlimited number of accounts with any banks in the world. Their activities are virtually not accountable to anyone, in most “tax havens” annual reporting comes down to listing a fixed fee.

What is offshore for? There are several answers to this question:

1. Safe. Suppose that a businessman has accumulated certain funds and wants to put them in a safe place, have immediate access to them, freely dispose of them and freely move them around the world, protect themselves from the political instability of the state where he lives, and hide from excess taxes. To do this, you need a bank in a reliable, stable country. But if he opens an account in his name, then, firstly, it will be a violation of the law. Secondly, there is a very high probability of confidentiality violation (in the payment orders in the "Recipient" column there will be his name; a personal credit card with his name directly indicates that he has an account abroad, etc.), thirdly, limits the use of the account. The way out is to open an offshore company, where he would be a director, would manage the company's account (that he is also the owner, no one will know), which is not prohibited by law.

2. Business participant. If a company conducts foreign economic activity, then it is necessary to optimize taxes, simplify document management, accelerate financial flows and ensure their reliability, and protect themselves from the arbitrariness of fiscal authorities. An offshore company is a way out that will solve many problems. She plays the role of an intermediary between the local company and the seller (buyer) with whom the company conducts its international business.

3. A participant in the securities market. For example, an offshore company opens a Type C account with a Russian bank and works with government bonds.

4. Import of fixed assets. To import, say, a line for bottling drinks and not pay customs and VAT, you need to purchase this line at an offshore company and add this line as a charter capital to the joint venture. You can also arrange leasing of this equipment for a Russian company and transfer interest on leasing abroad, and all payments be charged to expenses.

Thus, the special value of offshore is the ability to legally flawlessly transfer capital to economically stable and safe countries. In addition, offshore companies often act as auxiliary units of the main resident company, taking on part of the turnover and accumulating profits. The trend of expanding offshore operations is characteristic not only for Russian companies, but also for global business. Indicative here are insurance schemes for tax deduction of part of the profits used by large European holdings: the holding creates an offshore insurance company, insures through it the risks for which the insurance event would not occur and transfers part of the profit to insurance premiums, then these funds to in the form of loans are again started in the main holding. Thus, the use of offshore schemes allows financial managers to bring considerable profit to their companies.

Countries where offshore companies are registered can be conditionally divided into several categories:

1. Small states, islands with a low level of development of their own economy, but with a fairly high political stability (Bahamas, British Virgin Islands, Vanuatu, Seychelles, etc.). As a rule, these states do not have any reporting requirements; the only requirement is to pay, as a rule, an annual fixed fee to the treasury. In the Marshall Islands, you can even create a company without paying authorized capital, with the issue of bearer shares. Typically, such countries do not keep a register of shareholders and directors; the confidentiality of ownership of such a company is very high. Typically, such companies are used as a safe and for financial transactions.

2. States where, in addition to offshore companies, there are ordinary (onshore - onshore), which may belong to non-residents, but if they conduct business activities within this country, they may lose preferential tax-free status. In order to prove that the company did not conduct such activities, usually in such countries it is necessary to undergo an audit and submit reports annually. On the part of the governments of these states, control is more stringent than in the previous case, a register of directors and shareholders is maintained, but the prestige of companies is much higher. These are Cyprus, Ireland, Gibraltar, Luxembourg, Switzerland, the Isle of Man, etc.

3. There are not at all offshore countries, but quite the contrary, but if you behave there correctly, you can work in a very decent company and pay very little. These are the USA, Great Britain, Canada, etc. In these countries, everything is open, taxes and fees have to be paid, and registers of directors and shareholders are kept. However, there are legal forms that allow you to live peacefully, paying only fixed fees. Such companies are suitable for conducting a solid business, as well as for simple storage of money.

The choice of location of an offshore company primarily depends on the profile of its activities. In world practice, firms located in “tax havens” and places with preferential taxation can be divided into the following types:

1. Financial orientation companies (offshore banks, financial intermediary companies, insurance companies);

2. Trading and intermediary profile (export-import, purchasing, distribution, etc.).

3. In addition, for investing abroad, firms with international assets can create an offshore holding company. These companies include: operating holding companies, investment companies in the possession of intellectual property (licensed), real estate, courts.

To date, the most popular of the offshore zones are: Cyprus, the Isle of Man, Gibraltar, Malta, the Bahamas, Panama, Liberia, Liechtenstein, Luxembourg and others.

Offshore zones serve as a kind of “tax havens” serving international financial transactions. Examples of major offshore centers are, first of all, island territories - Antilles, Bahamas, Cayman Islands, Barbados, Guernsey and Jersey, Cyprus, Malta, etc. Offshore zones provide great advantages, in particular, tax benefits, the almost complete absence of currency control, the ability to conduct transactions with residents in any foreign currency, write-offs of expenses on the spot, anonymity, and secrecy of financial transactions. At the same time, various options are possible for tax benefits in offshore. In the offshore zones of Ireland, Liberia, taxes are not levied. In Switzerland, they are levied, but at rates much lower than in the whole country. In the offshore zones of Liechtenstein, the Antilles and Panama at the time of registration of companies as a tax a single amount is paid, the so-called lump-sum tax. In such areas, annual registration fees of companies, fees for the provision of banking and insurance licenses, and licenses for trust activity are also usually levied. The fundamental point is that the offshore regime is introduced specifically to attract foreign investment. Therefore, as a rule, tax and other benefits are established only for foreign companies, and in parallel measures are taken to isolate the offshore business from the domestic market. It is no accident that it is island and enclaves of the territory of individual states that become offshore. In most cases, it is stipulated that only foreign legal entities and individuals can be owners and shareholders of offshore companies. They must import all the capital they need from abroad. Moreover, as a rule, the possibility of offshore companies entering the domestic market is limited in order to prevent them from using preferential status for competition with national companies and undermining national currency, customs and tax laws and control.

This is world experience, but what are offshore zones in essence?

Offshore zones (from the English offshore, which literally means offshore) constitute a special class of free economic zones. Moreover, their main difference is that the enterprises registered in them do not have the right to carry out any production activities.

The main feature of offshore jurisdiction is the preferential nature of taxation. Tax incentives for companies registered in offshore zones are very substantial and, as a rule, constitute a full exemption from all local taxes. Offshore companies are required to pay only a one-time registration fee and pay an annual fee, the rates of which are usually fixed and do not depend on the commercial activity of the offshore company.

Another sign that distinguishes offshore zones is the prohibition of commercial operations in the country of registration of the offshore company. By setting up an offshore company, firms receive not only tax benefits, but also loyalty to state regulation, a high level of banking and commercial secrecy, anonymity of real company owners, while speaking about the latter aspect, it is important to note that the disclosure of genuine names is possible only in extraordinary cases. The preferential treatment in offshore zones is also determined by the absence of customs duties and fees for foreign investors, the absence of currency restrictions, the free export of profits, and the low level of the minimum authorized capital. Another important factor in offshore is the stability of this regime. Usually, within 15-25 years from the date of registration of the offshore company, the investor is guaranteed against adverse changes in the offshore zone. However, despite the existence of such a preferential treatment, including registration, registering in an offshore zone is far from easy. In Italy, for example, in order to get permission to create an offshore company, it is necessary to prove to the tax authorities that registering an enterprise in an offshore zone is vital for him.

Another negative factor in the creation of offshore zones is that they are practically devoid of trust on the part of state bodies. Then the question arises: why is the state going to create offshore zones. The benefit for the state here is that by creating offshore zones on its territory, the country helps to attract foreign investment, increase the number of new jobs, which ultimately contributes to the development of the economy. Therefore, offshore companies are beneficial to almost all parties involved - both enterprises, and the state, and the population of the zone itself.

The total number of offshore zones in the world can be determined very conditionally, since some of them appear, some disappear. According to experts, at the end of the 90s there really were about 60 offshore zones, stable and which will continue to exist in the foreseeable future. If we consider them in a grouping by region, then offshore companies operate and are registered in Malta, Monaco, Andorra, Liechtenstein, Cyprus, Gibraltar - in Europe, Labuan (Malaysia), Delaware, Fyoming, Singapore - in Asia, Bahrain, Lebanon - in the Middle East; Panama, Costa Rica, Bermuda, Cayman, Virgin, Bahamas, Barbados, Antigua and Barbuda, Turks and Caicos Islands - in America; Liberia, Mauritius - in Africa; Nauru, Fiji, Western Samoa - in Oceania.

However, the attitude towards offshore zones has always been rather ambiguous. So, many believe that offshore companies are created with one single purpose - to make the financial statements opaque and thereby facilitate the flight of capital from the country. This is precisely the main problem that is “charged” with offshore centers. As a result, recently offshore companies are increasingly attracting the closest attention from specialists. So, in February 1999, at the initiative of the Ministers of Finance and Governors of the Central Banks of the G7 countries, the Financial Stability Forum was created, which included representatives of central banks and treasuries, supervisory and regulatory bodies, organizations for the development and implementation of international standards, as well as experts on issues assessments of financial systems of various countries.

Within the framework of this Forum, a group on offshore financial centers was also formed, the main purpose of which was to address the issues of assessing the stability of offshore financial centers in all its aspects. As a result, the Offshore Zone Working Group conducted a mass survey of them. At the same time, a comparative analysis of 30 leading onshore financial centers and 37 centers mainly with offshore regimes was carried out. Based on the above comparative analysis, the Forum divided the offshore financial center into three groups. The first group includes jurisdictions that have a high degree of supervision over the activities of the financial sector, comply with international standards and cooperate with supervisory authorities of other countries. According to the Forum, only four countries meet these criteria: Hong Kong, Luxembourg, Singapore and Switzerland. The second group includes countries that are inferior to countries of the first group in a number of indicators. These are nine offshore jurisdictions: Andorra, Bahrain, Barbados, Bermuda, Gibraltar, Malaysia (Labuan Island), Macau, Malta, Monaco.

And finally, the third group is represented by 25 countries whose financial sector requires certain changes in terms of improving transparency, expanding the exchange of information, and compliance with international standards. This group includes: Anguilla, Antigua and Barbuda, Aruba, Belize, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Lebanon, Liechtenstein, Marshall Islands, Mauritius, Nauru, Netherlands Antilles, Niue, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Seychelles, Bahamas, Turks and Caicos Islands, Vanuatu. Depending on the purpose of the business, standard types of offshore companies are established that are located in preferential tax jurisdictions. Their main types are:

1. Intermediary firms:

• export-import firms;

• procurement and distribution companies;

2. Holding companies:

• operational holding companies;

• investment companies;

• ship ownership companies;

• real estate companies;

• industrial property ownership companies.

3. Financial companies:

• offshore banks;

• financial intermediary companies;

• enterprises of the insurance sector;

• general insurance companies;

• managed or captive companies;

• reinsurance companies.

Holding companies are created with the aim of controlling other trading and manufacturing companies through ownership of their shares, financing them and accumulating their interest, dividends and royalties. The advantage of placing a holding company in offshore centers is that the founders of the holding avoid high taxation in their country by transferring their assets to the tax haven, using the latter as a "transshipment point" for subsequent transfer of assets to other countries (through loans, etc.) The largest number of such holdings is located in Liechtenstein (about 20 thousand), Switzerland (about 10 thousand) and

Luxembourg (about 2 thousand). There are some benefits for holdings in the Netherlands as well - tax is not taxed on dividends received by a local company from participating in the capital of other companies. Investment companies are created in offshore centers and tax havens, usually in the form of funds and trusts, whose assets consist of securities, other property and cash. Based on these assets, they can issue their own shares. Investment companies in the form of funds are usually managed by subsidiaries specially created for this purpose (the founders of these companies are the founders of the funds).

The status of the fund requires a trustee (it may be a local bank) and a financial adviser (usually a brokerage firm or a commercial bank from some major international financial center). Banks are established in offshore and tax havens primarily for opening and maintaining bank accounts for depositors from countries with high taxes and tight currency controls, as well as for carrying out operations on the eurocurrency market. Therefore, many such financial and credit organizations are registered in the main centers of the Eurocurrency market - primarily in Luxembourg, Switzerland and Liechtenstein, as well as in Singapore, Bahrain, the Cayman and Bahamas. There are Russian banks in Cyprus and the Bahamas. In total, there are several thousand offshore banks through which, according to some estimates, up to half of the international capital flow passes. So, in most cases, offshore banks are created for specific projects and financial schemes. The efficiency of offshore banks is significantly higher than that of ordinary banks, because, firstly, they operate in a preferential tax regime, and secondly, they do not contain expensive offices and do not incur representative expenses. Insurance companies in these countries and territories are opened primarily by groups of companies for their needs. In the world there are about one and a half thousand such companies, mainly in Bermuda and the Bahamas, as well as on the Turks, Caicos, Maine, and Turns Islands. As for shipowning offshore companies, this is generally a special type of offshore business that is created to use the “convenient flag”. Especially many such companies in Liberia, Poland, Belize and Gibraltar, as well as in Malta, on about. Maine and Cyprus.

Manufacturing companies are established in those countries and territories where free economic zones operate. The highest concentration of such companies is in the Shannon Free Zone (Ireland). Offshore trading companies are based in those offshore centers that are geographically close to the main geographical regions of their activity (hence the particular popularity of the corresponding offshore centers in Europe and the Caribbean).

For Russian trading companies, with their traditional focus on Europe, European offshore centers are especially attractive. However, such a large number of different types of offshore companies does not expand the list of their main activities. Basically, these are a variety of export-import operations. The essence of the export-import operation of an offshore company is as follows. An offshore company concludes two contracts at once. One with the supplier-exporter to supply the country to the importer, for example, Uzbekistan, a consignment of goods at the lowest price. Another contract is already concluded with the importing country for the supply of the same consignment of goods to it at a higher price. In this case, the difference in the price of contract 1 and contract 2 remains in the offshore company. What is the benefit of this scheme. Since Contract 1 is concluded on the basis of minimum payment (price), it turns out that an offshore company simply resells the goods at a higher price. Since profits in an offshore company are practically tax-free, and the company itself belongs, for example, to Russian businessmen, merchants in Russia pay tax only on the minimum profit that they receive under contract 1, but at the same time get the opportunity to manage that profit , which is deposited in the accounts of an offshore company. At the same time, they can receive a difference in income in the form of financial investments or in cash. An offshore company specializing in import operations works in approximately the same way. Only they act exactly the opposite.

Thus, we can say that, in essence, offshore companies receive income from tax planning. It can be defined as a combination of various factors in order to achieve minimum tax losses. In offshore business, the tax planning center - the profit center - is located in the tax haven. In the broadest sense, an offshore business is operations based on regulated intra-company prices (that is, when transactions are concluded between firms controlled by the same person). It is the fact that the offshore company is controlled by the same investor and creates opportunities for profit in the form of minimizing taxes. In international practice, which Uzbekistan has begun to adopt, there are a number of ways to avoid double taxation. The most commonly used tax credit and tax exemption. A tax credit is a set-off of taxes paid abroad when calculating the internal tax. This means that if the tax rate abroad exceeds the domestic rate, then nothing is paid, otherwise the difference is paid. The tax credit is applied in the USA, Germany, Japan, Italy, Austria, Norway, Belgium, that is, in rather highly developed countries. Another common way to eliminate double taxation is through a tax exemption system. It provides for the complete exclusion of foreign profits from taxation either in the country of the parent company or in the country of source of income. Moreover, the elimination of double taxation occurs only if there is an agreement. The system of tax exemption operates in Australia, France, the Netherlands, partly in Liechtenstein and other countries. In some cases, the third of the possible systems is applied - the tax deduction system. As for Uzbekistan, our country adheres to the second system - that is, a tax exemption system. However, specific rules for the elimination of double taxation are determined by the parties to the relevant intercountry agreement.

6.4. Legal basis for the organization of free economic zones in Uzbekistan

The legal framework for the organization of free economic zones in the Republic of the Republic of Uzbekistan was created with the adoption of the of the Republic of Uzbekistan “On free economic zones” April 25, 1996, No. 220-I.

The other normative and legal acts regulating the activities of free economic, small industrial zones and basic sectors of the economy were adopted in the following years:

Decree of the President of the Republic of Uzbekistan dated 02.12.2008 “On Establishment of Free Economic Zone in Navoi Region” No. PF-4059;

Decree of the President of the Republic of Uzbekistan dated 13.04.2012 “On Establishment of Free Economic Zone “Angren” No. PF-4436;

Decree of the President of the Republic of Uzbekistan dated 18.03.2013 “On Establishment of Free Economic Zone “Jizzak” No. PF-4516;

Decree of the President of the Republic of Uzbekistan “On Additional Measures to Activate and Expand Free Economic Zones” dated 26.10.2016 No. PF-4853;

Decree of the President of the Republic of Uzbekistan dated 03.05.2017 “On Establishment of Free economic zones Nukus-farm, Zomin-farm, Kosonsoy-farm, Sirdaryo-farm, Boysun-farm, Bostanlyk-farm and Parkent-farm” No. PF-5032.

Decree of the President of the Republic of Uzbekistan “On measures to strengthen coordination of the ministries, departments and local authorities in order to ensure effective functioning of free economic zones and increase their accountability” dated 07.08.2017;

Resolution of the President of the Republic of Uzbekistan “On additional measures to increase the effectiveness of free economic zones and small industrial zones” dated 25.10.2017, No. PP-3356;

Resolution of the Cabinet of Ministers of the Republic of Uzbekistan “On Measures for the Establishment of Free Economic Zones” dated 10.04.2017, No. 196;

Resolution of the President of the Republic of Uzbekistan “On the establishment of small industrial zones in Tashkent” dated 18.05.2017,No. PF-2973;

Resolution by the President of the Republic of Uzbekistan “On additional conditions for attracting entrepreneurs to small industrial zones” dated 09.01.2011, No. PP-3466.

According to the current legislation there are three types of free economic zones established in our country:

Free Trade Zones – are include consignment warehouses, free customs zones, as well as processing of goods, their packaging, sorting, storage zones.

Free Production Zones – these are the regions where the separate mode of economic and financial activity is applied, in order to stimulate entrepreneurship, attract foreign investments into the priority sectors of the economy, and introduce perspective technologies.

Free Scientific And Technical Zones – these are specially allocated areas, where scientific and production and training centers are set up and set up a special legal framework for the development of scientific and productive capacities.

The ultimate goals of creating of FEZ and SIZ in Uzbekistan are following:

- Strengthening the competitiveness of a particular region in the sector;
- Wider attraction of foreign and domestic investments;
- Creating additional jobs;
- Achieving economic efficiency through consolidating production, logistics, and scientific-technical businesses into a single area;
- Socioeconomic development of adjacent territories with Free Economic Zone.

When investing in SEZs in Uzbekistan, foreign investors pay attention to:

- convenient geographical location;
- adequate infrastructure;
- the direction of activity accordance with local opportunities;
- opportunity to attract professional and highly skilled staff;
- enhanced regional and inter-state relations of this area;
- Sufficient land available for FEZ and SIZ;
- opportunities for their development.

The “Navoi” Free Industrial Economic Zone (FIEZ) with 564 hectares near the Navoi Airport - 100-175 kilometers from Bukhara and Samarkand) was created on December 2, 2008. Production of high-tech, competitive products in the world markets through the introduction of high-tech, modern foreign equipment and technology, technological networks and modules, innovative technologies were marked as the main activity of economic entities in the FIEZ “Navoi”. The promising areas of industrial activity in the region were the chemical and petrochemical, modern building materials, electrical industries, machinery, food industry, pharmaceuticals and medical products.

Land parcels in this area are leased to economic entities for a minimum rent during their investment activities. As a result, investors do not need to spend extra money to buy land for production activities and to organize production.

Economic entities operating in FEZ will introduce special legal regime, customs, currency and tax regimes, simplified procedure for entry, stay and departure of non-resident citizens of the Republic of Uzbekistan, as well as obtaining permits for their labor activity.

All of these benefits apply only to business entities operating in the FEZ and registered by the Directorate of FEZ. Business entities directly investing in the FEZ include land tax, property tax, income tax, improvement and social infrastructure development tax, and single tax beans (for small businesses), the Republican Road Fund and the Republican School Education Development Fund are exempt from mandatory payments.

The creation of additional jobs in the manufacturing and services sectors in the FEZ will increase the income and well-being of the local population. An industrial center of the country will be created in Navoi region with the use of new technologies in production and the developed infrastructure.

Most importantly, political and economic stability in the country is the strongest factor affecting GDP growth. In Uzbekistan, there are all the necessary conditions and factors for the creation of FEZs.

Establishing the FEZs in Uzbekistan is not the end goal. The main purpose of the zones is to accelerate and modernize the growth rates of industry and economy, to saturate the domestic market and to increase foreign exchange revenues through increased exports.

The program of creating the FEZ should not only address the general social and economic problems, but also the general problems of all, except the targeted, financial and organizational issues. These include:

- restructuring of economic relations of enterprises;

- State protection of the interests of commodity producers in the international market;

- the existence of barriers to the development of free enterprise, such as local corruption and corruption, including bribery of officials.

Uzbekistan has a lot of opportunities to create and develop the FEZ. It should be noted that considering the development of natural resources, labor resources and industrial sectors in the region, it is possible to create different views of the FEZ in the future.

In our opinion, the establishment of the FEZ should be based on the specifics of each region. After all, the same incentives and incentives are not available everywhere. The geographical location, political, social and economic status of the region, the standard of living and the labor force, infrastructure, communication systems and so on are all different in the region. It will help investors solve the problems of regional development if they are provided with incentives and the necessary infrastructure for each region. In this regard, the FEZ can serve as a tool for leveling the economic development of the regions of Uzbekistan.

On October 26, 2016, the Decree of the President of the Republic of Uzbekistan "On Additional Measures for Activation and Expansion of the Activities of Free Economic Zones" was adopted.

This Decree establishes new high-tech production capacities in the country, more active involvement of regions in the development of competitive and export-oriented industrial products, production, engineering, communication, road transport, social infrastructure and logistics services. with a view to creating more favorable conditions for the sustainable development of free economic zones as the most important factor for expanding the attraction of foreign direct investment for accelerated development.

Table-6.2

In accordance with the Decree of the President dated on October 26, 2016, tax and customs privileges to business entities of FEZs[17]

Tax privileges		Customs privileges
-business entities are exempt from: 1) land tax, 2) income tax, 3) property tax for legal entities, 4) single tax for micro and small enterprises, 5) Republican Road Fund, 6) Mandatory deductions to the development of material and technical basis of educational and medical institutions Fund under the Ministry of Finance		**- business entities are exempt from:** customs payments (except for customs clearance fees) imported construction materials in accordance with lists approved by the Cabinet of Ministers, within the scope of project implementation and not produced in our country; - imported equipment, raw materials, materials and component parts for business entities production needs are exempted from customs payments (except for customs clearance fees).
Terms of privileges		
Volume of investments	**Grace period**	**The use of privileges**
From 300 thousand doll.ars to 3 mln. dollars	3 years	Completely
From 3 mln. dollars to 5 mln. dollars	5 years	Completely
From 5 mln. dollars to 10 mln. dollars	7 years	Completely
More than 10 mln. dollars	10 years	over the past 5 years will be paid 50% of the current income tax and the single tax

In accordance with the Decree, the Free Industrial Economic Zone “Navoi”, the Special Industrial Zones “Angren” and “Jizzakh” were proposed to name the Free Economic Zones “Navoi”, “Angren” and “Jizzakh”. The decree outlines the

[17] Decree of the President of the Republic of Uzbekistan “On Additional Measures to Activate and Expand Free Economic Zones” dated 26.10.2016 No. PF-4853

main directions of further development of the free economic zones in Navoi, Angren and Jizzakh.

According to the Decree of the President of the Republic of Uzbekistan dated on October 26, 2016, business entities directly investing in the FEZs are exempted from land tax, property tax, income tax, improvement and social infrastructure development tax, and single tax. beans (for small businesses), from mandatory payments to the National Road Fund and the Republican School Education Development Fund, as can be seen in Table 6.2.

On May 3, 2017, President of Uzbekistan Shavkat Mirziyoyev approved the creation of seven free economic zones (FEZ) in the country specializing in pharmaceutical products.

Taking into account the unique soil and climatic conditions, the proposal was made to create free economic zones in the Republic of Karakalpakstan, Jizzakh, Namangan, Syrdarya, Surkhandarya and Tashkent regions. It was decided to create free economic zones – Nukus pharmaceutical zone, Zaamin pharmaceutical zone, Kosonsoy pharmaceutical zone, Syrdarya pharmaceutical zone, Baysun pharmaceutical zone, Bostanlik pharmaceutical zone and Parkent pharmaceutical zone. At present, free economic zones are created in different regions of the country.

Questions for discussing and control

1. What is the meaning of "Free Economic Zone"?
2. What is the definition of a free economic zone in accordance with the Law of the Republic of Uzbekistan "On Free Economic Zones"?
3. What are the goals of establishing a free economic zones in Uzbekistan?
4. What type of FEZs do you know?
5. Explain the importance of the Decree of the President of the Republic of Uzbekistan "On Free Industrial Economic Zone in Navoi Region" dated on December 2, 2008 in attracting foreign investments?

6. What incentives and privelegies are set in the Decree of the President of the Republic of Uzbekistan “On additional measures to activate and expand the activities of free economic zones” dated on October 26, 2016?
7. What guarantees and incentives for foreign investments are created in the legislation of the Republic of Uzbekistan?
8. What is the ultimate goal of creating a FEZs and SIZs?
9. What type of Free Economic Zones are created in the Republic of Uzbekistan to date?
10. What kind of privileges are offered to entreprises in SIZs in accordance with the Decree of the President of the Republic of Uzbekistan No. PP-3466 dated on January 9, 2018?
11. What is the meaning of “Offshore Zones”?
12. What type of Offshore Zones do you know?
13. Explain world experience in the organization of free economic zones.
14. The experience of organizing free economic zones of which country do you know?
15. Explain the evolution of free economic zones.
16. What do you understand under the “recreation zones”?
17. What do you understand under the “complex zones”?
18. What do you understand under the “service zones”?
19. What do you know about Free Economic Zone “Navoi”?
20. What do you know about Free Economic Zone “Angren”?
21. What do you know about Free Economic Zone “Djizzakh”?
22. What do you know about Free Economic Zone “Urgut”?
23. What do you know about Free Economic Zone “Kokand”?
24. What do you know about Free Economic Zone “Khozarasp”?
25. Prospects for the organization of free economic zones in Uzbekistan.

CHAPTER 7. THE ROLE OF PRIVATE INVESTMENTS IN THE DEVELOPMENT OF REAL SECTOR OF THE ECONOMY

7.1. Content of the concept “real sector of the economy” and its importance in the development of the economy

The main indicator characterizing the development of the economy of a country is the level of well-being of the population and the degree of satisfaction of its needs. Moreover, as you know, the primary needs are material needs, such as: food, clothing, housing, transport, communications, etc. So, the most important task of any society is to provide its members with consumer goods. In this regard, a high level of well-being of the population directly depends on the effectiveness of the functioning of the real sector of the economy, aimed at achieving the material needs of society. Currently, the real sector of the economy is given special attention, since it is not only related to meeting the needs of the population, but also ensures the filling of the budget, because it is in it that a large part of the country's gross domestic product (hereinafter - GDP) is created. Therefore, the importance of the real sector of the country's economy is no longer in doubt, so the efforts of the country's government should be aimed at supporting and creating the most favorable conditions for its functioning. The research of the development of the real sector of the economy was devoted to the work of such foreign and Russian scientists as: Abramov A.K., Gryaznova A.G., Shabalin A.N., Maskull B.A., Kobild D., Meshkov V.A., Reisenberg B. A. and others. The concept of the “real sector of the economy” is not new. In particular, the term “sector” in dictionary sources is explained as follows: from Latin “sector” means “dissects”- it is the department of an institution that has some specialization; or some part of the national economy”. In the most general view, the real sector of the economy (hereinafter referred to as the RSE) appears as a set of sectors of the economy that produce tangible and intangible goods and services, with the exception of operations related to the financial sector of the economy. But this term does not have a clear legislative definition. It is often used in political vocabulary and journalism without specifying meaning. The beginning of active use dates back to about 1998. Then it was given its general characteristic based on which it was actually identified with the non-financial sector in its traditional sense. To date, there is no single point of view among scientists regarding the definition of this concept, which would take into account all its versatility.

So, characterizing the essence of the concept of the real sector of the economy, it should be noted its close relationship with the industries of the sphere of material production. So, most scientists identify these two concepts and do not include services, trade, science. Along with this point of view, there are others who, in turn, identify the RSE with the concept of “sphere of production of goods”. However, material production does not fully comply with the term “real economy”, since it does not include trade and intermediary services. In the large economic dictionary, “real” means “existing in reality”, and service industries really exist, therefore, it is legitimate to attribute them to the real sector.

In this regard, it seems appropriate to operate with such concepts as “material production” and “intangible production”, “material services” and “intangible services”. Thus, the sphere of material production includes industries and enterprises in which material goods are produced: industry, agriculture and forestry, as well as sectors that provide material services: construction, hospitality, transport, communications, trade and catering, and therefore form the most important macroeconomic indicators, such as GDP, national income, etc. Intangible production provides material production with scientific, informational and other intangible services. such as: health care, education, science, culture, art, sports, etc. The concepts of “real economy” and “sphere of production of goods” are not identical, since both the trade and the service sector are included in the real economy.

The role of the country in the international community is determined by the level and competitiveness of the real sector. Economic literature has different definitions of the real sector:

1. The real sector of the economy is a large part of the economy that combines different industries with similar characteristics, economic goals and functions, and theoretically and practically differs from the rest of the economy[18].

2. The real sector of the economy is the sphere of production of material products, creation of non-material goods and services. The real sector does not include financial, credit and exchange activities[19].

3. The real sector of the economy, excluding speculative capital movement, is a field that combines the processes of structural restructuring and economic growth[20].

4. The real sector of the economy is a combination of small, medium and large enterprises producing commercial and serial series of goods and products, including buildings and structures, communications, telecommunications and transport services[21].

The structure of the real sector economy is a combination of different sectors and industries that provide goods and services in the national economy, and they are interrelated and interrelated. The real sector economy is a set of economic entities that produce goods for the domestic and foreign markets, and adapt to changes in time and market demand.

In the economy, the financial sector plays an important role in the effective functioning of the real sector. The financial sector is a set of tools and institutions that deal with borrowing and repayment. The financial system allows for the separation of property from capital. The financial sector includes banks, insurance companies, stock exchanges, financial investment companies, pawnshops and other financial institutions.

Thus, the real sector of the economy is a sector that relates to both the tangible and intangible production of goods and the provision of services, makes a

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[18] Комов А. Анализ системы кредитования реального сектора экономики. // Русское экономическое общество. 2013. №141. С. 8.

[19] Аганбегян А. Г. Модернизация реального сектора экономики // Деньги и кредит. 2010. № 3. С. 6.

[20] Комов А. Анализ системы кредитования реального сектора экономики. // Русское экономическое общество. 2013. №141. С. 10.

[21] Аганбегян А. Г. Модернизация реального сектора экономики // Деньги и кредит. 2010. № 3. С. 9.

significant contribution to the revenue side of the country's budget and forms the basis of the economic system of most countries of the world.

In the second half and especially in the last decades of the XX century. dramatic changes have occurred in the structure of the real sector. As a result of the scientific and technological revolution and the growth of labor productivity, the correlation in it between the branches of material production and the service sector has sharply changed. In industrialized countries, the share of people employed in the service sector almost doubles that share in the sectors of material production, making up more than two thirds of the total number of people employed. Absolutely and relatively reduced mass of social labor engaged in agriculture, mining. The share of people employed in the manufacturing industry is falling.

Informatization of the economy, giving rise to further structural changes in the real sector, leads to the emergence of new industries, including the production of computer software. It changes the very idea of the real sector of the economy, which includes virtual reality in telecommunication networks, and, in particular, the Internet.

The development of the real sector is driven by direct investment that goes into technical re-equipment and other innovations that stimulate economic growth.

7.2. Factors affecting the modernization of the real sector of the economy

There are a number of factors that affect the modernization of the real sector of the economy and its competitiveness.

1. Innovative activity. It is believed that it is very difficult to predict the development of an innovative business, since its growth mechanisms are unclear. First of all, the activities of companies are evaluated by economic efficiency as the ratio of the received benefits and the expended resources. The most important indicators of profitable activities are profitability and business growth.

2. Business and investment climate in the country.

3. High proportion of managerial staff. Due to the large number of "horizons", the stability of the company is at risk. The way out seems to us to create a national industrial council in accordance with the aforementioned bill. The shortage of highly qualified personnel and the geographical location of enterprises. Real sector sectors require the involvement of different levels of specialists. The geographical location of enterprises in the real sector should be characterized by proximity to small settlements where it is required to provide jobs for the population.

4. Infrastructure. For the real sector of the economy, the most important is the production infrastructure, which includes roads, channels, ports, warehouses, communication systems, etc. And the component that has the greatest impact is the energy sector, which is a sector of the economy that covers energy resources, production, transformation and use energies of various kinds.

However, one cannot fail to notice that the economy of Uzbekistan is gaining momentum. We see the results in such sectors of the economy as automotive, pharmaceuticals, textiles, and food.

At present, the world economy is facing an alarming situation when many countries are experiencing a financial and economic crisis. Searches are being made for ways to stabilize the situation in the global financial and commodity markets, support banking systems and enterprises in the real sector of the economy.

It should be noted that over the past years, the government of Uzbekistan has adopted a wide range of specific measures that make our economy less exposed to the risk of the global financial crisis. Deliberate improvement of the structure of the economy is ensured, production of finished competitive products is actively created, export volumes are being increased with overcoming its former one-sided raw material orientation. A stable financial and banking system has been formed, relying mainly on internal sources of resources.

At the same time, there are a number of external factors, primarily, the deterioration of the situation on world commodity markets, increased competition, which have a negative impact on our economy through lower prices and volumes of certain types of products exported by enterprises of Uzbekistan.

In order to overcome the negative consequences of the global financial and economic crisis, ensure macroeconomic balance and sustainable economic growth, stable work of economic sectors, promotion of employment, targeted support for exporters, enterprises of leading industries and small businesses, the Presidential Decree of November 28, 2008 was adopted No. UP 4058 “On the Program of measures to support enterprises of the real sector of the economy, ensuring their stable operation and increasing export potential”.

The Decree clearly defines the decisive factors due to which the negative consequences of the global financial crisis in the real sector of the country's economy can be overcome and the foundations laid for subsequent sustainable growth, expansion of production volumes and the development of new sales markets.

First of all, it is carrying out modernization, technical and technological re-equipment of enterprises. First of all, this concerns the basic sectors of the economy, export-oriented and import-substituting industries. The attention of the heads of enterprises, associations and business entities is drawn to the need to accelerate the implementation of the adopted programs of modernization, technical and technological re-equipment of production, attracting the most advanced technologies, and the transition to international quality standards, which will ensure a stable position both in the external and domestic markets.

According to the estimates of foreign economists, those countries with the least losses will emerge from those countries in which measures were taken in a timely manner to re-equip production and master new technologies, and to ensure high-quality competitive products at the lowest cost through this production.

Therefore, the Decree provides for additional measures to accelerate the implementation of 11 major modernization programs in basic industries, accelerate the withdrawal of obsolete equipment and fixed assets of industrial enterprises, carry out anticipatory orders for the purchase of equipment for technical re-equipment projects, accelerate the start and timing of the most important projects in industry and transport infrastructure.

The implementation of these measures is supported by real sources of funds - these are enterprises' own funds, bank loans, including due to a significant increase in their capital, as well as loans from the Reconstruction and Development Fund and international financial institutions.

Today, one of the most important issues is the sharp deterioration of the current situation in world commodity markets for a number of items exported by enterprises of the republic.

In order to overcome these difficulties, the Decree provides for the government to provide concrete measures to support exporting enterprises in ensuring their competitiveness in foreign markets and creating additional incentives for exports. To this end, it is planned to provide preferential loans to exporting enterprises for replenishment of working capital, providing exporters with temporary tax benefits and the possibility of restructuring existing payables.

Of great importance, from the point of view of ensuring the competitiveness of products, is for exporting enterprises, especially in basic industries, strict control of production costs and the introduction of a strict saving regime. Therefore, the Program provides for special measures to prevent unjustified increase in prices for electricity and basic utilities, to reduce production costs at enterprises by at least 20% due to rationalization of technological processes, reduction of material consumption, energy intensity and other costs.

The large-scale modernization of the electric power industry, the system of production, transmission and consumption of electricity, the reduction of energy intensity and the implementation of the energy saving system, as provided for in the Program of Measures, are also aimed at increasing the competitiveness of our economy.

Along with this, the Program of measures pays great attention to the further development and stimulation of the activities of small businesses and private entrepreneurship. For this, it is planned to expand the provision of loans to small and private businesses by commercial banks, including from the Fund for soft loans, the opening of credit lines for the purchase of modern imported equipment and mini-technologies, as well as the provision of a number of additional tax benefits.

An important incentive for the development of the economy and the promotion of employment is the creation of an interconnected system of measures for the construction of housing and especially the repair, rehabilitation and reconstruction of existing housing stock, including individual housing. The decree provides for the stimulation of the creation of organizations specializing in this area, assisting them in the establishment and formation of the necessary modern production and repair base.

Additional measures outlined in the Program approved by the Decree to expand the production of our own food products will create reliable reserves that ensure the country's food security from domestic sources, which is of particular importance in the context of rising prices for basic food products on world markets.

Given the important role of commercial banks in implementing measures to modernize enterprises, support exporting enterprises and small businesses, the Decree focuses on increasing the responsibility of banks for the timely provision of financial support to enterprises in the real sector.

Implementation of the measures provided for in the adopted Decree of the President of the Republic of Uzbekistan will also allow in the conditions of the global financial and economic crisis to ensure the stable operation of enterprises in the real sector, dynamic and balanced economic growth and, on this basis, a systematic, consistent solution to the problems of further sustainable social and economic development of the country and improving the standard of living of the population.

The decisive factors in overcoming the negative consequences of the global financial and economic crisis in the real sector of the economy of the Republic of Uzbekistan:

activation of modernization processes, technical and technological re-equipment, primarily in the basic sectors of the economy, the introduction of modern flexible mini-technologies that ensure the production of high-quality, competitive export-oriented products;

further enhancing the competitiveness of domestic products in the domestic and foreign markets, expanding sales volumes and developing exporting enterprises of new types of goods and promising markets for products;

the introduction of a strict saving regime, a sharp decrease in production costs and production costs, including due to rationalization of technological processes, reduction of material consumption, electric and energy consumption of production and other costs;

compliance with technical and production discipline, the implementation of international standards for product quality management;

implementation of a flexible pricing policy, improvement of export mechanisms in the context of rapid changes in price conditions on world markets.

7.3. The role of private investment in economic development

Private investment is the investment of own capital by citizens or a group of citizens with the aim of making a profit.

In world practice, financial investment for individuals is quite common and is carried out in various areas of economic activity. During the Soviet period, only bank deposits and government loan bonds were available to citizens of our country. Nowadays, a private investor has the opportunity to choose among a wide range of offers in the investment market. However, investments in the construction and transport sectors remain the most common for our economy.

Attracting private investment, including foreign, in various sectors of the economy is stimulated at the state level by adopting appropriate laws and reducing the tax burden. The company also positively assesses the impact of private investment on the development of the economy of our country.

When the leveraged loan and high-yield markets shrank during 2007, an increasing number of private equity firms turned to private investments in public equities (PIPEs) investments. These are minority investments in 5 to 30% of the stock of a publicly traded company and the investments are made without using debt financing. As a result, the return potential of these investments depends on the actions of the management of the company, who are not controlled by the private equity fund, and incremental leverage is not available as a vehicle to enhance returns for the investor.

However, sometimes the company will secure additional leverage from the market simultaneous with, but independent of, the equity investment from a private equity firm. Examples of large PIPEs investments by private equity firms include Blackstone's acquisition of a 4.5% equity stake in Deutsche Telekom for $3.3 billion, KKR's purchase of a $700 million convertible bond from Sun Microsystems, and a $1 billion investment by General Atlantic in Bolsa de Mercadorias & Futuros, a Brazilian financial exchange, as part of an IPO offering. The value proposition for private equity firms' investment in PIPEs transactions appears to be based on the expectation of future share price increases, as private equity firms influence (rather than control) senior management in their decision making and enable management to make good longterm decisions based on the injection of long-term patient capital.

During 2008 and 2009 many private equity funds took the view that the distressed equity values seen in many quality companies represented an excellent opportunity to put cash to work, even though the credit markets were moribund. As a result, investment activity continued (although at a slower pace and in smaller transaction sizes) based, in many cases, on noncontrol acquisitions of common shares in public companies. The term for this type of investment is private investments in public equity, or "PIPEs." For example, Warburg Pincus took a minority investment in MBIA, Carlyle bought a minority interest in Boston Private Financial, and J.C. Flowers made a minority investment in MF Global.

PIPE transactions can involve a variety of securities, including straight common stock, preferred stock (convertible or nonconvertible), convertible debt, or a combination of all of these securities.

One of the most heavily negotiated issues in large PIPE transactions is the extent to which the investor will be protected if the target company issues new capital on more favorable terms following closing of the investment. Usually this protection is provided for up to a two-year period of time. In most cases, an equity stake of around 10% is required to gain the right to designate board members. As PIPEs investors have sought greater equity stakes in an issuer, standstill provisions restricting additional share accumulations and "hostile" actions by the investor have become routine. The standstill period typically terminates when the investor owns less than a specified percentage (usually 5%) of the outstanding common stock or voting power of the issuer.

Private equity firms often trade liquidity for increased governance rights and better terms. In the United States, most, if not all, PIPE transactions are structured based on the issuance to private equity firms of unregistered securities with trailing registration rights. A registration rights agreement typically requires the issuer to meet a specified timetable for an effective shelf registration and grants the private equity investor additional, but limited, demand and piggyback registration rights. There are typically transfer restrictions that include a lock-up period of up to three years, during which no issued shares can be transferred other than to specific permitted transferees, including Limited Partners and existing shareholders.

Unlike PIPE transactions, which are noncontrol investments, equity buyouts enable private equity firms to achieve control over companies by purchasing most, but not all, of a target company. In an equity buyout, the entire purchase is completed without borrowing any portion of the purchase price. However, the private equity investor expects that, when credit markets permit, they will borrow to fund a future large dividend that reduces their equity exposure. If companies can be acquired at a low enough cost, private equity funds may be able to achieve *high returns on their equity investment even without initial leverage. Equity buyouts carry greater risk because firms are investing more of their own capital up front, compared to leveraged buyout transactions.*

They also lose the tax-shelter benefits of interest payments on debt, which increases the overall cost of capital. However, these issues are mitigated if the original purchase price is low enough. An advantage of an equity buyout is that this transaction may enable a private equity fund to invest in companies without triggering a change-of-control clause that requires the target company to repay debt. Formost leveraged buyouts, a private equity fund needs to raise incremental amounts of debt to repay outstanding recalled loans. An equity buyout that does not trigger debt repayment is a significant benefit because it avoids refunding fees and enables completion of a transaction even in a problematic credit environment.[22]

But not all citizens with their own savings are able to become successful investors. In order for investments to be profitable, it is necessary to have certain knowledge and experience, be able to analyze investment offers, correctly calculate expected returns and evaluate reliability.

It is recommended that novice investors to minimize risks before making a decision on the allocation of capital to consult specialists who have long been successfully involved in investment issues.

In our modern world, private investment is becoming increasingly important. They are especially relevant in light of the ongoing global economic crisis. Currently, only investing in certain projects is the only reliable way to not only save, but also increase capital. Accordingly, questions immediately arise: where to get the money and where can I invest it?

The modern economic system offers us many investment options, however, everyone should understand that private investment does not always bring the expected return. In this case, the choice of the direction of investments is of great

[22] David P. Stowell. Investment Banks, Hedge Funds, and Private Equity. Second Edition. Academic Press is an imprint of Elsevier. USA. 2013. P. 331, 409.

importance, since they have different levels of risk and, therefore, different levels of profitability. Thus, a person is asked how private investment can bring maximum profit with minimal risk?

First of all, investors often make many mistakes related both to psychological reasons (inability to strictly follow the chosen investment policy) and to the lack of reliable information about a particular area of activity. The latter factor has the greatest impact on the fact that private investment has not yet received proper distribution in the vast expanses of the post-Soviet space. Until the collapse of the Soviet Union, did people have only two areas of investment? Sberbank bank deposits and government loan bonds.

Nowadays there are many more such directions. A private investor has the opportunity to choose from dozens of different options, many of which do not impose strict requirements on the financial barrier (the sum of the minimum contribution) and are accessible even to beginner businessmen.

The state also makes a significant contribution to the liberalization of private investment by adopting laws that enshrine the right of people to independently choose one or another area of their activity. Moreover, private investment, especially from foreign partners, is considered one of the most significant factors in the successful economic development of the state.

To become a truly successful investor, investor should carefully analyze all investment options, spend time getting complete and reliable information, and make a final decision only after studying the features and prospects of each proposed investment area.

7.4. The aim of the reforms promoting small business and private entrepreneurship

Today, small business and private entrepreneurship are playing a leading role not only in accelerating the growth rate of the national economy, but also in addressing employment and living standards, which are relevant today.

The compactness and mobility of small businesses, changes in market conditions and rapid adaptation to consumer needs make it the most important factor in overcoming the negative effects of the global financial and economic crisis and creating new jobs and sustaining post-crisis economic sectors. makes it a convenient and affordable tool. As the First President of the Republic of Uzbekistan I.A.Karimov noted that small business and private entrepreneurship is the most important and significant contribution to our economy, its role and influence, in other words, no other sphere or direction. It has a special place in the development of our state and society.

Indeed, through the consistent development of small business and private entrepreneurship in our country, the formation of the middle class, which is the backbone and foundation of our society, is being achieved. Therefore, not only quantitative but also qualitative growth of small business, it is necessary to pay special attention to the transition from simple manufacturing to sophisticated, high-tech manufacturing oriented to domestic and foreign markets. . Increasingly the integration of science, education and production in our country, with the emphasis on strengthening mutually beneficial links between science and industry through the development of innovative ways for small businesses and private entrepreneurship.

Enterprises engaged in private entrepreneurship and small business are established in all sectors of the economy of the Republic of Uzbekistan. At the same time, the role and importance of small businesses in the economy is growing. In this context, the importance of private entrepreneurship and small business in the development of the national economy is as follows:

- private entrepreneurship provides the necessary operational mobility in the market economy, creates profound specialization and diversified production, without which high efficiency cannot be achieved;

- creates the competitive environment necessary for the market and is characterized by the ability to rapidly change the type of production to respond to changing market demands.

Features of small business and private entrepreneurship (small working capital, its rapid turnover, ability to quickly change production facilities, etc.) make it a number of advantages:

- research, finalizing and developing new products, producing them in small associations, taking into account the risks of rapid change in demand;

- reliability of operational service and establishment of strong relations with consumers;

- flexible organization of production and sales in accordance with market requirements and changing market conditions;

- overworking;

- simplicity of management, absence of big administrative equipment, short time in the development of construction and project capacity, high cost recovery, high speed in capital turnover;

- more complete and efficient use of raw materials and labor resources, waste.

Small business and private entrepreneurship, as well as everything related to them, form an important and integral part of the modern social production structure. That is why small business and private entrepreneurship play an important role in the development of the national economy and are supported by the state.

The prospects for further development of small business can be seen in:

- creation of more favorable conditions for the activities of small businesses and private entrepreneurship;

- further improvement of the regulatory framework aimed at strengthening the protection of rights and interests;

- sharply reduce government and regulatory interference in financial and economic activities;

- simplification of the organization and maintenance of material and technical conditions;

- exemption from taxes and other benefits;

- further improvement of lending mechanism;

- wide attraction of foreign investments;

- expanding their involvement in foreign economic activity;

- providing a broad path for the development of business and private entrepreneurship based on advanced scientific achievements;

- further development of the system of benefits and favorable conditions.

Consequently, in the region where the priority for small business and private entrepreneurship is being achieved, the region will be more sustainable in its socio-economic context. This, in turn, will help to solve the problem of creating new jobs and thus creating effective inter-sectoral employment of the population, increasing incomes and strengthening mutually beneficial links between different sectors.

Questions for discussing and control

1. What is the meaning of the concept“real sector of the economy”?
2. What do you think, are the concepts of “real economy” and “sphere of production of goods” are identical?
3. What role does the real sector of the economy play in the country's development?
4. What foreign and Russian scientists whose work was devoted to the study of the development of the real sector of the economy do you know?
5. Structure and formation of the real sector of the economy.
6. What structural changes have occurred in the real sector of the economy due to informatization of the economy?
7. What factors do influence the development of the real sector of the country's economy?
8. How does innovation affect the development of the real sector of the economy?
9. How do business and investment climate affect the development of the real sector of the economy?

10. How does infrastructure influence the development of the real sector of the economy?
11. For what purpose was the Presidential Decree of November 28, 2008 No. UP-4058 “On the Program of measures to support enterprises of the real sector of the economy, ensuring their stable operation and increasing export potential” adopted?
12. What measures for the development of the real sector of the economy were provided for in the Presidential Decree of November 28, 2008 No. UP-4058?
13. How private investment and private property influence the development of the real sector of the economy?
14. Who are the main participants of private sector?
15. Who are the main participants of public sector?
16. What is the meaning of the concept“Public Private Partnership”?
17. What foreign experience of economic development with the help of private investments do you know?
18. What is the aim of the reforms promoting small business and private entrepreneurship?
19. What measures have been taken to promote small business and private entrepreneurship?
20. What prospects for the further development of small business in Uzbekistan can be seen?

CHAPTER 8. THE VALUE OF THE INVESTMENT CLIMATE IN THE DEVELOPMENT OF INVESTMENT ACTIVITY

8.1. The concept of "Investment climate" and factors, its generators

During the transitional phase on the state's shoulders lies a lot of functions - the protection of political stability, social support of the population, the creation of market infrastructure and legal framework, the state apparatus, the financing of social services (education, health, culture and sports), etc.

In the first half of the '90s a class of property owners have not yet been created, and for the state to carry out both economic and social, and law enforcement functions in the context of limited budget has been difficult. The only way for further economic development of Uzbekistan has become to attract a large-scale foreign investment. However, foreign, and domestic investors will not invest their assets in something uncertain, risky. They invest only those regions where the conditions for the start-up and really possible to increase the initial capital to maximize profits. In this case, investors use economic incentives and non-profit business.

All the factors that influence the favorability of investing in the region and benefit from them form the country's investment climate. It depends on the investment climate, economic activity of domestic investors, as well as the volume, direction, and duration of foreign investments, their desire to mutually beneficial cooperation and participation in the creation of GDP and establishing sales channels to the world market. Global experience has shown that countries with open investment policy is often decided part of their economic problems with the help of foreign investment and achieved economic success (China, South Korea, Southeast Asia, etc.), thanks to foreign investment - it has led to some rivalry countries in the international capital market to attract foreign investment into its territory. States should establish a favorable investment climate, and special preferential treatment for foreign investors. Therefore, the factors that make the investment climate in Uzbekistan is relevant at the present stage and has both scientific and practical importance.

The success of any country in attracting foreign investment depends on a wide range of factors of the economy, social and political stability, the ideology of a society, its culture, preferential treatment for foreign investors, etc., which are valued by investors when deciding on the scope and investment targets. The combination of these material and institutional conditions that reduce the production costs for the investor (to a level below the world average) is the investment climate of the country.

“The investment climate of the country” - a concept very vast and there is no single definition that would have revealed the essence of the concept.

The World Bank defines a business and investment climate as the opportunities and incentives for fi rms to invest productively, create jobs, and expand. Similarly, for the purposes of the Guide, the business and investment climate serves as the framework that enables foreign and domestic companies to conduct business and seek profi ts in a given country. Th e investment climate can be defi ned by three broad sets of variables: • Macroeconomic policies such as fi scal, monetary and trade policies; • Governance and institutions; and • Infrastructure. Th e business and investment climate is made up of much more than just the tax rates and fi scal incentives available to businesses. Other critical components include: political stability, rule of law, macroeconomic conditions, perceptions of government, and the regulatory environment.

The state of a country’s business and investment climate is a key factor in that country’s ability to attract foreign investment and develop small and medium enterprises. Transnational enterprises prefer to invest in enterprises in countries with a healthy business climate – where cost, delay, and risk are minimized. In addition, SMEs are more likely to fl ourish in a climate where they are not overburdened by taxes and regulations. Th e World Bank website puts it as follows: “A good investment climate is an essential pillar of a country‘s strategy to *stimulate economic growth, which in turn generates opportunities for poor people to have more productive jobs and higher income."*

Across the globe and within the OSCE, it is the wealthier countries that tend to have more favourable business and investment climates. Th ere is a def nite link between economic growth and prosperity, investment, and business climate. Many of the Eastern European countries without major energy or raw material reserves have transformed their economies into some of the most attractive global FDI destinations through reform of their business and investment climate.

According to AT Kearney's October 2004 FDI Confidence Index, a survey of corporate executives assessing the relative attractiveness of countries as FDI destinations ranked Poland and the Czech Republic 12th and 14th respectively, ahead of such Asian tigers as Malaysia, Singapore, and Taiwan, and also of such developing giants as Brazil.

Governments often downplay the importance of the business climate when inviting foreign direct investment. Th ey tend to focus on market size, availability of natural resources and costs. While all these factors are important, the investment climate is a critical factor and should not be underestimated.

The business and investment climate is made up of much more than just the tax rates and fiscal incentives available to businesses. Other critical components include: political stability, rule of law, macroeconomic conditions, perceptions of government, and the regulatory environment.

In today's globalized world, economic growth and job creation in developing and transition economies are dependent on two primary factors: FDI and SME development. FDI is the largest source of external finance in developing countries. Foreign direct investment can increase fixed capital formation and help the balance of payments. In UNCTAD's view, FDI has the potential to generate employment, raise productivity, transfer skills and technology, enhance exports, and contribute to the long-term economic development of the world's developing *countries. Foreign affiliates of some 64,000 transnational corporations (TNCs) generate 53 million jobs.*[23]

The favorable investment climate in the region formed by the action, as the objective conditions and balanced investment policy. The economic content of the Investment climate determined by the factors that make up this environment. The whole set of factors can be divided into 3 groups (see Figure 8.1):

- The investment potential of the country;
- Investment conditions;
- Investment risks.

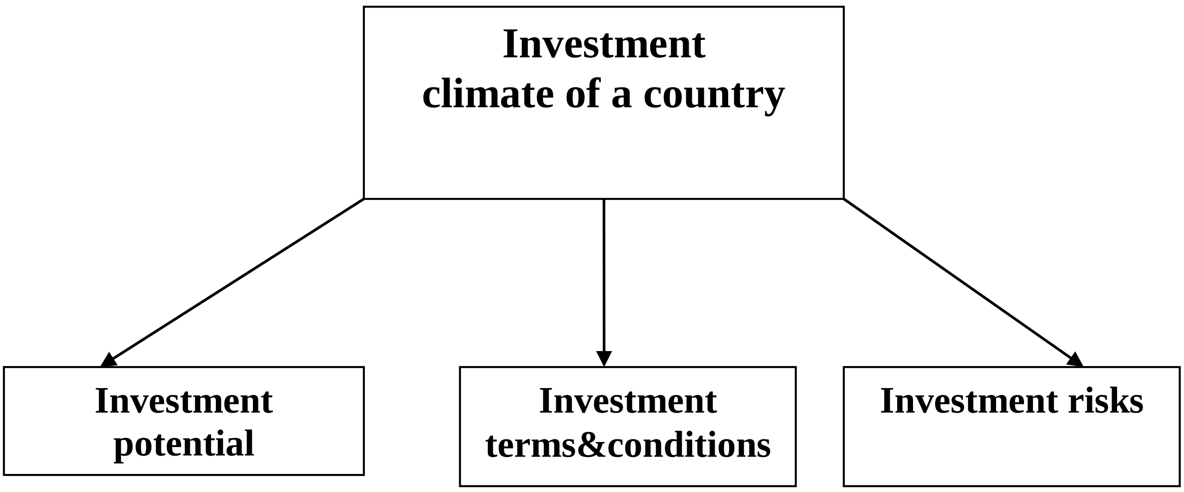

Figure 8.1. Factors of country's investment climate

All three groups of factors are of equal importance in the decision-making by a foreign investor on investing assets in this country. Investment potential is certainly an important stimulus for the creation of business in Uzbekistan, but is bedridden, untapped wealth in the absence of the investment environment in the country. No matter how rich is the investment potential and the favorable investment environment created, the presence of at least one of the investment risk

[23] Best-Practice Guide for a Positive Business and Investment Climate. Organization for Security and Co-operation in Europe (OSCE). 2006. P. 18.

makes investors refuse to invest in this country and look for safer markets to invest. Each state chooses determinants and a set of measures to create a favorable investment climate, depending on the macroeconomic situation and the role given to foreign investment.

Investment potential - a combination of factors that have historically evolved in the country for centuries and are difficult to change or improve the so-called “objective” factors. These include natural resource potential, labor, production, innovation, consumer and financial capacity of the country (see Figure 8.2).

Potential is a set of resources that characterize the power strength, features and other production capacity reserves, which can be used in economic activity. The investment potential reflects the degree of investment opportunities in durable assets for the purpose of making a profit or a positive social effect.

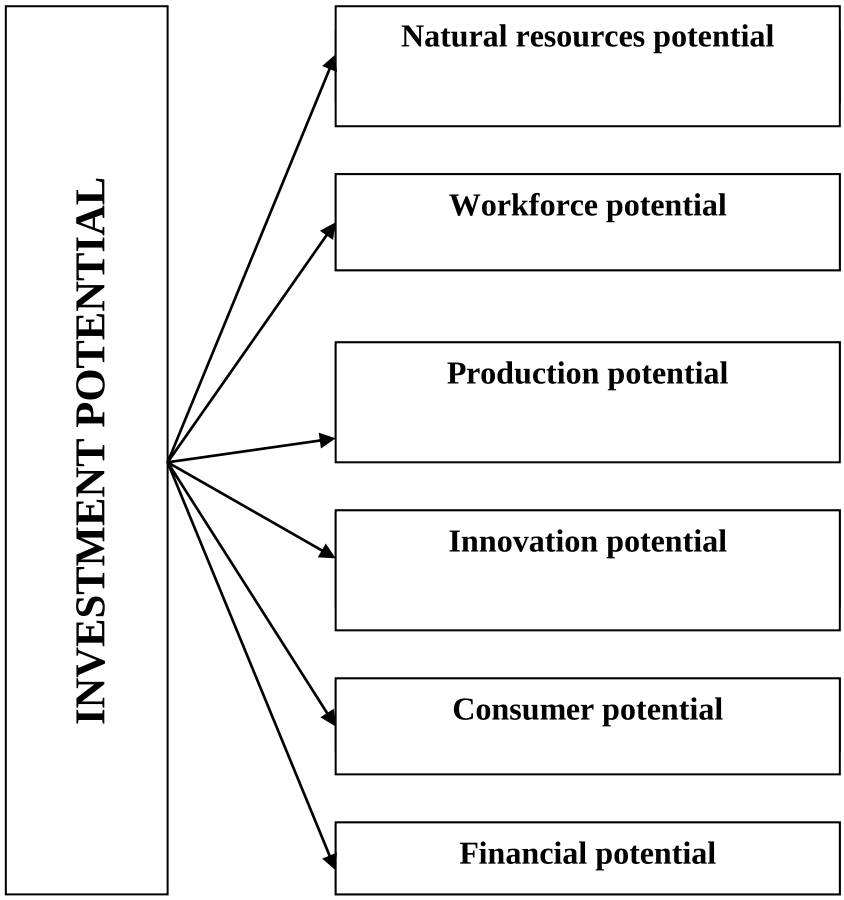

Figure 8.2. Factors of investment potential

1. Natural resources potential plays an important role in the distribution of productive forces, and includes:

- Mineral resources (minerals);
- Climatic and agro-climatic conditions;
- Geo-political situation of the country;
- Land, water and air space;
- Plant and animal life.

2. Workforce potential is characterized by the number of economically active population, its age structure, density, level of literacy, as well as the average cost of labor. As a rule, foreign investors interested in regions with a skilled labor force and cheap (below average) price for the work.

3. The production potential of the country is characterized by established manufacturing facilities, means of production, the structure of the economy, the ratio of industrial, mining and processing industries, the number of successfully implemented investment projects, including joint ventures, small business development, etc.

4. Innovation potential is characterized by the achievements of basic and applied sciences, expenditure on research and experimental development (R & D) in the country, the degree of updating of equipment and technology, the availability of innovations, inventions and discoveries of domestic production.

5. Customer potential is regarded by an investor as a market of manufactured products in the country within the same state, is estimated based on the study of demand, competitors and the level of income.

6. Financial capacity characterizes the financial capacity of the country, the ratio of consumption and savings, deposit and monetary policies in the banking sector, foreign borrowings, internal reserves, etc.

The presence of at least one of the factors of the investment potential (natural resources or innovation) can be a motive for foreign entrepreneurs to invest in this country. However, “investment potential” is bedridden, untapped wealth in the absence of the investment conditions in the country.

Investment conditions - factors that created by the government, public policy, and in a relatively short period can be changed or improved. These include (see Figure 8.3):

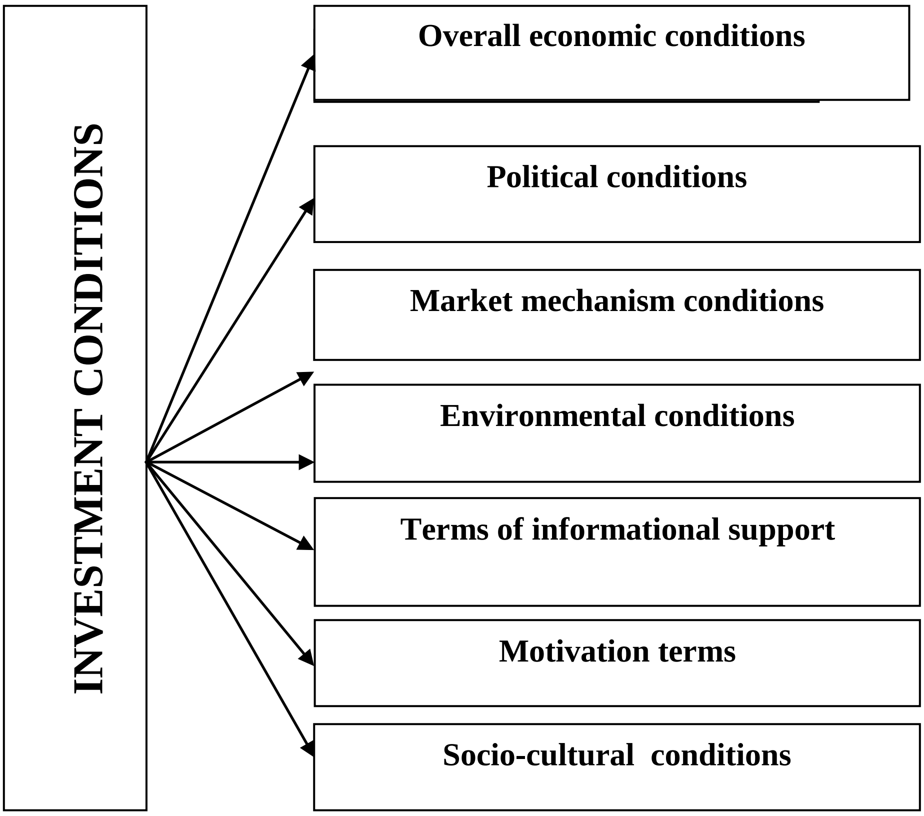

Figure 8.3. Factors of investment conditions

1. General economic conditions - GDP growth, inflation, unemployment, interest rates, the volume and structure of production, the level of monopoly, balance of payments, currency convertibility, foreign debt, investment and funding, the budget deficit, and others;

2. Political conditions - political stability in the country, the rate of change of power and strategy development, availability and comprehensiveness of legal documents regulating investment activities to ensure investors' rights and ensure their compliance, crime and corruption, among others;

3. Market mechanism conditions- the development of market infrastructure: banking, insurance, stock market, transport and communication, competition and pricing in the country, etc.;

4. Terms of informational support - the development and availability of information communications, transparency, documentation of local partners, the ability to obtain timely information about competitors, market prices, demand, and so on;

5. Terms of motivation - economic and non-profit stimulus of investors in the investment project, depending on the circumstances;

6. Environmental conditions - the environmental situation in the country, the availability of environmentally hazardous areas, or in the neighboring countries, compliance with environmental norms of international law;

7. Socio-cultural and ethnographic conditions - the mentality, the culture of the local population, religious composition, lifestyle, open society, etc.

Clearly, improving the investment environment in the country, the government improves the overall macroeconomic situation, achieves economic stability and ensures economic growth, thus the investment climate will be favorable not only for foreign investors but also for help to activate the internal sources of investments and internal resources.

Foreign investors when making decisions certainly analyze investment conditions, but no matter how rich is the investment potential and the favorable investment environment created, the presence of at least one of the investment risk makes investors refuse to invest in this country and look for safer markets of their investments.

Investment risks are the third group of factors and are likely to lose investments by investor and projected gains in the future on occurrence of the risk. There are various types of risks - economic, political, social, informational, environmental, etc. The condition of each investment has its own investment risks, that is, the more favorable for investors group of factors of investment environment, the lower the level of investment risk in the country, and, conversely, the imperfect conditions, the riskier to invest in the region.

Governments often consider that economic and fi scal conditions are the most critical factors for attracting foreign investment. While economic and fi scal conditions certainly are critical, the most important factor in establishing a favourable business and investment climate is arguably the political and legal environment. Countries may off er low tax rates and free land but if investors fear expropriation of assets, revocation of incentives, labour unrest, civil strife, or inability to deal with natural disasters, then they will be disinclined to invest. Investors have to be confi dent that the country in question is committed to attracting foreign investment and that investments are safe. Unstable political environments increase risk, which investors generally prefer to avoid. In addition, political factors such as corruption, bureaucracy, and lack of rule of law are not only risks but also add direct cost to the investment. Th e Black Sea Economic Co-operation Council explains the relatively low levels of FDI in the Black Sea region by citing foreign investors complaining of unacceptable levels of bureaucracy, of unclear, overlapping and frequently changing legislation, and of corruption.

The majority of the most economically developed OSCE countries have in the post-war period maintained politically stable governments emphasizing transparency, good governance, and orderly transitions of government. It is no coincidence that these countries are the highest recipients and generators of inward and outward FDI. Transition countries can also be successful in competing for FDI. In the 1980s and 1990s, Central European countries began to embrace these values and are now some of the most attractive destinations for FDI in the world. Th e countries of South East Europe (specifically: Bulgaria, Croatia, and Romania) are making progress toward a more attractive political environment, and have seen signfi cant increases in FDI infl ows recently. Th e most important factors in establishing a political environment that supports a strong business and investment climate are:

- *Security;*

• *Protection and guarantee of foreign investor rights;*

• *Legislative stability;*

• *Transparency;*

• *Freedom from corruption;*

• *Good governance*[24].

For example, the economic risks inherent to the instability of the economy, the crisis cycles of development, constant volatility, income taxes, interest rates, hyperinflation, deflation, etc. Moreover, environmental risks arise when inside the country or in neighboring countries in an environmentally hazardous areas, increasing the level of contamination of the environment, non-compliance with international standards of environmental safety. Risks cannot be completely removed, they are always there, but you can reduce their impact on your business, applying risk management techniques.

Foreign investors can, as independently evaluate the investment climate of countries, regions, so can use the analysis of international rating agencies. Developed methods of the quantitative evaluation of the quality of the investment climate. There are different approaches to the assessment of the investment climate by global rating agencies. The ultimate goal of the analysis of the investment climate - bringing different measures to a common denominator. In general, there are three methods:

1. The universal method of estimating the investment climate, covering the maximum amount of economic performance, trade performance, the characteristics of the policy environment, the legal environment for investment. The authors of this technique - American economists B. Toyl, Peter Walters. This technique allows thoroughly and comprehensively assess the situation in the country and judge the possibility of its development. To use this technique needs a solid statistical base, skilled personnel, a long period of time and higher material costs.

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[24] Best-Practice Guide for a Positive Business and Investment Climate. Organization for Security and Co-operation in Europe (OSCE). 2006. P. 25.

2. The techniques used in the comparative analysis of the investment climate in the countries of Central and Eastern Europe that emphasize speed and prospects of development (future performance).

3. Methods of point scoring of investment climates. The main advantage - the possibility of a quantitative comparison of the main characteristics of the investment climate in different countries and the elimination of productive indicator that takes into account all the components and increase employee criterion of different countries and regions to make them more attractive to foreign investors.

As an example, the third method - a digital scale, developed in the field of business, and the index of Bury, published three times a year in Germany to assess the investment climate in 45 countries based on 15 factors with different specific gravities are included in the evaluation index. BURY (business environment risk index) - a synthetic indicator, which is the sum of the scores of expert assessments of indicative factors determining certain aspects of the investment climate, which provides a score from 0 points - is unacceptable to 4 points - very favorable. According to the results of calculations carried out the ranking of countries that take into account when making investment decisions. For example, among the countries of the CIS, the lowest index BURY assigned to countries such as Georgia, Moldova and Tajikistan, due to political and economic instability in these countries.

8.2. Factors that affect investment climate

Modern Uzbekistan - a leading industrial state in Central Asia, providing stability and economic development of the region as a whole. Among the advantages offered by the modern economy of Uzbekistan for foreign companies - political and macroeconomic stability, favorable climatic conditions, hospitable and hard-working people and many others. Of all the benefits of the key success factors for doing business in Uzbekistan are rich in raw materials, a favorable geographical location in the center of the largest regional markets, an integrated network of ground and air communications of international importance of transport and logistics system, a diversified industrial base and scientific-intellectual and human potential of the republic. Access to raw materials wide nomenclature maximum optimizes production costs by significantly reducing the cost of transportation of raw materials, enables in-depth processing of the production of products with high added value and localization level of over 30%.

The country found more than 2800 deposits and perspective displays of minerals, the overall mineral resource potential of the country is about 3.5 trillion.US dollars. In many positions, including non-metallic and metallic minerals, agricultural raw materials, Uzbekistan is one of the leading places in the world. In particular, stocks of copper - 11th place, in terms of gold production - 9, uranium - 8th, cotton fiber - 5th place.

Uzbekistan's economy - one of the few in the world that is characterized by the absolute energy independence. The country's industry is fully provided with natural gas, oil and oil products, coal, electricity. Here, 188 explored deposits of oil, gas and condensate, 3 coal deposit.

As stocks and uranium mining Uzbekistan is among the top ten countries in the world. The total energy reserves of Uzbekistan are sufficient to cover the needs of the economy for at least 100 years. Of the country's electricity completely cover the growing needs of the republic, and the cost is 4.5 times lower than the average price, which is paid to industrial consumers in developed countries.

Additional features create unlimited potential of alternative energy sources, including solar, wind, derived from the processing of municipal solid waste annually allow to generate energy in the amount of over 51 billion. tons of oil equivalent. An important supplier of raw materials for industrial production is agriculture. Due to favorable climatic conditions, Uzbekistan has rich agricultural potential: the republic is the world's fifth largest producer of the most sought after in textile raw material - cotton fiber, has the potential to produce more than 10 million tons of fruit and vegetables per year, annually supplies the market with up to 10. ths. tons of air-dried silkworm. Proximity to large markets and developed transport infrastructure of Uzbekistan, integrated in multimodal communication system of Eurasia also predetermines prospects of investment, trade and economic cooperation. Slovak companies investing in Uzbekistan, have the opportunity to enter the 5 largest and fastest growing markets - a CIS country with a market of over 300 million people in Central and Eastern Europe, South and Southeast Asia, the Middle East.

At the same time, the development of multimodal network that dramatically reduces the time and cost of delivery of goods from Uzbekistan and transit through the territory of our country, as well as an agreement on the establishment of MFN trade with 44 countries, and free trade zone established between the 12 CIS countries, can significantly increase in foreign markets competitive products produced in Uzbekistan. It is known that it is not less important for foreign investors have labor force. Uzbekistan, which is one of the most densely populated and multinational states in the world, located at the crossroads between East and West, has historically been a place of concentration of the leading research and educational institutions that have turned our country into a “forge” highly qualified, professional staff. Today, 65 institutions of higher education operating in Uzbekistan, including branches of leading British, Singaporean, Italian, Russian universities. Half of our higher educational institutions specializing in training on technical, sector-specific directions.

Historically formed a rich scientific culture of Uzbekistan, an extensive network of multidisciplinary applied scientific organizations creates objective prerequisites for the development of advanced and innovative mechanisms of economic development. Uzbekistan, which since 1943 has one of the world's leading scientific databases - Academy of Sciences of the Republic of Uzbekistan, which unites 18 research institutes, is a "center of innovation" in the region. About necessity of increase production and export potential of Uzbekistan said that Uzbekistan is located in the center of the 5 biggest and fastest growing markets in the world - it's markets of the CIS, Eastern and South-East Asia, South Asia, including Afghanistan, the Middle East, Central and Eastern Europe. The competition in these markets, in today's conditions, foreign companies can only win by making use of absolute and comparative advantages of Uzbekistan. First of all, it is a favorable geographical position of the republic at the intersection of trade routes between the above regions, the development of multimodal network covering markets far beyond Central Asia, including eastern part of the Middle East, northern India and western China.

Guarantees and measures of protection of foreign investors. In the Republic of Uzbekistan established regime would grant foreign investors treatment no less favorable than the corresponding conditions for investments made by individuals and legal entities of the Republic of Uzbekistan.

The State guarantees and protects the rights of foreign investors carrying out investment activities on the territory of the Republic of Uzbekistan. In the event that subsequent legislation of the Republic of Uzbekistan worsens investment conditions, the foreign investors for ten years from the date of investment is applied the law in force at the date of investment. The foreign investor has the right to choose to apply the provisions of the new legislation that improve the conditions of his investment.

The legislation provides a notification procedure for the use of a ten-year warranty. Thus, upon the occurrence of the deterioration of conditions of investment the foreign investor shall notify the appropriate authorized body on application of safeguards. The authorized bodies, which are notified of the application of the foreign investor guarantees are government organizations carrying out state registration of legal entities - the Ministry of Foreign Affairs, Ministry of Interior, Ministry of Foreign Economic Relations, Investments and Trade, State Tax Committee of the Republic of Uzbekistan and servicing banks. Notification of the foreign investor is the basis for the application of the authorized body in relation to the foreign investor law in force at the date of investment. Notice, regardless of the date of the direction of the authorized body, acts since the entry into force of the Act.

*Privileges and preferences.*Taxable income of legal entities reduced by the amount (Article 159 of the Tax Code of the Republic of Uzbekistan):

- Funds allocated for the expansion of primary production in the form of new construction, reconstruction of buildings and structures that are used for industrial purposes, as well as to repay loans received for this purpose, less accumulated for the taxation period of depreciation, but not more than 30 per cent of the taxable profit;

- Funds allocated for modernization, technical and technological re-equipment, the purchase of new technological equipment, the repayment of loans for these purposes, compensation value of the leased object, less accumulated for the taxation period depreciation. The reduction of the tax base shall be made within three years from the tax period in which carried out the above costs, and process equipment - from the date of putting it into operation. In the case of the sale or donation of the new technological equipment within three years from the date of purchase (imports) the effect of this exemption is canceled, with the restoration of the obligations to pay income tax for the whole period of application benefits.

Also, in accordance with the Decree of the President of the Republic of Uzbekistan PP-1024 adopted December 29, 2008 for exporters, whose share of exports of goods, works and services (regardless of the place of performance of works, services) of own production for freely convertible currency, except for commodities is as follows:

- From 15% to 30% in total sales volume - the established rate of income (profit) tax is reduced by 30%;

- 30 percent or more of the total sales volume - the established tax rate on income (profit) is reduced by 50%.

From VAT exempt (Articles 208-209, 211 of the Tax Code of the Republic of Uzbekistan):

- Turnover on the sale of property, implemented by way of privatization of state property;

-The turnover in sales of goods (works and services) to be acquired by legal entities through loans (credits) provided by international and foreign governmental financial organizations under international agreements of the Republic of Uzbekistan, and also received grants;

- Turnover on realization of property transferred as investment obligations under the contract between the investor and the authorized state body on management of state property;

- Provision of a finance lease (leasing) in the part of interest income the landlord (lessor);

- Import of technological equipment imported to the territory of the Republic of Uzbekistan on the list approved in accordance with the law, as well as components and spare parts, provided that their supply is provided for the contract for the supply of technological equipment. In the case of the sale or donation of imported technological equipment for export within three years from the date of importation of the action of the benefits shall be canceled with the recovery obligation to pay VAT for the entire period of application of the privilege;

- Import property imported as investment obligations under the contract between the investor and the authorized state body on management of state property;

- Import of raw materials and blanks for use in own production imported by enterprises with foreign investments, specializing in the production of children's shoes.

From customs duties are exempt taxation (Article 33 of the Law “On Customs Tariff” of 29.08.1997.):

- Property for foreign investors and enterprises with foreign investments in the Republic of Uzbekistan which imported for their own production needs;

- Goods imported by foreign legal entities, made direct investments into economy of Uzbekistan for their own production;

- Goods, works and services intended for work under a production sharing agreement and imported into the Republic of Uzbekistan in accordance with the project documentation by the foreign investor or any other person involved in the performance of work under a production sharing agreement, as well as exported investor products, belonging to him in accordance with the production sharing agreement;

- Technological equipment imported into the territory of the Republic of Uzbekistan, according to the list approved in accordance with the law, as well as components and spare parts, provided that their supply is provided for the contract for the supply of technological equipment. In the case of the sale or donation of imported technological equipment for export within three years from the date of importation of the action of the benefits shall be canceled with the recovery obligation to pay customs duty for the entire period of application benefits.

Legislation, along with general guarantees and measures of protection of foreign investors, additional guarantees and measures of protection can be provided, including providing unconditional implementation partners of their obligations to foreign investors.

8.3. Methods of assessing of countries' investment climate

Foreign investors can independently evaluate the investment climate of countries and regions, and can refer to the results of analysis of international rating agencies. Methods for the quantitative assessment of the quality of the investment climate have been developed. There are various approaches to assessing the investment climate by world rating agencies. The ultimate goal of analyzing the investment climate is to bring various indicators to a common denominator. In general, three methods are distinguished:

1. A universal methodology for assessing the investment climate, covering the maximum number of economic characteristics, trade indicators, characteristics of the political climate, and the legislative environment for investments. The authors of this technique are American economists B. Toil, Peter Walters. This technique allows you to deeply and comprehensively assess the situation in the

country and judge the possibility of its development. To use this technique, a solid statistical base, qualified personnel, a long time, and generally high material costs are needed.

2. Techniques used in the comparative analysis of investment climates in the countries of Central and Eastern Europe, focusing on the pace and prospects of development (future effectiveness).

3. Methods of quantitatively assessment of countries' investment climate. The main advantage is the ability to quantitatively compare the main characteristics of the investment climate for different countries and derive a productive indicator that takes into account the increase in all components and serves as a criterion for different countries and regions in terms of their attractiveness to foreign investors.

Table-8.1

Business Environment Risk Index – BERI

	Factors	**Precentage**
1.	Political stability in the country	12
2.	Rates of economic growth	10
3.	Currency convertibility	10
4.	Salary and labor productivity	8
5.	Profit opportunities	8
6.	Conditions for the formation of the authorized capital	8
7.	Attitude towards foreign investment	6
8.	Probability of nationalization	6
9.	Devaluation effect	6
10.	Balance of payments conditions	6
11.	Project implementation opportunity	6
12.	Level of state regulation of investments	4
13.	Possibility of cooperation in the field of production	4
14.	Infrastructure condition	4
15.	Possibility of obtaining consulting services	2

An example of the third methodology is a digital scale developed in the business sector, as well as the Bury index, published three times a year in Germany to assess the investment climate in 45 countries based on 15 factors with different specific gravities included in the evaluation index. BERI (business environment risk index) is a synthetic indicator, which is the sum of the points of expert assessments of indicative factors that determine individual aspects of the investment climate, in which an assessment is given from 0 points - unacceptable to 4 points - very favorable. According to the calculation results, countries are ranked, which is taken into account when making investment decisions. For example, among the CIS countries, the lowest BERI index is assigned to such countries as Georgia, Moldova, and Tajikistan, due to political and economic instability in these countries.

Large financial institutions that invest in various sectors of the economy of different countries must conduct a complex “selection procedure”. This refers to an in-depth study of the economies of specific countries and industries with a view to future investment. In most cases, investors invest in large organizations, mainly listed on global stock exchanges. This is because the data of the company, so speaking the most “open”means that you can find and study their financial statements, which will obviously be “not hidden”. The effective activities of enterprises, ensuring high rates of their development and increasing competitiveness are largely determined by the level of their investment activity. And, based on the financial indicators of a particular organization, investment companies make an appropriate decision on investing.

To select an investment object, such economic data are required that would correspond to 4 economic levels:

- Country level;
- Industry level;
- Sectoral level;
- Level of firms.

The first group of data is called “country”. This group includes the most common characteristic parameters of the economic and political situation in the country. These include such characteristics as: political stability, formed legislation, a well-functioning law enforcement system, the presence of developed market relations, steady economic growth, the absence of state corruption, stock market growth, low investment risk, etc.

The second group of data is called “industry data”. This group includes information on the investment attractiveness of various sectors of the economy of the selected country. The industry characteristics include such parameters as an increased growth rate compared to other industries; dynamic expansion of the consumer market in this industry; increased, compared with the average country income per share, etc.

The third group of data is called “sectoral”. It is designed to characterize the economic parameters of various sectors of the selected industry.

8.4. Tasks of improving the investment climate of Uzbekistan

In Uzbekistan, created a favorable investment climate, an effective system of incentives and preferences, which leads to a decrease in the level of impact of investment risks on the results of the activities of foreign investors. Compared with other developing countries, Uzbekistan has a number of advantages among the factors that make the investment climate, of which there are:

- Political stability in the country;
- Macroeconomic stability and dynamic growth of the economy of Uzbekistan;
- The favorable geographical position, agro-climatic conditions and the availability of optimal transport corridors;
- The rich natural resource potential and the ability of exploration, mining, processing and export of resources;

- Availability of skilled labor and relatively low levels of pay for work (compared with developed countries);
- Have the necessary market infrastructure;
- Rich consumption potential of Uzbekistan and access to consumer markets of the CIS countries;
- Established preferential treatment to foreign investors, protection of their rights and the provision by state a certain guarantees of their activities;
- The favorable socio-cultural conditions and the openness of the Uzbek people;
- A special focus of innovation in Uzbekistan, which is characterized by certain sectors of the economy, which vary from product innovation developed countries, etc.

As the results of the analysis of the current state of the investment climate in the Republic of Uzbekistan, Uzbekistan created an investment climate allows the country to compete attract foreign capital to other countries, as evidenced by the main macroeconomic indicators of the country in recent years.

However, there are some shortcomings and investment risks for foreign investors in our country, which should be learned and improved:

- The uneven economic development of the regions of the country and, as a consequence, the uneven distribution of investments;
- Bureaucratic obstacles in the work of local authorities and foreign investors;
- Issues of free use of infrastructure in the regions for industrial needs (water, electricity, gas, heating, sanitation, etc.);
- Availability and quality of information and communications deteriorate depending on the remoteness of the region from the capital;
- The presence of environmental problems in some areas of the country associated with the drying of the Aral Sea and the aluminum smelter in Tajikistan;
- The abundance of inspections by the regulatory authorities of financial and production activities of enterprises with foreign investment;

- The barriers to widespread use of preferential treatment created for foreign investors;
- Problems with full currency convertibility and repatriation of profits of foreign investors, etc;
- Problems lack of experience and modern knowledge of local businessmen about the investment project activities, to conduct market research on joint ventures, skills to produce quality business plans and other documentation;
- Lack of access to the sea, to the cheapest mode of transport in the import-export operations - sea transport.

These factors are the investment climate barriers to foreign investors in the development of industrial potential of the country, in the creation of the “image” of Uzbekistan, as an effective and favorable investment object.

Since most of the problems associated with regional development in Uzbekistan, and it was with his uneven, the main work on the improvement of the investment climate in Uzbekistan should be charged in the first place, to the local authorities, to khokimiyats of regions, districts and cities that could assist in providing foreign investors with information about the investment potential of this particular area, the creation of special regional web portals for international and national conferences and seminars on the subject, and in the assistance of local authorities in providing enterprises with foreign investments necessary infrastructure for industrial needs (water, electricity, gas, heating, sanitation, etc.) in the organization and improvement of the activity centers on providing consulting, marketing, and legal services in the areas with a view to eliminating the economic illiteracy of local entrepreneurs.

These transformations will have a significant impact on the improvement of the investment climate in Uzbekistan, its economic growth, attracting large-scale foreign investment, the growth of industrial and innovative capacity of the country, raising the standard of living and well-being of the population of the Republic of Uzbekistan.

On August 1, 2018, the President signed a decree “On Measures for Cardinal Improvement of the Investment Climate in the Republic of Uzbekistan”, which simplified the creation of enterprises with foreign investments.

The minimum amount of the statutory fund of an enterprise with foreign investments has been reduced from 600 million soums to 400 million soums, and the minimum amount of foreign investment in the authorized capital of the enterprise is from 30% to 15%.

The requirement for compulsory participation of a foreign legal entity as a participant in an enterprise with foreign investments was abolished. The amount of the state fee for state registration of enterprises with foreign investment is reduced by three times.

The minimum size of the statutory fund of joint-stock companies is also set at 400 million soums. Now, according to the law on joint-stock companies and protection of shareholders' rights, it is 400 thousand US dollars at the rate of the Central Bank.

Questions for discussing and control

1. What is the investment climate and how do you explain this?
2. Do you know the definitions made by economists on the nature of the investment climate?
3. Are there differences in the concepts of “investment climate” and “investment potential”?
4. What do you understand under the term “investment attractiveness”?
5. What factors influence the investment climate?
6. What should be considered when describing the investment climate?
7. Can you list any positive or negative factors that influence the investment climate?
8. Explain the extended factors that determine the investment climate?
9. What do you understand under the term “investment potential”?

10. Explain the factors of investment conditions?
11. What is an investment activity?
12. Do you know the essence of the Law of the Republic of Uzbekistan “On guarantees and measures of protection of the rights of foreign investors”?
13. Explain the role of tax incentives in the development of a favorable investment climate?
14. What factors, in your opinion, determine the rapid growth of foreign investment in the economy of Uzbekistan?
15. What is the result of the creation of favorable investment climate in Uzbekistan?
16. Do you know the specifics of the investment climate?
17. Do you know the essence of the BERI methodology used in assessing the country's investment climate?
18. What indicators are taken into account when assessing the attractiveness of the region for foreign investment?
19. Explain the essence of the ICOR coefficient, which is very important in predicting the prospects for mobilizing investment?
20. What do you know about the international investment climate assessment of the country?
21. What do you know about Doing Business Index?
22. What do you consider to be the investment climate in the country?
23. What are the factors that adversely affect the investment climate in Uzbekistan?
24. What measures should be taken to further improve the investment climate in Uzbekistan?

CHAPTER 9. CAPITAL CONSTRUCTION IN INVESTMENT ACTIVITY

9.1. Economic nature and content of capital construction

Fixed assets of the enterprise are an integral part of the production cycle, a necessary factor in the process of continuous reproduction. Being one of the most expensive assets, fixed assets wear out over time and lose their operational qualities, which may affect production as a whole. The creation, repair, modernization of fixed assets for all production and non-production sectors is a separate branch of the country's economy - capital construction. Capital construction incorporates the financial, labor and material costs necessary to create buildings and structures. In addition to the creation of fixed assets, capital construction includes the expansion, reconstruction of existing buildings, their technical re-equipment, major repairs, and design and survey work. The finished products of this industry are buildings, structures, premises, etc. As a rule, at the stage of economic growth of countries, capital construction develops at a rapid pace, characterized by a growing demand of market entities for fixed assets, and, conversely, during crisis periods of economic development, investment in capital construction is sharply reduced, that is, investment in capital construction can be called a kind “Indicator” of the overall economic situation in this system of management.

Capital investment is the cost of creating new, technical re-equipment, reconstruction and expansion of existing fixed assets. In terms of economic content, capital investments represent a part of the social product, and, above all, the accumulation fund, aimed at the reproduction of fixed assets.

The composition of capital investments includes the costs of construction and installation works, the purchase of equipment, tools, inventory, other capital works and costs (design and survey, exploration and drilling work, the costs of land allotment and resettlement in connection with the construction, staff training for newly built organizations). Capital investments are reflected in the balance sheet at actual costs for the developer-investor.

Capital and financial investments complement each other and form a common investment portfolio.

Currently, direct state regulation of investment activity, state support for investment projects is carried out mainly by channeling financial resources to the implementation of state targeted programs and other state goals. The amounts allocated for these purposes are annually included in the volume of state centralized capital investments. Reproduction of fixed capital in an enterprise can be carried out either through direct investment, or by transferring fixed capital objects to founders on account of contributions to the authorized capital, or by transferring it to legal entities and individuals free of charge.

The main method of expanded reproduction of fixed capital is capital investment. Capital investments represent the costs of creating new fixed assets, expansion, reconstruction and technical re-equipment of existing enterprises.

New construction includes the costs of constructing facilities at new sites.

Extension refers to the construction of second and subsequent lines of enterprises, additional production complexes and production facilities, as well as the construction of new ones or the expansion of existing workshops for general purposes.

Reconstruction is a complete or partial re-equipment and reconstruction of the enterprise (without building new and expanding existing workshops for the main production purpose, except, if necessary, creating new and expanding existing auxiliary and service facilities) with the replacement of obsolete and physically worn-out equipment, mechanization and automation production, elimination of imbalances in technological links and support services.

Technical re-equipment includes a set of measures (without expanding production facilities) to raise the technical level of individual production sites, units, plants by introducing new equipment and technology, mechanizing and automating production processes, modernizing and replacing obsolete and physically worn-out equipment with new, more productive . The ratio of costs in these areas is called the structure of direct investment. Depending on the purpose and composition of capital investments distinguish their industry, technology and reproduction structure.

Sectoral structure is the composition of capital investments by industry and area of activity (industry, transport, agriculture, trade, procurement, catering, construction).

The technological structure of capital investments means the ratio of costs by type: construction and installation works; the acquisition of fixed assets, equipment, machinery, tools, equipment; other capital work and costs (design and survey, costs for the purchase of finished buildings from other enterprises and organizations, maintenance of directorates of enterprises under construction).

Under the reproductive structure understand the distribution of capital investments by type of cost: the construction of new enterprises; reconstruction of existing enterprises; technological re-equipment of existing enterprises (modernization and replacement of obsolete equipment with new, introduction of new equipment and advanced technology).

Work on the construction of enterprises, facilities, structures is carried out either directly by the enterprise and economic organizations making capital investments (economic construction method), or by special construction and installation organizations under contracts with customers (contract construction method).

The main subjects of capital construction are customers and contractors. Customers are persons who initiate capital construction projects and bear financial expenses for construction at their own expense. Customers can be states represented by state or local government bodies, legal entities and individuals, international organizations, non-residents of the country, and others. Contractors are legal entities or individuals who have committed themselves to building an object at a pre-agreed price and terms of construction. Contractors are divided into general contractor and subcontractors. The construction contract is concluded between the customer and the general contractor, the latter being responsible for the quality of the construction of the facility. As a rule, in order to reduce construction time or for highly specialized work, the general contractor, with the consent of the customer, can hire subcontractors for certain types of work. Subcontractors are legal entities or individuals who carry out part of the capital construction of an object and are only responsible for the quality of their part of the work, and not for the whole object.

The customer can choose a contractor at his own discretion or to determine the optimal construction project to organize competitive bidding (tenders) to determine the contractor for the construction work.

Developer - a legal or natural person who has rights to a land plot for development. He is a landowner. The customer, unlike the developer, only uses the land for construction on a rental basis.

Designer (general designer) - a design or engineering survey and research company carrying out, under a contract or a contract with a customer, the development of a project for a construction project. The general designer may involve specialized design or research organizations to develop special sections of the project or conduct research. He is fully responsible for the quality of the project, technical and economic indicators of the construction site, the correct implementation of the design decisions by the contractor. To monitor compliance with design decisions, the general design organization carries out field supervision.

Thus, in the investment process of creating the object, several essentially independent organizations are involved that have different targets in achieving their economic effect. The main objective of the investor and the customer is the construction of the facility and its commissioning, subject to minimizing capital investments in the shortest possible time in order to obtain income from commissioning of the facility at an earlier date.

The main objective of the contractor is to achieve maximum profit and profitability. This goal can be achieved in two ways: by increasing the prices for construction and installation works, that is, by increasing the cost of construction, or by reducing costs by introducing the achievements of scientific and technological progress.

The first way is easier, but it contradicts the main task of the investor and the customer - putting the facility into operation while minimizing capital investments. To overcome these contradictions, certain incentives are needed that would combine the interests of all construction participants in achieving the main goal.

From the foregoing, it follows that in the capital construction system, organizational forms and organizational relations between participants in the investment process are extremely important to achieve the ultimate goal of construction.

9.2. Stages and methods of organization of capital construction

Capital construction can be divided into 3 stages:

• Preliminary stage - it is characterized by the collection of documents, the preparation of calculations of the cost of construction, the selection of a contractor, the holding of tenders if necessary, the conclusion of contracts, and the determination of the construction time;

• Stage of construction - characterized by the opening of financing for construction, surface preparation for construction, laying the foundation, construction, commissioning, etc .;

• Sales of construction products - development of the construction project, quality control of construction, cleaning work.

Enterprises of various forms of ownership organize capital construction in the production process in different ways. The main ways of organizing capital construction is the economic and contracting methods. The economic method is the organization at the enterprise of the capital construction department with a certain set of permanent staff and equipment. Under the economic construction method, construction units are created at each enterprise, they acquire mechanisms and equipment, attract construction workers, and form the production base. This method is usually used in the reconstruction or expansion of existing enterprises, in the construction of small facilities on the territory of an existing enterprise, that is, in those conditions when it is not possible to organize a uniform load of construction personnel, when the construction and installation work in time depends on the nature of the main production process and there is uncertainty in the provision of the front of work. In such conditions, it is necessary to perform small-scale volumes of work of various profiles with irregular workload. This requires a relatively small number of workers who own a wide range of specialties. Under the economic method, construction and management sections or departments are usually poorly equipped with highly productive specialized equipment, the skills of workers are low, construction processes are irregular, and labor productivity is low. All this does not contribute to the industrialization of construction, the creation of highly qualified construction teams.

However, this method has advantages: reduction of time for all kinds of approvals associated with the involvement of contracting construction organizations, the general interest of the staff of the existing enterprise and construction management in the quick and high-quality implementation of the reconstruction, re-equipment or expansion of the enterprise, the unity of the management of operation and construction of the facility.

Contracting means that the construction work is carried out by construction and installation organizations created for this purpose on the basis of contracts with customers. Performance of work under contracts ensures mutual control of the customer and the contractor, contributes to a more efficient, economical use of material, labor and financial resources. A contracting method is a temporary hiring of a contractor specializing in capital construction to carry out certain work at a given enterprise. Both methods have advantages and disadvantages. The advantages of the economic method include the relatively low price for the work performed, the availability of a permanent staff for the maintenance of fixed assets, therefore, this method of organizing capital construction is advisable to apply to large enterprises, where there is a constant need for maintenance of fixed assets.

The advantages of the contracting method are the high quality of the work performed due to the available advanced equipment and specialists of a narrow circle, however, this method of organizing the construction is considered quite expensive.

Along with the above, the “turnkey” form of construction of facilities is also developing, when the customer’s functions are transferred to the general contractor. In this case, the general contracting construction organization assumes full responsibility for the construction of the facility in accordance with the approved project, c. deadlines and within the approved estimated cost. This increases the interest of the general contractor in the more economical spending of the established estimated limit, since the savings received are at his disposal, the communication system is simplified, which helps to increase the efficiency of decision making and implementation, and ultimately to reduce the cost and speed up construction.

Estimated cost of construction (volume of capital investments) - enterprises, buildings and structures - the amount of funds needed by the customer for the construction of the facility in accordance with the design materials.

The estimated cost of construction in accordance with the technological structure of capital investments and the procedure for the activities of construction and installation organizations is divided into the following elements: the cost of construction work; the cost of installation of equipment (installation work); expenses for the acquisition (manufacturing) of equipment, furniture and inventory; other expenses. The technological structure of capital investments is shown in Table-9.1.

Construction work, as you know, is divided into general construction and special.

General construction includes earthwork, stone, concrete, reinforced concrete work, installation of various structures, installation of floors, roofs, as well as finishing work, etc.

Special are considered sanitary - and electrical work, drilling and blasting and some others.

Under the installation work in the estimated business refers to the installation (installation) of production equipment.

The estimated cost of construction and installation works (C_{CIW}) in terms of economic content mainly consists of direct costs (DC), overhead costs (OC) and estimated profit (EP):

$$\mathbf{C_{CIW} = DC + OC + EP} \qquad \mathbf{(1)}$$

Table-9.1

Technological structure of capital investments

	Elements	**Structure**
Estimated construction cost	Construction works	General construction work on the construction, expansion, installation of building structures, buildings and structures; special construction works are sanitary works, the construction of power lines, communications, heat and gas supply, sewage, water supply, road works, the construction of foundations and supporting structures for equipment, landscaping and landscaping, the vertical layout of the site, its development and etc.
	Installation work	All equipment installation works, except for installation of foundations and foundations for equipment, commissioning, installation and dismantling of construction machinery and mechanisms
	The cost of equipment, fixtures and equipment	The cost of acquisition, packaging, packaging, services of intermediary organizations, other work and the cost of the acquisition of equipment, devices, inventory
	Other work and costs	Other and design and survey works, field and technical supervision of the execution of work, the cost of training operating personnel

Capital construction projects are financed by agreement between the customer and the contractor, however, in the case of financing from centralized sources (state budget, local budgets, extrabudgetary funds, etc.), the financing scheme has the form required for all participants in the construction project (see Table-9.2).

This financing scheme was introduced in order to improve the quality of finished capital construction projects, increase the administrative and financial responsibility of contractors engaged in the construction of facilities financed from centralized sources. For construction projects carried out at the expense of other sources, this financing scheme is advisory in nature.

Enterprises of different ownership in different ways organize capital construction in the production process. The main methods of organization of capital construction is the economic and contractual basis. Economic method - at the enterprise organization of department of capital construction with a set of permanent staff positions and techniques.

Contracting method - a temporary hiring contractor specializing in capital construction, to carry out certain work at the site. Both methods have advantages and disadvantages. The advantages of economic method include comparatively low price for the work performed, the presence of permanent staff to carry out routine maintenance of fixed assets, so this way of organizing the capital construction appropriate to apply to large enterprises, where there is a constant need for service assets. The advantages of a contracting method is the high quality of work performed by the best available technology and a narrow circle of specialists, however, this method of construction organization is quite expensive.

Table-9.2

The scheme of financing and crediting of capital construction, carried out at the expense of centralized sources

Stages	Activity	Dates	Responsible subjects
Stage 1	In accordance with the approved investment program customers in due course agree and approve the address and title lists of construction projects, targeted lists of design work for future years	by January 10	Customers Contractors
Stage 2	Opens in a serving bank financing	January	Customers servicing banks
Stage 3	Stands out in advance for the first two months of the year in equal installments of up to 30 percent of the cost of work	January-February	Funding bodies, customers, servicing banks
Stage 4	Produced the current financing facility of up to 50 percent of the value of the object in view of advances in accordance with the charts of financing and production work	according to the schedules of funding and production work	Funding bodies, customers, servicing banks
Stage 5	Contractor is issued a loan in the servicing bank to finance the remaining 50 percent of the cost of the construction	according to the schedules of funding and production work	Contractors, servicing banks
Stage 6	The payment is 45 percent of the cost of the construction	within one month from the date of acceptance of the object	Funding bodies, customers, servicing banks
Stage 7	The payment is 5 percent of the cost of the construction	Out of Warranty	Funding bodies, customers, servicing banks

Financing of capital projects occurs in agreement of the customer and the contractor, but in the case of centralized funding sources (state budget, local budgets, extra-budgetary funds, etc.) financing scheme is mandatory for all participants in the construction project form (see Table 1).

This scheme of financing was introduced to improve the quality of the finished objects of capital construction, improve the administrative and financial responsibility of contractors performing construction projects financed from centralized sources. For construction projects undertaken by other sources, this financing scheme is recommended.

9.3. Organization of tenders in capital construction

Competitive tenders in capital construction (tenders) are organized in order to identify the optimal construction project in terms of time, cost of the object and quality of construction. Competitive bidding is another way of selecting the optimal supplier of goods, the contractor of works and services in accordance with the criteria and conditions provided for in the tender documentation.

The legislative basis for tenders in Uzbekistan is:

• Regulation on competitive bidding in capital construction on the territory of the Republic of Uzbekistan (Appendix to the Resolution of the Cabinet of Ministers of July 3, 2003 No. 302);

• Regulation on conducting two-stage competitive bidding in capital construction on the territory of the Republic of Uzbekistan.

These provisions determine the procedure and conditions for organizing and conducting competitive bidding (tenders) for the full range of works and services, for the purchase of goods, the acquisition of equipment related to capital construction, as well as the continuation of the construction of previously suspended facilities. Their requirements are mandatory when purchasing goods, works and services from centralized sources (state capital investments), funds of state administration bodies and state enterprises, extrabudgetary funds of budgetary organizations on the territory of the Republic of Uzbekistan.

The main bidders are the investor, customer, bidder, tender committee and bidders.

Investor - a legal or natural person investing own or borrowed funds in the procurement of goods, construction works and services. A customer is an investor or legal entity determined by the investor in the prescribed manner for the implementation of construction work and services. The customer has the right:

decide on competitive bidding with or without prequalification;

determine the form, type and date of competitive bidding with the publication of an official administrative document;

to perform the functions of the organizer of competitive bidding (may delegate these functions to the involved organization);

independently or with the assistance of a specialized organization, determine the starting price of the subject of competitive bidding.

The main tasks of the organizer of competitive bidding are:

determination of the competitive bidding procedure;

development of tender documentation for pre-qualification and competitive bidding, taking into account special, technical and commercial requirements for the subject of competitive bidding;

publication of the announcement of competitive bidding in the prescribed form and / or sending invitations to potential applicants;

acceptance of applications and offers, ensuring their accounting and confidentiality, unless otherwise provided by the tender documentation;

organization of work of independent experts or consultants engaged by the customer on a contractual basis;

providing bidders with tender documentation;

transfer of original offers to the customer after their opening.

The tender commission performs the following functions:

establishes the rules of his work;

approves the form for securing an application for participation in competitive bidding, the size of which depends on the competitive conditions specified in the tender documentation;

determines the last day and time of acceptance of the offer, the time and place of opening the envelopes;

conducts pre-qualification, if it is provided for by the terms of the tender documentation;

implements a competitive bidding procedure with its corresponding design;

opens envelopes with offers, checks their compliance with the requirements established by the tender documentation (completeness of the presentation of documents, execution, etc.), and approves the protocol for opening the envelopes;

determines the need to attract independent experts (consultants) or forms an assessment group from among the members of the tender commission;

studies, analyzes and considers offers in accordance with the criteria specified in the tender documentation, identifies the winner of the tender or makes another decision;

considers and regulates disputes and disagreements arising in the process of competitive bidding, and makes appropriate conclusions on them.

The tender committee should consist of an odd number of members. As a rule, the competition commission includes representatives of the investor, customer, the Ministry of Finance and the Ministry of Economy, the State Committee of the Republic of Uzbekistan for Demonopolization and Development of Competition, the Ministry of Foreign Economic Relations, Investments and Trade of the Republic of Uzbekistan, local government authorities, and the servicing bank.

The number of representatives of the investor and customer in the competitive commission should not exceed one quarter of its total number. The tender committee is considered competent if at least three quarters of its members are present at the meeting. The decision on the stages of the competitive bidding procedure is made by the competitive commission by a majority of votes taking into account the evaluation criteria of the competitive bids. If the votes are equal, the chairman's vote is decisive.

Competitive bidding is divided into:

open - the number of providers is not limited;

closed - the number of providers is limited.

Offeror - an applicant who has passed qualification selection and whose offer is registered by the organizer of competitive bidding. Offer - an offer of the applicant in relation to the subject of competitive bidding, submitted according to the conditions specified in the tender documentation.

The following qualification requirements are presented to the applicant for participation in competitive tenders:

the availability of working capital in the amount of at least 20% of the value of the subject of competitive bidding or a bank guarantee for the provision of these funds, production base, labor resources and specialists necessary for the performance of work (services);

civil legal capacity and authority to conclude a contract;

amount of authorized capital;

work experience at facilities similar to the competitive facility;

information on the volume of work previously performed in-house;

the estimated volume of work performed on its own at the competitive object (in percent).

The decision to conduct closed competitive bidding is made by the Cabinet of Ministers. Closed competitive bidding is organized in cases where the work and services are highly complex (or narrow specialization) and can be performed only by a limited number of contractors (suppliers). When conducting closed competitive bidding, the organizer of competitive bidding out of the total number of contractors (suppliers) pre-selects applicants who have sufficient qualification data, but not less than three, and sends them an invitation with an offer to participate in competitive bidding. If the number of contractors (suppliers) who have expressed consent to participate in closed tenders is less than three, then repeated competitive tenders are announced with the specification and / or adjustment of competitive conditions. When organizing closed competitive bidding, an announcement is not given in the press, competitive bidding is held among invited bidders.

Open or closed competitive bidding may be with pre-qualification or without pre-qualification, or two-stage.

Prequalification is the first round of competitive bidding, identifying the winner of competitive bidding is the second round.

Two-stage competitive bidding is held in cases when:

the customer does not have the opportunity to formulate a clear description and specifics of the subject of competitive bidding;

the customer intends to conclude a contract for scientific research, experimentation, research or development, unless the contract provides for the performance of work in volumes sufficient to ensure their profitability or to provide reimbursement of research or development costs.

Two-stage competitive bidding is held in the following order:

at the first stage, an offer developed on the basis of a conceptual solution and the conditions specified in the tender documentation, subject to technical and commercial clarification and adjustment, is submitted without indicating a price. It is allowed to conduct negotiations with the provider on the parameters of the subject of competitive bidding. Of the total number of offers, offers are accepted that are allowed to participate in the second stage of competitive bidding;

at the second stage, the tender documentation is adjusted taking into account the specified parameters of the subject of competitive bidding, submission of proposals and bids of bidders whose offers were submitted to the second stage of competitive bidding, with a mandatory price indication.

The organization and conduct of two-stage competitive bidding is carried out in accordance with the procedure developed and approved by the State Architectural Committee of the Republic of Uzbekistan in accordance with the law.

Tender documentation, as a rule, consists of three parts: general, technical and commercial. The general part includes:

invitation to tender;

general conditions of the contract for the purchase of goods, works and services;

application form for bidders for competitive bidding;

an instruction that includes requirements and criteria for assessing the qualifications of the bidder and his technical and financial viability, criteria for financially evaluating proposals and determining the winner of competitive tenders, other documents related to the competitive tender procedure.

The technical part is developed in accordance with the requirements of the Regulation on the procedure for the examination of tender documentation for construction, reconstruction, technical re-equipment, design, procurement of materials, structures and equipment for construction objects.

The commercial part of the tender documentation consists of the price of the goods (works, services), conditions for the performance of works (services) and / or delivery of goods, the source and conditions of financing, the deadline for the implementation of the subject of competitive bidding, and the draft contract.

The deadline for submitting offers must be at least thirty days from the date of publication of the announcement in the media or thirty-five days from the date of invitation.

Competitive bidding is usually held at the location of the customer. During the meeting, envelopes with offers are opened, compliance with the conditions and procedures, the availability of documents specified in the tender documentation are checked. Opening of envelopes with offers is carried out in the presence of providers who have expressed a desire to attend, or their authorized representatives. The results of the meeting of the tender committee are recorded in the minutes. Information on the results of the meeting of the tender commission shall be communicated to the absent bidder in writing.

The customer, within five days from the date of approval by the State Architectstroi, publishes in the media a message on the results of competitive bidding (subject, winner, contract price and deadline for the implementation of the investment project).

If the winner of the competitive bidding refuses to conclude the contract or does not provide security for the execution of the contract within the prescribed time period, the customer, together with the competitive commission, may recognize the tender, the offer of which received a second evaluation, or appoint repeated competitive bidding as the winner of the competitive bidding. Disagreements and disputes arising from the competitive bidding process, complaints about the actions and decisions of the customer, the auction organizer or other participants in the competitive bidding are considered in the manner prescribed by law.

Questions for discussing and control

1. What is the meaning of the term “Capital Construction”?
2. Describe the nature of capital investments?
3. How are the concepts of capital investing and capital construction related?
4. What is the structure of capital investments?
5. Explain the importance of capital construction for the economy?
6. Do you know the main stages of capital construction?
7. What concepts are used in the capital construction system?
8. What do you mean by pre-project and project documentation in construction of facilities?
9. What is the content of the preliminary feasibility study or preliminary feasibility report, final feasibility study or feasibility report?
10. What does a construction project mean?
11. What is a budget of construction?
12. What is a project in a capital construction?

13. What are the capital construction documents?
14. Who are the designer in capital construction?
15. Who are the supplier (manufacturer) in capital construction?
16. How do you understand the exact list and title list of capital construction systems?
17. Which agencies are the financing bodies in capital construction?
18. What do you mean by a construction site in a capital construction system?
19. Why are temporary facilities required for capital construction?
20. What methods of organization of capital construction do you know?
21. What is the technological structure of capital investments?
22. Explane the scheme of financing and crediting of capital construction, carried out at the expense of centralized sources.
23. What is the tender?
24. What type of tenders do you know?
25. What is the difference between open and closed tenders?
26. Who are the main participants of tenders?
27. Who is the bidder?
28. Who is the offeror?
29. Explain the meaning of “offer” in capital construction.
30. What qualification requirements are presented to the applicant for participation in competitive tenders?
31. In what cases is held two-stage competitive bidding?
32. Which government body develops the organization of two-stage competitive bidding ?

CHAPTER 10. PUBLIC INVESTMENT PROGRAM (PIP)

10.1. Content, meaning and purpose of the adoption of Public Investment Program

In order to further improve the procedure for the formation of state development programs, to ensure the efficiency and transparency of financing and selection of projects, as well as in accordance with the tasks defined by the Action Strategy for the five priority areas of development of the Republic of Uzbekistan in 2017 - 2021, “ The regulation on the procedure for the formation of State programs development of the Republic of Uzbekistan” was developed.

State development programs are a set of interrelated measures formed on the basis of sectoral, regional and target development concepts, approved for the long term and aimed at achieving sustainable and dynamic development of the country's economy, implementation of the main priorities and tasks for the structural transformation of individual sectors of the economy and regions of the republic by rational use of available natural, mineral, financial, material, labor and other resources.

The main criteria for selection of projects is their effectiveness, priority in the development of certain economic sectors and regions of the country, the indicators of production, including export orientation, participation in the localization of component parts and innovations, creation of new, modern technologies, etc.

State development programs are formed for a three-year period in order to ensure the implementation of national programs of socio-economic development of the country on the basis of approved development concepts, taking into account the timing of the implementation of investment and infrastructure projects and funding sources, with an annual update of their main indicators and updating.

The basic principles of forming state development programs are:

- attracting foreign investment and loans in the required volumes, on acceptable terms;
- formation of an effective system for selecting the most effective projects and monitoring their implementation;
- transparency of procedures related to the initiation, preparation and implementation of projects;
- selective support of the most important sectors and regions based on approved development concepts;
- priority financing of socially significant sectors (health care, education, housing and communal services) in volumes that ensure an increase in the level and quality of life of the population, and intensification of consumer demand;
- priority support for projects aimed at ensuring the accelerated development of industries focused on in-depth processing of mineral resources and agricultural products, bringing the quality of finished products to competitive in the foreign market;
- development and improvement of transport infrastructure, including integration into transcontinental transport corridors, the formation of logistics complexes and transport and logistics hubs;
- attracting foreign capital on the basis of mutually beneficial investment in accordance with the objectives of structural reforms and ongoing investment policies;
- prevention of cases involving the requirement of the financing party to give an unjustified advantage;
- priority financing of previously launched facilities.The public investment program - a mechanism of analyzing the state of socio-economic development of the country, part of the financial policy of the state, reflecting the priorities of government investment processes.

10.2. Structure and procedure for the formation of the Public Investment Program

Public Investment Program is divided into 3 parts:

- The analytical part of the Pivot Table;
- The address part of the program;
- Summary list of priority investment proposals.

The analytical part determines the amount of capital investment in the republic, sources of funding, in the context of economic sectors, by regions, including reproductive and technological structure of the investment.

The analytical part of PIP includes:

- forecast of socio-economic development of the Republic of Uzbekistan and planned macroeconomic indicators based on the results of the implementation of state development programs in conjunction with the expected results of the approved development concepts;

- the predicted results of the impact of state development programs on GDP growth, changes in the sectoral and territorial structure of the economy, the structure of exports and imports;

- assessment of the effectiveness of state development programs, including a forecast of expected results characterizing the state (change of state) of the level and quality of life of the population, social sphere and economy;

- volumes of capital investments and sources of financing in conjunction with the main macroeconomic indicators of the development of the economy of the republic;

- the structure of capital investments in the whole program according to the regions and sectors of the economy, indicating the sources of financing, taking into account the reproductive and technological structure of investments, by years of implementation.

Table-10.1.

Main parameters of Public Investment Program of the Republic of Uzbekistan for 2009-2017[25]

Sources of financing	2009 y	2010 y	2011 y	2012 y	2013 y	2014 y	2015 y	2016 y	2017 y
Capital expenditures, total including:	**10458864**	**18220293**	**20721845**	**23679701**	**27123275**	**33004774**	**40 605 781**	**49 938 511**	**61 403 402**
1. Centralized investmenst:	**2464960**	**3819784**	**4696491**	**5740892**	**6691366**	**8548334**	**8 991 846**	**11 575 698**	**15 706 620**
1.1. Budgetary funds	902710	825000	950000	1059254,4	1300000	1500000	1 800 000	2 100 000	2 450 000
1.2.Fund reclamation of irrigated land	82710	92976	105000	115560	131000	156600	1 814 000	211 000	240 000
1.3. Extra-budgetary funds, including	572021	654930	911834	1431777	1876750	2101366	2541966	2 989 494	3 479 164
- The Road Fund of the Republic;	241197	540192	609800	680796	921572	976200	1 103 329	1 379 955	1 550 000
- Children's Sports Development Fund;	38800	88272	139930	158147	218243	222300	225 530	264 500	373 185
- Fund of reconstruction, refurbishment and equipping of educational institutions;	292024	26466	162104	545836	623500	729472	944 367	1 086 927	1 318 618
- Fund of development of the material technical base of the high educational institutions	-	-	-	469976	113435	173394	268 740	311 612	370 556
1.4. Fund for Reconstruction and Development (Equivalent to the soum)	305657	1372166	1353527	1432400	1632833	1981958	2 002 273	2 359 930	2 812 743
1.5. Foreign investments and loans guaranteed by the Government (equivalent to the soum) including:	684572	874711	1376130	1701901	1750783	2808410	2 466 207	3 861 774	6 591 528
for the construction of residential houses in rural areas (equivalent to the soum)	-	-	171750	301564	250560	231240			
2. Non-centralized investments:	**7993904**	**14400509**	**16025354**	**17938809**	**20431910**	**24456440**	**31 613 935**	**38 362 813**	**45 696 782**

[25] Source: Supplement № 1 to the Resolution of the President of the Republic of Uzbekistan “On the Public Investment Program of the Republic of Uzbekistan” for 2009 and 2017 years.

2.1. Enterprise funds, including taxes, left in command of the enterprise	4643000	7777700	7536261	6835725	8150655	8556532	11 818 348	14 239 900	16 981 877
2.2.Commercial bank loans and other borrowings, including:	560000	1 530 000	2069185	3524824	3236108	4006580	5 345 600	5 870 000	7 487 400
soft loans of JSCB "Qishloq Qurilish bank" for the construction of residential houses in rural areas	-	256 300	196289	222070	426300	825800	1 101 800	1 693 100	1 642 575
2.3. Direct foreign investments and loans (equivalent to the soums)	1 963723	3 876 809	3835109	4340656	4563159	6172998	6 564 187	7 799 338	9 424 355
2.4. Funds of the public	827181	1 216 000	2584800	3237604	4481988	5720330	7 885 800	10 453 575	11803150

As can be seen from Table-10.1, Public Investment Program of the Republic of Uzbekistan investments depending on the sources of financing are divided into two groups - the centralized and non-centralized investment. In 2018, the main source of funding for capital investments were the funds of enterprises and foreign direct investments and loans.

All calculations of state development programs are developed in dynamics, based on forecasts of the socio-economic development of the republic for a three-year period and in accordance with development concepts, the following criteria are additionally taken into account:

- forecast growth rates of the industry (region) for the future;
- forecast growth rates of export potential;
- change in the impact of the industry on macroeconomic indicators in the country as a whole;
- structure-forming factors;
- the effectiveness of previously invested investments;
- condition of fixed assets and level of capacity utilization;
- social significance of the project.

The projected volumes of commissioning of social facilities are included in state development programs in an enlarged form, disaggregated by customers and facilities.

Table-10.2.

Distribution of investments in fixed capital by sources of financing (January-December 2018)[26]

		billion soums	growth rate, %	in % to the total
I.	**Fixed investments,** *including:*	**107333,0**	**118,1**	**100,0**
1.	**Centralized investments:**	**34448,4**	**159,9**	**32,1**
1.1.	Budget resources	4124,1	88,7	3,8
1.2.	Government trust funds	5468,7	170,6	5,1
1.3.	Children sport development fund	271,2	129,0	0,3
1.4.	Fund for Reconstuction and Development	7894,8	103,7	7,4
1.5.	Foreign investments and loans under the guarantee of the government	16689,6	98,7	15,5
2.	**Non-centralized investments:**	**72884,6**	**105,3**	**67,9**
2.1.	Funds of enterprises	30062,9	106,5	28,0
2.2.	Public funds	12127,8	104,1	11,3
2.3.	Foreign direct investments and loans	14660,4	85,8	13,7
2.4.	Loans from commercial banks and other borrowed funds	16033,5	131,3	14,9

The targeted part of state development programs consists of:

- a list and characteristics of the main activities of state development programs, indicating the timing of their implementation and expected results, as well as information on the relationship of activities and the results of their implementation with the target indicators of programs;

- the main measures of legal regulation in the relevant industry, aimed at achieving the goals and expected results of state development programs, indicating

[26] Prepared on the basis of materials from the site www.stat.uz

the main provisions and the timing of adoption of the necessary regulatory legal acts;

- information on target indicators of state development programs with decoding of planned values by years of their implementation, as well as information on the relationship of activities and the results of their implementation with target indicators of industry programs;

- information on financial support of state development programs at the expense of the republican budget and local budgets, state extra-budgetary funds (with a breakdown by the main managers of budget funds, target programs, main activities of sectoral programs, as well as by years of implementation of state development programs);

- the maximum amount of funds of the State budget for the execution of long-term state contracts in order to implement the main activities of state development programs (in the case of concluding long-term state contracts for the supply of goods, work, services);

- the main parameters of capital investments of state development programs in the context of funding sources and industries, indicating production capacities;

- forecast for commissioning of facilities within the framework of state development programs by industry;

- forecast for commissioning of facilities within the framework of state development programs by regions;

- forecast input social facilities;

- lists of projects in the context of approved development concepts;

- a list of projects for which pre-project documentation is prepared and approved in the second year and third year;

- a list of commissioned facilities and production capacities in previous years, according to which the post-investment period will be monitored until full design capacity is reached in accordance with the approved feasibility study of the project.

The process of forming state development programs is carried out by:

- development, coordination and approval of long-term development concepts;

- creating project portfolios;

- Formation of state development programs based on approved project portfolios.

Development concepts that are interconnected with the territory planning scheme are developed by coordination councils together with the Ministry of Economy, the Ministry of Finance of the Republic of Uzbekistan, line ministries and departments, local government bodies with the involvement of international and local experts, and employees of scientific organizations.

The State Investment Committee of the Republic of Uzbekistan submits development concepts for approval to the authorized bodies, as well as other interested ministries and departments.

The development concepts agreed with the authorized bodies, as well as other interested ministries and departments, are subject to coordination with the National Agency for Project Management under the President of the Republic of Uzbekistan (hereinafter referred to as the Agency), after which they are submitted by the State Investment Committee for approval to the President of the Republic of Uzbekistan in the prescribed manner.

The coordination of all work on the development, formation and implementation of development concepts is carried out by the State Investment Committee of the Republic of Uzbekistan under the leadership of the Deputy Prime Minister of the Republic of Uzbekistan - the Chairman of the State Committee for Investments of the Republic of Uzbekistan - the head of the Investment, Innovative Development, and Coordination of Free Economic and Small industrial zones of the Cabinet of Ministers of the Republic of Uzbekistan. In accordance with the approved development concepts, the initiators, together with the State Investment Committee, the Ministry of Economy, and the Ministry of Finance of the Republic of Uzbekistan, formulate sectoral, regional and target project portfolios. The formation of project portfolios is carried out in accordance with the Guidelines for the development and implementation of project portfolios developed by the Agency in accordance with international standards in the field of project management.

Project portfolios with preliminary calculations and the necessary materials confirming the volumes, possible sources of project financing, specified in the Charter of the project, are coordinated by the initiators with the authorized bodies and RPI “UzEngineering” in relation to the basic sectors of the economy, as well as other design institutes in accordance with the purpose of the project.

Based on the results of the consideration of the submitted project portfolios, the authorized bodies, RPI UzEngineering and other design institutes agree on the project portfolios or return them for revision taking into account comments and recommendations, as well as possible alternative proposals.

Upon receipt of comments and recommendations, the initiator, together with line ministries and departments, makes amendments to the project portfolios with the adjustment of the preliminary calculations of the projects and re-sends it for approval.

Portfolios include projects for which there are approved and agreed by the initiators of the Charter of the selected projects.

Final and agreed project portfolios are submitted by the initiators for approval to the Agency.

After approval by the Agency, the project portfolios by the State Investment Committee are submitted for approval to the President of the Republic of Uzbekistan in the prescribed manner.

The project initiator develops a detailed implementation schedule for each project included in the approved project portfolio. Moreover, the developed detailed calendar plan is agreed upon by the authorized bodies and the Agency.

Along with the approval of the project portfolios, the initiator proceeds to the development of pre-project documentation (PTEO / PTER projects).

Projects developed by the PTEO / PTER are subject to preliminary mandatory examination by the Agency and approval by the relevant authorized bodies.

To include a project in state development programs, it is necessary to have a preliminary feasibility study or preliminary technical and economic calculations and a project passport issued in the prescribed manner. Projects for inclusion in state development programs are determined by their priority by the State Investment Committee of the Republic of Uzbekistan together with coordinating councils and initiators in accordance with the rules defined in the Methodological Recommendations for selecting projects by priority, expediency and sources of funding approved by the Agency. The packages of documents for projects proposed for inclusion in state development programs are sent by the State Committee of the Republic of Uzbekistan for investments in the Fund for financing state development programs of the Republic of Uzbekistan under the Cabinet of Ministers of the Republic of Uzbekistan (hereinafter referred to as the Fund) to receive a decision on their inclusion in state development programs. State development programs, following the selection of projects, are formed by the State Investment Committee in conjunction with the Ministry of Economy, the Ministry of Finance of the Republic of Uzbekistan and the initiators.

The State Investment Committee of the Republic of Uzbekistan submits draft state development programs to interested ministries and departments for approval.

As a result of approval by the State Investment Committee of the Republic of Uzbekistan, draft state development programs are submitted to the Agency for approval.

When agreed by the Agency, draft state development programs are submitted by the State Investment Committee for approval to the President of the Republic of Uzbekistan in the prescribed manner.

The coordination of all work on the development, formation and implementation of state development programs is carried out by the State

Investment Committee of the Republic of Uzbekistan under the leadership of the Deputy Prime Minister of the Republic of Uzbekistan - the Chairman of the State Committee of the Republic of Uzbekistan on Investments - the head of the Complex for Investment, Innovative Development, Coordination of Free Economic and small industrial zones of the Cabinet of Ministers of the Republic of Uzbekistan.

State development programs include projects for which there are:

Preliminary feasibility study / Preliminary technical and economic calculation of projects, design estimates for objects sold at the expense of the Fund, including own funds of business entities with a state share in the authorized capital of 50% or more, loans from commercial banks;

project passport approved in the prescribed manner;

confirmation of funding sources;

positive conclusion of the Fund;

positive opinion of the Agency.

Also, in the annual investment cycle of state development programs, rolling and newly approved projects may be included, according to which project documentation was prepared and approved earlier in the framework of state development programs.

If necessary, amendments to the approved state development programs, exclusion of projects from them, inclusion of new projects during one financial year are carried out in the general manner.

The criteria for determining the priority of the project in the first phase are:

- the relevance of the strategy development of the industry;
- financial and economic efficiency; -
- utilization of local raw materials and components;
- availability of trained professionals;
- degree of readiness of the project for implementation;
- Value of operating costs after entry.

The consolidated list of priority investment proposals specified projects that need investment – revealed the goal of the project, the required amount, the initiator of the project, the planned deadlines. Given list advertised in the media to attract interested investors, to attract the necessary assets for these projects.

34448.4 billion soums, or 159.9 % of the corresponding period of 2017 (32.1 % of the total investment, which is more, compared to the same period last year, by 8.6 p.p), respectively, due to decentralized sources - 72884.6 billion soums, or 105.3 % (67.9 %).

Compared to the same period in 2017, the share of foreign investments and loans under the state guarantee of the Republic of Uzbekistan increased by 9.1 percentage points. The main factors for achieving high growth rates of foreign investments and loans under the state guarantee of the Republic of Uzbekistan throughout the current year were the following projects: the construction of the Shurtan Gas Chemical Complex for the production of synthetic liquid fuels based on purified methane; expansion with the construction of a second combined-cycle gas turbine unit with a capacity of 450 MW in Navoi Thermal Power Plant;

construction of a complex of production of polyvinyl chloride, caustic soda and methanol in JSC «Navoiazot»;

organization of production of conveyor belts, agricultural and automobile tires, free economic zone "Angren" II stage; electrification of railway sections: Pap-Namangan - Andijan, Karshi-Termez; construction of an electrified Angren-Pap railway line with electrification of the Pap -Kokand-Andijan section;

modernization with bringing the design capacity to 900 thousand tons of coal per year of JSC “Shargunkumir”;

reconstruction of treatment facilities and sewerage systems in the cities of Bukhara and Samarkand;

improvement of water supply in towns and rural settlements Bayaout, Xavas, Mirzaabad, Sardoba and Akhaltin districts in the Syrdarya region; improvement of drinking water supply in Alat and Karakul districts of Bukhara region; rehabilitation of main irrigation canals of Tashasak system in Khorezm region, etc.

At the expense of the Fund for reconstruction and development in strategic sectors of the economy disbursed investment in the amount of 7894.8 billion soums (in dollar terms-978.4 million US dollars) with an increase of 3.7 % compared to the same period of the last year. During the reporting period, the following major projects were implemented at the expense of the Fund for reconstruction and development:

Takhiatash thermal power plant is the construction of two combined-cycle plants with a capacity of 230-280 MW;

improvement of technology of extraction of gold from ores of deposits “Kokpatas and Daugystau”.

construction of the mine for the extraction and processing of gold ore deposits, AuminzoAmantay ore field (I-II stages); construction of cement plant in Sherabad district;

the development of the field 1 Yoshlik in Tashkent region (Almalyk city);

development of the quarry "Muruntau" (V turn).

The main sources of financing of non-centralized investments were enterprise funds (28.0% of the total investment), Bank loans and other borrowed funds (14.9%).

At the expense of Bank loans and other borrowed funds the construction of social housing was carried out: according to the program of building affordable houses in the cities of LLC “Invest Uzshaharsozlik”. The following major investment projects were carried out at the expense of direct and other foreign investments and loans:

construction of the gas processing plant complex and arrangement of the Kandym group of fields;

development of Khauzak and Shady fields, as well as expansion of Kuvachi-Alat field; development of fields and production of hydrocarbons in the territories of the Hissar investment block and the Ustyurt region on the terms of agreement on sharing production; the arrangement of the plot Hodjisayat gas condensate fields , Dengizkul, Khodjidavlat and Eastern Ala in Bukhara region.

The main government body responsible for the development and formation of the PIP is the Ministry of Economy of the Republic of Uzbekistan. Investment Program approved by the Decree of the President of the Republic of Uzbekistan annually.

Table-10.3.

Scheme of Formation of Investment program of Republic of Uzbekistan

Stages	Activity	Dates	Responsible
Stage 1	Ministry of Economy annually brings to the ministries, the Council of Ministers of the Republic of Karakalpakstan, regional and Tashkent (hereinafter the Customer) guidelines for the preparation of proposals for inclusion in the investment program of the Republic of Uzbekistan for the three-year period	April	Ministry of Economics
Stage 2	Customers prepare the initial information on the projects carried out their selection of a three-year period of implementation and proposals are in the Ministry of Economy	May-June	Customers
Stage 3	Economy Ministry is considering proposals and projects were ranked according to the priorities of a particular industry in the medium term	June-July	Departments of the Ministry of Economy Industry
Stage 4	Ministry of Economy in cooperation with the Ministry of Finance, the Agency for Foreign Economic Relations, State Architect Committee and authorized banks conducting the final selection of projects included in the investment program	August-September	Ministry of Economy, Ministry of Finance, AFER, Gosarkhitektstroy, authorized banks
Stage 5	Project Investment Program is considered the Joint Board of the Ministry of Economy and its decision shall be made to the Department of Foreign Economic Relations and Foreign Investment to work out and agree with the complexes of the Cabinet of Ministers	September	The Joint Board under the Ministry of Economy, the complexes of the Cabinet of Ministers

Stage 6	Project Investment Program is adjusted for the proposals of the Cabinet of Ministers of the complexes	September-October	Ministry of Economics
Stage 7	The project investment program is submitted for approval of the Cabinet of Ministers	October	Department WEC AI Cabinet
Stage 8	Competitive bidding for new beginners objects, including the first year of implementation of the Investment Program	October-November	Gosarkhitektstroy, Customers
Stage 9	In accordance with the approved investment program and a competitive bidding process in accordance with established procedure to contract, approved by the address lists of design work in future years.	December	Customers, contractors

10.3. Monitoring of implementation of the PIP

State monitoring program is carried out in order to:

- Ensure timely and effective implementation of investment projects and, above all, is carried out using centralized investments;

- Compliance with accordingly approved basic parameters of the project (feasibility study), the conditions of competitive bidding (tender);

- The formation of the bank's database on ongoing projects;

- Tracking of problems arising during the implementation of investment projects;

- Make proposals for the improvement of the investment climate.

The main disadvantages of the formation of the public investment program are:

- Lack of clarity and quality of information investment proposals of sectorial ministries;

- Unattractive, large scale or unavailability of investment proposals for external partners in terms of the identification of possible sources of funding;
- Lack of feasibility studies, accordingly drawn up carefully prepared estimates for many of the major highly specialized projects;
- Lack of competence of the investment department of the ministries, regional administrations;
- Some deformation of purely public investment projects due to joint ventures, joint stock companies, which are co-owners - state-owned companies and private investors;
- Uncertainty components of the costs of current spending and income from projects.

Monitoring is carried out monthly based on statistical reporting, and a method of interrogation. The monitoring results are used in the preparation of quarterly reports on the implementation of the current program and the formation of the program for the next three years.

Monitoring includes inspection of:

- Trust use of public funding;
- Timely implementation schedules of production, sales, construction etc.;
- Targeted use of additional benefits and privileges by investors;
- Compliance of evidence with prognostic indicators.

The process of forming state development programs has a one-year cycle and relies on a strict schedule to ensure the preparation of updated programs by the end of each year.

In the first year of implementation of state development programs, newly launched projects are included, the pre-project documentation and funding sources of which are approved, as well as transitional projects taking into account the established implementation periods in the previous program.

The indicators of the first year of implementation of state development programs are subject to critical analysis in the course of implementation, clarification and possible introduction of corrective and proactive measures, and should also be interlinked with available financial and other resources.

In the second year of the implementation of state development programs, projects that are transferred from the first year are included, taking into account the implementation deadlines established by the bidding results, the cost of which has been specified in the established manner, as well as newly launched facilities for which pre-project documentation is prepared and approved in the first year.

In the third year of implementation of state development programs, rolling projects are included taking into account the implementation deadlines established by the bidding results, the cost of which has been specified in the established manner, as well as newly launched facilities for which pre-project documentation is prepared and approved in the second year.

Indicators of the implementation of state development programs are subject to regular monitoring and critical analysis, refinement and, if necessary, the introduction of corrective and proactive measures agreed by the initiator with the authorized bodies and the Agency.

Based on the results of the implementation of state development programs, the State Investment Committee of the Republic of Uzbekistan together with the Agency prepares a report on the status of implementation of the programs and the results achieved, which is submitted to the President of the Republic of Uzbekistan annually, until March 15 of the year following the reporting year.

Monitoring and control of the formation and implementation of state development programs is carried out by the Agency. The Agency is entitled to request and receive any necessary information from ministries and departments involved in the process of formation and implementation of state development programs, as well as participate at any stage of the formation and implementation of these programs as an observer.

The State Committee of the Republic of Uzbekistan for Investments, together with project initiators:

monitor the effectiveness of the implementation of projects included in state development programs, and the relevance of the project portfolio;

establish control over the selection of projects from the portfolio for implementation and inclusion in state development programs;

quarterly, by the 10th day following the reporting year, provide a report on the progress of the implementation of the project portfolio to the Agency;

are responsible for the timely and high-quality implementation of the measures envisaged, the efficient use of resources allocated for the implementation of the project portfolio.

Questions for discussing and control

1. What is the meaning of the term “Public Investment Program”?
2. Describe the essence of the Public Investment Program?
3. What is the role of the Public Investment Program in economic modernization?
4. Do you know the essence of the Resolution of the President of the Republic of Uzbekistan “On Investment Program of the Republic of Uzbekistan for 2019”?
5. What are the key principles for developing an investment program?
6. What are the criteria for selecting projects to be included in the investment program?
7. Since what period is accepted Public Investment Program in Uzbekistan?
8. In Public Investment Program capital investments by source of funds are divided into?
9. Which government body is engaged in the development of the Investment Program of Uzbekistan?
10. Define the period of process of formation, the statement and adoption of the Public Investment Program of the Republic of Uzbekistan.

11. What act approves the Public Investment Program of the Republic of Uzbekistan?
12. What are the main parts of the Public Investment Program of the Republic of Uzbekistan?
13. Selection criteria of projects in the Investment Program are … ?
14. What are the centralized sources of capital financing?
15. Why businessmen seek to include the project in the Investment Program?
16. In the Summary list of priority investment proposals indicated...?
17. The coordination council at the Cabinet of ministers of the Republic of Uzbekistan carries out monitoring of …?
18. Which of the source of capital financing has the largest share in the total amount of the republic in recent years?
19. What is indicated in the analytical part of the investment program of Uzbekistan?
20. Whether investments of free economic zone “Navoi” are included in the Public Investment Program of the Republic of Uzbekistan?
21. Which government body coordinates all the work on the development and implementation of the investment program?
22. What are the criteria for analyzing the investment program?
23. What projects are included in the specific list of investment programs?
24. What is the specific list of an investment program?
25. What do you understand undrf the term “Monitoring Investment Program”?
26. Do you know the legal basis for monitoring the Public Investment Program?
27. Which government body is responcible for monitoring the Public Investment Program?

CHAPTER 11. EVALUATION OF FINANCIAL AND ECONOMIC EFFICIENCY OF INVESTMENT PROJECTS

11.1. The essence and significance of evaluating the effectiveness of investment projects

Investment processes are an important object of application of the analysis of financial transactions. They require careful study on the basis of accurate data in order to increase the effectiveness of the project in the future.

In a general sense, efficiency is the degree to which best results are achieved at the lowest cost. The effectiveness of the investment project is considered as a category reflecting the conformity of the investment project with the goals and interests of its participants. For different project participants, its effectiveness may be different. A financially implemented project may at the same time be ineffective for its participants.

The effectiveness of participation in a project of a shareholder's equity (or, in other terminology, the project's effectiveness for that participant) is determined by the ratio (taking into account the difference in time) of his own capital invested in the project and the capital received by him through the implementation of the project and remaining at his disposal (after compensation of own costs and reckoning with other participants: creditors, the state, etc.). Moreover, all flows arriving to this participant are inflows, and all flows arriving from him (to the project or to another participant) are outflows.

The amount of the participant's own funds invested in the project is determined in this case as the difference between the amount of all funds invested by him in the project and the amount of funds raised for this purpose (for example, borrowed).

The effectiveness of an investment project can be evaluated both quantitatively (performance indicators) and qualitative characteristics.

The feasibility of the investment project and the effectiveness of participation in the project should be checked using forecast prices, taking inflation into account when evaluating the effectiveness of the project, and in the currencies in which these investment projects are carried out.

Performance indicators always refer to a certain subject:

• indicators of economic efficiency - to society as a whole;

• indicators of the financial effectiveness of the project - to a real or abstract legal entity or individual who carries out the project as a whole at his own expense;

• indicators of the effectiveness of enterprise participation in the project - to this enterprise;

• indicators of the effectiveness of investing in shares of an enterprise - to shareholders of joint-stock enterprises - project participants;

• performance indicators for higher-level structures - to these structures;

• budget performance indicators - to budgets of all levels.

Performance indicators relating to the entire period of the project are called integral (in the names of individual indicators, this definition is sometimes omitted).

Integrated performance indicators are used to:

- assessment of the profitability of the project or participation in it;

- identifying the boundary conditions for the effective implementation of the project;

- risk assessment associated with the implementation of the project;

-assessment of the sustainability of the project (maintaining its profitability and financial feasibility) under random fluctuations in market conditions and other external conditions for implementation;

- economic evaluation of the results of choosing one of the alternative projects (project options) or choosing a group of independent projects from a given list with a limited amount of financial resources.

It is recommended to evaluate: the effectiveness of the project as a whole; effectiveness of participation in the project. The effectiveness of the project as a whole is assessed in order to determine the potential attractiveness of the project for potential participants and the search for sources of financing. Performance indicators for participation in the project are determined by both technical, technological and organizational decisions of the project, and by the scheme of its financing.

In a managerial analysis not regulated by the state, management has the right to choose, at its discretion, the most acceptable indicators of investment efficiency, based on the interests of the company and specific business conditions.

In the analysis of investment efficiency, they mainly focus on the following indicators:

- need for funding;
- net income;
- net discounted (reduced) income (effect);
- profitability index;
- discounted return on investment index;
- internal rate of return;
- payback period.

An important point in the analysis of investment activity is risk accounting. Since risk implies the possibility of losses from a reduction in project returns, inflationary depreciation of money, changes in market conditions, etc., it is proposed to introduce an amendment to the interest rate level, which characterizes the return on risk-free investments (for example, in short-term government securities).

The main sources of information for investment analysis are accounting and reporting data: Balance sheet, “Profit and loss statement”, “Statement of cash flows,“ Information on the financial condition of the organization”, data of internal planning and forecasting.

11.2. Simple (traditional) methods of assessing the effectiveness of investment projects

Simple (traditional) methods of an assessment of investments are among the oldest and were widely used still before the concept of discounting of cash flows got universal recognition as a way of receiving the most exact assessment of the acceptability of investments. However and to this day these methods remain in an arsenal of developers and analysts of investment projects. The reason for that - possibility of receiving by means of such methods of some additional information. And it is never harmful at an assessment of investment projects as allows to reduce risk of an unsuccessful investment of money.

Simple (traditional) methods of evaluation of investment projects include measures such as payback period (PP) and financial return on investment (ROI).

The easiest financial parameter to calculate is simple payback, which is defined as the capital cost divided by the average annual savings . Using Payback has some benefits:

- it is easy to calculate;
- it is a tangible value (years);
- it does not require any assumptions about the project timing and lifetime , or interest rates.

Pay-back period (PP) – is the time in which the initial cash outflow of an investment is expected to be recovered from the cash inflows generated by the investment. It is one of the simplest investment appraisal techniques.

The formula to calculate payback period of a project depends on whether the cash flow per period from the project is even or uneven. In case they are even, the formula to calculate payback period is:

$$PP = \frac{I_0}{CF} \qquad (1)$$

Where:

I_0 – initial investment;

CF – cash flow per period.

When cash inflows are uneven, we need to calculate the cumulative net cash flow for each period and then use the following formula for payback period:

$$\text{Pay-back period} = A + \frac{B}{C}$$

In the above formula, **A** is the last period with a negative cumulative cash flow;

B is the absolute value of cumulative cash flow at the end of the period A; **C** is the total cash flow during the period after A.

Both of the above situations are applied in the following examples.

Example 1:

Even Cash Flows

Company C is planning to undertake a project requiring initial investment of \$105 million. The project is expected to generate \$25 million per year for 7 years. Calculate the payback period of the project.

Solution:

Payback Period = Initial Investment ÷ Annual Cash Flow = \$105M ÷ \$25M = 4.2 years.

Example 2:

Uneven Cash Flows

Company C is planning to undertake another project requiring initial investment of \$50 million and is expected to generate \$10 million in Year 1, \$13 million in Year 2, \$16 million in year 3, \$19 million in Year 4 and \$22 million in Year 5. Calculate the payback value of the project.

Solution;

(Cash flows in millions)		Cumulative Cash Flow
Year	Cash Flow	
0	(50)	(50)
1	10	(40)
2	13	(27)
3	16	(11)
4	19	8
5	22	30

Payback Period= 3 + (|-\$11M| ÷ \$19M)= 3 + (\$11M ÷ \$19M)≈ 3 + 0.58 ≈ 3.58 years or 0.58*365= 212 days

But Payback Period has some serious disadvantages:

- It does not take into account, the cash flows that occur after the payback period;
- It takes no account of any income from reselling the capital asset later on;
- It takes no account of the effect of time on the value of money.

Payback is, however, a useful screening method for projects. A project with a Payback of a few months clearly deserves further investigation, whereas a project with a Payback of 10 years would usually have little chance to receiving funding.

Accounting Rate of Return (ARR) also is known as the Average rate of return, or ARR is a financial ratio used in capital budgeting. The ratio does not take into account the concept of time value of money. ARR calculates the return, generated from net income of the proposed capital investment. The ARR is a percentage return. Say, if ARR = 7%, then it means that the project is expected to earn seven cents out of each dollar invested (yearly). If the ARR is equal to or greater than the required rate of return, the project is acceptable. If it is less than the desired rate, it should be rejected. When comparing investments, the higher the ARR, the more attractive the investment. Over one-half of large firms calculate

ARR when appraising projects.

The indicator of Accounting Rate of Return is the return according to the contents to a pay-back period of capital investments.

Basic formula:

$$ARR = \frac{EBIT(1-IT)}{(Cb - Ce)/2}$$

Where:

ARR-Accounting rate of return;

EBIT- Earning before interest and tax;

IT-Income tax;

Cb- the value of capital at the beginning of 1st year;

Ce- the value of capital at the end of use.

Example 3:

Company G is planning to buy a new technological line which costs 1000 million soums with the term of operation of 10 years. By calculations, it will bring the additional earning (income) before payment percents and taxes 200 million soums. After operation term sale of the line isn't planned. Rate of the taxation is 24%. Profitability of investments before purchase of technology was 20%.

Solution:

$$ARR = \frac{EBIT(1-IT)}{(Cb - Ce)/2} = \frac{200(1-0{,}24)}{(1000-0)/2} = 0.304$$

11.3. The processes of compounding and discounting

The investment process is accompanied by cash flows. The cash flow of the investment project is the dependence on the time of cash receipts and payments during the implementation of the project generating them, determined for the entire billing period.

Receipt of funds on the account of an organization called the inflow or positive cash flow. Payments of cash called outflows or negative flow.

In the calculation of the efficiency of the enterprise's project, it assumed that the possibility of the use of funds does not depend on the fact that these funds represent (owned, borrowed, profits, etc.). In these calculations, the cash flows from all activities taken into account (investment, operational and financial) and used scheme of financing of project (see Figure-11.2). Borrowings are considered as cash inflows, payments on loans - outflows. Dividend payments to shareholders are recognized as the outflow of real money.

The difference between the inflow and outflow of funds over a period forms the balance. The balance seen as a positive result from the project and it is called a pure flow.

$$
\begin{array}{l}
\quad Sales \\
- Operational\ expences \\
- Depreciation\ charges \\
- Interests \\
- Fixed\ costs \\
\hline
= EBIT \\
- Tax\ from\ profit \\
\hline
= Net\ profit \\
+ Depreciation\ charges \\
\hline
= Cash\ Flow - CF
\end{array}
$$

Figura 11.1. Formula of determining Cash Flow

As can be seen on Figura-11.1, to determine Cash Flow of the investment project first of all we must find Sales. To calculate sales we must know volume of the product and the price of a product.

Also we need operational expences of a product, fixed costs (non-operational expences) in a month or in a year, calculate depreciation charges in a month or in a year, interest rates of borrowed resources, and also rate of income tax and other duties.

The process of determining the present value of a payment or a stream of payments that is to be received in the future. Given the time value of money, a dollar is worth more today than it would be worth tomorrow given its capacity to earn interest. Discounting is the method used to figure out how much these future payments are worth today.

Discounting cash flows is called to bring their multi-temporal (relating to different steps of calculation) values to their values at a point in same time and denoted by t. The instant of applying may be different from the base point. Discounting applied to the cash flows expressed in current or deflated prices and in the single currency.

Discounted cash flow (DCF) analysis is a method of valuing a project, company, or asset using the concepts of the time value of money. All future cash flows are estimated and discounted to give their present values (PVs)—the sum of all future cash flows, both incoming and outgoing, is the net present value (NPV), which is taken as the value or price of the cash flows in question. Present value may also be expressed as a number of years' purchase of the future undiscounted annual cash flows expected to arise.

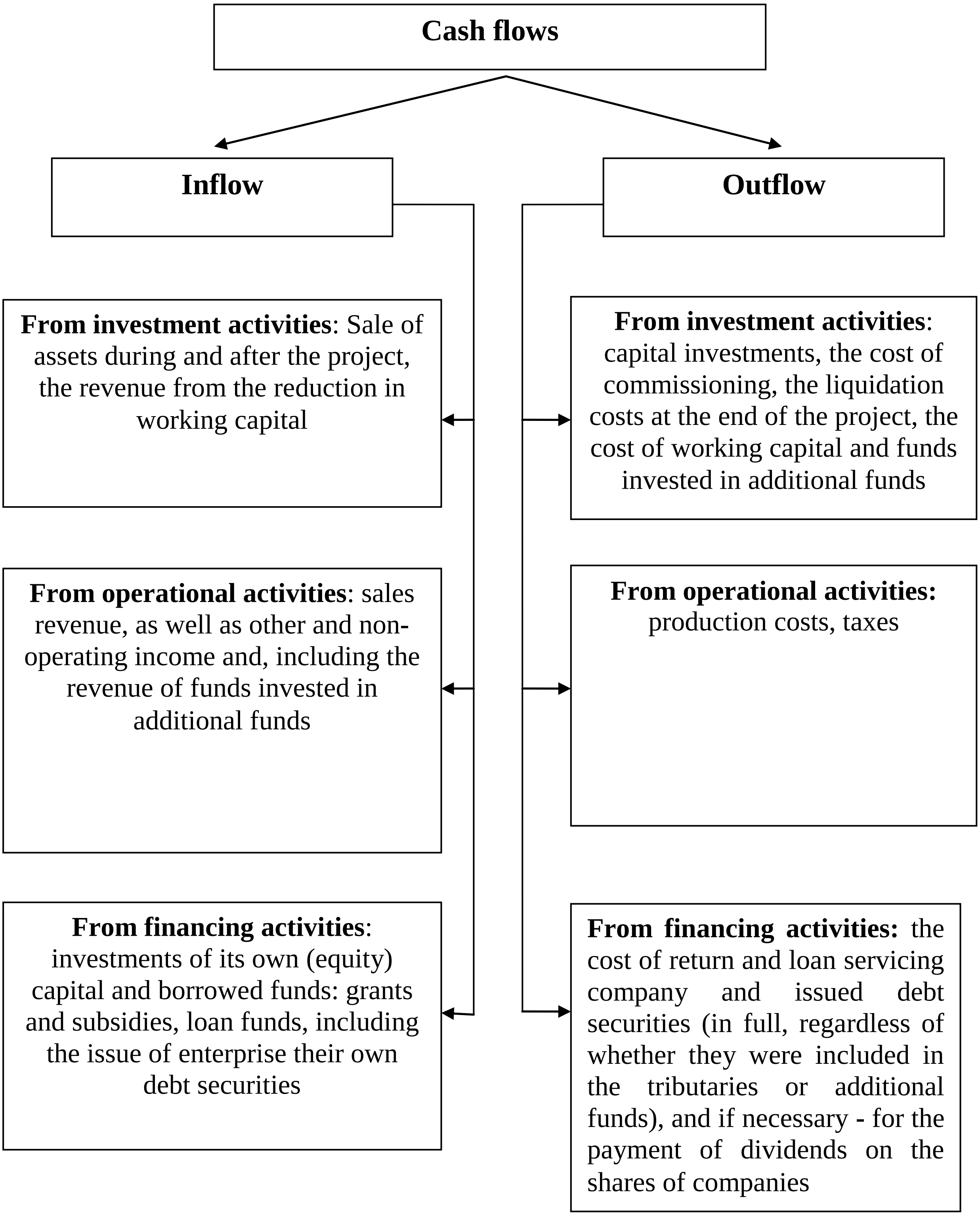

Figure 11.2. The structure of cash flows[27]

[27] Jo'rayev A.S. va boshq. Investitsiya loyihalari tahlili: Oliy o'quv muassasalari uchun o'quv qo'llanma – T.: «Sharq», 2003.-b.127.

Using DCF analysis to compute the NPV takes as input cash flows and a discount rate and gives as output a price; the opposite process—taking cash flows and a price and inferring a discount rate, is called the yield.

In a broader sense, the term “discounting” is used to refer to any means of bringing the cost value relating to the future, to some earlier point in time.

Real	**Processes**	**Future**
The initial amount Interest rate	Accretion →	Refund an amount
The reduced amount	← Discounting	Refund an amount Discount Rate

Figure 11.3. The logic of compounding and discounting processes

In compounding cash flows from the present to the future, in discounting - the flow from the future to the present (Figure 11.3).

In the long-term financial operations applied the discount factor.The discount factor determines the present value (the financial equivalent of) a future sum of money, ie reduce its income, rising for a certain period by the rule of compounded interest. Therefore, the discount multiplier is given by the inverse formula for the percentage multiplier

$$\mathbf{PVF = 1 / (1+r)n} \qquad \mathbf{(1)}$$

where, ***PVF*** - the discount multiplier (discount rate); n - the number of years (or the steps of calculation), during which the amount of money in circulation

11.4. Methods of assessing the effectiveness of investments based on discounted cash flows

Instrumentation of analysis of investment projects has found direct reflection of the calculations a number of basic criteria for evaluation of investment projects. In addition, they are allocated in the system of analytical methods and indicators, which together allow coming to a reliable and adequate conclusion. All methods can be divided into two groups: those based on discounting, and the methods, which do not involve the use of such a concept (simple, traditional) methods.

The international practice of evaluating the effectiveness of investments is essentially based on the concept of the time value of money and is based on the following principles:

1. Evaluation of the efficiency of using invested capital is made by comparing the cash flow (cash flow), which is formed in the process of implementing the investment project and the initial investment. A project is considered effective if it provides a return on the initial amount of investment and the required return for investors who have provided capital.

2. Invested capital, as well as cash flow, is brought to date or to a specific settlement year (which usually precedes the start of the project).

3. The process of discounting capital investments and cash flows is carried out at various discount rates, which are determined depending on the characteristics of investment projects. When determining the discount rate, the structure of investments and the cost of individual components of capital are taken into account.

The essence of all valuation methods is based on the following simple scheme: Initial investments during the implementation of a project generate cash flow CF1, CF2, ..., CFn. Investments are considered effective if this flow is sufficient to

- return of the initial amount of capital investments and
- ensuring the required return on invested capital.

In project analysis, as well as in other areas of economic knowledge and use of the concept of “time value of money”, meaning that 1 sum obtained before, is worth more than 1 sum received after, and there are 3 reasons:

- Inflation;

- The possibility of investing money at interest;

- The risk[28].

To do this, use discounting - the process of bringing cash flows to a single point in time. The concept of discounting cash receipts and costs has been universally recognized as the most accurate measure of investment eligibility.

Six key methods are used to evaluate projects and decide whether they should be included in the capital budget: 1) Payback Period (PP); 2) Discounted Payback Period (DPP); 3) Net Present Value (NPV); 4) Internal Rate of Return (IRR); 5) Modified Internal Rate of Return (MIRR); and 6) Profitability Index (PI). We will explain how each of the evaluation criteria is determined, and then we will determine how effective each of them is for discovering those projects that maximize the price of the company's shares.

These indicators, as well as the methods corresponding to them, are used in two versions:

• to determine the effectiveness of independent investment projects (the so-called absolute efficiency), when it is concluded whether to accept the project or reject it,

• to determine the effectiveness of mutually exclusive projects (comparative effectiveness) when it is concluded which project to accept from several alternative ones.

To illustrate each method, we use data on cash flows of projects S and L, presented in Fig. 11.4. (S is a “short” project in the sense that its main incoming cash flows occur earlier than in project L (long). At the moment, we believe that the projects are equally risky. In addition, we assume that the expected CFt values of their cash flows are presented and that they have already been adjusted to

[28] Колтынюк Б.А. Инвестиционный проект. Учебник., М .: «Михайлова В.А.». С. 224.

reflect the effects of taxes, depreciation, residual value, etc. 2 Further, since many projects require investments in both fixed assets and working capital, we will assume that investment costs take into account all n Necessary changes in net operating working capital Finally, we assume that all cash flows occur at the end of the respective year.

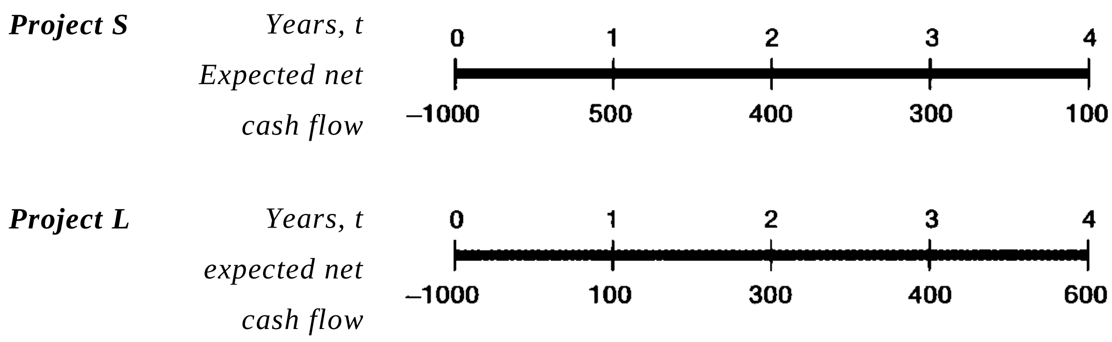

Figure 11.4. Net cash flows of projects S and L

Payback Period (PP) defined as the expected number of years required to recover the initial investment in a project is always the very first method used in evaluating projects for inclusion in the capital budget. The calculation of the payback periods of projects S and L is shown in Fig. 11.5.

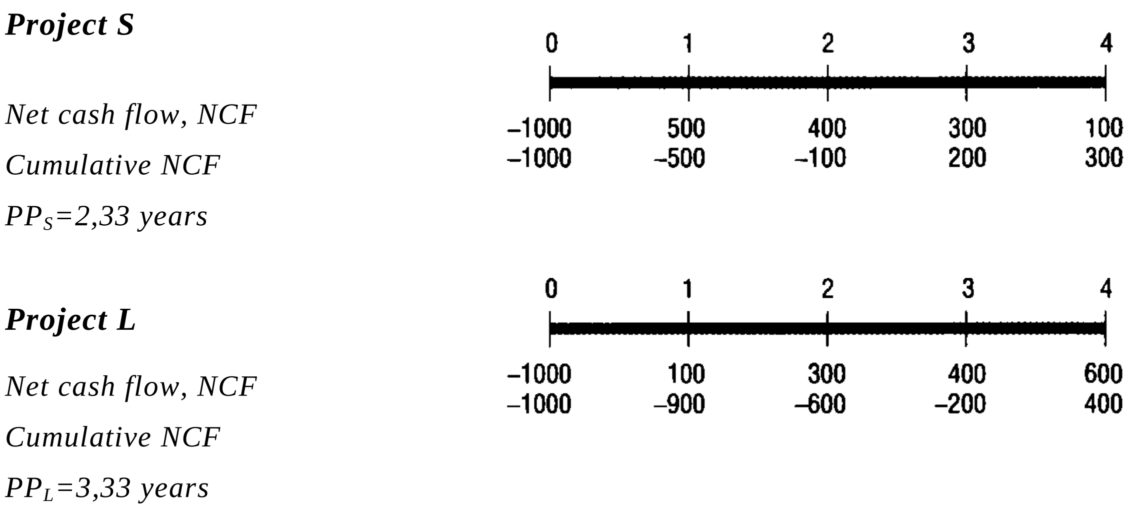

Figure 11.5. Payback Period for S and L projects

We see that by the end of the year, 3 cumulative (cumulative since the start of the project) incoming cash flows of Project S more than compensated for the initial costs (outgoing flow). Thus, the payback occurs during the third year.

If we assume that the incoming 300 dollars are distributed uniformly during the third year, then the exact payback period can be determined as follows:

Payback Period (S) = a year preceding the year of full cost recovery +

$$+\ \frac{\text{unreimbursed expenses at the beginning of the year of reimbursement}}{\text{cash flow throughout the year}} = 2 + \frac{100}{300} =$$

=2,33 years.

Applying the same procedure to project L, we find that Payback Period (L) = 3,33 years.

The shorter the payback period, the better. Therefore, if the company needs a payback period of three years or less, project S will be accepted, and L - rejected. If the projects were mutually exclusive, 1 project S would be considered preferable to L, since the latter has a longer payback period. For example, installing a conveyor system in a warehouse and acquiring a truck convoy for the same warehouse are mutually exclusive projects, since the adoption of one of them implies the rejection of the other.

Independent projects (independent) - these are projects, decisions on the adoption of which are independent of each other.

Discount payback period

Some firms use the usual payback option, a discounted payback period (Discounted Payback Period, DPP), which is similar to the usual payback period, but in this case the expected cash flows are discounted at the cost of the project capital. Thus, the discounted payback period is defined as the number of years required to recover the investment, discounted net cash flows. In fig. 11.3. discounted cash flows are presented for projects S and L with a capital cost of both projects of 10%. In addition, each annual cash flow is divided into

$(1+/k)t = 1{,}10^{t}$,

where t is the year in which CF enters (CF is spent), and k is the cost of project capital. The "normal" payback does not take into account the cost of capital - no costs for borrowed funds or equity used to carry out the project are reflected in cash flows or in calculations. When calculating the discounted payback, capital costs are taken into account, that is, when discounting at the cost of the project capital.

Otherwise, the calculation of DPP is similar to the calculation of the simple payback period of PP:

$$DPP_S = 2 + \frac{214}{225} = 2{,}95 \text{ years}$$

$$DPP_L = 3 + \frac{360}{410} = 3{,}88 \text{ years}$$

Project S

	0	1	2	3	4
Net cash flow, NCF	–1000	500	400	300	100
Discounted Net cash flow,NCF(r=10%)	–1000	455	331	225	68
Cumulative DNCF	–1000	–545	–214	11	79

DPP_S=2,95 years

Project L

	0	1	2	3	4
Net cash flow, NCF	–1000	100	300	400	600
Discounted Net cash flow,NCF(r=10%)	–1000	91	248	301	410
Cumulative NCF	–1000	–909	–661	–360	50

PP_L=3,88 years

Figure 11.5. Discount payback period for S and L projects

For our projects S and L, the selection results do not depend on which method of calculating the payback, PP or DPP, is used: project S is preferred in *any case. However, often the usual and discounted payback * - give conflicting estimates. An important drawback of both the payback method and the discounted payback method is that they ignore the cash flows that are expended or received after the completion of the project payback period. For example, consider two projects X and Y, each of which requires an initial investment cost of $ 3,000, i.e.,* CF_0 *= -3000.*

Suppose both projects have a cost of capital of 10%. Project X is expected to generate cash flows of $ 1,000 annually over the coming years, while Y will not generate cash flows for the first four years, but will create a single inbound flow of $ 1 million in the fifth year. Common sense assumes that project Y creates great value for the company's shareholders, but nonetheless, the payback and discounted payback methods will indicate project X as more successful. Consequently, both payback methods have serious disadvantages.

We will no longer dwell on the analysis of these methods. Nevertheless, both payback methods can provide useful information on how long the funds invested in the project will be "frozen" in it. Thus, the shorter the payback period with constant other parameters, the ceteris paribus the higher the liquidity of the project.

In addition, since cash flows expected later are usually more risky than cash flows in the short term, payback is often used as an indicator of project riskiness.

Net present value (net present value)

Once the shortcomings of the payback methods were identified, people began to look for other ways to evaluate projects. One such method is the Net Present Value (NPV) method. To implement this approach, we perform the following steps.

1. Find the present value of each cash flow, including both incoming and outgoing flows. Discounting is carried out at the cost of the project capital.

2. Received discounted cash flows are summed up; the amount is called the net present value (NPV) of the project.

3. If NPV is positive, the project must be accepted, and if it is negative, it *must be rejected. If two projects with a positive NPV are mutually exclusive, then a project with a large net present value should be selected.*

The equation for calculating the net present value is as follows:

$$NPV = \frac{CF_1}{(1+k)^1} + \frac{CF_2}{(1+k)^2} + \frac{CF_3}{(1+k)^3} + \cdots \ldots \frac{CF_n}{(1+k)^n} - I_0$$

Here:

CFn - expected net cash flow in year t

k - the cost of capital;

n - the life of the project.

Io - initial investment.

Outgoing cash flows are treated as negative cash flows; for projects S and L, only CF_0 is negative, but for many large and long-term projects, outflows occur for several years before the operations begin. In addition, negative flows can occur later, for example, in the case of the need for scheduled repairs or replacement of equipment. With a cost of capital of 10%, the net present value of Project S will be \$ 78.82.

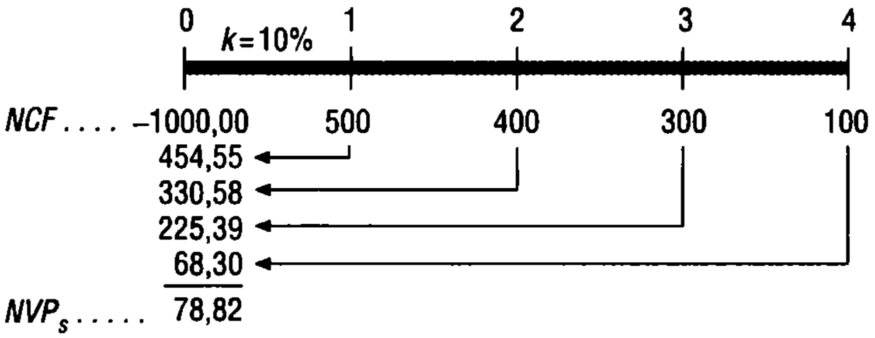

Figure 11.6. The net present value of Project S

Similarly, we find the net present value of the project L: NPV_L = \$ 49.18. Thus, both projects should be accepted if they are independent, but S should be chosen instead if they are mutually exclusive.[29]

[29] Eugene F. Brigham, Michael C. Ehrhardt. FINANCIAL MANAGEMENT. Theory and Practice.10th edition. SOUTH-WESTERN THOMSON LEARNING. 2008

NPV (net present value) – is the difference between the sum of cash receipts generated by the implementation of the investment project, discounted to their current value and the sum of discounted all costs necessary for the implementation of this project. The method proceeds from two assumptions: any enterprise seeks to maximize its value and costs that are of different times have different values.

Method procedure.

Step 1. The current value of each cash flow, input and output, is determined.

Step 2. All discounted values of cash flow elements are summarized and the NPV criterion is determined.

Step 3. The decision is made:

for a single project: if NPV is greater than zero, then the project is acceptable, the value of the company increases by this amount. If NPV = 0, the project is neither profitable nor unprofitable.

NPV <0, the project is not accepted, unprofitable.

• for several alternative projects: the project that has a greater NPV value, if only positive, is accepted.

With NPV = 0, although there is no profit, still production volumes will increase during the project, that is, the company will increase in scale - this is a positive trend.

If the project involves not a one-time investment, but a consistent investment of financial resources for m years, then the formula is modified into the following form:

$$NPV = \sum_{t=1}^{n} \frac{CF_t}{(1+k)^t} - \sum_{t=1}^{n} \frac{I_t}{(1+k)^t}$$

I_t – the investment cost in period t.

The NPV calculation method is widespread, since it has sufficient stability under different combinations of initial conditions, allowing in all cases to find an economically rational solution. However, it only answers the question of whether the analyzed investment option contributes to the growth of the value of the company, or the wealth of the investor in general, but does not indicate the relative measure of such growth.

The next indicator is the return on investment, *PI (profitability Index)*, which allows you to determine to what extent the value of the company increases per 1 sum of investments. The formula is as follows:

$$PI = \sum_{t=1}^{n} \frac{CF_t}{(1+k)^t} / I_0$$

If PI> 1, the project is acceptable.

PI = 1, the project is neither profitable nor unprofitable.

PI <1, the project should be rejected.

The higher the PI value, the greater the return on each sum invested in this project. Thanks to this, this indicator is very convenient when choosing one project from a number of alternative ones having approximately the same NPV.

In the case of non-recurring costs, the indicator is calculated as follows:

$$PI = \sum_{t=1}^{n} \frac{CF_t}{(1+k)^t} / \sum_{t=1}^{n} \frac{I_t}{(1+k)^t}$$

The PI indicator provides the analyst with an opportunity to study the investment project in 2 more aspects:

1. With its help, you can find something like a measure of the sustainability of such a project. For example, PI = 2, then the project in question will cease to be attractive to the investor only if its benefits are less than 2 times less;

2. PI is a reliable tool for ranking various investments in terms of their attractiveness.

The internal rate of return, IRR (internal rate of return) is the value of the discount coefficient at which the NPV is zero.

$$NPV = \sum_{t=1}^{n} \frac{CF_t}{(1+IRR)^t} - I_0 = 0$$

There are two ways to find IRR:

- calculate it using the equations for calculating the discounted value;
- find it in the tables of conversion factors.

It should be noted that solving the problem of determining the IRR becomes especially difficult in cases where future cash receipts may not be the same in size. The calculation process itself has to be changed, referring to the trial and error method, in order to find the desired IRR value by several successive approximations.

This indicator indicates the expected profitability of the project, and, therefore, the maximum allowable relative level of expenses that may be associated with this project. For example, if the project is fully funded by a commercial bank loan, the IRR value indicates the upper limit of the acceptable level of the bank interest rate, the excess of which makes the project unprofitable.

The second group of methods for assessing the effectiveness of investment projects is *traditional (simple) methods*. These include indicators such as the payback period, accounting return on investment, and the breakeven point highlighted by some economists. The disadvantages of these methods include the lack of differences in the price of money over time, as well as the existence of cash flows even after the payback period, i.e. no cash discounting.

The economic meaning of accounting return on investment is to assess how much of the investment cost is reimbursed (returned) in the form of profit during one planning interval. The accounting return on investment indicator is sometimes referred to in the literature as the average rate of return on investments ARR (average rate of return) or the estimated rate of return ARR (accounting rate of return). This indicator is focused on the assessment of investments based not on cash receipts, but on an accounting indicator - the company's income.

The advantages of this indicator include clarity and simplicity of calculations, as well as focus on the amount of income, which, on the one hand, allows you to create a clear incentive system for personnel associated with the implementation of investments, and on the other hand, interest the shareholders of the company, which are primarily turn pay attention to income level.

Along with the indicated advantages, the method has the following disadvantages:

- the unequal value of cash over time is not taken into account;
- the return on invested capital is taken only profit;
- ignores differences in the duration of the operation of assets created thanks;
- non-additivity (project profitability is not equal to the sum of the profitability of its stages).

Thus, methods for assessing the effectiveness of investment projects are widely used in their comprehensive examination by both bank employees and other participants in investment activities. The first group of methods can serve as the main analysis tool, indicators complement each other and can be used for comparative analysis, however, their application requires knowledge and skills in the field of design, calculations require large calculations, but reflect the real picture of the project's investments.

The second group of methods is characterized by simplicity of calculations, saving time and money on expensive software products, and their disadvantages are the lack of taking into account the value of money in time and the inability to make a final decision on investing only on their basis.

The use of any, even the most common methods will not ensure complete predictability of the final result, therefore the main purpose of using the proposed system of methods is not to obtain absolutely accurate results of the effectiveness of the project and its riskiness, but to compare investment projects proposed for consideration on the basis of a unified approach using objective as possible and rechecked indicators and drawing up relatively more efficient and relatively less rice ovannogo investment portfolio.

Questions for discussing and control

1. Explain the concept of “effeciency” and “effectiveness”?
2. What is the need for financial analysis of an investment project and can you explain its main purpose?
3. Do you know of any changes in the methodology of the evaluation of the effectiveness of investment projects and what are the reasons for this?
4. Can you list the important aspects of the financial analysis of an investment project by UNIDO methodology?
5. Explain the main aspects of financial analysis?
6. What information can be obtained through financial evaluation of the project?
7. What is the role of investment decisions in project implementation?
8. On what basis are investment decisions made?
9. What information is required to make investment decisions?
10. What methods are applicable to traditional methods of assessing investment effectiveness?
11. How banks use traditional project evaluation methods?
12. What is the formula for determining the Payback Period (PP)?
13. How many approaches can there be to determine Payback Period?
14. What are the advantages and disadvantages of the Payback Period?
15. Do you know the formula for calculating the return on investment (ROI)?
16. What are the conclusions drawn from the calculation of return on investment?
17. What is the formula for calculating the Avarage Rate of Return (ARR)?
18. What is the meaning of the term “cash flow”?
19. How to classify cash flows?
20. Groups of cash receipts and expenditures.

21. What are the requirements for project implementation?
22. What is discounting?
23. What do you think is the reason for the discounting method?
24. How is the discount rate calculated?
25. What do you mean by the future value?
26. What do you mean by the present value?
27. What is the formula for calculating the Net Present Value (NPV)?
28. How to calculate the Net Present Value formula when multiple investment costs are realized?
29. What is the formula for calculating the Profitability Index (PI)?
30. What are the features of using Profitability Index?
31. How to determine the Internal Rate of Return (IRR)?
32. Under what conditions it is possible to make the right decision using the internal rate of return?
33. What is the formula for calculating the discount rate?
34. How does the discount payback period cover the investment repayment period?

CHAPTER 12. SOURCES AND METHODS OF FINANCING INVESTMENT ACTIVITY

12.1. The sources of financing investment activities and their classification

Financing of investment activity is the order of providing investment resources, the system of spending and monitor of targeted and effective usage. The implementation of the investment process is associated with the search possible sources of financing investment, ways to mobilize them, to improve efficiency.

All types of investment activity of business entities are carried out at the expense of investment resources generated by them.

The ratio and structure of financial assets attracted to make investments in investment objects by economic entities are largely determined by the prevailing forms and management mechanism. The market economy has a certain mechanism for the formation of sources of financing of investment activity, the distribution of investment resources in society. This makes it necessary to determine the content of investment sources and clarify their classification.

All types of investment activities of business entities are carried out at the expense of investment resources formed by them.

Investment resources represent all types of financial assets attracted to make investments in investment objects. Sources of formation of investment resources in a market economy are very diverse.

The process of formation of investment resources at the enterprise occurs continuously in the form of revenues from its main activities, from non-operating activities, through borrowing, etc. The specific amount of funds that will be allocated for investment purposes or used for consumer needs is determined in financial and financial plans. economic activities of the enterprise and largely depend on the cost of their attraction, the capital structure of the enterprise, its size.

In the economic literature, when analyzing the sources of financing investments, internal and external sources of investment are distinguished. At the same time, domestic sources of investment, as a rule, include national sources, including enterprises' own funds, financial market resources, population savings, budget investment allocations; to external sources - foreign investment, loans and borrowings.

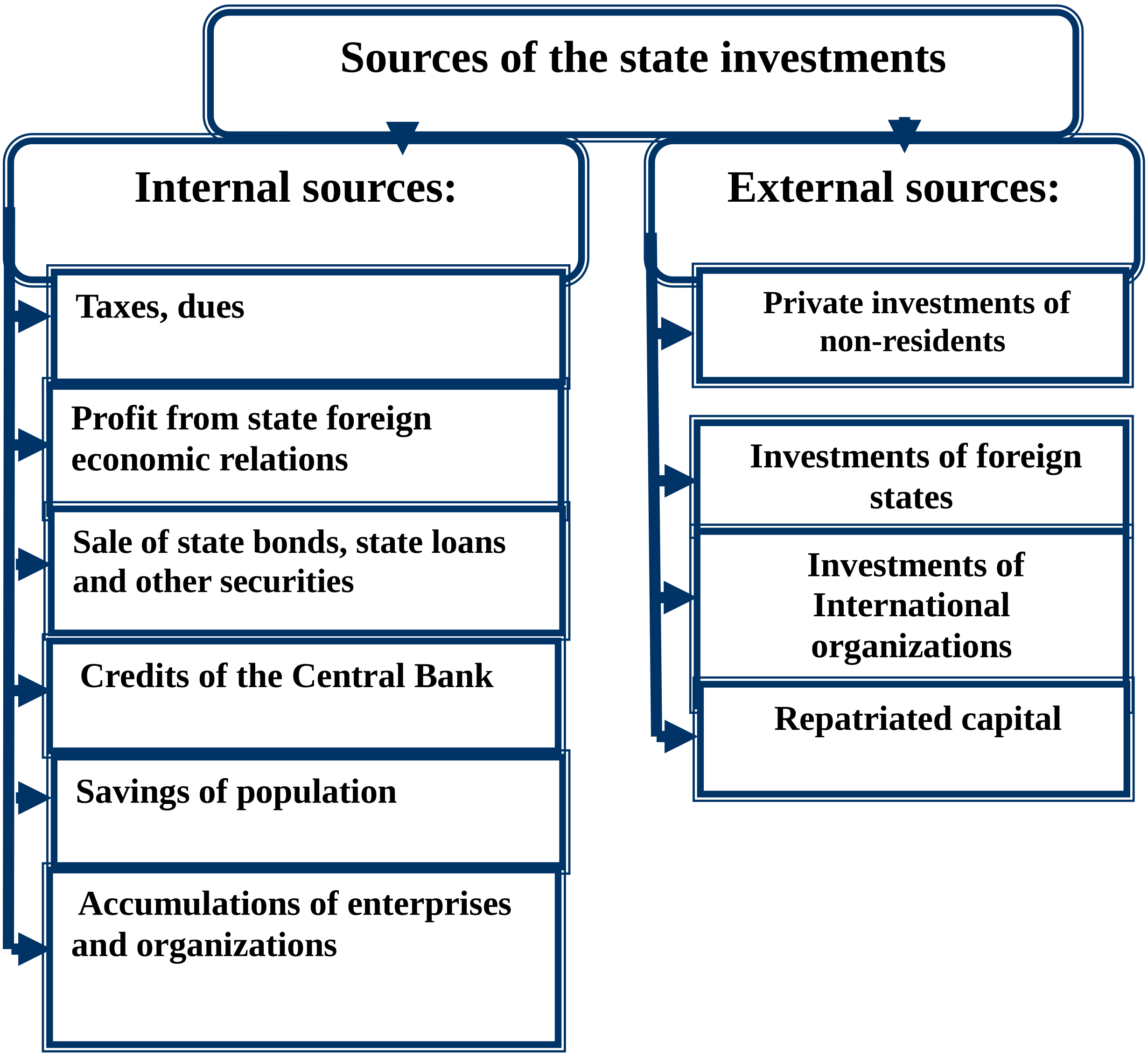

Figure 12.1. Sources of the state investments

This classification reflects the structure of internal and external sources from the standpoint of their formation and use at the level of the national economy as a whole. But it cannot be used to analyze investment processes at the microeconomic level.

From the perspective of an enterprise (firm), budget investments, funds of credit organizations, insurance companies, non-state pension and investment funds and other institutional investors are not internal, but external sources. External sources for the enterprise include people's savings, which can be raised for investment purposes by selling shares, offering bonds, other securities, and also through banks in the form of bank loans.

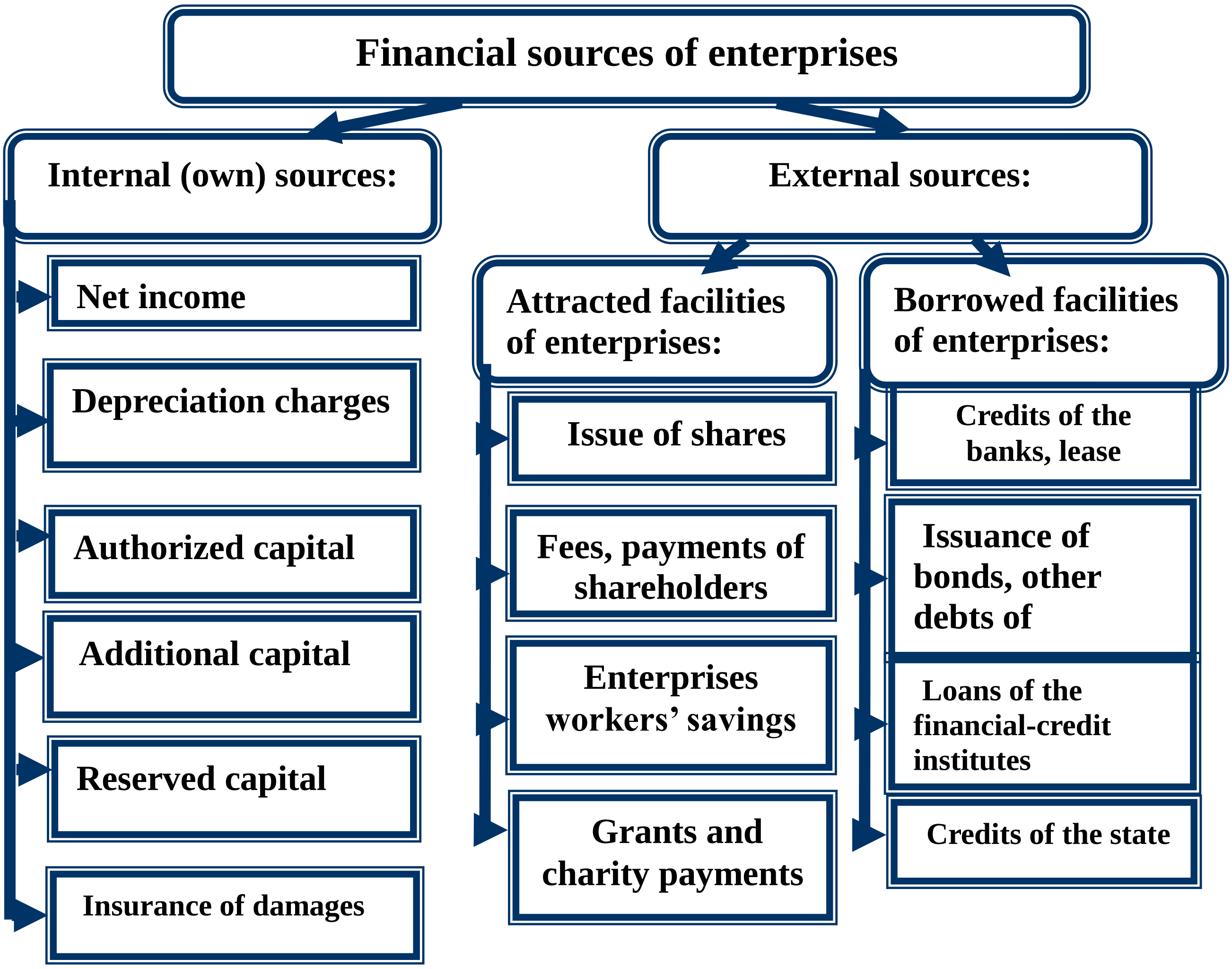

Figure 12.2. Financial sources of enterprises

When classifying investment sources, it is also necessary to take into account the specifics of various organizational and legal forms, for example, private, collective, and joint ventures. So, for enterprises that are privately or collectively owned, internal accumulations may be personal accumulations of owners of enterprises. For enterprises that are jointly owned with foreign property firms, the investments of foreign co-owners should also be considered as an internal source for the enterprise.

Thus, it is necessary to distinguish between internal and external sources of financing investments at the macroeconomic and microeconomic levels. At the macroeconomic level, internal sources of investment financing include: state budget financing, population savings, accumulation of enterprises, commercial banks, investment funds and companies, private pension funds, insurance companies, etc. External - foreign investment, loans and borrowings. At the microeconomic level, the internal sources of investment are: authorized capital, profit, depreciation, investments of the owners of the enterprise; external - state financing, investment loans, funds raised by placing their own securities.

The structure of the sources of financing the investment of the enterprise. When analyzing the structure of sources of investment formation at the microeconomic level (enterprises, firms, corporations), all sources of financing investments are divided into three main groups:

- Own sources of financing investments;
- Attracted;
- Borrowed sources.

Moreover, the company's own funds act as internal, and borrowed and borrowed funds - as external sources of financing investments.

An analysis of the structure of investment financing sources at the firm level in countries with developed market economies indicates that the share of domestic sources in the total amount of financing investment costs in different countries varies significantly depending on many objective and subjective factors.

The economic literature contains various estimates of the relationship between internal and external sources of investment financing in Western countries. A number of economists believe that in the post-war period in developed countries, two types of relationships between internal and external sources of financing investments of non-financial corporations are observed; one of them, characterized by a high share of equity in total funding, takes place in the United States and Great Britain, the other, characterized by a high proportion of borrowed and borrowed funds, is in Germany and Japan.

As a rule, the structure of investment financing sources changes depending on the phase of the business cycle: the share of internal sources decreases during periods of recovery and growth, when investment activity rises, and grows during periods of economic downturn, which is associated with a reduction in investment, a reduction in the supply of money, and a rise in the cost of credit .

When solving the problem of minimizing the cost of attracting investment resources from various sources, first of all, the terms for which certain resources are provided, the form and conditions of the return of borrowed funds, the conditions for paying interest, interest rates and many other conditions are taken into account.

The appeal to external sources of investment resources formation, as a rule, occurs after the possibilities of internal sources are fully realized. Volumes and specific forms of attracting borrowed investment resources are determined on the basis of the goals and specifics of the investment activity of the enterprise, taking into account ensuring its financial stability.

There is also a classification of sources of financing investments, dividing into centralized (budgetary) and non-centralized (extrabudgetary) sources. Centralized sources usually include funds from the republican budget, funds from local budgets and extrabudgetary funds. All the rest (net profit, depreciation, bank loans, issuance of securities, etc.) relate to non-centralized sources.

12.2. Own funds of enterprises

One of the most important forms of financial support for investment activities of firms (companies) is self-financing. It is based on the use of own financial resources, primarily profits and depreciation.

Own financial resources of the enterprise include initial contributions of the founders at the time of organization and part of the funds received as a result of its further economic activity.

Profit. A key role in the structure of own sources of financing of investment activity of enterprises is played by profit. She acts as the main form of net income of the enterprise, expressing the value of the surplus product. After taxes and other obligatory payments, the net profit remains at the disposal of enterprises, some of which can be directed to investments. As a rule, part of the profit allocated for investment purposes is accumulated in the accumulation fund or other funds of a similar purpose created at the enterprise.

“Retained earnings” represents a claim against assets, rather than an asset, in fact. Moreover, firms retain profits primarily for expanding their own business, which means investing in buildings, equipment, inventories, etc., rather than saving money in a bank account. Changes in retained earnings occur because shareholders allow the firm to reinvest funds that would otherwise be distributed as dividends. Thus, retained earnings in the balance sheet do not represent cash and are not “available” for dividends or any other purposes.

Many financial analysts are interested in the so-called net cash flow (net cash flow). The cash flow (cash flow) of a company is usually different from its balance sheet profit (accounting profit), since some types of profit and expenses listed in the income statement do not lead to the payment of money.

The relationship between net cash flow and net profit can be expressed as follows:

Net cash flow = Net profit - Not cash income + Not cash costs.

A typical example of non-cash costs is depreciation. Such expenses reduce net profit, but do not lead to actual payments of money, so we again add them to net profit when calculating net cash flow. Another example of a non-monetary item is deferred taxes. In some cases, companies are allowed to defer taxes until a later date, even if taxes are recognized as an expense in the income statement. Therefore, in calculating cash flow, deferred tax payments will be added to net income. At the same time, some types of profit may not be received during the year in cash, and these items should be deducted from net profit when calculating net cash flow.

Typically, the depreciation of tangible and intangible assets is the largest non-monetary items, and in many cases other such items can be roughly neglected. For this reason, many analysts accept that net cash flow equals net profit plus depreciation of tangible and intangible assets:

Net cash flow = Net profit + Depreciation of tangible and intangible assets.

Depreciation is not a cash expense, so it must be added to net income to produce net cash flow. If we assume that all other non-monetary items in total are small, then the flow simply equals the sum of net profit and depreciation.

A firm cannot maintain cash flows at the same level for a long time if, for example, fixed assets are updated, and thus managers are not completely free to use the proceeds. Therefore, now we will define another term - free cash flow (cash flow), which is the flow of money really available for distribution between investors - after the company has made all investments in fixed assets and working capital, necessary to maintain her operations.

When you studied profit and loss statements in an accounting course, it was possible that the emphasis was on the net profit of the company, i.e., on its retained earnings. However, the value of the company's operations is determined by the cash flows that will be generated as a result of these operations now and in the future. As the cash flow statement shows, the volumes of accounting profit and cash flow can vary significantly. To be more precise, let's say that the effectiveness of operations depends on all estimated free cash flows, defined as the profit from operations after tax minus the amount of necessary investment in working capital and fixed assets.

Thus, the free movement of money represents financial resources that are truly available for distribution among investors. Consequently, the way managers can increase the value of their firms for them is to increase their free cash flow.

The accumulation fund acts as a source of funds of an economic entity, used to create new property, the acquisition of fixed assets, working capital, etc. The dynamics of the accumulation fund reflects a change in the property status of the business entity, an increase in its own funds.

Depreciation charges. The next largest source of investment financing is depreciation. These deductions are generated at enterprises as a result of the transfer of the value of fixed assets to the value of finished products. Functioning for a long time, fixed assets gradually wear out and transfer their value to finished products in parts. Since the basic production assets do not require compensation in kind after each reproduction cycle, enterprises incur the costs of their restoration after the standard service life. Funds released during the process of gradual restoration of the value of fixed assets are accumulated in the form of depreciation in the depreciation fund.

The value of the depreciation fund depends on the volume of fixed assets of the enterprise and the accrual methods used. In economic practice, the method of uniform (straightforward) and accelerated depreciation is used.

In the linear method, depreciation is calculated according to uniform depreciation rates established as a percentage of the initial cost of fixed assets. If you deviate from the regulatory conditions for the use of fixed assets, depreciation rates can be adjusted using the so-called correction factors.

When using the accelerated depreciation method in countries with a market economy, it is accrued taking into account the decreasing balance of the carrying value of fixed assets or by the method of sum of numbers.

In the first case, the amount of depreciation is determined on the basis of a fixed percentage of the residual value of fixed assets. At the same time, annual depreciation charges are constantly decreasing. If we sequentially correlate the values of annual depreciation deductions to the value of the initial cost of fixed assets, the obtained norms of depreciation deductions form a certain regressive scale.

With accelerated depreciation in the first half of the fixed assets service period, up to two thirds of their value is deducted to the depreciation fund. The advantage of this method over the linear one is the reduction of losses due to underestimation of the value of fixed assets if they are replaced due to obsolescence before the end of the established service life.

In addition to profit and depreciation deductions, the sources of financing investments are: a part of fixed assets reinvested by sale, a part of surplus current assets immobilized into investments, insurance indemnifications for losses caused by the loss of property, and other targeted income.

The amount of depreciation at the enterprise depends on the following factors:

• the average annual value of fixed assets at the disposal of the enterprise;

• revaluation of fixed assets;

• a method of calculating depreciation deductions;

The annual amount of depreciation is determined:

In the linear method - based on the initial cost of fixed assets and depreciation rates calculated on the basis of the useful life of this object;

With the method of decreasing balance - based on the residual value of an item of fixed assets at the beginning of the reporting year and the depreciation rate calculated on the basis of the useful life of this item;

In the method of writing off the value according to the sum of the number of years of the useful life - based on the initial cost of the fixed assets and the annual ratio, where in the numerator is the number of years remaining until the end of the life of the object, and in the denominator is the sum of the numbers of years of the life of the object.

In conclusion, it is necessary to note the exceptional importance of the state depreciation policy, which should provide financing for investment activities of enterprises (organizations). Practical innovations in the depreciation policy put into effect by the Tax Code, including an increase in depreciation of fixed assets, a significant expansion of the scope of application of the accelerated depreciation instrument for their entire active part, the transition to a non-linear (regression) method of calculating depreciation as the most economically adequate, changes in the direction of decreasing terms fixed assets services are radical for existing and newly created funds.

12.3. Borrowed and attracted funds of business entities

Along with the above-mentioned own investment and financial resources of the company, borrowed and borrowed funds can serve as sources of financing investment activities.

Attracted funds include funds provided on an ongoing basis, by which income may be paid to the owners of these funds (in the form of dividends, interest) and which may practically not be returned to the owners. Among them are: funds from the issue of shares, additional contributions (shares) to the authorized capital, as well as targeted state financing on a gratuitous or shared basis.

Borrowers are understood as monetary resources received in a loan for a certain term and repayable with interest. Borrowed funds include: funds received from the issuance of bonds, other debt obligations, as well as loans from banks, other financial and credit institutions, and the state.

The mobilization of borrowed and borrowed funds is carried out in various ways, the main of which are: raising capital through the securities market, loan capital market, state financing.

Raising capital through the securities market plays an important role in a market economy. Funds received as a result of the issue and placement of securities are one of the main sources of financing investments.

Issue of shares. Funds from the issue of shares are one of the most widely used sources for financing investment, which is actively used by joint-stock companies to attract share capital. An increase in equity through the issuance of shares is possible when the company is experiencing the need for financial resources, into a joint stock company or when an already existing joint stock company issues new shares that can be placed both among previous and new shareholders.

In the latter case, as a rule, the previous shareholders are granted preemptive rights to acquire new shares in the proportion that corresponds to their share in the existing share capital before the new shares are offered to outside investors. This practice allows shareholders to maintain their share in the capital at a certain level, while maintaining control over the activities of the joint-stock company. In case of insufficient funds for the purchase of additional shares from the previous shareholders, the shares are placed among the new owners, which objectively reduces the share of shares concentrated in the hands of the existing shareholders and, accordingly, the degree of their participation in the capital of the joint-stock company.

It should be noted that the expansion of equity can occur in another way - by capitalizing part of retained earnings. With this method of increasing equity, the management of the joint-stock company, with the consent of the meeting of shareholders, decides not to pay a certain share of retained earnings to holders of ordinary shares in the form of dividends, but to invest it in various activities. Leaving the profit at the disposal of the joint-stock company, shareholders - owners of shares actually invest it in anticipation of future growth in the market value of shares and the receipt of increased income on them.

Withholding profits is a simpler and cheaper way to replenish equity, because unlike the issue of shares, it is not associated with the costs of their placement and sale. However, it should be borne in mind that the practice of reinvesting profits, making it difficult to increase current dividends, can have an adverse effect on the stock price, since the continuity of dividend payments (preferably with an increase in their dynamics) acts as the most important factor in maintaining the stock price. It is known that the increase in the market value of shares is determined by the increase in income on them, therefore, the payment of higher dividends increases the income of shareholders and facilitates the accumulation of capital through the sale of additional shares.

When retaining profits, funds should be invested in such a way as to bring a high rate of return and offset the cost of paying dividends. Similarly, when selling new shares, the proceeds from their sale must be invested in such a way as to provide an income sufficient to maintain the same dividend per share and the same rate of shares that existed with the previous share capital.

In general, it should be borne in mind that corporatization as an investment method is effective only for competitive enterprises. The issue and placement of shares is associated with significant costs. In addition, there is a danger of depreciation of previous issues of shares, loss of a controlling stake, absorption of a joint-stock company by another company.

Bond issue. One of the sources of financing investment activity may be the issue of bonds aimed at attracting temporarily free cash funds of the population and commercial structures. The term of the bond loan, as a rule, should be no less than the average duration of the investment project, so that the repayment of obligations on the bond debt occurs after receiving a return on investment.

The attractiveness of bonds for potential investors is largely determined by the conditions of their placement. The terms of the bond loan include: the amount and term of the loan, the number of bonds issued, the interest rate, the conditions for interest payments, the date, form and procedure for repayment, reservations on the conversion of bonds, protection of the interests of creditors, etc. The proposed conditions should be sufficiently beneficial for investors and to ensure the liquidity of bonds, in some cases - the ability to return funds on them before the expiration of the period determined by the issue of bonds by buying and selling on stock exchanges or through investment institutions in ebirzhevogo market.

When choosing sources for the formation of investment resources, it is important to take into account the advantages and disadvantages characteristic of various methods of attracting capital.

So, the main advantage of the issue of shares as a way of mobilizing financial resources by joint-stock companies is a lower degree of risk compared to the use of borrowed funds, which is expressed in the following:

• equity financing provides an opportunity to expand equity capital on a long-term basis. Attracted funds are paid to their owners only upon liquidation of the company, while borrowed capital is repayable within the agreed period;

• placement of shares, unlike credit relations, does not require the use of collateral or guarantees;

• the joint-stock company may not pay dividends on ordinary shares in the absence of profit, but by decision of the meeting of shareholders and in the presence of profit, while when using bond financing, the principle of payment must be observed;

• when financing large investment projects, raising capital through the issuance of shares allows you to defer payments to the period when the projects themselves will generate income.

The advantages of investing in stocks include opportunities:

• receiving significant income in the form of dividends and sale of shares at a higher rate;

• participation in the management of a joint stock company;

• impact on the activities of the company (for large shareholders).

Among the disadvantages are:

• risk of non-payment of dividends;

• risk of loss of capital when stock prices decline;

• the inability for small shareholders to influence the policy pursued by the company;

• The last priority of capital return upon liquidation of the company

Investments in bonds, in turn, are characterized by the following advantages:

• the amount of income on bonds is guaranteed and known in advance, while the amount of income on shares (ordinary) is not guaranteed and forecast;

• bonds can be presented ahead of schedule for redemption, while a shareholder cannot claim funds invested in shares (except for the grace period and the case of liquidation of the issuer);

• upon liquidation of the company, bondholders have a priority right over share holders to return on invested funds.

The main disadvantages of investing in bonds include:

• generally lower bond yield than stocks;

• bond ownership does not provide a right to participate in the management of a company.

Raising capital through the credit market

The share of long-term borrowed capital in the investment and financial resources of firms and corporations in developed countries ranges from 25 to 60%. Among the borrowed sources of financing investment activities, the main role is played by bank loans. Attracting bank loans is often considered as the best method of external financing of investments if the company cannot satisfy its needs at the expense of its own funds and the issue of securities.

The economic interest in the use of credit is associated with the effect of financial leverage. It is known that enterprises using only their own funds limit their profitability to approximately two-thirds of economic profitability. An enterprise using borrowed funds can increase the profitability of its own funds, depending on the ratio of own and borrowed funds in the balance sheet liabilities and the cost of borrowed funds.

Investment loan acts as a type of bank loan (usually long-term) aimed at investment purposes. A loan is granted subject to the basic principles of lending: repayment, maturity, payment, security, intended use.

Obtaining a long-term bank loan has several advantages over issuing bonds, which, in particular, include:

a more flexible financing scheme, since the conditions for granting a loan when obtaining a bank loan can be dynamically changed in accordance with the needs of the borrower;

• the possibility of winning on the difference in interest rates;

• lack of costs associated with the registration and placement of securities.

The credit method of investing assumes the existence of a relationship between the actual return on investment and repayment of the loan within the time period specified by the contract. The loan allows you to immediately begin the implementation of the investment project, since, in essence, it means the transfer of payment of the principal amount of the debt for a certain period. The source of the return on investment loans and interest payments on them should be the additional profit from the event being credited.

The basis of a bank's credit relationship with borrowers when issuing bank loans is a loan agreement that governs the specific conditions and procedure for providing a loan. As a rule, the execution of investment loans is accompanied by a feasibility study or business plan. To obtain a long-term loan, the borrower must indicate the purpose of the loan, provide estimates of the estimated costs (cost estimates), the expected income of the client from the implementation of the loaned measure, the effectiveness of the loan and the real terms of its payback, provide guarantees of loan repayment. The package of documents should contain references to contracts, contracts with suppliers indicating volumes, costs, delivery times, as well as contracts with buyers or applications from buyers indicating volumes of prices and delivery times.

Based on the study of the submitted documents, as well as its own information about the borrower, the bank analyzes its creditworthiness and solvency, forms of guaranteeing loan repayment and, upon receipt of positive results, enters into a loan agreement (contract) with the borrower. The loan agreement shall reflect: the purpose of the loan, the type of loan, its term and size, the interest rate, the type of loan security, the procedure for granting and repaying the loan, the rights, obligations and responsibilities of the bank and the borrower, additional conditions by agreement of the lender and the borrower.

The quantitative boundaries of the loan are determined, on the one hand, by the borrower's interest in using the loan, and, on the other hand, by the borrower having the ability to repay the loan and interest thereon on a specified date. Interest rates on long-term loans can be fixed and floating. The fixed rate remains unchanged throughout the entire loan period, and the floating rate is periodically reviewed depending on market conditions, changes in the official inflation index and other circumstances. As a rule, for small loans the interest rate is set for the entire term of the contract, for large loans a floating interest rate is applied.

When determining the interest rate on long-term loans, a number of factors are taken into account: the weighted average cost of attracting resources, the degree of risk, the loan repayment term, the costs of arranging a loan and controlling its repayment (credit analysis, periodic check of collateral, etc.), the average level of interest rates on credit market, the nature of the relationship between the bank and the borrower, the rate of return that can be obtained by investing in alternative assets.

An important condition for issuing a loan is its collateral. The main types of collateral used in banking practice are: pledge, surety, guarantee, credit risk insurance. A special place among secured forms of financing is occupied by long-term loans issued on the security of real estate - a mortgage loan.

12.4. Methods of financing of investment activity

Methods of financing investment activities depend on the specific conditions for the functioning of the enterprise, changes in the direction of its development. They are determined by the characteristics of the reproduction of fixed capital and are based on the above sources of financing. The main methods of financing investments are:

Self-financing - based on the use of own financial resources, primarily profits and depreciation.

Corporatization as a method of financing investments is usually used to implement large-scale projects with sectoral or regional diversification of investment activities. Nevertheless, despite the obvious advantages of this source of investment, only a few large companies can afford to borrow money on the open market by placing additional issues of shares or corporate bonds in the CIS countries. In these conditions, the most real source of financing is lending.

Lending. The basis of the relationship between the investor and the bank (another lender) is a loan agreement, which determines the size of the loan, its security, repayment guarantees, terms of use and repayment methods, interest rates for use, property liability of the parties.

An alternative to bank lending, the method of financing capital investments is leasing. In developed countries, through this mechanism, from 20% to 30% of all investments are made.

Thus, the determination of the sources of formation of investment resources of the enterprise is one of the most important tasks for the successful functioning of the enterprise and the successful implementation of investment projects.

An important feature of the choice of sources for the formation of investment resources is their wide enough alternative to meet the same investment needs of the enterprise. In this regard, experts recommend using several sources of investment at the same time. Mixed financing is based on various combinations of the methods described above, and can be implemented in all forms of investment.

Questions for discussing and control

1. What do you understand under the term “financial resources” for investment activities?
2. What is the nature of financing investment activities in modern scientific thinking?

3. What are the features of the government mechanism for financing investment activities?
4. What sources of financing of investment projects do you know?
5. Explain the role and importance of foreign investors funding for investment projects?
6. Which economists have studied the theoretical aspects of financing investment activities?
7. What do you understand the meaning of “mechanism of financing the investment activity”?
8. Explain the role and importance of profits in financing investment projects.
9. What are the financial performance indicators of the enterprise?
10. What is a credit?
11. What is the definition of credit in economic literature?
12. What are the principles of credit?
13. What are the important aspects of a loan?
14. Explain the role and importance of the securities market in financing your investment activities?
15. How do you explain the role and importance of international financial institutions in financing investment activities?
16. What do you think about leasing properties in financing investment projects?
17. What are external sources of financing of investment activity?
18. What are the internal sources of financing of investment activity?
19. What is meant by the financing of investment projects with borrowed funds?
20. What are the criteria for financing investment projects using foreign credit lines?

CHAPTER 13. FINANCIAL INSTRUMENTS IN FINANCING INVESTMENT ACTIVITY

13.1. The nature of financial instruments and their role in the evaluation of investment attractiveness of companies

For operations in the financial market, its participants select appropriate tools of their conduct. These are variety of negotiable financial documents that have monetary value and by help of them operations carried out in the financial market. In general, the term "financial instruments" is very broad and covers a range of different tools that can be classified on various grounds. For example, financial instruments may be emission and non-emission, governmental and corporate, base and derived.

Financial instruments - a separate financial product that can act as a means of payment, savings and exchange. Financial instruments are cash and currency, securities, settlement documents, precious metals, plastic cards, deposits, insurance and credit services, etc.

Traded in the financial market instruments, serving operations at its various types and segments characterized by a large variety of modern stage. By type of financial markets following financial instruments are distinguished:

- Loan market instruments - the money and the settlement documents;
- Stock market instruments - a variety of securities;
- Currency market instruments - foreign exchange, foreign exchange settlement documents, as well as certain types of securities;
- Insurance market instruments - insurance services;
- Gold market (silver and platinum) - Metals acquired for the reserves.

On the priority significance financial instruments distinguished:

• *The primary financial tools (first order).* Such financial instruments (generally, securities) are characterized by their release into circulation by the primary issuer and confirm the direct property rights or debt instruments (stocks, bonds, checks, promissory notes, etc.)

• *Secondary (instruments of the second order)* characterize only securities confirming the right or obligation of the owner to buy or sell a traded primary securities, currencies, commodities or intangible assets at predetermined conditions in a future period. Such financial instruments are used for speculative financial transactions and insurance price risk (“hedge”). Depending on the composition of the primary financial instruments or assets with respect to which they are put into circulation, derivatives (secondary financial instruments) are classified into equity, foreign exchange, insurance, trade, etc. The main types of derivatives are options, swaps, futures and forward contracts.

Derivative financial instruments referred to, because the pricing of derivatives depends on the price changes in the underlying assets that are the basis of these derivative instruments. For example, if the price of gold changes, then the price of derivatives on gold also changes. For this reason, they always say “derivative on ...”, thus indicating from which underlying prices depends the price of derivative financial instrument.

Functions of financial instruments:

- Act as a means of payment or quasi-money;
- The reallocation of funds in the economy;
- The means of storage;
- Give additional rights such as the right to vote and the company's management, further information;
- Plays a role of an independent product;
- Helps to increase capital and income.

13.2. Classification of types of financial instruments

There are different types of classification of financial instruments.

The classification may be by duration, by the degree of risk, by revenue assurance, by the nature of financial liabilities, by national features, and others.

According to the duration, financial instruments have following types:

• Short-term (a period of up to one year) - are the most numerous and serve the operations in the money market;

• Long-term (period of more than one year) - they include “open-ended”, with unknown maturities. Serve the operations in the capital market.

According to the financial obligations of financial instruments are classified into the following types:

• Instruments that do not arise subsequent financial liabilities (financial instruments with no further obligations). They are, as a rule, subject to the implementation of the financial transactions and in their transfer, customers do not bear the additional financial obligations by the seller (eg, foreign currency, gold, etc.)

• Debt financial instruments. These tools are characterized by their credit relations between buyer and seller and require the debtor to repay on schedule their face value and pay additional compensation in the form of interest (if it is not part of the face value of the debt redeemable financial instrument). An example of debt financial instruments are the notes, bills, checks, etc.

• Equity financial instruments. Such financial instruments affirm the right of the owner to share in the authorized capital of the issuer and to receive appropriate income (in the form of dividends, interest, etc.). Equity instruments are shares, investment certificates, etc.

According to revenue assurance, financial instruments are classified into the following types:

• Financial instruments with fixed income. Have a guaranteed rate of return in case of redemption (or during the period of their treatment), regardless of market fluctuations of lending rate (the rate of return on capital) in the financial market

• Financial instruments with uncertain income. The rate of return of these instruments may vary depending on the financial condition of the issuer (common shares, investment certificates) or due to changes in financial market conditions (debt instruments with floating interest rates, "tied" to predetermined discount rate, the rate of certain "hard" foreign exchange, etc.

According to the level of risk, financial instruments have following types:

• Risk-free financial instruments. These include generally short-term government securities, short-term certificates of deposit of the most reliable banks, "hard" foreign currency, gold and other precious metals, purchased for a short period.

• Financial instruments with low risk. These include, as a rule, a group of short-term debt instruments serving money market, fulfillment of obligations guaranteed by the strong financial position and reputation as a reliable borrower (characterized by the term "prime borrower")

• Financial instruments with a moderate level of risk. A group of financial instruments, the level of risk, which approximately corresponds to the average, characterizes them.

• Financial instruments with a high level of risk. These include instruments, the level of risk that is much higher than the market average.

• Financial instruments with very high risk ("speculative"). Such financial instruments are characterized by the highest level of risk and are usually used to carry out the most risky speculative operations on the financial market. An example of such high-risk financial instruments are shares of "venture capital" (risky) companies; bonds with a high rate of interest issued by a company with the financial crisis state, options and futures contracts, etc.

This classification reflects the division of financial instruments on the most significant common features. Each of the groups considered financial instruments, in turn, is classified in a separate specific manner that reflects the characteristics of their production, circulation and redemption.

Financial markets are traditionally segmented into money markets and capital markets . Money market instruments include short-term, marketable, liquid, low-risk debt securities. Money market instruments sometimes are called cash *equivalents, or just cash for short. Capital markets, in contrast, include longer term and riskier securities. Securities in the capital market are much more diverse than those found within the money market. For this reason, we will subdivide the capital market into four segments: longer term bond markets, equity markets, and the derivative markets for options and futures.*

The money market is a subsector of the fixed-income market. It consists of very shortterm debt securities that usually are highly marketable. The major instruments in this market are: Repurchase agreements; Small-denomination time deposits and savings;Large-denomination time deposits;Treasury bills; Commercial paper; Money market mutual funds. Many of these securities trade in large denominations, and so are out of the reach of individual investors. Money market funds, however, are easily accessible to small investors. These mutual funds pool the resources of many investors and purchase a wide variety of money market securities on their behalf.

Treasury Bills

U.S. Treasury bills (T-bills, or just bills, for short) are the most marketable of all money market instruments. T-bills represent the simplest form of borrowing: The government raises money by selling bills to the public. Investors buy the bills at a discount from the stated maturity value. At the bill's maturity, the holder receives from the government a payment equal to the face value of the bill. The difference between the purchase price and ultimate maturity value constitutes the investor's earnings.

T-bills are issued with initial maturities of 4, 13, 26, or 52 weeks. Individuals can purchaseT-bills directly, at auction, or on the secondary market from a government securities dealer. T-bills are highly liquid; that is, they are easily converted to cash and sold at low transaction cost and with not much price risk. Unlike most other money market instruments, which sell in minimum denominations of $100,000, T-bills sell in minimum denominations of only $100, although $10,000 denominations are far more common. The income earned on T-bills is exempt from all state and local taxes, another characteristic distinguishing *them from other money market instruments. Figure 2.1 is a partial listing of T-bill rates. Rather than providing prices of each bill, the financial press reports yields based on those prices. You will see yields corresponding to both bid and ask prices. The ask price is the price you would have to pay to buy a T-bill from a securities dealer. The bid price is the slightly lower price you would receive if you wanted to sell a bill to a dealer. The bid–ask spread is the difference in these prices, which is the dealer's source of profit. (Notice in Figure 13.1 that the bid yield is higher than the ask yield. This is because prices and yields are inversely related.)*

Treasury Bills

MATURITY	DAYS TO MAT	BID	ASKED	CHG	ASK YLD
Sep 06 12	51	0.080	0.075	0.000	0.076
Oct 04 12	79	0.085	0.080	0.000	0.081
Nov 01 12	107	0.110	0.100	0.005	0.101
Nov 29 12	135	0.110	0.105	0.000	0.106
Dec 20 12	156	0.130	0.125	0.005	0.127
Apr 04 13	261	0.160	0.150	0.005	0.152

Figure 13.1. Treasury bill yields

The first two yields in Figure 13.1 are reported using the bank-discount method. This means that the bill's discount from its maturity or face value is "annualized" based on a 360-day year, and then reported as a percentage of face value. For example, for the highlighted bill maturing on December 20, 2012, days to maturity are 156 and the yield under the column labeled "ASKED" is given as 0.125%. This means that a dealer was willing to sell the bill at a discount from face value of 0.125% $\times$ *(156/360)=0.0542%. So a bill with \$10,000 face value could be purchased for \$10,000*$\times$*(1-0.000542)= \$9,994.58. Similarly, on the basis of the bid yield of .130%, a dealer would be willing to purchase the bill for*

$10,000× (1-0.00130×156/360)=$9,994.367. The bank discount method for computing yields has a long tradition, but it is flawed for at least two reasons. First, it assumes that the year has only 360 days. Second, it computes the yield as a fraction of par value rather than of the price the investor paid to acquire the bill.

An investor who buys the bill for the ask price and holds it until maturity will see her investment grow over 156 days by a multiple of $10,000/$9,994.58= 1.000542, for a gain of 0.0542%. Annualizing this gain using a 365-day year results in a yield of 0.0542% × 365/156=0 .127%, which is the value reported in the last column under "ASK YLD." This last value is called the Treasury-bill's bond-equivalent yield.

Certificates of Deposit

A certificate of deposit, or CD, is a time deposit with a bank. Time deposits may not be withdrawn on demand. The bank pays interest and principal to the depositor only at the end of the fixed term of the CD. CDs issued in denominations greater than $100,000 are usually negotiable, however; that is, they can be sold to another investor if the owner needs to cash in the certificate before its maturity date. Short-term CDs are highly marketable, although the market significantly thins out for maturities of 3 months or more. CDs are treated as bank deposits by the Federal Deposit Insurance Corporation, so they are currently insured for up to $250,000 in the event of a bank insolvency.

Commercial Paper

Large, well-known companies often issue their own short-term unsecured debt notes rather than borrow directly from banks. These notes are called commercial paper. Very often, commercial paper is backed by a bank line of credit, which gives the borrower access to cash that can be used (if needed) to pay off the paper at maturity.

Commercial paper maturities range up to 270 days; longer maturities would require registration with the Securities and Exchange Commission and so are almost never issued. Most often, commercial paper is issued with maturities of less than 1 or 2 months. Usually, it is issued in multiples of $100,000. Therefore, small *investors can invest in commercial paper only indirectly, via money market mutual funds. Commercial paper is considered to be a fairly safe asset, because a firm's condition presumably can be monitored and predicted over a term as short as 1 month. While most commercial paper is issued by nonfinancial firms, in recent years there was a sharp increase in asset-backed commercial paper issued by financial firms such as banks.*

This was short-term commercial paper typically used to raise funds for the institution to invest in other assets, most notoriously, subprime mortgages. These assets were in turn used as collateral for the commercial paper—hence the label "asset backed." This practice led to many difficulties starting in the summer of 2007 when the subprime mortgagors began defaulting. The banks found themselves unable to issue new commercial paper to refinance their positions as the old paper matured.

Bankers' Acceptances

A banker's acceptance starts as an order to a bank by a bank's customer to pay a sum of money at a future date, typically within 6 months. At this stage, it is similar to a postdated check. When the bank endorses the order for payment as "accepted," it assumes responsibility for ultimate payment to the holder of the acceptance. At this point, the acceptance may be traded in secondary markets like any other claim on the bank. Bankers' acceptances are considered very safe assets because traders can substitute the bank's credit standing for their own. They are used widely in foreign trade where the creditworthiness of one trader is unknown to the trading partner. Acceptances sell at a discount from the face value of the payment order, just as T-bills sell at a discount from par value.

Eurodollars

Eurodollars are dollar-denominated deposits at foreign banks or foreign branches ofAmerican banks. By locating outside the United States, these banks escape regulation by the Federal Reserve. Despite the tag "Euro," these accounts need not be in European banks, although that is where the practice of accepting dollar-denominated deposits outside the United States began. Most Eurodollar *deposits are for large sums, and most are time deposits of less than 6 months' maturity. A variation on the Eurodollar time deposit is the Eurodollar certificate of deposit, which resembles a domestic bank CD except that it is the liability of a non-U.S. branch of a bank, typically a London branch. The advantage of Eurodollar CDs over Eurodollar time deposits is that the holder can sell the asset to realize its cash value before maturity. Eurodollar CDs are considered less liquid and riskier than domestic CDs, however, and thus offer higher yields. Firms also issue Eurodollar bonds, which are dollardenominated bonds outside the U.S., although bonds are not a money market investment because of their long maturities.*

Repos and Reverses

Dealers in government securities use repurchase agreements, also called "repos" or "RPs," as a form of short-term, usually overnight, borrowing. The dealer sells government securities to an investor on an overnight basis, with an agreement to buy back those securities the next day at a slightly higher price. The increase in the price is the overnight interest. The dealer thus takes out a 1-day loan from the investor, and the securities serve as collateral.

A term repo is essentially an identical transaction, except that the term of the implicit loan can be 30 days or more. Repos are considered very safe in terms of credit risk because the loans are backed by the government securities. A reverse repo is the mirror image of a repo. Here, the dealer finds an investor holding government securities and buys them, agreeing to sell them back at a specified higher price on a future date.

Federal Funds

Just as most of us maintain deposits at banks, banks maintain deposits of their own at a Federal Reserve bank. Each member bank of the Federal Reserve System, or "the Fed," is required to maintain a minimum balance in a reserve account with the Fed. The required balance depends on the total deposits of the bank's customers. Funds in the bank's reserve account are called federal funds, or fed funds. At any time, some banks have more funds than required at the Fed.

Other banks, primarily big banks in New York and other financial centers, tend to have a shortage of federal funds. In the federal funds market, banks with excess funds lend to those with a shortage. These loans, which are usually overnight transactions, are arranged at a rate of interest called the federal funds rate.

Although the fed funds market arose primarily as a way for banks to transfer balances to meet reserve requirements, today the market has evolved to the point that many large banks use federal funds in a straightforward way as one component of their total sources of funding. Therefore, the fed funds rate is simply the rate of interest on very short-term loans among financial institutions. While most investors cannot participate in this market, the fed funds rate commands great interest as a key barometer of monetary policy.[30]

There is also a classification of financial instruments in accounting, according to which they are divided into:

- Financial assets;
- Financial liabilities;
- Equity instruments;
- Derivative financial instruments.

Financial assets include:

-Cash and their equivalents;

-Receivables not intended for resale;

-Financial investments held-to-maturity;

-Financial assets held-for-trading;

-Other financial assets.

Financial liabilities include financial liabilities held-for-sale and other financial liabilities.

Own equity instruments include common shares, stakes and other equity.

Derivatives - the futures, forward contracts and other derivative financial instruments.

[30] Z. Bodie, A. Kane, A. Marcus. Investments. –10th Edition. McGraw-Hill Education, New York, 2014

13.3. The securities market as a source of financing investments

History of the securities in the world practice shows that the stock market is a place of common interests of the two sides: those who have temporarily free funds and entities who need these resources for production purposes. Issue of securities allows entities to mobilize and put the necessary amount of productive assets or to expand existing production. The subjects of the same financial investment have the opportunity to earn extra income, regardless of its core business.

The main financial instruments of speculative financial portfolio are the equity and debt securities, as well as deposits and currency values. In the process of monitoring, depending on the type of financial instruments, recorded and analyzed the various factors affecting the change in their rates of return, risk and liquidity.

Among the factors affecting negatively to the rate of return on equity instruments, particularly important are:

- Increasing the level of taxation of investment income of the issuing companies;
- Tactical changes in the volume of sales of issuing companies (in particular, this applies to oil companies);
- Reducing the amount of dividends due to lower capital gains;
- Decrease (increase or decrease in rates) the net asset value of the issuing companies;
- Speculative games of participants of the stock market.

Factors that reduce the rate of return and liquidity of debt securities are as follows: increase in the average interest rates on the financial market, the growth rate of inflation, increasing the level of taxation of investment income of the issuing company, and reducing financial stability of the company, reduction of solvency of the issuing company.

For profitability, liquidity and risk on monetary instruments plays an important role: the level of the interest rate of the central bank; stability of the national currency, the financial sustainability of the institutions of deposit type, change in the average interest rates on the financial market.

According to the results of monitoring of the investment market identified trends on levels of profitability, risk and liquidity for individual instruments of speculative investment portfolio and the portfolio as a whole. The resulting information provides the basis for making decisions on the need and ways of restructuring the portfolio.

Stocks.

During the Roman Republic, the state contracted (leased) out many of its services to private companies. These government contractors were called publicani, or societas publicanorum as individual company. These companies were similar to modern corporations or joint - stock companies more specifically, in couple of aspects. They issued shares called partes (for large cooperatives) and particulae which were small shares that acted like today's over-the-counter shares.

Around 1250 in France at Toulouse, 96 shares of the Société des Moulins du Bazacle, or Bazacle Milling Company were traded.

The earliest recognized joint-stock company in modern times was the English (later British) East India Company, one of the most famous joint-stock companies. It was granted an English Royal Charter by Elizabeth I on December 31, 1600, with the intention of favoring trade privileges in India.

Economic historians find the Dutch stock market of the 17th century particularly interesting: there is clear documentation of the use of stock futures, stock options, short selling, the use of credit to purchase shares, a speculative bubble that crashed in 1695, and a change in fashion that unfolded and reverted in time with the market (in this case it was headdresses instead of hemlines).

There are two types of stock:

1) Common stock;
2) Preferred stock.

Common stock-As a unit of ownership, common stock typically carries voting rights that can be exercised in corporate decisions.

Preferred stock differs from common stock in that it typically does not carry voting rights but is legally entitled to receive a certain level of dividend payments before any dividends can be issued to other shareholders.

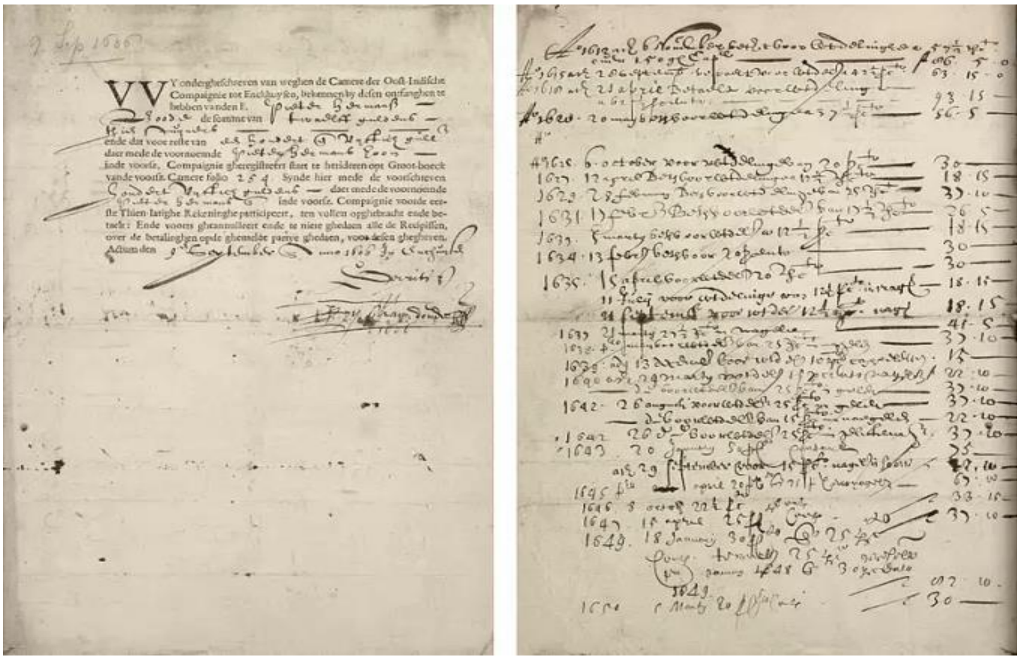

Figure 13.2. The first stock.

Convertible preferred stock is preferred stock that includes an option for the holder to convert the preferred shares into a fixed number of common shares, usually any time after a predetermined date. Shares of such stock are called “convertible preferred shares”.

Some shares of common stock may be issued without the typical voting rights or some shares may have special rights unique to them and issued only to certain parties. Often, new issues that have not been registered with a securities governing body may be restricted from resale for certain periods of time.

Preferred stock may be hybrid by having the qualities of bonds of fixed returns and common stock voting rights. They also have preference in the payment of dividends over common stock and also have been given preference at the time of liquidation over common stock. They have other features of accumulation in dividend.

A shareholder (or stockholder) is an individual or company (including a corporation) that legally owns one or more shares of stock in a joint stock company. Both private and public traded companies have shareholders. Companies listed at the stock market are expected to strive to enhance shareholder value. Shareholders are granted special privileges depending on the class of stock, including the right to vote on matters such as elections to the board of directors, the right to share in distributions of the company's income, the right to purchase new shares issued by the company, and the right to a company's assets during a liquidation of the company.

Although ownership of 50% of shares does result in 50% ownership of a company, it does not give the shareholder the right to use a company's building, equipment, materials, or other property. This is because the company is considered a legal person, thus it owns all its assets itself. This is important in areas such as insurance, which must be in the name of the company and not the main shareholder. In most countries, boards of directors and company managers have a fiduciary responsibility to run the company in the interests of its stockholders.

Even though the board of directors runs the company, the shareholder has some impact on the company's policy, as the shareholders elect the board of directors. Each shareholder typically has a percentage of votes equal to the percentage of shares he or she owns. So as long as the shareholders agree that the management (agent) is performing poorly they can select a new board of directors which can then hire a new management team. In practice, however, genuinely contested board elections are rare. Board candidates are usually nominated by insiders or by the board of the directors themselves, and a considerable amount of stock are held or voted by insiders.

Bonds.

In finance, a bond - is an instrument of indebtedness of the bond issuer to the holders.

It is a debt security, under which the issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay them interest (the coupon) and/or to repay the principal at a later date, termed the maturity date.

Thus a bond is a form of loan : the holder of the bond is the lender (creditor), the issuer of the bond is the borrower (debtor), and the coupon is the interest. Bonds provide the borrower with external funds to finance long-term investments, or, in the case of government bonds, to finance current expenditure. Certificates of deposit (CDs) or short term commercial paper are considered to be money market instruments and not bonds: the main difference is in the length of the term of the instrument.

Interest is usually payable at fixed intervals (semiannual, annual, sometimes monthly). Very often the bond is negotiable, i.e. the ownership of the instrument can be transferred in the secondary market.

What is the difference between stock and bond?

Bonds and stocks are both securities, but the major difference between the two is that (capital) stockholders have an equity stake in the company (i.e. they are investors), whereas bondholders have a creditor stake in the company (i.e. they are lenders). Being a creditor, bondholders have absolute priority and will be repaid before stockholders (who are owners) in the event of bankruptcy.

Another difference is that bonds usually have a defined term, or maturity, after which the bond is redeemed, whereas stocks are typically outstanding indefinitely. An exception is an irredeemable bond, such as Consols, which is a perpetuity, i.e. a bond with no maturity.

Bonds are issued by public authorities, credit institutions, companies and supranational institutions in the primary markets. The most common process for issuing bonds is through underwriting.

In the case of an underwritten bond, the underwriters will charge a fee for underwriting. An alternative process for bond issuance, which is commonly used for smaller issues and avoids this cost, is the private placement bond. Bonds sold directly to buyers and may not be tradable in the bond market.

The issuer has to repay the nominal amount on the maturity date. As long as all due payments have been made, the issuer has no further obligations to the bond holders after the maturity date.

Most bonds have a term of up to 30 years. Some bonds have been issued with terms of 50 years or more.

In the market for United States Treasury securities, there are three categories of bond maturities:

- short term (bills): 1-5 year; (instruments with maturities less than one year are called Money Market Instruments);
- medium term (notes): 6-12 years;
- long term (bonds): more than 12 years.

Types of bond:

- Fixed rate bonds;
- Zero-coupon bonds;
- High-yield bonds;
- Convertible bonds;
- Exchangeable bonds;
- Government bond;
- Municipal bond and others.

The types of derivatives:

- Derivatives of exchange market - contracts for the sale and purchase of foreign exchange with commitments over time depending on the change of rate of buying or selling currency. Currency derivatives can be classified into three main groups or types of derivatives: futures / forwards, options and swaps. Futures and forward contracts are directly dependent on the future price of the underlying assets. Swap contracts depend on the ratio of current and future asset prices. Option contracts are also dependent on future changes in the price of the underlying assets, but less than the futures. Futures, forwards, options are the main financial instruments.

- *Interest rate derivatives* - owe their existence to the period of destabilization of short-term interest rates. These financial instruments are used to hedge interest rate risk, their use has provided additional liquidity to the debt capital markets and the possibility of fixing a certain rate of profit of enterprises in the future. The most widespread among interest rate derivatives in the international markets have interest rate swaps, forward rate agreement, options “cap” and “floor”.

- *Credit derivatives* - is structured financial OTC derivatives that separate the credit risk from the asset for its subsequent transfer to the counterparty. According to the point of view of the U.S. Federal Reserve they are off-balance sheet financial instruments that allow one party (the beneficiary) to transfer the credit risk of the asset to another party (the guarantor), without the need for physical sale of the asset. Typically, these assets are owned by the beneficiary ownership. Credit derivatives are urgent, since their performance is meant at a particular point in the future, and payments on such instruments depend on the value of the loan. The emergence of the credit derivatives market due to the allocation of credit risk as a separate object of trade. In general, the credit derivatives market can be defined as a system of market relations, ensuring the redistribution of funds through the sale of credit risk. A variation of these financial instruments are cds derivatives (credit default derivatives) according to which the buyer pays a premium to the seller, who has pledged to pay issued by the buyer to a third party loan in case of default of a third party.

- **Stock derivatives** - options, futures, forwards, unlike the rest of financial derivatives in the present case is that the underlying asset, in this case is the securities. Stock derivatives include options, futures (futures contracts), stock warrants, depositary certificates (receipts).

The term “futures” is derived from the English word future - “the future.” The meaning of this derivative - trade on future supplies of goods on future prices established at that time in the futures market. American farmers in the mid-19th century gained the right in the beginning of the season to conclude contracts on commodity exchanges and to sell their products at the end of the season. The contract contained a farmer's obligation to deliver a certain quality of agricultural products, and to a certain extent, but also by a certain date, and the market for its part has committed to buy these products at a certain price. Since then, contracts for future delivery to the present day is called futures.

The difference between Futures and forwards are that futures traded on stock exchanges, and the second in the interbank market. The difference is that the contracts on exchanges are standardized by the terms and timing of deliveries, while in the interbank market, these parameters can be arbitrary. Nevertheless, futures and forwards are very similar for purposes they serve and the principles of pricing. Although the term **“forward”** came into circulation recently, however the principle of forward contract has existed since the dawn of human economic activity, as speculators buying up agricultural prices, which are determined at the beginning of the season.

The term **“option”** is derived from the English “option” - “choice.” The difference of the option from futures, forwards and swaps is that the option buyer has the choice whether or not to exercise the option at the strike price, then the buyer of futures is obliged to do, despite the fact that the option seller is obliged to fulfill its obligations. In this sense, the option is very similar to the insurance. For example you've invested in oil production and oil prices have fallen, but you have insurance, that is, options giving the right to sell oil at a certain price in the future. You cannot use the option, if not profitable, or to exercise their right, if prices fall, and the sale price of the option was higher than the market price. The fact that the options were known in ancient times, evidenced by the fact that they have been mentioned by Aristotle, in addition to the recording on stock options for herring found in the diaries of the Flemish merchants XII century. **Warrants (warrants) -** stock options have been popular on the stock exchanges from the XVIII century.

The term **"swap"** derived from the English word swap - "exchange." The meaning of the derivative is in the exchange of financial obligations. As an example, the exchange of these financial commitments in the future. An example of a farmer can be supplemented by the condition that, in addition to futures on the sale of grain in the future, he took the product on the stock exchange in debt with an obligation to return in the future. Obtained corn farmer sowed and the onset stipulated in the loan agreement, he must return the grain in a certain volume at a certain price, so the farmer's gain or loss is determined by the ratio of current and future prices. Settlements will be held at the price ratio of the sold and purchased contracts. Swap, which appeared in the last third of the 20th century, is considered to be the latest financial instrument, while the other derivatives have existed for centuries.

Investing in derivative financial instruments associated with some risk, the magnitude of which depends on the type of financial instruments in which the investment is made. For example description of financial instruments such as options, suggests that the option buyer risks only premium paid to the seller, then the risk of the seller of the option is almost not limited. In this connection, special importance is the ability of the investor to use the tools of financial analysis to properly assess the value and profitability of derivatives and underlying financial instrument.

Questions for discussing and control

1. What do you understand under the term "financial resources" for investment activities?
2. What are the financial instruments?
3. How do you assess the role of financial investment in economic development?
4. Can you describe the features of financial instruments?

5. Can you describe the classification of financial instruments?
6. What factors influence the movement of financial resources?
7. What function of financial instruments do you know?
8. What are the criteria for classifying financial instruments?
9. Describe the economic nature of securities?
10. What is the definition of securities in the Law of the Republic of Uzbekistan on Securities Market?
11. Do you know what types of securities are eligible for the legislation of the Republic of Uzbekistan?
12. What are the primary financial instruments?
13. What are the secondary financial instruments?
14. What are the shares?
15. What types of shares are issued in Uzbekistan?
16. What are the privileged shares?
17. Explain the economic nature of the bond.
18. What are the nature of Treasury Bonds?
19. Who issues corporate bonds?
20. What types of Treasury Bonds are issued in Uzbekistan?
21. What are the deposit certificates? What are their types?
22. Explain the economic content of the bill? What are its types?
23. What does the option mean? What are its types?
24. What are the similarities between futures and options?
25. What does futures mean according to legislation Uzbekistan?
26. Do you know the specifics of securities as a source of investment financing?
27. How to attract financing sources with the help of securities?
28. What do you know about the primary and secondary securities markets?
29. What is the stock market?
30. What is the international securities market?

CHAPTER 14. LENDING TO INVESTMENT ACTIVITY

14.1. The objective necessity and nature of lending to investment activities

Credit acts as a pillar of the modern economy, an integral element of economic development. It is used by both large enterprises and associations, and small production, agricultural and commercial structures; both the state and individual citizens.

The need for long-term lending of capital investments arises from the often shortage of equity in enterprises, which is due to the mismatch of existing financial resources with their needs for expanded reproduction of fixed capital or the beginning of new production. In this case, long-term credit relations arise between the borrower and the lender.

The advantage of the credit method of financing investment compared with the budget is primarily due to the repayment of funds. This suggests a relationship between the actual return on investment and the repayment of a long-term loan within the time period established by the loan agreement with the bank.

Credit comes from the Latin “kreditum” (loan, debt). At the same time, “kreditum” is translated as “believe”, “trust”. In the broad sense of the word - both from a legal and economic point of view - a loan is a transaction, an agreement between legal entities or individuals on a loan, or a loan. One of the partners (lender) provides the other (borrower) with money (sometimes property) for a certain period with the condition of returning the equivalent value, usually with payment of this service in the form of interest. The loan finds expression in production relations when business entities, the state, organizations, or individual citizens transfer value to each other on terms of repayment for temporary use. Credit relations mean all monetary relations related to the provision and repayment of loans, organization of cash settlements, issue of cash, lending to investments, use of a state loan, insurance operations (partially), etc.

Two parties are usually involved in a credit transaction: the lender and the borrower.

Lender - a party to a loan relationship providing a loan. Their sources can be both their own accumulations and resources borrowed from other subjects of the reproductive process. In a modern economy, a creditor bank can provide a loan not only at the expense of its own resources, but also at the expense of borrowed funds stored in its accounts, as well as mobilized through the placement of shares and bonds.

Borrower - a party to a credit relationship, receiving a loan and obliged to repay the loan. Historically, borrowers have been individuals who are in need of additional resources. In modern conditions, in addition to banks, borrowers are enterprises, the population and the state.

Thanks to the loan on the farm, the funds released during the operation of enterprises in the process of fulfilling the state budget, as well as the savings of individual citizens and the resources of banks, are used productively. How are funds that can be used as borrowed resources to meet the needs of producers and the state? Free cash is formed in the process of economic activity of enterprises. Having received revenue from sales of products, the company gradually, in parts, spends it on the purchase of raw materials, fuel, materials, it also does not use part of the profits immediately, but some time after its receipt. As a result, temporarily free cash is formed on the accounts of enterprises in banks. Temporary release of funds also occurs as a result of the fact that the value of fixed assets is transferred to manufactured goods in parts and returned to enterprises in cash. These funds are spent gradually, in connection with which free cash resources are formed in the form of unused depreciation funds. Wages for workers and employees are usually paid twice a month, and the receipt of money for the sold products occurs more often, which also ensures the release of funds for certain periods. The receipt of funds in the budget and their spending do not always coincide in time, therefore free cash balances are formed for some period.

The need for funds in all cells of society fluctuates. For economic entities, the amount of equity capital is usually in circulation, and in periods when the need for funds exceeds the minimum, it can be satisfied by obtaining borrowed funds. Thus, temporarily free cash does not remain unused, but is involved in useful economic turnover, which accelerates the rate of reproduction and contributes to the most rational spending of all cash funds. The funds of the loan fund are used for capital investments - reproduction of fixed assets in cases where the industry or enterprise needs to incur costs before the actual accumulation of resources (depreciation, profit). With the growth of the economy and the development of the economy, the size of credit resources also increases. Thus, the composition of the resources for lending (loan fund) includes cash reserves of enterprises and organizations released in the process of capital circulation, cash reserves acting in the form of special funds, as well as depreciation fund used for investment, the state monetary reserve, consisting of the amount of current cash resources of the budget, a cash fund specially allocated for the development of credit relations (for example, for long-term lending of capital investments), cash on population accumulation, accumulated by banks, the issue of banknotes, carried out in accordance with the needs of the growth of cash turnover.

Credit is a means of intersectoral and interregional redistribution of money capital. Credit relations are determined by the continuous circulation of funds in the economy and allow the efficient use of all funds of funds for the needs of production, trade and consumption.

The objective need for a loan is due to the features of the capital circulation, which are: the constant formation of cash reserves and the emergence of temporary additional needs for them; different duration of the turnover of funds in individual cells of the economy, close interweaving of cash and non-cash circulation of funds; Isolation of capital within economic entities.

The objectivity of the existence, formation and use of the loan fund and the specific form of its movement - the loan is caused by the need: to overcome the contradictions between the constant formation of cash reserves deposited in the process of turnover of enterprises of different forms of ownership, budget and population, and their full use for the needs of reproduction; ensuring a continuous process of capital circulation under the conditions of the functioning of numerous industries and enterprises with different duration of the circulation of funds (from one day to several years); the organization of the functioning of means of circulation and payments based on the credit nature of the issue of banknotes and non-cash funds; commercial organization of enterprise management. In the process of capital circulation, free resources released in some business units can be used in others. The fact is that different industries and enterprises have different production and sales times. When products from one manufacturer are ready, the buyer may not have enough funds to purchase them. Such a different rate of turnover of funds from various closely related business organizations requires attracting loans to ensure an uninterrupted process of production and sale of products. The objective need for credit is also due to the commercial organization of enterprise management in market conditions, when at each enterprise in the process of continuous circulation of individual capital there is a need for additional amounts or, conversely, monetary resources are temporarily released. With the help of a credit mechanism, these fluctuations are flexibly regulated and enterprises receive the funds they need for normal operation.

The role of credit is especially significant in organizing the working capital of enterprises that have seasonal conditions for supply, production or sale. A loan is required for them to form temporary reserves. But enterprises that are not connected with seasonal working conditions also need loans. At any enterprise, revolving funds and circulation funds are either decreasing or increasing, while the proportions between capital in commodity, productive and monetary forms change. This circumstance is explained by the fact that the value of inventories constantly fluctuates depending on the timing of receipt of raw materials. The magnitude of the balances of finished products and the necessary funds for the company also depends on the delivery conditions, the timing of receipt of payments from buyers and payment of suppliers' bills, the timing of payment of wages, etc. Therefore, despite the uniform production process, for enterprises of non-seasonal sectors of the economy, short-term deviations from established average values are constantly formed in the process of circulation of funds. The objective process of ebbs and flows of funds for individual enterprises requires a certain flexibility of the entire system of capital organization. The role of credit is also great in investments and in the reproduction of fixed assets. The combination of equity with borrowed allows you to quickly respond to technological progress, quickly carry out the costs of introducing the latest scientific achievements.

Speaking about the importance of credit in the development of economic relations between industries and regions, in improving production efficiency, it is necessary to show its role in the creation and use of income and profits. The fact is that credit serves the process of creating, distributing and using income. Credit and the credit system, serving the circulation of funds, take part in the distribution of gross product. Without the functioning of the loan, a redistribution process would not have been possible. The need for a loan is manifested in the fact that on its basis the issue of money as means of payment is carried out.

The essence of credit acts in its three functions:

1) distribution on a return basis of cash (distribution function);

2) the creation of credit facilities for the circulation and replacement of cash (emission function);

3) monitoring the performance of economic entities (control function).

The principles of lending include:

a) repayment and urgency of lending;

b) payment of bank loans;

c) security;

d) target use of loan.

14.2. Long-term lending to investment activities

The basis of the bank's lending relationships with borrowers in the issuance of bank loans is a loan agreement that regulates the specific conditions and the procedure for granting the loan. Typically, the formulation of investment loans is accompanied by the provision of a feasibility study or business plan. For a long-term loan, the borrower must indicate purpose of the loan, the calculations result in estimated costs (cost estimate), the expected revenue from the sale of the credited measures by client, the effectiveness of the loan and the actual date of its return, to provide a guarantee of repayment. The package of documents to be references to the contracts, the contracts with the suppliers, indicating the volume, cost, delivery dates, as well as contracts with customers or requests from customers indicating the amount of cost and delivery times.

On the basis of examination of the documents, as well as its own information about the borrower bank carries out an analysis of its creditworthiness and solvency form of repayment of the loan and if results are positive, signs with the borrower a loan agreement (the agreement). In the loan agreement are recognized: the purpose of obtaining the loan, type of loan, its duration and size, the interest rate, type of collateral, the procedure for granting and repayment of the loan, the rights, duties and responsibilities of the bank and the borrower, additional conditions under the agreement the lender and the borrower.

Quantitative credit limits are determined, on the one hand, the interest of the borrower to use the loan, and the other - the possibility of the presence of the borrower to repay the loan and interest on it in due time. Interest rates on long-term loans can be fixed or variable. The fixed rate remains the same during the entire period of the loan, and the floating revised periodically depending on market conditions, changes in the official index of inflation and other factors. As a rule, small loan interest rate is set for the duration of the contract, for large loans have floating rates of interest.

In determining the interest rate on long-term loans takes into account a number of factors: the weighted average cost of funds, risk, term of the loan, the loan costs of registration and monitoring of the repayment (credit analysis, periodic verification of collateral, etc.), the average level of interest rates credit market, the nature of the relationship between the bank and the borrower, the rate of profit, which may be obtained by investing in alternative assets.

An important condition for the loan is its collateral. The main types of collateral used in banking practice, are: mortgage, guarantee, warranty, credit risk insurance. A special place among the forms of collateral financing take long-term loans issued by mortgage - a mortgage loan.

The credit agreement provides following conditions:

- The volume of loans issued;
- Time and manner of its use;
- Interest rates and other loan payments;
- Responsibilities and economic responsibilities of the parties;
- A form of security obligations (mortgage collateral, guarantee, etc.);
- A list of the documents submitted to the bank for credit.

14.3. Evaluation of the creditworthiness of the borrower

The tasks of fundamentally improving the functioning of the credit mechanism highlight the need to justify and use economic methods for managing credit and banks, focused on observing the economic boundaries of the loan. This will prevent credit investments unjustified from the point of view of money circulation and the national economy, their structural changes, ensure timely and full repayment of loans, which is important for improving the efficiency of use of material and monetary resources.

The question of the boundaries of the loan is quite thoroughly developed. They should not be interpreted literally as a quantitatively accurately determined value. In theoretical terms, the main thing is to clarify the factors that shape the need and possibility of lending in a changing environment.

Most of all, banks need information on the creditworthiness of enterprises and organizations: their profitability and liquidity largely depend on the financial condition of customers. It is possible to achieve a reduction in risk when making loan operations on the basis of a comprehensive study of the creditworthiness of the bank's customers, which will at the same time make it possible to arrange loans taking into account the boundaries of the use of credit.

The creditworthiness of bank customers should be understood as a financial and economic condition of the enterprise, which gives confidence in the effective use of borrowed funds, the ability and willingness of the borrower to repay the loan in accordance with the terms of the contract. Studying by banks of various factors that may lead to non-repayment of loans, or, on the contrary, ensure their timely repayment, make up the content of the bank credit analysis.

When analyzing creditworthiness (credit analysis), banks must resolve the following issues:

1. Is the borrower able to fulfill its obligations on time?

2. Is he ready to execute them?

The composition and content of indicators stem from the very concept of creditworthiness. They should reflect the financial and economic condition of enterprises in terms of the effectiveness of the placement and use of borrowed funds and all funds in general, assess the ability and willingness of the borrower to make payments and repay loans in a predetermined time frame. The ability to repay a loan in a timely manner is assessed by analyzing the company's balance sheet for liquidity, the effective use of credit and working capital, the level of profitability, and readiness is determined by examining the borrower's capacity, prospects for its development, and business qualities of enterprise managers.

The main objective of the credit analysis is to determine the ability and willingness of the borrower to repay the requested loan in accordance with the terms of the loan agreement. In each case, the bank must determine the degree of risk that it is ready to take on and the amount of credit that may be provided in the circumstances.

So a number of American economists describe a credit rating system based on balance reporting indicators. American banks use four groups of key indicators:

- liquidity of the company;
- capital turnover;
- raising funds;
- profitability indicators.

The financial statements provide data both on the position of the company at a certain point in time, and on its operations over a certain past period of time. However, the true value of financial statements is that they can be used to predict future earnings, dividends and free cash flow. From the investor's point of view, forecasting the future is the meaning of financial reports, and from the manager's point of view, analyzing financial statements is useful both to anticipate future conditions and, more importantly, to plan actions that will allow the company to develop in the future more effective. Financial ratios are designed to help evaluate financial statements. For example, a firm A may have a debt of $ 5,248,760 and interest payable in the amount of $ 419,900, while a firm B may have debt of $52,647,980 and interest of $3,948,600. Which company can be considered a more reliable borrower? The debt burden of the two firms, as well as the ability of the companies to repay them, is best assessed by comparing: 1) the ratio of the debt of each firm to its assets and 2) the ratio of interest that the company must pay to its profit, available for paying interest. Such comparisons are made in the analysis of financial ratios.

LIQUIDITY RATIOS

A liquid asset is an asset that is fairly intense traded on the market and, therefore, can be easily and quickly converted into cash at the current market price.

The liquidity ratios of the company provide an answer to the question: will the company be able to pay off its debts over the next year without delay. Will the *company have problems fulfilling its obligations? A complete answer to this question - liquidity analysis - requires an analysis of cash flow budgets, but financial ratios provide a faster and easier to use, albeit less accurate, liquidity measurement tool.*

Current ratio

This indicator (current ratio) is defined as follows:

$$\textbf{Current ratio=}\ \frac{\boldsymbol{Current\ assets}}{\boldsymbol{Short-term\ liabilities}}$$

Industry average = 4.1.

Current assets typically include cash, liquid securities, receivables, and inventories. Short-term liabilities consist of payables, short-term bills payable, the amount of long-term debt payable in the current year, accumulated wage and tax arrears and other short-term debt.

If short-term liabilities grow faster than its current assets, the relationship between them will decrease, and this may mean financial difficulties: current liquidity is considered the best indicator of the extent to which creditors' claims are secured by assets that can be converted quickly into cash . She is the most popular indicator of short-term solvency of the company.

Now consider this relationship from the point of view of the shareholder. A high current ratio may mean that a company has a lot of money dead in non-productive and usually low-yielding assets, such as cash balances, securities or inventories.

Quick ratio

Quick ratio (acid test) is obtained by subtracting inventories from current assets and dividing the balance into short-term liabilities:

$$\textbf{Quick ratio=}\ \frac{\boldsymbol{Current\ assets-inventories}}{\boldsymbol{Short-term\ \ liabilities}}$$

Industry average = 2.1.

Inventories are usually the least liquid of the current assets of the company. Therefore, these are current assets, the losses on the sale of which in the event of bankruptcy of the company will be maximum. Therefore, it is important to measure the ability of the company to repay short-term debt obligations, without relying on the implementation of its material and production stocks.

Asset turnover ratios

The second group of ratios, asset management ratios, are designed to measure how efficiently a firm manages its assets. These ratios are designed to answer the following questions: is the total amount of each type of asset represented in the balance sheet acceptable, too large or too small in relation to current and forecast sales? If the company makes excessive investments in assets, then this will reduce its free cash flow and share price. On the other hand, if a company does not have enough assets, it will lose sales volumes, which again will damage free cash flow and lower the price of shares. Therefore, it is important that the right amount is invested in the assets. The ratios used to analyze various types of assets are described in this section. Valuation of inventories:

Inventory turnover ratio is defined as the ratio of revenue to inventory:[31]

$$\boldsymbol{Inventory\ turnover\ ratio} = \frac{\boldsymbol{Revenues\ from\ sales}}{\boldsymbol{Inventories}}$$

Inventory turnover ratio in days:

$$\boldsymbol{Inventory\ turnover\ ratio} = \frac{\boldsymbol{Inventories}}{\boldsymbol{Revenues\ from\ sales}} \times \mathbf{365}$$

Receivable turnover ratio is defined as the ratio of revenue to accounts receivable:

[31] Eugene F. Brigham, Michael C. Ehrhardt. FINANCIAL MANAGEMENT. Theory and Practice.10th edition. SOUTH-WESTERN THOMSON LEARNING. 2008

$$\textit{Receivables turnover ratio} = \frac{\textit{Revenues from sales}}{\textit{Accounts receivable}}$$

Receivable turnover ratio in days:

$$\textit{Receivables turnover ratio} = \frac{\textit{Accounts receivable}}{\textit{Revenues from sales}} \times 365$$

The capital turnover indicators related to the second group reflect the quality of current assets and can be used to assess the growth of Kpokr. For example, with an increase in the value of this coefficient due to an increase in stocks and a simultaneous slowdown in their turnover, it cannot be concluded that the borrower has increased creditworthiness.

Attraction ratios *(R(attr))* forms the third group of estimated indicators. They are calculated as the ratio of all debt to total assets or to fixed capital; show the dependence of the company on borrowed funds. The higher the attraction ratio, the worse the creditworthiness of the Borrower.

With the third group of indicators are closely related indicators of the fourth group, characterizing the profitability of the company. These include: the share of profit in income, the rate of return on assets, the rate of return on share. If the company's dependence on borrowed funds grows, then the decrease in creditworthiness, estimated on the basis of *R(attr)*, can be offset by an increase in profitability.

Commercial banks of the Republic of Uzbekistan also evaluate the creditworthiness of borrowers based on an analysis of indicators of the economic and financial activities of enterprises. The main indicators of creditworthiness are ratios: coverage, liquidity and security of own sources.

The balance sheet coverage ratio is calculated as the ratio of short-term liquid assets to short-term liabilities. It is defined as follows:

$$Rc = \frac{\textit{short} - \textit{term liquid assets}}{\textit{current liabilities}}$$

Rc - coverage ratio

STLA - short-term liquid assets

CL - current liabilities

Short-term liquid assets (STLA) include:

a) cash (C)

- line 320 - Total cash.

b) easy to implement requirements (EIR):

- line 370- short-term investments (only short-term investments with a return period of 3 months are taken into account - determined on the basis of concluded agreements);

- line 220 - debt of buyers and customers (minus overdue);

- line 230 - debt of separate divisions (minus overdue);

- line 240 - debt of subsidiaries and dependent business entities (less past due)

- line 310 - other receivables (net of past due.

c) Easily marketable reserves (EMR):

- line 150 - inventories;

- line170 - finished products (minus the value of residues of finished products with storage periods of more than 3 months);

- line 180 - goods;

Short-term liabilities (CL) include line 600 - current liabilities in total.

Based on the foregoing:

STLA = C + EIR + EMR

The financial condition of an economic entity can be considered good if liquid assets exceed short-term liabilities by at least two times. However, a coefficient value of more than four may indicate a stock of raw materials that exceeds the need, which is a negative factor.

Factors such as the nature of production, the structure of assets of economic entities may somewhat distort the actual state of liquidity of the balance sheet of the enterprise, which is characterized by the coverage indicator, and therefore it is not a key indicator for determining creditworthiness.

To reduce the influence of various factors, the balance sheet liquidity indicator (key ratio) of economic entities is calculated, defined as the ratio of the amount of cash and easily realizable claims (receivables) to short-term liabilities:

$$\mathbf{RL} = \frac{\mathbf{C} + \mathbf{EIR}}{\mathbf{CL}}$$

RL - liquidity ratio.

The liquidity ratio shows how much of current liabilities can be repaid due to cash and due to expected receipts for shipped products, work performed and services rendered.

The security of business entities with their own sources of funds or the autonomy ratio (key ratio) is estimated by calculating the share of own sources as a result of the liability balance of enterprises and reflects the independence of enterprises from borrowed sources of funds.

The ratio of own sources of funds is determined by the following formula:

$$\mathbf{Ra} = \frac{\mathbf{OF}}{\mathbf{TB}}$$

Ra - autonomy ratio;

OF - sources of own funds - line 480;

TB – total balance - line 780.

If this coefficient is above 60 percent, then the risk of the loan is considered minimized.

Additional indicators of creditworthiness include: the dynamics of the availability of working capital, profitability, non-payments and current assets turnover.

The turnover of working capital of enterprises is determined by two indicators: turnover of working capital ratio and turnover of working capital in days.

Working capital turnover ratio characterizes the speed of movement of working capital and is calculated as the ratio of revenue from sales of products for the analyzed period and the average cost of working capital.

$$\mathbf{Rwct} = \frac{\boldsymbol{Volume\ of\ sales}}{\textbf{the average chronological balances of working capital}}$$

Where:

Rwct - Working capital turnover ratio.

Working capital turnover ratio in days:

$$\mathbf{Rwct} = \frac{\textbf{The average chronological balances of working capital}}{\boldsymbol{Volume\ of\ sales}} \times \mathbf{365}$$

The division of borrowers into categories of creditworthiness are defined in the table:

Indicators	**Grade-1**	**Grade-2**	**Grade-3**	**Grade-4**
Coverage ratio	Rc ≥ 2,0	2,0 > Rc ≥ 1,0	1,0 > Rc	0,5 > Rc
Liquidity ratio	RL≥ 1,5	1,5 > RL ≥ 1,0	1,0 > RL	There are no liquid funds
Autonomy ratio	Ra≥ 60 %	60 % > Ra≥ 30 %	30 % > Ra	Illiquid balance

Based on the analysis and the value of the coefficients, government agencies are classified into 4 creditworthiness classes and, depending on whether they belong to one class or another, credit relations between the bank and the enterprise are built.

Grade 1 - borrowers with consistently strong financial position, perhaps lending on favorable terms, or if necessary, the issuance of trust loan;

Grade 2 - borrowers with moderately strong financial position, they are given loans on the same basis;

Grade 3 - borrowers with weak financial positions, as a rule, loans are not issued to them, or are issued with the increasing demands on the loan (increased interest rate, collateral value, etc.)

Grade 4 - Enterprises classified in the fourth class are not credited.

Restrictions on lending, depending on the class of creditworthiness, do not apply in cases where lending is carried out on the basis of decisions of the Government and / or programs for the restoration of activities of enterprises specially developed by the bank and the Borrower by decision of the Bank's Credit Committee.

After assessing the creditworthiness of the borrower and analyzing the investment project itself (its financial and economic efficiency), a decision is made on granting a loan, credit conditions are specified, and a loan agreement is concluded between the lender and the borrower, which indicates the rights and obligations of each of the parties, loan terms and schedule repayment of the loan.

14.4. Bank Credit Use Monitoring

Evaluating the effectiveness of investment projects directly related to their monitoring, because it is the outcome of the analysis, from its accuracy and precision depends the further successful implementation of the project. Monitoring of the project - a set of activities undertaken by the Bank in the implementation of the project to be financed in order to reduce the risk of non-repayment of the loan.

The main areas of monitoring are: control, monitoring, analysis of reasons for the rejection; making recommendations.

Monitoring of investment projects is usually done in the Department of loan portfolio monitoring (or monitoring department of the bank). The objectives and functions of these departments include:

1. Improving the Bank's credit policy by:

development and implementation of effective monitoring of loans based on the study of international experience and international standards;

study and implementation of the most advanced and appropriate for the bank's system the monitoring methods used by foreign financial and credit institutions;

advice on the application of the developed guidelines and monitoring their implementation.

2. Providing the minimization of the credit risk of the Bank loan operations through:

improving the mechanism of lending in the use of credit, including a mechanism for its return;

identify and take preventive measures to repay the bad loans in order to reduce the risk of non-repayment;

3.Providing quality of the loan portfolio by:

monitoring on loans in order to establish the forecast loan repayment and ensure its timely repayment;

proposing to establish limits and other restrictions on lending to individual branches;

analysis of the credit portfolio in order to determine the effectiveness of the use of credit resources, the quality of loans and risk concentration.

4. Ensuring the quality of information on the use of credit by:

collection, collation and analysis of information;

development and implementation of reporting, which give the most information about the state of the borrower during the period of the loan;

compilation and preparation of analytical data on the monitoring of the loan portfolio.

During monitoring of investment projects, the banks usually for the effective protection of loans, the repayment provision on time, identify signs of problem loans at an early stage and take appropriate measures to address them, develop “Procedure for monitoring of loans for funding and support of investment projects” or other types of guidelines. According to these orders, credit monitoring is divided into three stages:

Phase I - Preliminary monitoring (at the examination stage of the project);

Stage II - the current monitoring (in the sampling of credit);

Phase III - further monitoring (during the loan repayment).

The process of ongoing monitoring of credit starts with the transfer of the General Directorate in the relevant structural unit (branch) instructions for opening the financing together with the completed credit.

After transmission of the order to open the funding by loan given project (credit) is assigned to a specific department’s responsible expert. For each issued loan the loan officer in charge of monitoring of the bank branch, servicing loan, monitoring card is established and maintained to monitor the full repayment of (or a table of monitoring) credit, summarizing the work of the entire credit of the bank from the date of issue until maturity. Subsequent monitoring of the availability of all necessary documents in the borrower's credit file, and for the correctness of their registration responsible the head of this department, under which is working given officer.

Before the implementation of a Project, the Officer controls: the formation of the authorized capital of the borrower, subject to the timing of construction and reconstruction of facilities, supplier performance of its obligations under the contract; synchronicity of work performed on the project by the participants, the quality and condition of the loan collateral; timely insurance of mortgaged property, the presence of working capital to start businesses, timely and complete payment of interest and commissions in the investment period, analysis of the financial condition of the Borrower's investment period.

After entering the project in operation controlled: the existence of contracts for the supply of raw materials, availability of contracts for the sale of products, meet the targets of the business plan for the production, sales, export performance of the program, the adequacy of income to the account and whether ongoing costs, the state of accounts receivable and accounts payable , the presence of the loan obligations of other creditors, the quality and condition of the loan collateral; timeliness of regular insurance payments, the presence of the Borrower's accounts with other banks and nature of operations carried out by him, timeliness and completeness of payments on loans.

It should be noted that both stages of the project, credit manager conducts:

- Analysis the reasons of the deviation from the schedule of the project and feasibility study of indicators (business plan);
- Classification issued by the credit;
- Making suggestions for improvement.

Audit of the use of credit held on-site at least once a quarter. During inspection analyzes the complete counting of incoming equipment on the balance sheets of enterprises according to the documents, the presence of a visual inspection of the equipment, the actual implementation of installation, commissioning of equipment, training, commissioning of the equipment in accordance with the acts of the work performed. After the inspection usually prepared document with relevant information on the project findings and proposals to address the identified problems (if any), and measures to address them.

If necessary, monitor the development of the project is carried out with the involvement of the relevant departments, other departments according to the technical procedure of passing documents on investment projects financed by the bank's own funds and borrowed funds of IFOs and foreign banks.

Also, an employee of the bank is:

-Monthly analysis of the fulfilment of the business plan (feasibility study);

-Control of receipts and expenditure of funds on the prevention of diversion of funds for the purchase of goods and materials not covered by the project;

- Control over the availability of the accounts opened by the Borrower in other banks;

-Monitoring the status of accounts receivable, analysis of the causes of delinquency;

-Monitoring the status of accounts receivable;

-Quarterly financial analysis of the borrower on the basis of financial and statistical reporting, c-calculation of solvency ratios, solvency, turnover and profitability;

-Quarterly analysis of the surety provided to them on the basis of the financial statements;

-Checking availability and adequacy of state security for the loan, etc.

Significant deviations from the planned indicators caused by objective and subjective reasons, lead to significant problems in the further implementation of the project. The principle of problem loans is that the job of tracking and eliminating the problems of loans carries a structural unit, which provides direct monitoring of loans.

On the facts of a problem on the financed projects, which could lead to defaults on loans, the department is preparing a report with proposals to solve the problems, which is submitted to the management. If these problems can lead to major changes in the project and affect the ability to timely perform its obligations by the borrower on the loan, the report provides to the Credit Committee.

Questions for discussing and control

1. Explain the nature of the credit as an economic category?
2. Do you know the principles of credit?
3. What is the definition of credit by economist-scientists?
4. What types of loans are available today?

5. What is the objective need of lending to investment activities by economic entities?
6. What are the factors that indicate the need for a loan?
7. Explain the role of bank loans in stimulating investment activities in developed market economies?
8. What is the role and importance of bank loans in financing investment projects?
9. Try to explain each of the principles of credit purposefulness, security, maturity, repayment and payment?
10. What do you mean by collateral in financing investment projects?
11. Do you know the type of collateral for long-term lending of investment projects?
12. What are the specifics of lending to working capital by business entities?
13. What is the source of the working assets of economic entities?
14. What are the sources of working capital of enterprises?
15. How to define the role of credit in the organization of working assets of economic entities?
16. What is a mortgage?
17. When was the Law of the Republic of Uzbekistan “On Mortgage” adopted? Do you know the purpose and objectives of this Law?
18. What are the difference of mortgage lending from other types of bank loans?
19. Do you know the essence and objectives of the Decree of the President of the Republic of Uzbekistan “On measures to intensify the reform in housing construction in the Republic of Uzbekistan”?
20. What is a creditworthiness of businesses?
21. Which indicators characterize the financial condition of the entity?
22. What indicators relate to liquidity ratios, and can you specify each?
23. What methods are used to determine the creditworthiness of clients in developed market economies?

24. What is included in the loan agreement when financing investment projects?
25. Do you know the stages of credit use monitoring?
26. Describe the role of banks in financing investment activities?
27. What operations are carried out by commercial banks in accordance with the Law of the Republic of Uzbekistan “On Banks and Banking Activity”?
28. What are the problem loans?
29. Can you explain the factors that lead to problem loans when financing investment projects?
30. Which loans are classified as problem loans according to the legislation of the Republic of Uzbekistan?
31. How to classify the causes of problem loans?
32. How to mitigate or prevent problem loans?

CHAPTER 15. LEASING MECHANISM IN FINANCING INVESTMENTS

15.1. The economic content and nature of lease

Creating a socially oriented market economy in Uzbekistan depends largely on the level of development of the banking system and the services they provide, one of which is leasing. Transformation under the influence of scientific and technological progress in the sphere of production and circulation, profound changes in the economic conditions of management necessitate the search and implementation of methods, non-traditional for the national economy of our country, to update the material and technical base and modify the fixed assets of subjects of various forms of ownership. One of such unconventional methods is leasing. The place of the leasing business in entrepreneurship is determined, first of all, by the very objects of leasing, which are the most important elements of the active part of fixed assets - machinery, equipment, transfer and other means.

Until the early 1960s, leasing in foreign countries mainly affected retail companies, which often rented their premises. Over the past three decades, the popularity of leasing has increased dramatically; instead of borrowing money to buy an airplane, computer, reactor or satellite, a company can lease it. Air and railway companies lease a huge amount of equipment, many companies and motels lease their property, and various shops - buildings and warehouses. Even utilities turned to leasing, because it is becoming increasingly difficult for them to borrow money.

Some of the largest players in the airline industry have never sold a single ticket, haven't lost a single baggage, haven't landed, and haven't taken off in bad weather. These are the companies involved in leasing (renting) aircraft - aviation trading banks: their role is to help finance the fleet and help airlines respond more quickly and efficiently to market changes. Among the leading players in the field of aircraft leasing are the GPA group, a closed joint-stock company located in the *city of Shannon, Ireland, as well as International Lease Finance from Beverly Hills.*

These leasing companies purchase aircraft from manufacturers such as Boeing and Airbus, and then lease them - often on a short-term basis - to airline companies. Leasing allows you to share both the risks and benefits associated with owning aircraft, and the risks and benefits of their operation. Currently, companies leasing aircraft on a global scale acquire up to 50% of the new fleet of commercial passenger aircraft.[32]

The relevance of the development of leasing in Uzbekistan, including the formation of a leasing market in the CIS, is due, first of all, to the unfavorable state of the equipment fleet (a significant proportion of obsolete equipment, low efficiency of its use, lack of spare parts, etc.). One of the solutions to these problems may be leasing, which combines elements of foreign trade, credit and investment operations.

The changes that have taken place in the economic mechanism and the legal basis of economic relations have made fundamental changes in the methods of financing business entities, both at the state level and at the level of corporate structures. In a transitional market economy, there is a departure from the old traditional methods of financing capital investments, and additional opportunities are opening up for financing investments in the real sector of the national economy. In particular, all the conditions are created for the wide attraction of foreign investment with the help of such a non-traditional for the administrative-planned economy mechanism of financing investment costs as leasing.

As world practice shows, leasing, acting as a flexible financing tool, allows business entities, through borrowing resources on a rental basis, to acquire ownership and use rights of a qualitatively new, high-tech means of production.

Structural transformations in the economy of Uzbekistan, the deepening of economic reforms and the development of entrepreneurship require the search for

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[32] Eugene F. Brigham, Michael C. Ehrhardt. FINANCIAL MANAGEMENT. Theory and Practice.10th edition. SOUTH-WESTERN THOMSON LEARNING. 2008. P.774.

additional financial resources to upgrade fixed assets. The limited internal financial resources of the national economy as a whole and newly emerging business structures in particular, necessitates the search for non-traditional sources of investment financing, which have long been advocated by the migration of foreign capital, the creation of joint, corporate property, the attraction of foreign credit lines, and interstate loans , as well as receiving for use new technologies and equipment based on leasing.[33]

In countries with developed market economies, leasing is considered as a special type of business, solving a number of important tasks for manufacturers, consumers of leasing products, as well as financial intermediaries involved in this type of business. For the widespread introduction of this new way of financing entrepreneurship in Uzbekistan, as well as the proper use of the foreign experience of the leasing business, in our opinion, the economic nature and essence of leasing relations should be further clarified. A correct understanding of the essence of leasing, a comprehensive study of its nature, content and all functions performed in a modern market economy, will create legal, economic and other conditions in the national economy for wide dissemination and development.

The term “Leasing” comes from the English verb “to lease” and in its essence indicates the leasing of property or the taking of this property for rent. Some sources argue that leasing should be understood as a long-term lease of machinery, equipment, vehicles and other movable property for industrial purposes.

Other sources claim that leasing is a special type of entrepreneurial activity aimed at investing temporarily free or borrowed funds when, under a financial lease (leasing) agreement, one person agrees to acquire the property specified in the agreement from a certain seller and provide this property to another person for a fee for temporary use for business purposes.

As in any business transaction, two parties participate in the agreement on conducting the leasing (rental) operation: the lessor (lessor), who owns the leased

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[33] Gazibekov D.G. Sobirov O.Sh. Lizing va uning O'zbekistonda rivojlanishi. Toshkent “Moliya”, 2001. B. 6.

property, and the lessee (lessee), who receives the right to use this property on condition that the lease payments are paid (lease payments, rental payments).

Recently, in foreign economic literature, leasing has been interpreted as a special type of business. Some authors, arguing about the leasing business, refer to the classical principles of Roman law on the distinction between the concept of owner and user of property. Yes, indeed leasing relations are based on the possibility of dividing the components of property into two most important powers - the use of property, i.e. its application in accordance with the purpose in order to extract income and other benefits, and the right of ownership to it, as the legal dominance of a person over the property. The centuries-old development of the use of leasing shows that wealth, ultimately, does not consist in owning property directly, but in the effective use of this property.

The emergence of leasing transactions goes back to the distant times of Aristotle (384-322 BC). That he is often quoted by the name of one of the treatises in the “Rhetoric”: “Wealth is in use, and no right of ownership.” In this book he argues that in order to make a profit, it is not necessary to own what that property, you just own the right to use it and to use it effectively.

Thus, the rapid development of leasing in the global economy occurred in the 60-70 years of the twentieth century and is associated with the intensive development of modern technologies that required more and more developed market relations, especially in the financial sector. Summing up the review of the history of the emergence of leasing relations, they should be perceived as an integral system of economic and legal relations arising on the basis of borrowing. The history of the development of leasing confirms that the emergence of leasing was facilitated by objective prerequisites and relevant conditions that made it possible to provide on the one hand an offer of leasing property, on the other hand to generate demand for it, and on the third hand to attract free financial resources for the implementation of leasing relations. With all this, leasing relations developed only when the mutual interests of participants in leasing relations coincided.

The system of leasing relations provides, first of all, the transformation of property, financing of supplies, rental of property, approval procedures and risk assessment, conclusion of a contract and determination of relations regarding the payment of leasing payments. The basis of leasing relations is the supply and demand for leased property. As with credit relations, a prerequisite for conducting leasing transactions is the coincidence or combination of the interests of the suppliers of leasing property, the lessee (entrepreneur) and the leasing company. Only in this case full-fledged leasing relations may appear. Leasing relations can be formed only when an appropriate environment is created for this, which includes a large selection of property offers for leasing, constant demand for this property and the availability of available cash resources for a certain infrastructure. Interested in the emergence of these relations, as well as the appropriate investment financial mechanism.

It should be noted that leasing as a set of economic and legal relations includes borrowing, buying and selling, renting, commodity lending or investing, property guarantee, payment of leasing payments, insurance of leased property, payment of taxes, use of property, for redemption of leased property , supply and acceptance of the leased object, as well as its operation. In the end, leasing relations reflect the totality of borrowing relations, credit relations, leases, property, tenure rights, rights to use this property, etc.

According to our economic content, it seems to us that leasing relations express, first of all, borrowing relations, property relations with the lessor, property supplier, state, non-residents of the national economy (foreign states, international financial institutions, foreign investors). These relationships can express the relationship of joint activities by the lessor, partners, founders and others. Leasing relations can express the transformation of property and the privatization of property. In any case, the leasing relations, in their content, express borrowing relations, property relations, the right to own and the right to use the leased asset.

The form of leasing relations reflects the full or partial acquisition of leased property, the provision of credit, the emergence of a new business executive-entrepreneur. In fact, leasing reflects a way of implementing property relations and the form of organization of entrepreneurship. In other words, through leasing and the relations arising from this, credit relations, property relations, and entrepreneurial activities are realized. Thus, we are convinced that leasing relations are a complex, closely intertwined, interconnected and interconnected system of economic relations conducive to the development of entrepreneurship and the formation of small and medium-sized businesses. As a rule, leasing relations involve the participation of several parties (leasing entities) - two or more. According to the legislation of Uzbekistan, more than three parties can take part in leasing transactions.

From these positions, leasing operations are mutually beneficial economic relations, allowing each of the participants in these relations to realize their own interests. A manufacturer or a supplier of equipment sells property, a leasing company realizes credit relations, and a lessee on a rental basis realizes entrepreneurial activity. From the point of view of the organization of entrepreneurial activity, through leasing relations, resources are invested in entrepreneurial activity. Through a leasing relationship, to a certain extent, risks are distributed, the supplier of the leased property, the lessor and the lessee, the safety of each participant is ensured, and the uncertainty in their actions is eliminated.

On the other hand, leasing relations reflect one of the forms of entrepreneurial activity. And from this point of view, we can agree that leasing is a special type of business that implements different approaches to leasing relations from the perspective of manufacturers of leased property. Currently, the world has an established system of leasing relations, which has received the greatest development in countries with developed economies. Leasing relations, along with other relations, include lease relations, but at the same time they differ from lease, both in form and content.

In order to more fully disclose the economic nature, content and essence of leasing in its definition, in our opinion, it should be given in a laconic form its general, basic and special features. In particular, leasing should be understood as a combination of economic and legal, including credit, financial and property relations, based on special rental relations of ownership of real estate and real estate objects aimed at developing entrepreneurship.

In order to better understand the essence of leasing and leasing relations, in our opinion, it is necessary to find out the motives that encourage the spread of leasing operations in a particular country. We mentioned above that leasing relations can develop when the corresponding macroeconomic environment is formed in the national economy, which assumes a favorable supply of leased property, constant demand for it and the presence of a developed leasing infrastructure. The most important thing is that leasing relations can arise, take place and expand only if the economic interests of the leasing participants coincide or find a common denominator.

In countries with developing economies, in the transition period to the market, leasing is a powerful means of technical updating of social production and the development of domestic entrepreneurship.

Thus, in terms of their economic content, leasing relations are a complex of interrelated economic and legal relations, including financial and credit relations, mediated by a special type of rental relations based on borrowing. They reflect property relations between the lessor, the property supplier, the state, partners and founders, etc. and ultimately ensure the transformation of ownership and changes in ownership.

Forms of manifestation of leasing relations are, first of all:

• relations of borrowing (lending), investment;

• property relations (acquisition of property on behalf of the lessee and its lease);

• property relations (separation of the right of possession, use, disposal from the right of ownership);

• legal relations (relations of mutual responsibility of leasing participants);

• distribution relations as a result of leasing (distribution relations, payment of leasing payments, acquisition of property);

• lease relations arising from the essence of leasing (ownership, use, disposition, obligations to the lessor).

Summarizing the above, in our opinion, it should be noted that from the perspective of the lessee, leasing relations express borrowing relations (acquisition of the right to use, own, dispose of property), for the producer of leased property - the realization of his interests in a competitive environment and from the perspective of the lessor - investment decisions on binding investment in the acquisition of property, followed by its lease. Thus, leasing relations reflect an interconnected set of relations regarding borrowing, investing, acquiring property and transferring it to a special lease for business purposes.

15.2. Classification of the main types of leasing and their qualitative advantages

In Western countries, the leasing services market is characterized by a variety of forms, models of leasing contracts and legal regulations governing leasing operations. A correct understanding of the purpose and fundamental differences of each of these forms, their purpose and role in the modern market economy is helped by the scientifically based classification of leasing services.

However, it should be borne in mind that the creation of a single international classification of the types of leasing transactions encounters many difficulties in its path, the main of which are due to the fact that:

- the legal systems of a number of countries differently determine not only, but also its individual types;
- different types of leasing transactions can be combined in one contract, depending on the specific conditions for the provision of leasing;
- when determining certain types of leasing, one can proceed from a combination of several of its features;

- there are different criteria for determining the effectiveness of leasing transactions.

The Law "On Leasing" defines two types of leasing: financial and operational, in addition to these leases, sub-leasing is allocated, according to which, with the written consent of the lessor, the lessee has the right to transfer the leased object for temporary possession and use to a third party.

The main forms of leasing include: 1) operating, 2) financial or capital, 3) repayment and 4) combined.

Operational leasing

Operating lease, as a rule, is intended for both financing and maintenance of an asset. IBM was one of the pioneers in the operational leasing market, and its products — computers and copying equipment, as well as automobiles and airplanes — are now its most common target. Usually, an operating lease agreement assumes that the lessor will carry out the current maintenance of the leased equipment, and its cost will be included in the lease payments.

Another important feature of operating leasing is the non-full depreciation of property. In other words, the payments stipulated in the lease agreement do not cover all the costs of the lessor to purchase this equipment. Equipment is leased for a period significantly shorter than the expected life of this asset, and it is assumed that the leasing company will be able to cover all of its costs either by subsequent repeated renewal of the lease agreement, or by subsequent leasing of this asset to another lessee, or by sales after the lease term.

Another characteristic feature of operating leasing is the cancellation clause (cancellation cause), which gives the lessee the right to terminate the lease before its expiration (with the equipment being returned to the lessor). This is very important for the first, since the equipment can be returned if it turns out to be obsolete due to the development of technological progress, or if it just disappears due to a change in the type of activity of the lessee enterprise.

Financial or capital leasing

Financial (capital) leasing agreements (financial lease, capital lease) differ from the operating lease in that they 1) do not provide for maintenance, 2) are not subject to cancellation and 3) provide for the full depreciation of assets (i.e. the lessor receives payments, fully covering the capital costs of acquiring the leased equipment, in addition to the costs of its maintenance and the costs of servicing the invested capital). As a rule, the company that will use the equipment itself chooses the specific equipment that it needs and negotiates a price with the manufacturer. The user equipment company then arranges for the leasing company to purchase this equipment from the manufacturer and at the same time enter into a lease agreement.

The terms of the leasing agreement must ensure full depreciation of the investment of the leasing company, and also contain interest payments that are set at the interest rate that the lessee would pay on a bank loan secured by this equipment (the lessee, as a rule, after the expiration of the initial contract leasing gets the right to renew it at a reduced rate).

For example, if a company were to pay 10% per annum on a loan, then approximately the same rate is provided for in the lease. In addition, the lessee, as a rule, pays tax on the leased property and pays for its insurance. Since this type of leasing makes sense only if the lessor receives some income after or after these payments, financial leasing is often called net leasing ("net, net" lease).

Lease-back

Under a sale-and-leaseback arrangement, a company that owns land, buildings or equipment sells this property to another company and at the same time draws up an agreement on leasing it for a certain period and subject to certain conditions. The capital provider may be an insurance company, a commercial bank, a specialized leasing company, a financial unit of an industrial enterprise, a limited partnership or an individual investor. Selling an object and getting it back on lease can be seen as an alternative to a mortgage. Note that the seller-lessee of the property immediately receives its price offered by the buyer-lessor, and at the same time, he retains the right to use the leased property. At the *same time, a series of equal lease payments clearly indicates a similarity to lending. When granting a loan secured by real estate, lenders, as a rule, receive a series of equal payments sufficient to repay the loan and provide some return on capital. Under an agreement on the sale of equipment with receiving it back on lease, rental payments are established in the same way: they should be sufficient to fully compensate the investor for the initial cost of the leased property and some profit. Returnable leasing agreements are also similar to financial leasing, the main difference is that in this case the equipment being leased is not new and that the lessor buys the equipment from its lessee user, and not from the manufacturer or distributor. Thus, a sale followed by a lease can be considered as a special type of financial leasing.*

Combined (mixed) leasing

Currently, lessors provide a wide range of transaction conditions. Therefore, in practice, leasing agreements may not exactly correspond to the definition of operating or financial leasing, but may combine some features of both types. Such lease agreements are called combination leases. For example, a cancellation clause is usually included only in an operating lease agreement, but today many financial lease agreements contain such a clause. However, in this case, they usually also include a special condition, according to which the lessee in case of early termination of the contract must pay a fine sufficient to cover the undepreciated balance of the cost of the leased equipment.[34]

There are two main types of leasing operations: leasing with full payback and leasing with incomplete payback, mediated by renting leased property.

Leasing with a full payback of leasing equipment is usually called financial. Financial leasing, i.e. leasing of property with full payment of the value of the property is characterized by the fact that the period for which the property is transferred for use by the lessor approaches the duration of the operation and depreciation of all or most of the value of the property to the lessor. During the

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[34] Eugene F. Brigham, Michael C. Ehrhardt. FINANCIAL MANAGEMENT. Theory and Practice.10th edition. SOUTH-WESTERN THOMSON LEARNING. 2008. P.775-777

term of the financial leasing agreement, the lessor, through leasing payments, returns to himself the full value of the property and receives the corresponding profit from the transaction. Financial leasing is the most widespread type of leasing in the whole world and contains many different varieties that have their own independent functions and names.

Incomplete payback leasing is usually called operational, because with it, the lessor’s costs associated with the acquisition and maintenance of the leased property, as a rule, do not fully pay off during the lease term. Due to the fact that the term of the leasing agreement is shorter than the standard service life of the property, the lessor is forced to lease it several times, which increases its risk of reimbursing the residual value of the leased asset in the absence of demand for it. In this regard, under all other conditions, the size of leasing payments is much higher than in financial leasing. Another feature of operational lysine is that the responsibility for maintenance, repair of equipment insurance is assigned to the leasing company. The leasing company operating leasing, acquiring property, does not know its specific user, therefore, it needs to know well the market conditions of leasing property.

Operational leasing differs from financial leasing in that there is no foreclosure right, and leasing payments do not cover all the costs of the lessor.

Depending on the market sector where leasing operations are carried out, the following types of leasing transactions are distinguished:

- internal (domestic) leasing, when all parties to the transaction represent one country;
- international (external) leasing, when the lessor and the lessee are in different countries, i.e. The seller of the property may be located in another country and be a resident of another state.

According to the volume of serviced equipment transferred, experts divide leasing into “clean” and “wet”. Net leasing is a type of leasing in which the lessee takes care of all technical and other maintenance of the leased equipment. In this case, equipment maintenance costs are included in lease payments. These relationships are characteristic of financial leasing.

Wet leasing involves the mandatory maintenance of equipment, its repair, insurance and other operations by the lessor. In addition to these services, at the request of the lessee, the lessor can assume the responsibilities of training qualified personnel, marketing and advertising of finished products, supply of raw materials, etc. Thus, all of the above costs are included in lease payments.

Depending on the nature of the leasing relationship, leasing transactions are divided into:

leaseback, which is increasingly recognized. This form of leasing is used when the enterprise (future lessee) has the equipment and does not have enough funds for the main production activities. Therefore, the company finds a leasing company and sells its property to it, and the latter, in turn, leases it to the same company. As a result of the implementation of such a scheme, an enterprise has cash that it can direct, for example, to replenish working capital. Moreover, the contract is drawn up so that at the expiration of its validity, the enterprise has the right to purchase equipment and thereby restores the right of ownership to it. This type of leasing is primarily beneficial to enterprises experiencing serious difficulties with financial security. In practice, it is profitable for such enterprises to sell the property of a leasing company, at the same time conclude a leasing agreement with it and continue to use the same property. For enterprises with a stable financial position, this form of use is usually not suitable.

mixed leasing - this type of leasing transaction containing elements of financial and operational leasing. Under the conditions of using mixed leasing, the lessor agrees to acquire the property indicated by the lessee from a particular seller and transfer it to the lessee as a leased asset. Upon the expiration of the contract, the leased asset becomes the property of the lessee.

Depending on the participants in financing leasing property, leasing is divided into:

separate leasing, or leasing with additional attraction of funds, or leasing partially financed by the lessee. This is the most difficult type of leasing, as It is associated with multichannel financing and is used, as a rule, for the implementation of complex and capital-intensive projects. A distinctive feature of this type is that the lessor, when buying equipment, pays from his funds not all of the amount, but only part of it. He gives the remaining amount to a loan from one or several lenders. At the same time, the leasing company continues to use all tax benefits that are calculated based on the full value of the leased property.

group leasing differs from other types and varieties in that the lessor is a group of participants (shareholders) who approve a special corporation (trust company, etc.) and appoint a trustee who subsequently performs all necessary operations for the implementation of leasing relationship.

Depending on the terms of renewal of leasing property, leasing transactions are classified as:

renewable leasing, which provides for the periodic replacement of equipment at the request of the tenant with new, more advanced samples of the same kind.

revolving leasing or leasing with successive replacement of equipment is used when the lessee, due to its technological specifics, needs different equipment in series. In these cases, in accordance with the terms of the leasing agreement, the lessee acquires the right, after a certain period of time, to exchange the leased property for another leased asset.

Depending on the right to use a third party, the following types of leasing are distinguished:

Sub-leasing is a type of obligation in entrepreneurial activity, which means the subsequent transfer of leasing facilities by a lessee to a third party. According to the article of the Law “On Leasing”, the lessee has the right to lease the leased object, obtained under the leasing agreement for temporary possession and use in subleasing to a third party, but this requires the written consent of the lessor. At the same time, the lessee remains responsible under the lease agreement to the lessor.

The total duration of the sub-leasing agreement is limited by the duration of the leasing agreement and cannot be longer than the last.

Main leasing does not provide for the right to use the leasing facility by a third party.

Based on the practice of conducting leasing operations in Uzbekistan at the initial stage of establishing a leasing business for commercial banks and leasing companies, in our opinion, we can recommend the development of financial, repayable and separate leasing.

A number of its useful functions, leasing has a positive impact on the constituent elements of the reproductive process, including means of labor, living labor, the degree of use of technology, etc.

In practice, the leasing effect consists of the objective advantage of the operational use of the achievements of scientific and technological progress, the increase in the scale of economic activity, the reduction of unit costs and the intensification of the entire production process.

According to some economists, methodologically, the leasing effect has at least three features:

The first of these is to achieve a multiplier effect. Having arisen as a result of applying the latest technology and transforming an employee into an independent entrepreneur - owner at the time of expedient activity, the leasing effect extends along the chain to all stages of reproduction, increases and multiplies as one transfers to distribution, exchange and consumption.

The second feature is to ensure emergence due to the qualitative novelty of the effect of leasing activities, the value of which significantly exceeds the arithmetic sum of the result of ordinary activities without the use of leasing in order to mobilize additional technical means. Such an effect is an integrative effect and manifests itself not only locally, but also on the scale of the entire production system, increasing its productive power.

The third specific feature of leasing is that the effect obtained is manifested not only in the production process, but also in the social sphere, influencing the practical life of people. Thus, leasing has both economic efficiency criteria and social value, which is expressed in increasing the content of labor, employee awareness of his creative abilities, growth in personal income, increasing his independence, etc.

In aggregate, all of the above features once again emphasize the effect of leasing as a kind of economic multiplier, which gives impetus to the development of all links in entrepreneurial activity. If the first feature reflects the dynamics of the leasing effect, the mechanism of its implementation, the second reveals the economic essence of the effect, as a manifestation of new emergent properties of the leasing form of entrepreneurial activity, then the third shows its social orientation and close relationship with the satisfaction of personal, collective and public interests. Moreover, leasing activities can be considered effective:

a) from the point of view of personal interests - if it improves the ability to meet the material and spiritual needs of the entrepreneur;

b) from the position of the collective interests of the organization - if it provides the conditions for expanded reproduction;

c) from the point of view of society - if the market is saturated with necessary goods and budget revenues increase from an increase in the scale of production of goods.

At the same time, based on the world practice of leasing relations, in our opinion, one should list a number of indisputable advantages of leasing, which include:

- simplicity and convenience of operational leasing;
- the possibility of terminating the leasing agreement and shifting the risk of premature moral aging of the leased property;
- acquisition of the possibility of independent maintenance of leased property;
- lower level of costs in comparison with the issue of placement of securities;

- the possibility of using a tax shield created in many countries for lessors and lessees;
- the possibility of evading the alternative minimum tax (using the straight-line depreciation charge in the statements, but in fact accrued accelerated depreciation).

The formation and wide development of leasing relations all over the world opens up great opportunities for the development of entrepreneurship, since leasing, thanks to its inherent advantages, brings benefits for each participant in a leasing transaction.

So, the manufacturer (seller) of leased property finds in it, first of all, an additional sales channel for machinery and equipment, which allows to expand the sales volume. For the lessor, leasing also presents a whole range of advantages, as it is an effective way of investing, helping to increase the efficiency of its capital ownership. For the lessee, leasing is an alternative method of financing investments to carry out entrepreneurial activities, realize its creative potential and build up production and technical potential

Successful implementation of the above advantages of leasing for all participants in leasing relations is determined, first of all, by the economic environment of implementation. The country's legislation, including tax law, largely determines the potential benefits of leasing. In international leasing, the advantage for participants is determined by the laws of the countries participating in the leasing agreement. When assessing leasing, it is important to calculate the risk and benefit, taking into account the current tax legislation. The lessor, providing a loan to the lessee, carries a rather high level of risk, thereby deserving a higher discount rate. Therefore, when assessing a leasing agreement, the main issue is the determination of net loan costs, which are determined taking into account discount rates.

15.3. World practice of using lease

In the U.S., leasing emerged in the 50's. The U.S. accounts for half of the global circulation of goods supplied under the lease. In 1986, the U.S. had supplied equipment leased to $ 85 billion (28% of all investment in equipment in the country).

One reason for the rapid development of leasing in the United States was the tax benefits: accelerated depreciation and investment tax credit (up to 10% of the cost of new investments deducted from the amount of tax). But the right to tax incentives arise only when the contract comply with the rules established by the Office for Rent Internal Revenue Service of the U.S. Treasury:

- Lease duration should be less than 30 years;
- Leasing should not include the purchase of property at a price below fair market - for example, $ 1;
- Leasing should not provide a payment schedule where they will initially be more, then less. This would be evidence that the lease is used as a means of escape from the tax;
- Leasing the lessor must ensure the normal market level of profit;
- The possibility of extending the lease should take into account normal market value of the equipment[35].

Prior to 1977, firms could take equipment on lease, reflecting its value in their balance sheets, that is, have a seat at the balance sheet accounting. Therefore, firms that already have substantial debt could take additional equipment that is not showing the increased amount of debt. Thus, the real debt was hidden from investors and experts. In 1976, the management of financial accounting standards issued decree number 13, which was made to take into account some of the financial transaction as a purchase of assets and assumption of financial liabilities. The purpose of this decision was to distinguish between “genuine

[35] Лизинг и коммерческий кредит. М.: Ист сервис, 1994. С.79.

leasing" and the purchase of a p omoschyu leasing. The resolution listed the following items:

- Ownership at the end of the transaction to the lessee;
- The leasing deal allows you to buy equipment at the end of the transaction at a price below the market;
- The term of the transaction is greater than or equal to 75% of the useful life;
- The present value of lease payments (excluding payments for insurance, administration, taxes) is greater than or equal to 90% of the normal market price of the equipment[36].

If the transaction satisfies at least one of these conditions, the property is recorded on the lessee's balance sheet as an asset offsetting a debt owed to a liability ("Capital lease obligations"). If the deal does not meet any of the above conditions, the property is recorded in the annex to the balance of the tenant.

Since 1986, the climate for leasing on the basis of the tax change, as the government saw in him "a subsidy for the benefit of another state" ("The export tax benefits"). Tax incentives introduced in the 60s and 70s in the period of high inflation, no longer considered as an effective tool to stimulate investment in a more stable economic environment 80s. Reform of the tax system in the U.S. has reduced the availability of tax credits through the abolition of the tax benefits of investment and change the profile of depreciation. Tax reform has significantly reduced the economic benefits of leasing, but nevertheless its development has not stopped.

The fact that the repayment of leasing transactions still has more flexibility than, for example, the repayment of conventional loans. In the U.S., many leasing companies know better equipment than other lenders. Since the creditworthiness of the leasing company is dependent on the ability to realize the equipment after the expiry of the transaction, the companies are very interested in leasing the most

[36] Лизинг и коммерческий кредит. М.: Ист сервис, 1994. С.81.

valuable and efficient equipment. In this case, they are willing to assume all such risks. Some tax benefits still remain.

Recently, the growing importance of the leaseback agreements (oil tankers, rail containers, computers, airplanes), operational leasing (transport, printing machinery). Especially clearly show the growth of operational leasing without a special tax breaks in aviation. International Leasing Finance Corporation (ILFC), headquartered in the United States was founded in 1973 and became a public company in March 1983. Together with the Irish Gyness Peat Aviation Group (GPA) it determines the position in the market. Its portfolio of over 150 aircraft. Revenues for the first six months of 1992 amounted to 94.8 million, assets - $ 1.65 billion at May 31, 1992. It offers customers the planes on 3-15 years without having to take on the huge start-up costs. The world market of aircraft operating leasing has grown from virtually zero in 1982 to 10% of the leasing market today. Most major U.S. leasing companies are: Bank Amerilase Group, Golodefz Trading Corp., Security Pacific Consider Corp[37].

In the UK, leasing has received considerable development only after 1970, ie after the introduction of tax incentives. Companies can deduct 100% of investments from taxable income in the year in which they were made. These benefits were significant only for enterprises with a large income, but indirectly they were available and tenants. The company could take advantage of tax benefits only at the end of the year. Therefore, if it is to invest in the early years, she had to wait a while to benefit from these incentives. But if she was selling equipment leasing company and then took it out (provided that the leasing company's fiscal year end is earlier), the indirect benefits were obtained faster. Therefore, leasing companies are opening branches in different parts of the financial year. Investment Tax Allowance for free, it comes back through taxes on rents, but it nevertheless provides an interest-free loan equal to 52% of the value of the property, as reflected on the cost of leasing to the tenant.

[37] Бухгалтерский, валютный и инвестиционный аспекты лизинга. М.:Истсервис, 1994. –с.136.

In the future, the lease will depend on what will be the amount of investment, how much will companies with low incomes, and how many companies will decide to continue to use leasing to finance their investments.

In France, the lease became very common, especially the kind called “cred-bye.” In April 1967, established the first French company “Lokafrans.” Currently in France develops leasing of aircraft, ships and barges, material handling equipment, containers, computers, medical equipment, printing, heavy industrial equipment.

Leasing of real estate is also determined by the law of 1966. In 1967 in France were established by the Company's real estate in the area of industry and commerce (SICOM). SICOM are in the form of joint-stock company with a capital of at least 10 million francs, which must be fully paid up at the time of the creation of society. Leasing companies SICOM provides significant tax benefits: 85% of the profit tax exemptions, accelerated depreciation, etc.

Typically, real estate leasing agreement lasts 15-20 years. The objects can be: land, buildings, painting and decorating, the system of Railways, equipment, considered as property for its intended purpose (lifts, etc.).Payment is usually made by direct or mixed regressive way.

In Germany, at the moment there are many leasing companies, 57 of them are included in the German leasing association. Two companies that can be classified as leading in the field of leasing - is “Mitfinants GmbH” and “Gath - Leasing GmbH”. ”Mitfinants GmbH” was founded in 1962. The authorized capital of the first leasing company in Germany amounted to DM 1 million. It currently has six subsidiaries.

“Gath - Leasing GmbH” was founded by a group of “Gath” in 1968. During its existence, the company has handed over its customers in the rental equipment with a total value of more than 3 billion DM.

In Austria, the average rental period is from 2 to 15 years in accordance with the cost-effective service life of the leased asset. An option to purchase or renewal is not allowed after the expiry of the contract the tenant can sign a new contract for the rental of the leased asset for the remaining period of operation or to enter into negotiations to purchase.

As in Germany, in Austria, the basis for the development of leasing has become the law of employment. Leasing in Austria, has been developing for 25 years. In the lease surrender even kindergartens and schools.

One of the leading leasing companies is the “Raiffeisen Leasing” with its capital “Donau Bank” [38].

The first leasing company in Italy appeared in 1963. Currently, Italian Leasing Association has 50 companies.

Italy's largest (the company) Leasing Group “Lokafit” gives to lease a working tool, earthmoving machinery, agricultural machinery, office equipment, computers, real estate, vehicles (cars, planes, ships, etc.)

One of the founders is the “Bank Nacional de Lavoro”. The Group has established joint venture partners in Germany, France, USA, Spain, China, deals with Hungary and Yugoslavia.

In Japan's largest leasing company is “Gentury Leasing System”, created in 1969. Its paid-up capital of 1.6 million dollars. It has offices in Hong Kong, Singapore and the UK. Shareholders: a commercial bank, one commercial and two insurance companies[39].

In Sweden, leasing began to develop in the early 60's. Typically, they use small and medium-sized companies. The fact that each bank required security for many of its loans. Leasing eased the situation, because the lender is the owner of the equipment. Initially consisted of repurchase agreements, under which the supplier took on the obligation to buy back the equipment if the customer fails to fulfill its obligations under the lease. As competition between the leasing companies, these liabilities (repurchase) began to meet more and more rarely. The primary lease term is usually 3-5 years, in exceptional cases up to 9 years old.

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[38] Лизинг и коммерческий кредит. М.: Ист сервис, 1994. С.81.
[39] Бухгалтерский, валютный и инвестиционный аспекты лизинга. М.:Истсервис, 1994. –с.139.

Summarizing the countries of Western Europe, the U.S. and Japan can draw the following conclusions:

- Mainly engaged in leasing operations are not commercial banks and specialized companies;

- Developed leasing market strengthens the productive sector of the economy by creating the conditions for accelerated development of strategic industries, stimulates the flow of capital in the manufacturing sector;

- Availability of certain tax benefits aimed at the development of leasing relations.

15.4. Improving the legal framework of leasing operations in the Republic of Uzbekistan

The formation of institutions of leasing relations in Uzbekistan, as noted above, began in 1995 to the adoption of legal instruments for the organization of leasing operations. The main document which laid the foundation of leasing relations in the country became the Civil Code of the Republic of Uzbekistan, which was adopted in two parts in 1995-1996. Legal basis of leasing are reflected in the second part of paragraph 6 of the Civil Code, where the lease is referred to as a capital lease. The Civil Code of the Republic of Uzbekistan leasing allotted 14 articles with 587 by 589. in particular Article 587 emphasized that the lease agreement provides for the lease as a finance lease and the use of the leased facility to buy a lessor's own funds.

In the second article of the law “On Leasing” adopted by the Oliy Majlis in 1999, the contents of leasing is characterized by “a special type of lease in which one party (the lessor) on behalf of another party (the lessee) acquires from a third party (the seller) property (the leased item) due own or borrowed funds (for those of commercial banks can be borrowed funds) to provide temporary possession and use of the lessee for a fee on certain lease agreement terms.”

The complexity and the relative novelty of leasing relations determined the existence of different points of view as to their legal nature.

Summarizing the results of many years of discussion, I would like to highlight two basic approaches: in one of them, some experts consider leasing with traditional civil rights: the lease, purchase, loan, etc. advocates a different approach argue that the complexity and originality of leasing relations makes it possible to treat them as a special relationship. Requiring the development of specific mechanisms of their regulation.

In some cases, as an object of analysis is proposed to consider the full range of relations, in others - only an agreement on the transfer of equipment for temporary use with the right to later purchase, if such a condition is stipulated in the contract.

The similarity of some elements of the lease with the lease agreement has led to the concept that the lease agreement is considered as a lease with the specific traits. However, in our view, in the leasing agreement has such features that can hardly be classified as only specific features. In particular, the conditions of the possibility of purchasing equipment user changes the contents of the existence of the contract for in connection with this condition is necessary to specify the purchase price, the right time to buy, solve problems fixing the transfer of title, and decide on the issue of minimizing the risk of accidental loss or damage property.

Striking difference leases and leases appear in issues of responsibility transfer of risk. The lease the lessor to the lessee is responsible for the timely delivery of the property in the possession of the tenant, for the defects found and others in the leasing agreement liability for breach of conditions relating to the subject of the quality of the leased object, the disparity objectives user usually has the equipment manufacturer. As a result, before the user is responsible not the owner of the equipment, and the equipment manufacturer, which is not a party to the lease agreement. If a leasing transaction risk of accidental loss or damage to equipment, as a rule, is the lessee, then the lease, as provided for by the legislation of different countries, all the risk is borne by the owner, ie the landlord.

Other researchers believe that the presence of the lease agreement of the call option gives the opportunity to qualify it as a contract of hire purchase a special type. When the contract of sale with installment title passes from the seller to the buyer, usually at the conclusion of the contract. When the lease agreement ownership is retained by the grantor equipment for temporary use. The information contained in the lease agreement is not usually included the user's obligation to purchase the property in the property, and the question of the purchase of equipment is fully transferred to the discretion of the user.

Unfortunately, in both of the considered theories comparison of the lease agreement with the contract of hire purchase all of the attention is focused only on the lease agreement, without considering the full range of leasing relations. As a result, many of the issues that go beyond the relationship between the lessor and the user, are not reflected in these theories. At the same time, the potential is far from exhausted leasing relations for temporary possession and use of equipment. Speaking about the legal nature of the lease is very important to strictly distinguish between the question: are considered whether the relationship between all the parties to a lease is an agreement on the provision of equipment for temporary use. In the first case can not speak about any one of the known or contracts as part of the entire complex as its constituent relations included the sale, the temporary use of the equipment, and in some cases even include loans, guarantees, and other participants in the relationship of the parties contractual relationship. Their interconnectedness and interdependence, are complex and the omission of any one of its components can lead to breakage. It follows that, speaking on leasing, it should be a special institute. Requiring a comprehensive study and self-regulation.

Agreement on the transfer of equipment for temporary use, that is actually a lease agreement, as one element of a lease deal really has a lot to do with the lease agreement. Both contracts mediate the relationship by transferring temporary possession and use of certain types of equipment, but differ subjective composition, content and existence of the lease agreement the elements of the contract of sale. Thus, the lease agreement should be viewed as a new independent form of the contract.

One of the factors hindering the development of leasing, in our opinion, is a weak erection and maintenance advantages of leasing. In many domestic publications are still treated differently essence of leasing as a special form of credit relations.

Some economists consider leasing as an off-balance method of financing investment, others see it as a tool to finance technical re-equipment of the enterprise, and still others see it as a form of effective long-term lease of equipment in return for the acquisition.

The Law “On Leasing” is not given a clear definition of leasing, it is sometimes served as finance leases. In the process of finalization of this law would be useful in a concise manner to reveal the essence of leasing as a special form of credit relations. The most important condition of the leased property is the repayment of funds allocated by the leasing company for the purchase of the property transferred to the leasing, payment, and maturity. Due to the weak development of the national market of used equipment should be noted further condition the success of the leasing transactions - their security.

A characteristic feature of the leasing business advocates that software leasing transaction is usually the object of leasing, which for the duration of the lease agreement remains the property of the lessor. In cases where the purchased property is illiquid, the lessor may require maintenance leasing operation to reduce the risk of default. The main types of collateral leases are:

Pledge of assets, securities, guarantees, bank or other guarantees. Each requires its appropriate regulatory support.

In the broadest sense, leasing is a set of property relations, which include in addition to the leasing contract, the contract for the supply of equipment, the loan agreement. The insurance contract. From a practical point of view, core leasing is the ratio of the temporary transfer of the property in the possession, use and disposal of partial. Supporting role is played by the acquisition of equipment and, not only as a stage preceding the actual transfer of property for use, but also as an important step that completes the full range of leasing relations in the case of acquisition of property by the lessee in the property after the end of the lease agreement.

Leasing is not only the Tripartite (vendor-lessor-lessee), but also by bilateral (lessor-lessee) lease agreement under which the lessee determines the leased item and selects the seller, without relying on the skill and judgment of the lessor.

15.5. The priority directions of development of leasing in Uzbekistan

The deepening of structural reforms in the national economy requires rapid formation of market infrastructure and especially in the agricultural sector, the backbone of its constituent. The above fully apply to the system of commercial banks and other financial institutions, as well as to the problem of increasing the volumes and types of services they provide. In this case, determines the need for a financial loan, legal, information, innovation and technological support and organizational support for the creation of business processing and marketing of agricultural products. These problems can be solved by efficient manner - providing commercial banks financial leasing business entities.

Leasing companies created in Uzbekistan differ from similar companies in developed countries, especially the failure of their capital. In addition, among the commercial banks, leasing companies and other financial institutions that own small volumes of resources and working capital narrowing of the medium and long-term periods of no competition. Since the current fixed rate of interest, determining the cost of capital narrows, it indicates a low efficiency on the one hand. On the other hand, high rates of VAT on acquired for leasing the property and taxation of leasing services do not, leasing services beneficial to the lessees. Therefore, financial institutions prefer to place them on a shorter time and in a more profitable operation. Undeveloped almost mid-and long-term lending business do not allow expansion and leasing, which in fact should be beneficial to borrowers as an alternative method of financing for the balance of investments.

Sufficiently high risk of narrowing of money in the medium and long-term fixed rate, determining the lowest cost of bank loans and leasing of temporary space, holding back widespread development of medium - long-term bank loans fixed capital. This, in turn, contributes to the spread of the practice of leasing credit, which should be more beneficial both lessors and lessees potential compared to bank lending with the operation of their positions in the face of high rates of value added tax.

However, the successful development of the leasing hampered by a number of circumstances, the principal of which are:

- lack of start-up capital for the organization of leasing companies. Leasing allows the entrepreneur to start a business, having a third of the funds for the purchase of the leasing of the necessary equipment. However, the leasing company has to purchase equipment from the manufacturer at full price, for which she needed a loan. Leasing companies, banks give loans rather than multiple lessees, from this point of view, the establishment of financial leasing helps to reduce the risk of lending;
- lack of understanding of the essence of leasing its merits as to potential lessors and entrepreneurs - potential lessees;
- lack of infrastructure leasing market, a developed network of leasing companies, consulting firms that catered to all private leasing market;
- lack of information system of leasing, which would provide a renewable and constant availability of information on proposed leasing services;
- lack of experienced personnel for the leasing companies.

Currently holding leasing transactions associated with certain difficulties.

Seriously hampered the development of leasing undeveloped general wholesale trade in machinery and equipment, the unmet need in many of the means of production. Between the two is a correlation, the faster the transition n wholesale trade, the faster the wound deficit machinery and equipment. On the other hand, is not organized training in the industry. Specialists involved in leasing operations must have in-depth knowledge of commerce, by definition, demand and supply of new and used equipment, on production technologies and the provision of technical services for the control, under the law, property insurance and other areas. It is known that leasing operations increases the risk of poor use of equipment lessor by the lessee, the lessor inefficient sale of used equipment, late return of the property owner and other reasons. Therefore, special importance is the insurance of the leased property. The introduction of additional items in the contract for the financing of leasing transactions, preparation of a separate agreement or the conclusion of the contract with the insurance company protects the tenant or a company (lessor) from various dangers. Property insurance leasing can be done at the expense of the lessee or by a leasing company at the bank. Insurance costs are determined at the signing of the contract on the basis of the full term of the contract. To date, the banking system only provides direct finance leases.

Currently, there are no guidelines for the calculation of payments by type of leasing operations. Not developed the contract drawn up by the financial, operational, direct, indirect, short-term, updated, clean and full of leasing. Required an urgent need to work out the terms of drawing up agreements, contracts for the export and import kinds of leasing.

Development of guidelines for the determination of fees, premiums paid by leasing companies is one of the unsolved problems in this area. From foreign experience implies that the use of leasing a standalone regions and industries can provide benefits for these operations. Lagging sectors of our economy, especially the production of consumer goods, consumer electronics and industrial economics, medical equipment, manufacturing equipment for environmental protection, it is appropriate to provide incentives for the use of leasing.

It is also advisable to provide benefits the regions with weak developed economies.

Need to develop entrepreneurship by expanding upon leasing renewal of fixed capital for this, there are opportunities. You only need to create a comfortable environment for its development and the creation of a separate leasing industry.

Should be organized in all regions of Uzbekistan activities of leasing companies and through them en masse to introduce leasing operations.

Currently, their introduction in rural areas will give practical assistance in the processing of agricultural products and the creation of new jobs. Creating the necessary conditions for the institutions of leasing companies, the organization of their activities, is one of the most urgent tasks of economic transition. The most important thing in the taxation of leasing activity to achieving a one-time tax. Particularly attracted the attention of withholding VAT and accounting of leasing facilities in determining the tax base. In terms of the leasing adjustments to the introduction of the tax base is one of the main problem taking before the massive spread of leasing operations. For the purpose of mass distribution of leasing in our country. You must create a legal basis for their implementation. It is now necessary to develop and implement the Charter on the licensing of leasing activity. If necessary, be helpful to establish the Foundation to support the development of leasing in Uzbekistan. One of the main problems is the development of guidelines for payment of lease payments, the Model Rules of joint-stock leasing companies, model agreements, agreements on the implementation of financial leasing.

In the process of the establishment of leasing companies leasing incentives for income tax or exempting them from tax during the period of their formation will contribute to the broad development of leasing operations.

Financial leasing, aimed at modernization of the enterprises of the republic, in its essence is a long-term loan collateral acquired in leasing equipment. Because of the high interest rates on short-term bank loans, despite the high level of protection of the financial and credit resources mobilized for leasing, leasing operations for banks at this stage is not preferred. In this regard, the introduction of tax incentives from finance leases would broaden the involvement of bank loans for the issue of leasing credit.

Development and improvement of the order of the finance lease on the basis of preferential taxation will have the following features:

▪ will provide an introduction to the national economy of a large amount of private investment, particularly private investment;

▪ will provide a basis for increasing the quality of export-oriented products based on the introduction of science and technology and technological re-equipment;

▪ ensure the growth of tax revenue by expanding the volume of production and sales in industries organized by the lease;

▪ will contribute to the development of a middle class of owners, creating small and medium-sized businesses, activates the investment policy;

Along with questions of taxation, in our view, the participants leasing transaction should be allowed to make independent use of accelerated depreciation on the leased property. This, in turn, will solve the problem of renewal of the fleet of machines and equipment, along with the acceleration of the process of production of high quality export products.

At present the country has all the legal, social and economic conditions for leasing transactions. However, there are a number of issues that need to be addressed.

First, the extensive development of leasing, in our opinion, it is necessary to create an infrastructure leasing business, is widely involved in this case the international financial institutions, to develop a competitive environment. In our view, leasing services must be carried out not only at their own expense leasing companies and banks, but also for the cost of mobilizing extra resources in the form of bank loans.

Second, by law provide for the possibility of functioning in the same face of the manufacturer or seller of the leased equipment and the lessor.

Third, legislation to allow for independent use of the norms of accelerated depreciation of leased equipment, the law decide on the exclusion from the tax base the actual depreciation in excess of twice the size of the established norms of depreciation.

Fifth, it should be in legislative documents provide the full list of the possible risks of leasing transactions. Legally define specific members of leasing transactions, taking over the collection of certain risks in leasing transactions. A particular problem in a transitional economy, is the issue of currency risk in international leasing. Currently, as a rule, the burden of reparation exchange rates added burden on the lessee.

Sixthly, it is necessary to develop a package of measures to provide state support for the formation of leasing, including the creation of associations, leasing companies, preferential tax treatment and collection of customs duties and special education trust funds, finance leasing companies and others.

Seventh, should develop a model charter Joint-stock leasing companies, agreements on implementation of financial, operational, international and other types of leasing, unification of existing methods for calculating the lease payments.

In the eighth, in the legislative and normative acts, in particular the law on “leasing” should reflect the terms of the organization of the international leasing, securing guarantees and privileges for foreign participants in international leasing transactions.

The main factor in the development of leasing is the right choice of the method of financing, the calculation of risk, knowledge of the legal and economic legislation, the practice of formation of financial leasing. Another important problem is the correct assessment of the effectiveness of leasing transactions based on current legislation and the changing conditions of transition economy, even when the interest rate on bank credit and taxation. Refinancing is not permanent. In this connection, noteworthy application of indicators to measure the effectiveness of discounted leasing project.

Questions for discussing and control

1. Describe the economic nature and essence of leasing?
2. What are the advantages of leasing in financing investment activities?
3. Describe the need for leasing in financing investment projects?
4. What is the definition of leasing by economists and can you comment on it?
5. What are the leasing functions?
6. What is the definition of leasing under the Law of the Republic of Uzbekistan “On Leasing”?
7. What can be an object of leasing?
8. What are the benefits of leasing for a lessee?
9. Can you explain the advantages of leasing account?
10. What are the advantages of leasing for leasing companies?
11. Do you know the benefits of leasing for a manufactor companies?
12. What privileges are specified in the Decree of the President of the Republic of Uzbekistan “On measures to further stimulate the development of leasing activity”?
13. Do you know the legal basis of leasing relations in the Republic of Uzbekistan?
14. Which of the following terms must a leasing contract meet?
15. Do you know the terms and conditions of leasing agreement?
16. What documents should a lessee submit to a bank servicing his / her main deposit account to enter into a leasing contract?
17. Can you classify the object of leasing by type of property?
18. What is your opinion and position on leasing loan - the source of financing of investments in fixed assets?
19. What is the main difference between a leasing loan and a bank loan?
20. What do you mean by international leasing?

21.What is the difference between international leasing and other types of leasing?

22.Can you explain the role of international financial leasing in economic modernization?

23.What forms of international leasing contracts have been developed in international practice?

24.What do you mean by leasing payments?

25.Do you know the structure of leasing payments?

26.What are the approaches to calculating leasing payments in economic literature?

27.What is included in the leasing payment in the Law of the Republic of Uzbekistan "On Leasing"?

28.What leasing companies do you know in Uzbekistan?

29.What is micro-leasing?

30.How do you know the difference between microlending and leasing?

31.What is the definition of microlending in the Law of the Republic of Uzbekistan "On Microfinance"?

32.What principles are applicable in the process of micro-leasing?

33.What documents are submitted to the bank for micro-leasing?

CHAPTER 16. PROJECT FINANCE INVESTMENTS

16.1. The concept of “Project financing”, its types and content

During the implementation of reforms and the formation of market relations, one of the main conditions for the success of reforms and ensuring economic growth is investment, which allows not only to maintain the available capacities, but also to ensure their growth. Uzbekistan has undergone major transformations in creating effective incentives to attract investment in priority sectors of the economy.

Today, Uzbekistan has developed the necessary financial infrastructure for the implementation of investment projects using the most complex financing schemes. Currently, an increasing role in financing projects belongs to commercial banks, which are the most universal institutions.

For the National Bank of the Republic of Uzbekistan, financing of important sectors of the economy is one of its priorities. At the same time, the Bank finances projects using such a progressive instrument of international banking as project financing. The implementation of investment projects imposes stringent requirements on the feasibility study of design decisions, as well as on the implementation of a unified approach in deciding what should be done, how, where the investments will come from, and how to take into account the lessons learned from this during the preparation of future projects. Special requirements are also imposed on the study of the costs of the project and the results obtained, taking into account the interests of investors, the economy as a whole, and organizations involved in the project.

When the issues of financing projects are resolved, the problems in analyzing real and profitable sources of financing remain practically aloof. In addition, in the context of the transition of the economy to market relations, a high degree of risk in project financing. A clear analysis of the sources of funding should be developed. The analysis of the sources of financing projects at a high level should be the most important tasks for a commercial bank in the process of financing investment projects.

There are several definitions of project finance. Project financing is financing in which the source of debt repayment is the cash flow generated by the investment project itself. Moreover, pre-tax profit plus depreciation acts as a cash flow. The amount shows the real possibilities of self-financing of the enterprise, plays a big role in considering the possibilities of repaying the loan.

Project finance is financing that is provided by the reliable economic, technical and commercial viability of a company capable of generating cash flows for debt servicing.

Proj*ect Wnance is the structured Wnancing of a speciWc economic entity – the SPV, or special-purpose vehicle, also known as the project company – created by sponsors using equity or mezzanine debt and for which the lender considers cash flows as being the primary source of loan reimbursement, whereas assets represent only collateral.*[40]

Project financing, in essence, is financing, in which the lender analyzes the cash flow and the size of the estimated profits generated by the company as a way to repay the debt, and also evaluates the size and quality of the assets of the company providing the loan.

Examples include lending to the construction of new industrial plants, textile factories, processing plants, etc.

There are project finance departments in many banking institutions, as a rule, quite large.

This is an area for the analysis of which professional skills are needed to conduct an expert assessment using knowledge in the field of lending, risk analysis, calculating cash flow, creating the financial structure of the project, which should be adopted by all parties involved in the funded project. The organization of financing by type of project at the initial stage allows us to assess

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[40] Stefano Gatti. Project Finance in Theory and Practice: Designing, Structuring, and Financing Private and Public Projects. Academic Press is an imprint of Elsevier, UK. P. 2

the capabilities of the project founders, the need for borrowed funds, determine the profit after putting the enterprise into operation and when it reaches full capacity, sharing the risks among all interested parties. Compliance with the needs of customers of financial institutions was the main reason for the emergence of this type of service.

Project financing, as a new type of banking activity, has been developed abroad in the last 15-20 years and is now especially popular in the USA and Western Europe.

The following five points are, in essence, the distinctive features of a project finance deal.

1. The debtor is a project company set up on an ad hoc basis that is financially and legally independent from the sponsors.

2. Lenders have only limited recourse (or in some cases no recourse at all) to the sponsors after the project is completed. The sponsors' involvement in the deal is, in fact, limited in terms of time (generally during the setup to start-up period), amount (they can be called on for equity injections if certain economic-financial tests prove unsatisfactory), and quality (managing the system efficiently and ensuring certain performance levels). This means that risks associated with the deal must be assessed in a different way than risks concerning companies already in operation.

3. Project risks are allocated equitably between all parties involved in the transaction, with the objective of assigning risks to the contractual counterparties best able to control and manage them.

4. Cash flows generated by the SPV must be suffcient to cover payments for operating costs and to service the debt in terms of capital repayment and interest. Because the priority use of cash flow is to fund operating costs and to service the debt, only residual funds after the latter are covered can be used to pay dividends to sponsors.

5. Collateral is given by the sponsors to lenders as security for receipts and assets tied up in managing the project.[41]

In Uzbekistan, at this stage of the formation of a market economy, the development of project financing with the relevance of expanding foreign economic relations, attracting investments and developing its own production that produces competitive products would be necessary. However, due to the large number of risks and the extreme unreliability of partners who are able to take them upon themselves, project financing is not yet widely used.

In Uzbekistan, there are only a few banks that really worked on project financing, until recently there was the National Bank, Asaka Bank and Agrobank. Recently, commercial banks have been trying to finance project-type financing, but in most cases this is complicated by the following:

- rather large investments are required on a long-term basis, which only a few can afford;
- low investment attractiveness of economic entities;
- bankruptcy of many large enterprises;

Nevertheless, in the country there are a large number of projects aimed at the development of domestic production, the implementation of which it is advisable to use project financing with its system of careful evaluation of the project and the detailed development of a plan for its implementation. One of the most important points is the distribution of risks between the borrower, the lender and other parties involved in the project, through which risk diversification is carried out. In case of failure in the implementation of the project, such a distribution of risks will protect the lender or borrower from bankruptcy.

A sponsor can choose to finance a new project using two alternatives:

1. The new initiative is financed on balance sheet (corporate financing).

2. The new project is incorporated into a newly created economic entity, the SPV, and financed off balance sheet (project financing).

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[41] Stefano Gatti. Project Finance in Theory and Practice: Designing, Structuring, and Financing Private and Public Projects. Academic Press is an imprint of Elsevier, UK. P. 2

Alternative 1 means that sponsors use all the assets and cash flows from the existing Wrm to guarantee the additional credit provided by lenders. If the project is not successful, all the remaining assets and cash flows can serve as a source of

repayment for all the creditors (old and new) of the combined entity (existing firm plus new project).

Alternative 2 means, instead, that the new project and the existing firm live two separate lives. If the project is not successful, project creditors have no (or very limited) claim on the sponsoring firms' assets and cash flows. The existing firm's shareholders can then benefit from the separate incorporation of the new project into an SPV.

One major drawback of alternative 2 is that structuring and organizing such a deal is actually much more costly than the corporate financing option. The small amount of evidence available on the subject shows an average incidence of transaction costs on the total investment of around 5–10%. There are several different reasons for these high costs.

1. The legal, technical, and insurance advisors of the sponsors and the loan arranger need a great deal of time to evaluate the project and negotiate the contract terms to be included in the documentation.

2. The cost of monitoring the project in process is very high.

3. Lenders are expected to pay signiWcant costs in exchange for taking on greater risks.

On the other hand, although project finance does not oVer a cost advantage, there are definitely other benefits as compared to corporate financing.

1. Project finance allows for a high level of risk allocation among participants in the transaction. Therefore the deal can support a debt-to-equity ratio that could not otherwise be attained. This has a major impact on the return of the transaction for sponsors (the equity IRR).

2. From the accounting standpoint, contracts between sponsors and SPVs are essentially comparable to commercial guarantees. Nonetheless, with project *finance initiatives they do not always appear ''off balance sheet'' or in the notes of the directors.*

3. Corporate-based financing can always count on guarantees constituted by personal assets of the sponsor, which are different from those utilized for the investment project. In project finance deals, the loan's only collateral refers to assets that serve to carry out the initiative; the result is advantageous for sponsors since their assets can be used as collateral in case further recourse for funding is needed.

4. Creating a project company makes it possible to isolate the sponsors almost completely from events involving the project if financing is done on a norecourse (or more often a limited-recourse) basis. This is often a decisive point, since corporate financing could instead have negative repercussions on riskiness (therefore cost of capital) for the investor firm if the project does not make a profit or fails completely.[42]

Project loans are often provided to several companies jointly implementing a large project. They are also provided by several lenders, due to the size of these loans and the risks arising from them. The practice of economically developed countries shows that in most cases one banking institution cannot afford to provide a sufficient amount of resources required for the implementation of the project. Therefore, it is precisely to provide a sufficient amount of financing that bank syndicates are formed; in some cases, banks from different countries merge.

As noted above, the organization of project financing requires the highest qualifications and knowledge in various fields and, consequently, the association of professionals specializing in various industries.

Among the participants of project financing, it is worth highlighting: project sponsors, banking institutions, independent financial consultants, project organizers, independent technical consultants, lawyers and accountants, and the government of interested countries.

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[42] Stefano Gatti. Project Finance in Theory and Practice: Designing, Structuring, and Financing Private and Public Projects. Academic Press is an imprint of Elsevier, UK. P. 2

Considering that project financing has now become international and a large number of banking institutions have been created just for this, banks are interested in personnel with wide expertise in the field of expertise. Many departments may prefer staff with experience not so much in the financial sector as in the industrial one.

Most often, the main source of loans are commercial banks. However, not only banks provide funds for the implementation of the project; several financial organizations participate in lending, and a banking institution is considering various options for a loan, arranges financing, assumes the functions of a financial consultant, develops risk allocation schemes for the project, provides customer service and its relationship with other lenders.

During dramatic changes in the economics of technology, ecology and politics, the survival and success in the business world is more than ever dependent on the correctness of decisions.

An investment decision is one of the most important business initiatives that should be carried out by entrepreneurs, since investments link financial resources for a relatively long period of time.

What is important at the same time is that the main objectives of the investment project are not only maximizing the volume of output or minimizing the costs of consumed resources, technical efficiency of the project or maximizing profits, but also the optimal combination of all technical and economic aspects, which should be the goal of strategic business planning .

An investment project is a program for solving an economic problem, a task that has the feature, property that investing in such a program leads to a return, earning income, profit, social effects only after a certain period has passed from the start of the project, investing in it.

An investment project is used in two senses:

• as a matter, activity, event involving the implementation of a set of any actions ensuring the achievement of certain goals. The terms “business event”, “work”, and “project” are close in meaning in this case.

• as a system of organizational, legal and financial documents necessary for the implementation of any actions or describing such actions.

Investment projects are the result of the planning and implementation of investments. At the same time, before implementing any project, it is selected, designed and calculated, determined, and most importantly evaluated, its effectiveness, and above all, by comparing the costs of the project and the results from its implementation. For this purpose, they use the analysis of investment projects as a set of methodological tools used to prepare and substantiate design decisions.

Project analysis in the process of making investment decisions is necessary because the choice has to be made in the face of uncertainty. There may be situations when information about the possible state of the object of analysis in the future, i.e. when in his condition, under the influence of the external and internal environment, certain difficultly predictable events occur due to the presence of factors that are not amenable to strict quantitative assessment. The procedure and methods of this analysis are aimed at putting forward alternative solutions to the problems of designing and investing, identifying the extent of uncertainty for each of them and comparing them according to certain performance criteria.

So, project financing expresses the provision of economic and technical viability of the enterprise, allowing you to generate cash flows sufficient to service your debt. In banking practice, based on what proportion of the risk the creditor assumes, the following types of project financing are distinguished:

• without any recourse to the borrower. The term “recourse” means the opposite requirement for the reimbursement of the amount of money presented, presented by one legal entity to another obliged person.

• with full recourse to the borrower.

• with limited recourse to the borrower.

Project financing without recourse to the borrower assumes that the lender assumes all commercial and political risks associated with the implementation of the project, evaluating only the cash flows generated by the project and allocated to repay loans and interest on them. This form of financing is the most expensive for the borrower, as the lender expects to receive appropriate compensation for the high level of financial risk. The lender can take on a small part of the project risks if he manages to develop a small part of the project risks, if he manages to develop an effective system of obligations for the parties involved in the project. This applies to issues of resource supply, transportation, marketing, insurance. In this case, the borrower has a significant advantage, as it incurs costs to raise funds, and its credit rating gives it the opportunity to raise funds to meet other current needs for them on favorable terms. Lenders often have to present certain benefits to their partners: participation in the authorized capital, conclusion of long-term contracts, flexible repayment schedule for loans, etc.

This form of project financing is rarely used because of the great difficulty in creating a system of commercial obligations and the high cost of attracting specialists, experts, consulting services, etc. Without recourse to the borrower, projects that are highly profitable and ensure the production of competitive products and related, above all, are financed. with mining and processing of minerals.

Project financing with full recourse to the borrower is widespread in world practice. This form is preferred because of the ability to quickly receive the necessary funds to finance the project. It has the lowest cost of raising funds compared to others.

Financing with full recourse of the requirements of the lender to the borrower can be used in the following cases:

• the provision of funds to finance unprofitable projects of federal or regional significance, non-profitable infrastructure projects;

• providing funds in the form of an export loan, since many specialized organizations for the provision of export loans have the opportunity to take on project risks without additional guarantees from third parties, but agree to provide a loan only in this form;

• insufficient reliability of guarantees issued under the project, although they cover all project risks;

• Providing funds for small projects that are sensitive even to a slight increase in investment costs.

Classification	**Types**
By participants:	- Bank Project finance; - Corporative Project finance.
By sources of financing:	❖ By own sources of corporation; ❖ By loans of banks; ❖ By foreign investments; ❖ By bonds; ❖ By leasing.
By the scheme of project financing:	- Parallel financing; - Stage-by-stage financing.
By share of risk assumed by the lender:	- Non-recourse to the borrower; - With full recourse to the borrower; - Limited recourse to the borrower.

Figure 16.1.The classification of project financing

Project financing with limited recourse to the borrower involves the assessment of all risks associated with the implementation of the project. They are distributed among the participants in such a way that the latter can take on all the risks that depend on them. For example, the borrower assumes all risks associated with the operation of the enterprise; equipment suppliers assume the risks associated with the completeness and quality of supplies; the contractor is responsible for completing the construction of the enterprise, etc. The advantage of this method of project financing is its moderate cost and maximum risk distribution between all project participants. Parties interested in the implementation of the project assume specific commercial obligations instead of providing guarantees. A type of project financing with limited recourse to the borrower is the financial support of the project, which does not affect the balance of the borrower and other participants. In this case, the borrower must provide certain guarantees to lenders and partially mortgage its assets. In addition, the borrower may receive the following additional benefits:

• the possibility of raising funds that cannot be attracted from other sources;

• with the correct distribution of risks for the project, you can attract additional loans;

• financial obligations to creditors are not a burden on the borrower;

• rational organization of project financing can improve the borrower's business reputation and facilitate future fundraising.

When implementing large-scale projects, many participants are involved in them:

• sponsors (or initiators) of the project;

• project company established by sponsors;

• creditors (commercial banks, banking consortium);

• contractors (general contractor and subcontractor);

• consultants;

• equipment suppliers;

• insurance companies and banks - guarantors;

• Institutional investors acquiring stocks and other securities issued by the project company;

• financial adviser;

• operator - a company managing an investment activity after putting it into operation;

• buyers of goods (services) of the newly created enterprise and other participants. Project financing is characterized by a special method of financial and economic support for the project, which is based on confirmation of the reality of receiving the planned discounted cash flows by identifying the most important and significant risks associated with the project and distributing the main part among sponsors, creditors, contractors, suppliers of material resources and other participants .

With project financing, the main collateral for loans provided by banks is the project itself, that is, the income that the newly created or reconstructed enterprise will receive in the future.

16.2. Development of project financing investments in the Republic of Uzbekistan

During the implementation of reforms and the formation of market relations, one of the main conditions for the success of reforms and ensuring economic growth is investment, which allows not only to maintain the available capacities, but also to ensure their growth.

Work on improving economic legislation, including in the field of investment, is constantly one of the key areas of activity of the Government of the Republic of Uzbekistan.

Currently, the main legislative acts regulating domestic and foreign investment have been adopted. Especially with legislative support for investments in this area, on the basis of not only laws, but also presidential, government and departmental regulations, a number of issues have been resolved that significantly impeded the flow of foreign capital.

The legal framework for the use of civil law regulatory methods, including in the investment sphere, is laid down in the current civil law and has been further developed in the Civil Code. An important step to improve the conditions for foreign investment was the adoption of the Law of the Republic of Uzbekistan "On Foreign Investment". On its basis, the implementation of major investment projects has already begun.

In order to further deepen structural transformations in the economy of the republic, intensify the investment activities of enterprises and attract foreign investments, achieve sustainable and dynamic development of the economy of Uzbekistan, each year the Cabinet of Ministers adopts the Resolution "On the Investment Program of the Republic of Uzbekistan":

The resolution approves the main parameters of the Investment Program of the Republic of Uzbekistan for the planning year, and is developed by the Ministry of Economy together with the Ministry of Finance of the Republic of Uzbekistan and other interested ministries, departments, associations, corporations and companies. The limits of centralized capital investments at the expense of the state budget, the limits of centralized capital investments at the expense of the Republican Road Fund, the targeted program of investment projects implemented with foreign loans guaranteed by the Government of the Republic of Uzbekistan are approved.

An important direction in improving the legal framework for attracting foreign investment is also the inclusion of Uzbekistan in the international legal system in the field of investment activity. This refers to the growing number of concluded intergovernmental agreements on mutual protection and encouragement of investment, accession to international conventions, and membership in international organizations. At present, Uzbekistan’s entry into the World Trade Organization and accession to Article VIII of the Charter of the International Monetary Fund, which provides for the convertibility of national currencies for current operations, is becoming especially urgent.

To consolidate general economic stability, sustainable development of all sectors and sectors of the economy, ensure social guarantees and social support for the population of the republic, it is necessary to further improve the economic mechanism of investment activity, to which, at the stage of deepening economic reforms and achieving the intended social goals, different requirements are already being made.

In banks of the Republic of Uzbekistan, project financing is carried out on the basis of the regulation on the procedure for project financing. According to these provisions, project financing is the process of evaluating, issuing and monitoring by the Bank of a loan provided for construction, reconstruction or technical re-equipment (including the purchase of equipment, construction and other works), as well as the purchase or creation of other fixed assets and related the purchase of part of the working capital necessary to ensure the normal operation of industrial facilities and the service sector.

The source of loan repayment, as a rule, is the additional income received by the borrower from the implementation of the project.

Project financing may be provided to finance the borrower's costs of creating fixed assets and / or part of the working capital associated with the investment. The purpose of the loan must meet the priorities established by the Board of the bank for the relevant period.

No loans are provided for:

- formation of authorized capital;

- for projects that, in the bank's opinion, have an unacceptable risk, including from the point of view of environmental protection measures;

- implementation of projects involving the use of new technologies and processes not tested in the industrial version (for such technologies, consideration and financing of projects can be carried out at the expense of special innovative funds by the Academic branch of the bank).

The maturity of loans is usually set to a maximum of 5 years with the addition of the grace period necessary to complete the project and begin production of the products provided for in the project.

In some cases, when financing specific low-profitable projects (infrastructure, transport, etc.) or if there is a corresponding source of credit resources comparable with the loan terms (except for the bank’s equity), a loan may be granted for a longer period.

Repayment of the loan should be carried out, as a rule, in equal at least half-yearly installments after the end of the grace period. In cases where the projected cash flows for the project do not provide full repayment of the loan, with the approval of the Credit Committee, repayment of the loan may be carried out in unequal proportions.

Early repayment of the loan is allowed if it does not contradict the terms of the contract with the borrower. The amount of early repayment of the loan should be, as a rule, not less than the amount of the corresponding installment in repayment of the loan determined by the contract. Along with the repayment of the main debt, payment of the corresponding interest and commissions should be carried out. For early repayment, the borrower pays the bank a fee for early repayment in order to cover the bank's expenses for reallocation of resources and payment of similar fees in case of refinancing of an interbank loan.

For each loan, a grace period is required for the completion of the project (completion of construction and commissioning) and the start of production.

The maximum grace period, as a rule, cannot exceed the project completion date plus six months. During the grace period, the principal debt is not repaid, but interest is paid at a frequency determined by the borrower's financial capabilities and project calculations, but, as a rule, at least once every six months.

The interest rate on loans is set, as a rule, floating (ie, automatically changed with a certain frequency) according to the formula: base rate plus bank margin.

In the case of refinancing loans from other banks, the rate determined in the interbank agreement is used as the base rate. In the case of financing from the bank’s own funds, the National Bank’s Base Rate is applied, approved in the prescribed manner for loans in the appropriate currency and for the corresponding term. The bank’s margin is determined based on the risk assessment of the project.

To carry out the examination of the project, the Borrower submits to the Bank a feasibility study of the project and a full package of supporting documents. The recommended list of documents for a comprehensive examination is given in Appendix No. 2. This list is not exhaustive and the project manager, depending on the information already available to him about the Borrower, the project and other project participants, can reduce or increase the volume of documents submitted. The criterion for the sufficiency of the feasibility study and the accompanying package of documents is that the manager receives information sufficient to ensure that the manager is reasonably convinced that the project complies with the Bank’s Credit Policy, that the assumptions and calculations in the feasibility study and any other information related to the loan are reasonable, and, that the project and the loan can be implemented as reflected in the conclusion of the manager.

The examination of the project is based on the analysis of the following data:

-financial condition of the Borrower and, if necessary, other project participants on the basis of their financial statements, if possible for the last three years;

-marketing evaluation of the project for the sale of finished products, the availability of raw materials and components, analysis of competitors and other aspects of marketing;

- technical assessment of the project: technology and technical characteristics of the equipment, construction readiness of the facility, the availability of infrastructure that ensures stable and safe, including from the point of view of environmental protection, project activities;

-financial and economic expertise of the project, i.e. analysis of the economic feasibility of the project, the repayment of loans and interest on it, the forecast of future profits (losses) of the project, cash flow, financing schemes, etc .;

-assessment of risks and acceptability of measures to reduce them;

-valuation of property collateral and other proposed forms of collateral for a loan;

- draft contracts (or contracts) for the project, ensuring the normal commissioning and production and commercial activities of the project, assessing the correct determination of contract prices, linking the timing of the project with loan conditions and other factors;

-other factors affecting the payback of the project and the timely repayment of the loan;

If the borrower is an operating enterprise, the analysis of the project must be done on the basis of the feasibility study of the project and the business plan of the operating enterprise for the period of using the loan in two versions “with project” and “without project”.

When examining projects, it is necessary to make sure that the goods and services purchased on credit are competitive.

The implementation of such purchases should be carried out, if possible, on the basis of either an open tender or a tender. If a contract is concluded on the basis of a tender, the borrower must submit documents confirming the holding of such a tender and the rationale for choosing a particular supplier with copies of proposals from at least two other suppliers. Moreover, the offers of other suppliers should be detailed enough to be able to compare them with the offer of the selected supplier.

In cases where the holding of tenders or tenders is impossible due to the uniqueness of the delivered goods or impractical due to the small amount of the contract, competitiveness can be certified on the basis of competitive sheets of at least at least three proposals.

After the loan has been approved by the Credit Committee, the project manager, together with the legal department of the bank, ensures the preparation of the necessary credit documentation and coordinates it with the borrower. When drawing up credit documentation, all the features of the loan and collateral for it, the strategy for the implementation of the project, the features of the borrower, the terms of the loan, etc. must be taken into account.

The structure of credit documentation includes:

- loan application
- Loan agreement and additions to it;
- protocol of the meeting of the credit committee that made the decision to grant a loan;
- Documents for securing a loan (pledge agreement, insurance policies, guarantees, sureties, etc.);
- Copies of constituent documents of the borrower;
- The conclusion of the examination of the project, approved in the prescribed manner;
- Monitoring plan;
- The main correspondence with the client on the issue of credit;

- Feasibility study approved in the prescribed manner;

- Any financial information about the borrower and the project obtained during the examination and monitoring of the project;

- Copies of all agreements and contracts for the implementation of the project, registered in the prescribed manner;

- Copies of all necessary permits and registrations related to project implementation and lending;

- other documents (Decisions of the Cabinet of Ministers of the Republic of Uzbekistan, petitions of ministries, departments, committees, khokimiyats, etc.).

Responsibility for the safety of the loan documentation lies with the project manager.

Questions for discussing and control

1. What is the meaning of the economic term "Project Financing"?
2. Which economists-scientists definintions about project financing do you know?
3. List specific features of project financing?
4. Describe the role of project financing in ensuring national economic development?
5. What is the main difference between project financing and other types of financing?
6. What do you know about international project financing experience?
7. List the sources of project financing?
8. What are the types of financing schemes for project financing?
9. What is the Bank Project financing?
10. What is the Corporative Project financing?
11. What is the Parallel financing?
12. What is the Stage-by-stage financing?
13. Explain the Project financing with non-recourse to the borrower.

14. Explain the Project financing with full recourse to the borrower.

15. Explain the Project financing with limited recourse to the borrower.

16. What is the peculiarity of phased financing of investment projects?

17.What are the financial benefits for the client when using the project financing scheme?

18.What is the significance of the interest rate differentiation principle in project financing (syndicated lending)?

19.What do you know about the Computer Model of Project Financing (COMFAR)?

20.How does project financing differ from other types of financing in terms of credit security?

21.What types of syndicated loans are available?

22.What are the nature and features of the syndicated loan?

23.What are the characteristics of a syndicated loan for both a bank and a participating bank?

24.What are the benefits for the borrower to get a syndicated loan?

25.How does syndicated lending differ from other types of financing?

26.What data is the basis for project expertise in project finance?

CHAPTER 17. FINANCING INNOVATION ACTIVITY

17.1. The concept of “innovation” and “innovation market”

In a market economy, innovation – it’s not just the desire to evolve and improve the possibility of raising the technical level and competitiveness of production, but also, by far, the means of survival in the market.

What is innovation? Hundreds of similar definitions can be found in the literature, here are two of them:

- Innovation is the profitable implementation of ideas;
- Innovation is the action or process of innovating a new method, idea, product, etc.

Innovative activity - an activity aimed at the use of new ideas, knowledge, technologies and products in different areas of production and scope of social control, the results of which are used for the economic growth and competitiveness. Innovative activities include the provision of educational, financial, and consulting services.

Innovation is - is the result of innovation, implementation has received in the form of new or improved products, new or improved process, as well as organizational, technical, financial, economic and other solutions in various fields of public relations, which have a progressive impact on various areas of production and service management company.

Innovation is:

❖ a new product with new characteristics

❖ a new model of business

❖ a new technology of production

❖ a new service

What is the most important in innovation?

∗ Novelty

∗ Availability of rights on ideas

* Be in great demand
* Duration of implementation of project

Main sources of innovation are: Scientific research and development, consumers, consultants, go-betweens, competitors, employees.

Forms of innovation:

- By trend: new or improved products or services, new or improved process, new forms of organization of production, technical, financial, economic and other activities, new management process and new solutions of social and economic problems;
- By scale: global innovations, innovations in the countries, innovations in the enterprises.

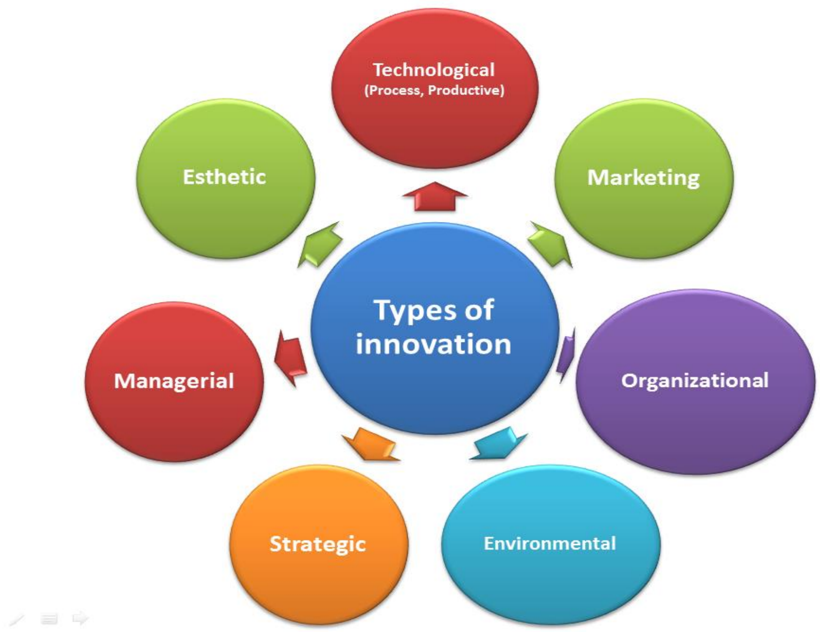

Figure 17.1. Types of innovation

Innovative market is one segment of the overall market system where the end product are a scientific and technological results, the product of intellectual activity that is subject to copyright and similar rights issued in accordance with the applicable international and national regulations.

Innovation market is characterized by a number of distinctive features:

- Traditionally is new to entering the market organization (with novelty developed product come x have to deal with unfamiliar customers);

- It is inelastic, due to the limited impact of the price on market;

- It is characterized by a limited number of buyers and sellers.

Objects innovative market may be submitted to:

- in material form (in the form of equipment, new products, aggregates, experienced mouth about wok, tools, those x technological lines, etc.);
- in the form of soft characteristics (design and technical documentation, data research, design work, in terms of knowledge, experience, engineering and other scientific and practical services, technology, etc.);

Subjects innovative market - it is a state enterprise, organizations, colleges, universities, time n and groups, independent laboratories and offices, foundations, and individuals (scientists and special and sheets), small businesses.

For the subjects of innovation market the main problem of technical implementation of innovations in everyday life is the issue of funding. According to numerous studies conducted in the United States, the economic return on investment exceeds the return on investment in innovation in all other areas of the application of financial resources and is located at 35 - 50%. If you take into account co-benefits for society as a whole, often significantly higher than the direct effect of the initial appointment of development, investment in innovation (and feed them science) are the most effective way for a financial capital.

Innovative potential of the Republic of Uzbekistan is rich enough evidence of this is held annually Republican fair of innovative ideas, technologies and projects. Thus, the results of the fourth Fair (Held on 13-15 April 2011), which featured more than 500 innovations of domestic production, concluded 390 contracts.[43]

The innovative design of our scientists presented in the following sectors:

- Agriculture and Irrigation;
- Medicine and pharmaceuticals;

[43] www. uzscience. uz

- Physics;
- Industry, including the manufacture of construction materials;
- The use of renewable energy sources, etc.[44]

Research Complex of the Republic includes 362 academic, university and economic profile, including 101 research institutes, 65 engineering organizations, 32 scientific-production associations, 30 data-processing centers. The core of the scientific potential is the Academy of Sciences of the Republic of Uzbekistan - leading research and experimental center in the region, which has more than half a century. In the field of science employs about 46,000 people, including 2.8 million doctors and approximately 16.1 thousand candidates. Preparations are highly qualified scientific personnel in 20 areas of science. Established and successful experience Higher Attestation Commission of the Republic of Uzbekistan.

17.2. Innovation activities as an investment object

On enterprises level innovation are the only source of long-term success and are an effective defense reaction of the company to the emerging threats of loss of space on the market, the constant pressure of competition, the challenge of new technologies, shortening product life, legal restrictions and changes in the market situation. In the embodiment of innovation offensive - means the use of new opportunities for conservation or gain a competitive advantage.

The main types of innovation are:

- research and development activities;
- processing, preparation and conduct of industrial production tests;
- purchase (sale) of patents, licenses, know-how;
- investment decisions needed for innovation;
- certification and standardization of innovative products;
- marketing solutions innovation;
- selection and organization of markets for innovative products;

[44] Catalogue of Republican fair of innovative ideas, technologies and projects in 2011, T.: UNDP, 2011

• training and retraining for innovation.

Features and innovative activities:

• Duration of the innovation process. Innovation is the longest of all business processes over time, such as a real investment, production.

• The high degree of uncertainty and risk of the innovation process. From other business process innovation is characterized by low predictability of results.

• "Human resource capability" (increased intellectual saturation) innovation. The main innovative resource is human capital, the creative ability to generate and implementation of ideas.

• The ability to initiate structural changes. Successful innovation is significantly affect the position of the company, its organization, position in the market structure of the industry and the economy as a whole.

• The nature of the innovative goal-setting. Failure to achieve the original objectives does not mean the failure of the innovative project, and vice versa, creating a new product does not mean commercial success. The success of the innovation in largely determined by the forms of its organization and means of financial support.

Innovation – is new idea into production/ services

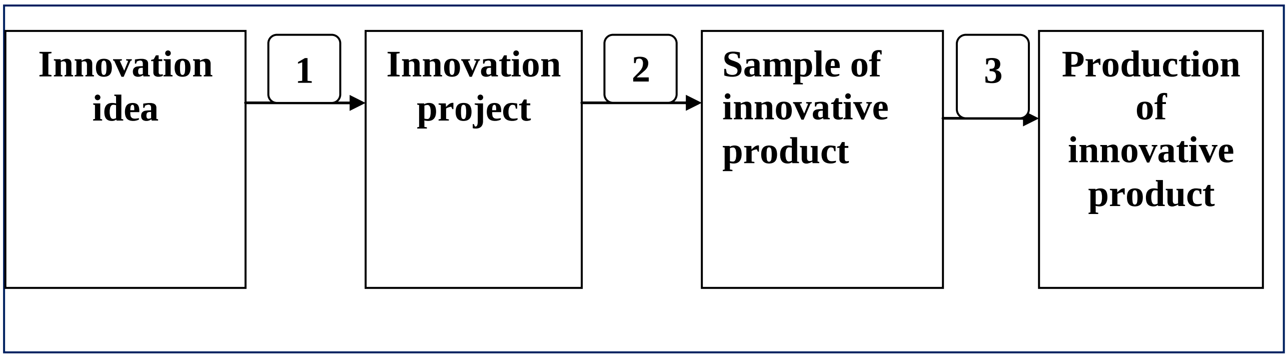

Figure 17.2. The steps of creating innovative products

The sources of innovation financing may be enterprises, financial-industrial groups, small business innovation, investment and innovation funds, local governments, individuals and etc. They are involved in economic process and in some way contribute to the development of innovation.

As can be seen from Figure-1, in the creation of innovative products three times there is a need for investment:

1. the initial investment in innovation - Submitted to us for the organization of business and market research, research and development activities, drawing up a business plan, etc.
2. Intermediate Stage - characterized by the use of research in practice, the creation of the first sample of the future of innovative products;
3. large-scale investments - large capital investments for mass production of innovative products.

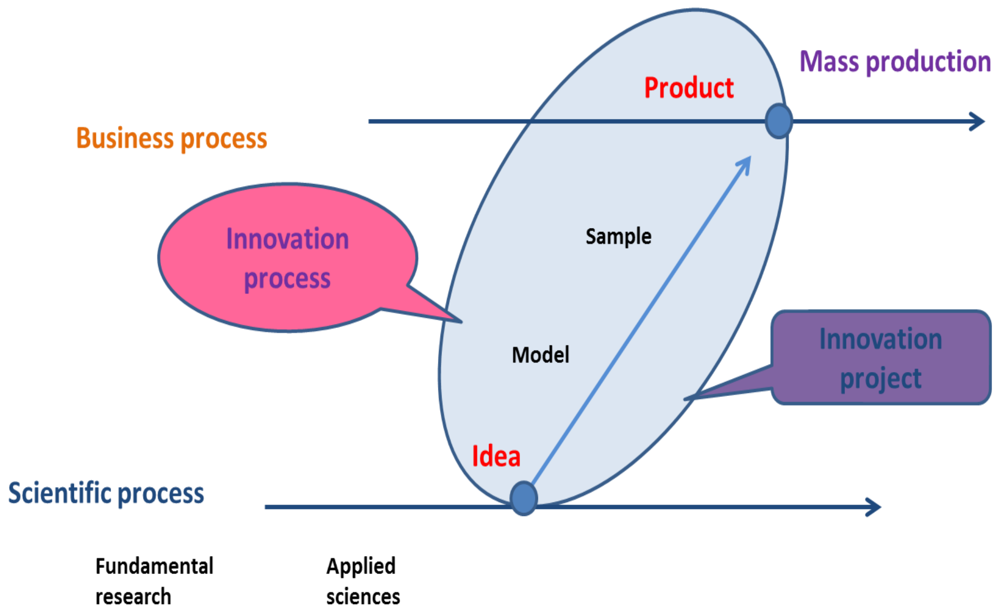

Figure 17.3. Process of creating innovative products

As can be seen on the Figure 17.3, innovation – is new idea into production/ services, fundamental research and applied sciences are create a new idea, during innovation process idea becoming model, then sample after then becoming a new product or service. Innovation process ends with mass production of a new product.

In developed countries, funding of innovation is as of public and from private sources. For most countries in Western Europe and United States is characterized by an approximately equal distribution of financial resources for R & D between the public and private capital.

Financing of innovative projects means such methods of financing innovations that reflect the use of specific sources of funding in relation to the economic situation of the enterprise, its current plans and development.

Financing of innovation is due to:

- Own funds of innovation;

- The state and local budgets;

- Innovation funds;

- Government grants;

- Other sources in accordance with the law.

State participation in innovative activities may include both direct financial support by means of centralized (direct funding), and the creation of conditions for the use of the market mechanism to raise funds (indirect financing) - State programs, preferential taxation and credit conditions, etc. Should be noted that the support small innovative firms is of particular importance for the state, however taken for granted that knowledge-intensive small business is the most effective in terms of creating new products and technologies, inventions and patents per unit of expenditure on research and development.

There are the following three forms of state support for projects:

1. credit facilities on the basis of repayment, maturity and payment;

2. the same conditions on the consolidation of state-owned shares, created "under the project" joint stock companies;

3. guarantees reimbursement of the investor in the event of failure of the project is not the fault of the former. These investors are the authorized banks,

while ensuring they issue loans are charge of the Ministry of Finance of the Republic of Uzbekistan.

It should be noted that the problem of finding the optimal business financing tools is very important because the amount and nature of the resources available to the innovative firm - is one of the most important components that defines its innovative strategy. From that, to what extent is currently being implemented investment projects take into account the cutting-edge, advanced engineering and technology trends at the micro-level, determine the size of the firm receives profits, and at the macro level, this is reflected in increasing STP and competitiveness in international markets.

17.3. World experience in the financing of innovation activities

The analysis of the global economy shows that the most profitable in the current steel companies and the industry as a whole, which are focused on the manufacture of high-tech products such as computers and semiconductors, pharmaceuticals and medical equipment, communications equipment, and communication systems. I must say that this commercial success in this area is based more on knowledge of new technical solutions than on the production possibilities.

For innovative enterprises very difficult to use modern common methods of financing. The traditional loan market usually focuses on minimal credit risk, so the access of small new businesses high-tech industries to credit is limited: first, because the innovative projects start to make a profit after 3-5 years of hard work and for their implementation will need long-term loan in- Second, when applying for a loan, banks require collateral that the new subject of small business means a pledge of personal property. The fact that the next item - an innovation, not tested by the market, supply and demand, where the consumer response is very difficult to predict accurately, also increases the degree of uncertainty and risk for the banks.

Appeal to the stock market is almost impossible because of the stringent requirements for the procedure of securities issue: the value of the assets of the company, the period of existence of the company (3-5 years), the minimum size of the issue and others that prevent new small businesses to enter the stock market with their securities. These factors have led to the emergence of a new kind of financial support for small research firms, a particular type of business - the emergence of venture financing.

Venture capital, with its inherent distinctive features, has played in the second half of the 20th century an important role in the implementation of major scientific and technological innovations in the field of computer technology, microelectronics, biotechnology, information technology and other knowledge-intensive industries. That are recognized throughout the world of computer technology giants like Microsoft, Intel, Lotus, Apple Computers, Compaq, Sun Microsystems began as a small venture capital firm and achieved global recognition of their innovations and major financial success thanks, namely, venture capital.

Venture financing is financing, as a rule, small research and innovation firms by investing in their capital stock, in exchange for a share of stock or investment credit allocation. Most venture capital firms - are small (3-5 people), a limited liability company created by highly qualified specialists and managers of their field. Venture capitalists prefer to invest in those companies whose shares are not traded on the stock exchange in the free market, and fully distributed to the shareholders - legal entities or individuals. Investor's interest is not to establish control over the company, and in the acquisition of a certain percentage of the rights to innovation and to obtain promoters' profits in the case of the successful implementation of innovations, as well as opportunities for speculative profits from the sale of its stake after the implementation of the project, when the market value of the company will be much higher.

Unlike traditional private equity investment from the outset allowed the possibility of losing your investment if the project is not funded to deliver the expected results, as a business venture does not involve collateral (other than available in the hands of the investor's stake venture capital firm).

Table-17.1.

Major financing instruments for promoting innovation

Financing instrument	Key features in financing	Remarks
Bank loan	Used as one of the most common tools for access to finance, It needs collateral or guarantees in exchange for loans.	Obligation to repay as debt
Grant, subsidy	Used as seed funding for innovative start-ups : small business innovation research in the United States, the United Kingdom and the Netherlands; feed-in-tariffs in Denmark and Germany, France; Innovation Investment Fund in the United Kingdom.	Complements market failures, financing at seed and initial stage
Business angel	Financing source at early riskier stage and provides financing, advice and mentoring on business management. Tends to invest in the form of groups and networks, *e.g.* Tech Coast Angels and Common ANGELS in the United States, Seraphim Fund in the United Kingdom.	Financing at start-up and early stage
Venture capital	Tends increasingly to invest at later, less risky growth stage. Referred to as patient capital owing to the lengthy time span (10-12 years) for investing, maturing and finally exiting, *e.g.* Pre-seed Fund and Innovation Investment Fund in Australia, Yozma Fund in Israel, Seed Fund Vera in Finland, Scottish Co-investment Fund in the United Kingdom.	Financing at later expansion stage
Corporate venturing	Used by large firms to invest in innovative start-ups with a view to improving corporate competitiveness with either strategic or financial objectives.	Strategic motive
Crowd funding	A collective funding tool via the Internet which makes it easier for small businesses to raise capital at the seed and early stages.	Potential for fraud
Tax incentive	A broad range of tax incentives for R&D and entrepreneurial investments in most countries, *e.g.* Enterprise Investment Scheme in the United Kingdom, tax relief on the wealth tax (ISF) in France, Business Expansion Scheme in Ireland.	Indirect, non-discriminatory

To date, there are three major venture capital market - the U.S. market (U.S. and Canada), Europe (Western and Central) and South-East Asia. In developed countries, the major sources of venture capital funds is pension funds, insurance companies and the private sector in developing countries, however, the center of gravity shifted to the banking and public sectors.

United States is home to the industry of direct and venture investments. The U.S. market is characterized by a highly developed infrastructure and venture capital investment is the largest venture capital market in the world. Here, the unique experience of development and management of a business venture, and today there are more than 4,000 professionals in the management of venture capital. This sector employs 11% of the total employment in the economy. The volume of private equity market in the United States reached a record 10% of GDP.

In the U.S., 70% of funds for venture capital investment traditionally comes from pension funds, insurance companies or charities that rely on premium higher than in other types of financial activities, such as trading in shares on the stock exchange. These major sources are combined under the name of “institutional investors”. Also quite a prominent role in the financing of innovation played by private investors, the so-called “business angels”, as well as family members of the newly established small firms.

“Business Angels” - are as a rule, professionals with experience in business: some are successful entrepreneurs, others - highly paid professionals in the field of business (accountants, consultants, lawyers, etc.) and in senior positions in large companies. Informal investors have significant financial savings obtained through their own work. Many of the “business angels” to invest directly in new and growing firms, being members of the syndicate, which brings together friends and business partners, and it allows recipients to receive larger investment funds. “Business angels” are active in the U.S. and many European countries, including those in Eastern Europe. In Europe and the U.S. private sector investment in venture capital several times the amount of public sector investment.

Table- 17.2.

US Institutional and Non-Institutional Venture Capital Investment [45]

Years	Investments (US bln.)	
	Venture funds and companies	Business angels
2001	32,1	30,0
2002	22,1	15,7
2003	19,6	18,1
2004	22,4	22,5
2005	23,7	23,1
2006	25,5	26,0
2007	27,0	28,0
2008	28,8	29,5
2009	21,4	22,0

As can be seen from Table 17.2. Between 2004 and 2009, the investment of business angels in the United States exceeded the volume of investments of institutional investors - venture funds and professional venture companies, that is, the private sector was the leading source of capital in innovation in terms of investment.

The European venture capital market has more than 500 venture capital funds, where the United Kingdom remains the leader in the dynamic and rapid growth of venture capital investments. In Europe, approximately 40–50% of funds come from banks, and public and private pension funds, commercial and investment banks, insurance companies, corporations, state and charitable foundations, and private individuals are also actively involved in creating sources of capital for venture funds.

[45] Родионов И. Никконен А. Тема 1. Рынок венчурного капитала. Российская Ассоциация венчурного инвестирования(РАВИ).

Questions for discussing and control

1. What is innovation?
2. What does innovative investment mean?
3. Do you know the definition given by economists to innovation?
4. What kinds of innovation activities do you know?
5. What is enterprise innovation?
6. What is innovation activity?
7. What are the features of innovation?
8. What is the state system of measures to stimulate innovation in enterprises?
9. What is innovation market?
10. What sources of funding companies' innovation activity do you know?
11. What kind of financial support for small business innovation do you know?
12. What is the purpose of the innovation process?
13. Describe the stages of innovation development?
14. What factors influence the development of the innovation process?
15. Can you describe the features of implementing the innovation process?
16. Explain the specifics of innovative investment?
17. What do you know about social effectiveness of innovation?
18. How is the effectiveness of innovation evaluated?

CHAPTER 18. FINANCING OF INVESTMENTS IN INTANGIBLE ASSETS

18.1. Intangible assets, their role and structure

In the nineteenth and much of the twentieth century, investment was predominantly in tangible forms of capital – and accounting rules and standards developed with this in mind. But with the growth of the service economy and the digital explosion in the last twenty years, an increasing proportion of business assets has been intangible in form – i.e. assets with no physical existence such as intellectual property, operational business practices and routines, corporate and product branding and the knowledge of employees. The post-industrial enterprise is much less dominated by physical assets (consider Google, Walmart, eBay, Amazon – but also many much smaller businesses) and their intangible assets are key indicators of competitive advantage and future profitability – the basis of stock market valuation.[46]

In more formal terms, what are these intangible assets? Although there is no generally agreed terminology or classification, four main categories would command broad agreement:

• Intellectual capital (patents, trademarks, copyright, licences, R&D in process: preserved digital information would probably fall mainly in this category);

• Human capital (the skills, experience and knowledge of the workforce);

• Organisational capital (the systems and routines by which an enterprise manages its business operations);

• Relationship capital (the data, information and knowledge embedded in upstream and downstream relationships with suppliers and customers).

These categories present difficulties of valuation such as:

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[46] Laurie Hunter, DCC | Digital Curation Manual. Instalment on "Investment in an Intangible Asset" School of Business and Management University of Glasgow. 2006. P 8.

• *identification - what precisely are we seeking to value?*

• *property rights issues (employers do not own employees, who may change jobs and take their human capital with them, including training and experience acquired with the support of the employer; or they may possess tacit knowledge that may or may not be released to the employer). For these reasons, ownership or relative rights to shares in the proceeds may be disputed, and uncertainty about ability to appropriate values makes assured measurement hazardous.*

• *separability - can the asset be separated from the organisational entity and still retain its value? Does it have a price independently of its organisational setting?*

Values attributed to intangible assets are thus likely to be subjective, often embodied in people, and highly uncertain. These characteristics present difficulties for accountants whose professional rules and standards require intangible assets to be (i) identifiable, (ii) under the control of the organisation, (iii) carrying a probability that economic benefits will eventuate, and (iv) having a cost that can be reliably measured essentially the conditions required for the valuation of tangible assets. Very few intangible assets meet the requirements for inclusion in corporate balance sheets, since accounting regulators insist that there should be a 'control over future benefits' test and a 'historical cost basis' of measurements as a reliability check. Failing this, expenditure in creating and maintaining intangible assets is largely treated as a current expense, written off in the current accounting period, irrespective of the investment intention of the spender. Because it is not reflected in financial reports as investment, there is an information gap in both the balance sheet and the income statement on which investors depend – and all the indications are that this gap is growing. Within the business organisation, the investment aspect is not explicit, with the likely result that managers typically take decisions about intangible expenditure with little information about past returns from similar expenditure or likely future returns from current expenditure.[47]

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[47] Laurie Hunter, DCC | Digital Curation Manual. Instalment on "Investment in an Intangible Asset" School of Business and Management University of Glasgow. 2006. P 8.

Investments by the objects may be invested in the form of: real assets, financial assets, non-financial assets and intangible assets. So, what is intangible asset? Intangible assets are assets that are lack physical substance, they are not financial instruments (Bank Deposits, Bonds, Stocks, etc.), examples include patents, Goodwill, and trademarks.

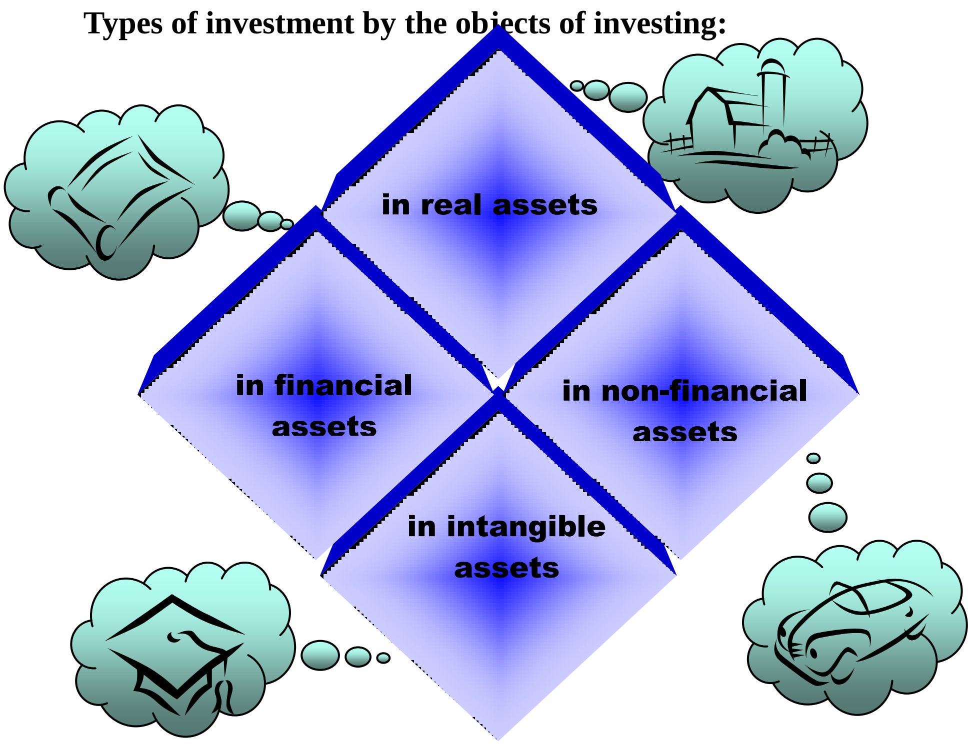

Figure 18.1. Types of investment by the objects of investing

Intangible capital, as well as known under various names, such as knowledge and intellectual capital, is defined differently:

• non-physical requirement for future benefits.

• Assets represent claims for future benefits, such as rents generated by commercial real estate, interest payments received from bonds, and cash flows from a production facility. An intangible asset is a claim for future benefits that do not have a physical or financial (stock or bond) option for implementation. (Lev 2001, p. 5)

• Private expenditures on assets that are not tangible but necessary to create and sell new or improved products and processes (Nakamura 2001)

• "glue" that creates value from common input factors (Cummins, 2005)

• All assets that are neither natural nor produced are a very broad measure, including raw materials, human capital, social capital and institutional infrastructure, such as the judiciary (World Bank, 2006).

CHS (Corrado, Hulten and Sichel, 2006) classifies intangible assets into three main categories: computerized information, innovative property, and economic competencies. The three main categories of intangible assets are made up of many specific intangible assets (as defined in CHS 2006).

• Computerized information is knowledge embedded in computer programs and databases.

• Innovative ownership includes relatively well-known research and development (reflecting the scientific knowledge embodied in patents, licenses and general know-how), but much wider - including research and development work (innovative and artistic content in commercial copyright rights, licenses and projects),

• Economic competencies include brand capital (for example, investment to maintain or increase market share and investment in brand names), company-specific human capital (employee development) and organizational capital (investment in strategic planning, adaptation and reorganization).

Of these intangible assets, organizational capital is perhaps the least known. It is defined differently:

• the set of knowledge in a firm that allows the combination of traditional manufacturing processes in a manufacturing process (for example, business processes built around computer systems) (Brynjolfsson and Yang 1999)

• business processes, managerial structures and organizational systems specifically designed to maximize output value, taking into account the available physical and human capital (quality management systems, supply chain management solutions and innovative processes for product development) (De and Dutta 2007)

• organizational architecture and systems for monitoring activities and communication within the firm (Webster and Jensen 2006)

• the organization's inherent values, attitudes and practices that contribute to increased efficiency (internal and external networks based on partnership and trust) (Healy 2005).

According to generally accepted terminology or classification, intangible assets are divided into four main categories:

• Intellectual capital (patents, copyrights for trademarks, licenses, R&D in progress: stored digital information is likely to fall mainly in this category)

• Human capital (skills, experience and knowledge of the workforce)

• Organizational capital (systems and procedures by which an enterprise manages its business operations)

• Capital ratio (data, information and knowledge embedded in upstream and downstream relationships with suppliers and customers).

These categories are difficult to assess, such as:

· Identification - what exactly do we strive to value?

· Issues of property rights (employers are not owners who can change jobs and take their human capital with them, including training and experience acquired with the support of the employer, or they may have implicit knowledge that may or may not be released on employer). For these reasons, ownership or relative rights to the shares in the proceeds can be challenged, and the uncertainty about the ability of the respective values makes the dangerous measurements dangerous.

Separation - is it possible to separate assets from an organizational object and maintain its value? Does it have a price regardless of its organizational structure? Thus, the values attributed to intangible assets can be subjective, often embodied in people and very uncertain. These characteristics present difficulties for accountants whose professional rules and standards require that intangible assets be identifiable, controlled with the likelihood of economic benefits, and which can be measured reliably.

Investments in intangible assets relate to long-term investments of an enterprise intended to expand its scientific and technical potential. Intangible assets include rights to use and benefits, intellectual property objects that have a certain value, belong to the enterprise on the basis of property rights and, as a rule, generate income. An example of intangible assets can be trademarks and signs, copyrights, land use rights, patents, licenses, software products, etc. Intangible assets may also include certain types of research, development and design works.

Investments in intangible assets are long-term investments before acceptance that enhance its scientific and technological capacity. Intangible assets include the right to use and benefits of intellectual property having a value of belonging to the company's ownership and, as a rule, income. An example of intangible assets may be trade names and marks, copyrights, land use rights, patents, licenses, software, etc. The intangible assets may also include certain types of research, development and design work.

Intangible assets are important to the future success of a business (e.g. brand, R&D).

Accounting treatment of intangible assets has caused great difficulty and confusion over the years. Goodwill is arguably always present, but its value is difficult to define and is constantly changing.

- Two primary forms:
- *Legal*: customer lists, copyrights, patents and goodwill;
- *Competitive*: knowledge, collaboration and structural activities.

We must meet the definition of an asset:

- *Asset* – resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Intangible asset – non-monetary asset without physical substance that meets ***all*** of the following criteria:

- Identifiability;

- Control over a resource;
- Existence of future economic benefits.

The intangible assets include assets that meet the following requirements:

1. lack of material and the real structure;
2. the ability to identify from other property;
3. use in the manufacture of products, performance of work or provision of services or for administrative needs of the organization;
4. use for a long time, that is, the useful life over 12 months, or the normal operating cycle, if it exceeds 12 months;
5. organization does not involve the subsequent resale of the property;
6. the ability to bring economic benefits (income) in the future;
7. Availability of proper documents proving the existence of the asset and the exclusive right of the organization of intellectual property (patents, certificates and other documents of title, assignment contract (purchase) of patent, trademark and etc.).

In general, all intangible assets can be divided into two categories, identifiable intangible assets and goodwill (goodwill). Intangible assets conveniently classified by communication with other elements of the business. For instance, R.Reilly and R.Shvays in their monograph allocate ten types of intangible assets:

1. intangible assets related to marketing. This group of assets is included, such as trademarks, trade names, brand names (brands) logos.
2. intangible assets associated with the technology. These include, for example, patents on processes, patent applications, technical documentation, technical know-how, etc.
3. intangible assets related to creative activities. These intangible assets include literary works and copyrights on them, music, publishing rights, staged right. These rights are among the most long-lived. In the U.S. the relevant copyright in effect for the life of the author and 50 years after his death. However,

this category is fairly difficult to assess, in many cases at all difficult to say whether the intangible asset of a non-zero value.

4. intangible assets related to the processing of data. These assets include proprietary computer software, copyrights, software, computerized databases, masks and templates for integrated circuits.

5. intangible assets related to engineering activities. These include industrial designs, patents for products, engineering drawings and diagrams, designs, proprietary documentation. This type of intangible assets is also quite difficult to assess. Often, these intangible assets are in the nature of options, i.e., their presence means for the owner of the right to obtain benefits in a particular case, for example, in the case of manufacture of products using the patent, project, etc.

6. intangible assets related to customers. It may be, for example, customer lists, customer contracts, customer relationships, open purchase orders. In this case, the relationship can be fixed as a legal (contractual relationship with the client) and not be legally enforceable. Intangible assets of the group closely related to the goodwill of the company, as well as the marketing of intangible assets. As a result, and the cost of the asset group is difficult to separate from the correct value of the goodwill of the enterprise or the value of assets related to marketing.

7. intangible assets related to contracts. This favorable contracts with suppliers, licensing agreements, franchise agreements, agreements on non-participation in the competition. Typically, the assets of the group are relatively easy to identify, as this group of assets is most often associated with the current economic benefits to the owner.

8. intangible assets related to human capital. For example, this category includes selected and trained labor force, employment contracts, agreements with trade unions.

9. intangible assets associated with the land. These include the right to develop mineral rights to the air space, the right to water space, etc.

10. Finally, intangible assets related to the concept of “goodwill”. This category includes goodwill organization, goodwill etc. Professional practices, personal goodwill expert, celebrity goodwill and, finally, the overall value of the business as a going concern.

The first economic studies about intangible assets have appeared in the 30-ies of XX century. As for the accounting concept of intangible assets, the first regulatory document in which such assets appear was accounting bulletin "Amortization of intangible assets" of the Committee on Methods of accounting of the American Institute of Accountants, published in 1944. Later, intangible assets are featured in the international financial reporting standards: first in IFRS 9, "The costs of research and development", and then in the IFRS 38 “Intangible Assets”.

An intangible asset with *indefinite useful live* is not amortised. Instead, the asset is reviewed annually to assess whether there has been a fall in value in accordance with IAS 36 *Impairment of Assets*.

Investments in intangible assets are caused by a number of aspects that, on the one hand, provide their infrastructure, and on the other hand, carry an additional burden on the company, based on the type of assets used as means of production and management. Among these aspects, one can single out legal and accounting support, as well as the tax regime. Part IV of the Civil Code of the Republic of Uzbekistan arising in connection with intellectual activity, the results of which form the basis of intangible assets. According to article 1031 of the Civil Code of the Republic of Uzbekistan, intellectual property includes:

1) the results of intellectual activity:

- works of science, literature and art;
- performances, phonograms, broadcasts of broadcasting or cable broadcasting organizations
- programs for electronic computers (hereinafter referred to as computers) and databases;
- inventions, utility models, industrial designs;
- selection achievements;

- undisclosed information, including production secrets (know-how);

2) means of individualization of participants in civil turnover, goods, works and services:

- company names;

- trademarks (service marks);

- appellations of origin;

3) other results of intellectual activity and means of individualization of participants in civil turnover, goods, works and services in cases provided for by this Code or other laws.

The second infrastructural aspect is accounting, organized by the company on the basis of financial law and the methodology of the Ministry of Finance of the Republic of Uzbekistan. In accounting, on the basis of national standards, in particular, NAS No.7, the positions and methodology of accepting assets as intangible assets for accounting are established. The composition of these positions is narrower than the managerial or legal context. Intangible assets include objects that meet the conditions listed in clause 6 of these Regulations:

a) the exclusive right of the patent holder to an invention, industrial design, utility model;

b) the exclusive right of the author or other copyright holder to computer programs, databases;

c) the exclusive right of the author or other copyright holder on the topology of integrated circuits;

d) the exclusive right of the copyright holder to the trademark and service mark, as well as the right to use the appellation of origin;

e) the exclusive right of the patent holder to selection achievements;

e) goodwill;

g) the right to use natural resources, that is, the right to use subsoil, other resources of the natural environment, geological and other information about the natural environment, etc .;

h) the right to use the land;

i) other intangible assets (the right to manufacture products, perform work and render services, use economic and other privileges, etc.).

Intangible assets do not include the intellectual and business qualities of the enterprise personnel, their qualifications and ability to work, since they are inseparable from their carriers and cannot be used without them.

Investments in intangible assets are one of the most promising areas of investment in fixed assets. They have a substantial side, that is, the level of direct innovation that the country's leaders so want to achieve for our economy. They should be attended by the commercial side, and without the economic benefits, which in their potential are tangible assets, the benefits to business are small. In order for the quality and effectiveness of such investments to grow rapidly, you need to take the best domestic experience and relay it to all infrastructure institutions. For this, it will be necessary to modify the methods, law enforcement practice, patent, financial and tax law.

18.2. Intangible asset as an object of investment

Intangible assets may come to the company in various ways:

• contributions of founders to the authorized capital;

• acquisition for payment of legal entities and individuals;

• receipts free of charge from other enterprises and citizens.

A special type of intangible asset is the “firm price”. This term reflects the level of business reputation of the enterprise, which is revealed when it is purchased at a price that exceeds the value of its assets on the balance sheet. For example, the book value of the assets of the enterprise is 1 billion soums, the selling price is 1.5 billion soums, the difference in the amount of 0.5 billion soums is recorded with the buyer as part of intangible assets. The apparent discrepancy between the book value and the real value of intangible assets arises due to the fact that the cost at which intangible assets are recorded is most often based on the amount of costs associated with the creation of an intangible asset. But such an approach is usually poorly applicable to the valuation of intangible assets. The market value of an intangible asset is determined by the economic benefits that the asset is capable of generating, and this value in relation to these types of assets is in most cases weakly associated with those costs that are taken into account to determine the carrying amount of the intangible asset.

A significant difference between the book value and the real value of intangible assets is also characteristic of Western companies. To illustrate, consider two companies that are almost associated with the very concept of “intangible assets” - these are Google and Microsoft. Table 18.1 shows some indicators of these companies as of September 31, 2018:

Table 18.1.

Some indicators of Microsoft and Google on 31.12.2014[48]

	Microsoft Corporation		**Google Inc.**	
	Absolute value	**in % of the capitalization of**	**Absolute value**	**in % of the capitalization**
Assets of all, billion USD	257619	31,2	221538	28,9
Intangible assets, billion USD	7579	0,9	2448	0,3
The goodwill of merged companies, billion USD	35855	4,3	17895	2,3
Capitalization, billion USD	826940	100	766840	100

According to the table, assets make up only 31.2% and 28.9% of capitalization, respectively. This indicates that the main value of both companies falls on the intangible component. The balance, on the other hand, shows the

[48] Compiled on the basis of the site https://en.investing.com/equities/apple-computer-inc-earnings

opposite picture, which suggests that even under IFRS, the carrying value of intangible assets does not reflect their real value.

Sources of financing the acquisition of intangible assets are:

- depreciation deductions;
- net profit remaining at the disposal of the enterprise;
- funds received from the stock market from the sale of securities;
- loans from commercial banks, etc.

The disposal of intangible assets from the enterprise occurs as a result of their sale, write-off due to the inexpediency of further use, investments in the capital of other enterprises, gratuitous transfer, contribution to joint activities.

18.3. Evaluation of intangible assets and the concept of "Goodwill".

Companies looking to grow and expand in their business strive not only to acquire tangible assets like land, buildings and factories, but also intangible assets like trademarks, copyrights, patents, formulas, franchises, goodwill, etc. And most major companies that you've heard of-companies with any kind of shelf life--rely heavily on both kinds of assets.

Intangible assets are non-physical assets; differently put, they don't have a physical substance. These intangible assets can be either developed internally by a company or acquired from others. Intangible assets can sometimes outweigh tangible assets in terms of value, and they are a defining factor for the long-term success of a business. Despite their importance, however, intangible assets are sometimes difficult to recognize, define and measure.

Intangible assets can be further categorized into identifiable and unidentifiable intangibles. Intangibles such as patents, copyrights, licenses, secret formulas, franchise, trademarks, etc. fall under the category of identifiable intangibles, while goodwill is the most common unidentifiable intangible. Intangible assets can further categorized as indefinite or definite, depending on the specifics. For example, a patent has a definite life or time frame, whereas such timelines don’t exist for a brand name company's reputation.

There are many factors that separate goodwill from the other intangible assets.

The value of a company may not always be correctly quantified by the assets. A business over a period of time develops customer loyalty, brand name and reputation--all of which make it worth more than its book value. This “X” factor that makes the business worth more than its quantifiable assets is “goodwill”. Say a soft drink company was sold for $120 million, it had assets worth $100 million and liabilities of $20 million. The sum of $40 million that was paid over and above $80 million (=assets - liabilities or $100 - $20) is the worth of goodwill and is recorded in the books as such.

Goodwill, as a typical unidentifiable intangible asset, cannot exist independently of the business, nor can it be sold, purchased or transferred separately without carrying out the same transactions for the business as a whole. In quantifiable terms, goodwill is usually represented by the excess of cost paid during an acquisition which is over and above the fair value of assets. Goodwill can be positive as well as negative and is a part of any acquisition. The life span of goodwill is not definite; it has a useful life which is indefinite unlike most of the other intangible assets.

Other intangible assets, however, can be quantified and have a separate identity of their own which is independent of the business as a whole. They can be bought and sold, rented or exchanged or acquired through legal or contractual rights. The common ones in this category are patents, copyrights, trademarks, etc. The intangible assets have different life spans according to the rules and regulations. For instance, the United States Patent and Trademark Office grants the owner of an invention, patent rights for a period of 20 years. A company can buy a patent by paying a specified amount for a specific period (a case where intangible asset is bought).

The Financial Accounting Standard Board (FASB) has come up with a new alternative rule for accounting of goodwill for private companies. The rules by FASB for public companies and non-profit organizations are to be addressed in a future project. The last amendment was made in 2001 and before that in the 1970s. During that time, goodwill was amortized against earnings over a period not to exceed 40 years. In 2001, there was a change in rules according to which goodwill could not be amortized; but rather was evaluated annually to determine impairment loss. The annual valuation process was expensive as well as time-consuming.

As per the alternative FASB rule for private companies (2014), goodwill can be amortized on a straight-line basis over a period not to exceed ten years. The need to test for impairment has decreased under this rule but not eliminated; test for impairment is conducted when some event occurs that signals that the fair value may be have gone below the carrying amount. The new alternative rule is likely to result in cost savings for private companies. These rules apply to businesses conforming to Generally Accepted Accounting Principles (GAAP) using a full accrual accounting method. Intangible assets having a finite useful life need to be amortized over the estimated useful life. If conditions indicate that the carrying value may not be recoverable, then tests for impairment are performed.

Small businesses using cash-basis accounting or modified cash-basis accounting can use the statutory rates set by the Internal Revenue Service (IRS). The IRS allows for a 15 year write-off period for the intangibles that have been purchased. There is a lot of overlap as well as contrast between the IRS and GAAP reporting. Be sure to understand them and then proceed correctly.

Goodwill, patents, copyrights, licenses, franchises, etc. all fall under the category of intangible assets. These assets do not possess any physical substance but are of great importance to any business over the long term. Goodwill is a premium paid over the fair value of assets during the purchase process of a company. Hence, it is tagged to a company or business and cannot be sold or purchased independently, whereas other intangible assets like licenses, patents, etc. can be sold and purchased independently. Goodwill is perceived to have an indefinite life (as long as the company operates) while other intangible assets have a definite useful life and are amortized over those years.

Intangible assets are transferred evenly to its original value at the cost of production or handling by standards established by the company on the basis of the due date of their useful lives. For intangible assets for which it is impossible to establish useful life, the transfer rates are determined based on the long-term. Amortization of intangible assets is taken into account and are stated separately.

Goodwill (goodwill) is a particular intangible asset. In general goodwill - is that part of the cost of the company for which the current market value of the company exceeds the sum of its tangible and intangible assets identified. Goodwill is very heterogeneous in nature. The two distinct components of goodwill:

- the existence of assets and their willingness to use. Many studies have noted that the cost of creating the enterprise is itself ready to function. This commitment implies a management company, the availability of staff, the availability of assets;
- having a positive economic profit. Under the positive economic income refers to the excess of income over the resources consumed;
- value created synergies in mergers and acquisitions;
- expectations of future events that are not directly related with the current activities of the company;
- Finally, when analyzing the value of assets of the business to include the cost of goodwill amortization, which are in the process of analysis could not be identified separately.

Goodwill: Very fuzzy concept of intangible value. The amount a company is worth above its assets' Fair Market Value. Conceptually, it would include things like value of employee knowledge, customer loyalty, and other nebulous "assets" that cannot be valued on the balance sheet. Every company has its Goodwill. But, it is impossible to measure internally, so no Goodwill account is created. However, there is one situation where we can effectively capture some sense of this “true” or “intrinsic” value and we can, therefore, establish a Goodwill account.

Mergers and Acquisitions.

The target firm of a merger has assets on its balance sheet. These assets are recorded at book value, which is clearly not a good indication of their true value. So, to price this target, a buying firm must assess the Fair Market Value of all the target’s assets. Almost always, however, the buying firm pays more than the sum total of the Fair Market Value for all the target firm’s assets.

Why does the buyer *overpay* for these assets? Because the buyer has some sense of the “intrinsic” or “true” value of the “assets” that are impossible to record on the balance sheet. In a Merger or Acquisition, we record an intangible asset called Goodwill when:

A buyer pays <u>more</u> than the total FMV for all assets on the target’s balance sheet.

Therefore, Goodwill = Amount Paid for target – FMV of target’s assets.

Why record Goodwill now when we can’t do it otherwise? Because, by overpaying for the target, the buyer has shown us the “intrinsic” or “true” value of the “assets” that are impossible to record on the balance sheet.

Goodwill = Amount Paid for target – FMV of target’s assets.

Goodwill is only recorded when an entire business is purchased.

Considered to have an indefinite life. Not amortized.

Positive goodwill considered as an addition to the price, which is paid by the buyer in anticipation of future economic benefits and is recognized as a separate inventory of the intangible asset. Acquired goodwill amortized in the long term. Similarly, consider the reputation and international financial reporting standards.

Intangible assets evenly transfer their initial cost to production or distribution costs at the rates determined by the enterprise based on the established useful life. For intangible assets for which it is impossible to establish a useful life, transfer rates are determined for the long term. Depreciation of intangible assets is accounted for and reported separately.

The value of a company is influenced by its “goodwill”. Goodwill is a special intangible asset. In general, goodwill is that part of the value of the company by which the market value of the existing enterprise exceeds the sum of its tangible and identified intangible assets. Goodwill is very heterogeneous in nature. The following components of goodwill can be distinguished:

• the existence of assets and their readiness for use. Many researchers note that the cost is already created by the readiness of the enterprise to function. Such readiness implies the presence of company management, the availability of personnel, the availability of assets;

• availability of positive economic income. Positive economic income means the excess of income over resources consumed;

• value created by the synergy effect of mergers and acquisitions;

• expectation of future events not directly related to the current activities of the company;

• finally, when analyzing the value of an enterprise’s assets, goodwill includes the value of intangible assets that could not be identified separately in the analysis process.

The positive business reputation of the organization is considered as a premium to the price paid by the buyer in anticipation of future economic benefits, and is taken into account as a separate inventory of intangible assets. Acquired goodwill is depreciated over the long term. Similarly, business reputation and international financial reporting standards are considered. In particular, IFRS 22, Business Combinations, recommends calculating goodwill as the difference between the cost of acquisition (investment) and the investor’s share in the fair (i.e., estimated) value of the identifiable assets and liabilities acquired as of the date of the transaction. The positive difference is called goodwill and is recognized as an asset in the balance sheet.

A modern company consists mainly of intangible assets, some of which are recorded on the balance sheet, and some are not considered. Thus, the assessment of a business under these conditions is an assessment of intangible assets in a broad sense. The concept of intangible assets is used in accounting and financial accounting, in management and appraisal activities, and the content of this concept is different in national accounting standards of different countries and different types of professional activity. Goodwill or goodwill is also an intangible asset of an enterprise.

For most tasks, goodwill can be defined as a combination of those business elements or personal qualities that encourage customers to turn to this particular company and which bring the company profits beyond what is required to obtain reasonable income on all other assets of the enterprise, including income on intangible assets, which can be identified and separately evaluated. In most cases, the entity's goodwill consists of the goodwill of the business — goodwill relating, in fact, to the entity, and personal goodwill. Additional profit is obtained as a result of the combined influence of these two elements.

There are several points of view of economists on the essence of the concept of goodwill. From the point of view of accounting, goodwill is treated as the amount by which the value of the business exceeds the market value of its tangible assets and the part of intangibles that is reflected in the financial statements. As an intangible asset, this value is put on the balance sheet at the time of purchase of the enterprise.

However, in Western countries, practice shows that the market value of an enterprise can be several orders of magnitude higher than the sum of its tangible and identifiable intangible assets, and if earlier this value was characterized as the general goodwill of the enterprise, then there has recently been a tendency to characterize its structure. The structure of the enterprise's goodwill is generally similar to the structure of intellectual capital, theories of which are currently very popular in Western economic literature. It includes the market assets of the enterprise, and infrastructure assets, and its identified (but not included in the balance sheet) intellectual property, and human assets (personal goodwill).

Goodwill is present only in the presence of excess profit (although from the point of view of accounting, negative goodwill may also be present) and cannot be separated from the existing enterprise, that is, cannot be sold separately from it. Goodwill arises when a company receives stable, high profits, its income on assets (or on equity) is above average, as a result of which the value of the business exceeds the value of its net assets.

In international practice, accounting for goodwill-type assets is governed by IAS 22, Business Combinations, in which goodwill arising on the acquisition of a company is defined as a payment made by the customer in anticipation of future economic benefits from assets that individually do not meet the recognition requirements in the financial statements, but for which the buyer is willing to pay upon purchase.

The main methods for assessing goodwill (goodwill).

1) Accounting method.

This method is used only when purchasing an enterprise, when the purchase price of the enterprise exceeds the value of tangible and intangible assets on the balance sheet, in which case the difference is attributed to the value of goodwill. In fact, this method helps evaluate goodwill and other unidentifiable intangible assets using the “big boiler” method.

2) An analytical method for assessing business reputation.

The main idea of this method is that intangible elements of intangible assets are almost or not shown in accounting, so the goal is to calculate these assets or “hidden” investments. The analytical method has an advantage in the sense that it indicates the internal origin of business reputation, but it is difficult to analyze and calculate. In addition, it must be borne in mind that some elements have value only if they are combined. After all, business reputation itself is, above all, a synthetic indicator.

3) Assessment of business reputation using an indicator of business activity.

This method is most often used in the West to evaluate commercial enterprises. Typically, the indicator of business activity is the volume of sales (most often the volume of sales over the past three years), to which a multiplier is applied to assess business reputation. For example, for a bakery this ratio is 70-80% of annual sales, and for a supermarket -15-20%. However, evaluating business assets based solely on sales is risky enough, so the evaluator must be interested in the financial results of the enterprise.

4) The method of excess profits.

The main method for measuring goodwill is the excess profit method (goodwill capitalization valuation). It is based on the premise that excess profits bring to the enterprise intangible assets that are not reflected in the balance sheet, which provide a return on assets and equity, above the industry average. The method involves a direct comparison of the levels of profitability of the assessed enterprise and other enterprises analogous to the industry with the subsequent capitalization of that part of the difference between them, which is not explained by the influence of tangible assets

The disadvantage of this method is that it is not universal, since the company may not receive excess income, but still have goodwill, and, on the other hand, have excess income for not so long a time that is not directly related to business reputation company.

European valuation standards TEGOVA (Guide 8) note that the appraiser can verify the correctness of the results of the goodwill valuation obtained by comparing the difference between the value of the business, which is determined by the discounted cash flow (and / or capitalization) method and the total value of tangible and intangible assets. Another way of checking is to take the difference between the value of the entire enterprise (business) on the assumption that it owns and uses intangible assets in the business, and compare this with the total value of the enterprise on the assumption that it does not own the same intangible assets.

Goodwill is the difference between the price of a firm and the fair value of all its assets. The task of accounting is to explain the occurrence of this difference, to decompose it into its constituent components. To do this, firstly, re-revaluation of net assets at fair value. Comparison of amounts representing market valuation and the carrying amount of net assets is a violation of the principles of comparability. Secondly, from the difference obtained, intangible assets (for example, own trademarks, Internet domains, customer lists, etc.) are identified that were not recorded on the balance sheet of the acquired company, but at the purchase date have fair value . Third, if there is a business combination, then, in accordance with the requirements of IFRS 3 Business Combinations, conditional obligations are recognized, which also specify goodwill valuation. After identifying the components, an indecomposable amount remains, which is goodwill.

According to IFRS 3, at the date of acquisition of the company, the buyer must:

• recognize goodwill resulting from a business combination as an asset;

• Measure goodwill at cost.

The resulting difference can be either positive or negative. Positive business reputation is seen as a price premium paid by the buyer in anticipation of future economic benefits, and negative (badwill) as a price discount when the company is sold for a price below market value. Negative goodwill should be recognized immediately in the income statement.

In accordance with IFRS 3, upon initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not depreciated, but is tested for impairment in accordance with IAS 36 “Impairment of Assets” annually (regardless of whether there are signs of impairment) or more often (if there is evidence of impairment).

For many years, the most widespread variant of the subsequent assessment of goodwill in the world was its depreciation. However, this method was the subject of constant criticism, which was based mainly on two significant arguments - the complexity and subjectivity in determining the depreciation period and the choice of depreciation method. The depreciation period of goodwill varies from 5 to 40 years or more (for example, in Russia the depreciation period of goodwill can take a value of 20 or more years, in the United States for a long time, up to 2001, this period was 40 years).

Difficulties in determining the depreciation period arise primarily due to the fact that goodwill represents future economic benefits from synergy, that is, from assets that can only be considered in interaction. Only if goodwill is associated with an identifiable asset, it is possible with sufficient confidence to assume that it will bring profit to the buyer for a period equal to the term of use of this asset. However, as a rule, goodwill is associated not with one specific asset, but with a whole group of closely related assets.

Difficulties in choosing the depreciation method are due to the fact that the amount of goodwill is subject to significant and uneven fluctuations, and therefore a proportional decrease in its value by accruing linear depreciation (as is done in most cases) does not reflect the economic essence of the processes.

The only way out of this situation is a periodic revaluation, the methodology of which is proposed by IFRS.

Thus, for a potential investor, goodwill valuation is a powerful tool that gives an idea of how much of the market value of an enterprise is expressed by its real assets and which by goodwill, which contributes to a more accurate representation of the degree of risk of investment companies. For many firms, goodwill is the most significant asset that does not have identifiability and isolation. This is what helps a company generate more profit per unit of assets than a medium-sized company of the same kind. In fact, this is something intangible that can be inseparable from the company, but it can significantly change the value of the business.

A good business reputation is possible when a company produces high quality goods (performs work, provides services), has a strong team of managers, and a developed marketing strategy. Equally important is the presence of a constant customer base, established relationships with suppliers, high credit indicators, a favorable location and an established corporate culture.

Questions for discussing and control

1. What are the intangible assets?
2. Explain the nature of intangible assets?
3. What are the definitions of intangible assets in economic literature and regulations?
4. Do you know which foreign economists are describing intangible assets?
5. How does intangible assets differ from other assets?
6. Explain the classification of intangible assets by R.Reilly and R.Shvays?
7. What are the types of intangible assets?
8. Explain the phrase: “intangible assets related to creative activities”.
9. What do you understand by Intellectual Property?
10. What is included in intellectual property according to the World Intellectual Property Convention?
11. What objects can be included in the structure of intellectual property according to the current legislation of the Republic of Uzbekistan?
12. What are the groups of intangible assets in International Financial Reporting Standards?
13. Do you know the legal basis for evaluating intellectual property?
14. What is the procedure for the evaluation of intellectual property?
15. How is the value of an intellectual property asset determined?
16. What is the meaning of “Goodwill”?
17. What components of goodwill do you know?
18. What are the main goodwill valuation methods do you know?

CHAPTER 19. INVESTMENT RISKS AND WAYS TO REDUCE THEM

19.1. The concept of “investment risk” and their main types

The market economy is characterized by constant change in economic conditions: prices, foreign exchange rates, interest rates, the pace of economic development, consumer preferences, etc. As a result of these changes, companies may find themselves in a difficult position financially and organizationally. The negative impact of external and internal factors on the production activity of the enterprise is the risk. Risk - this is a historical and economic category. In the historical context, the risk is the risk of possible losses arising from the specificity of certain phenomena of nature and activities of human society. With the development of civilization there are commodity-money relations and the risk of becoming an economic category. Investment risks - is the probability of an unfavorable situation, resulting in which the participants of investment activity will not be fully planned profit or loss at all, and profit, and the initial investment.

As an economic category, risk is the probability event that could happen or might not happen. In the event of such an event, there are three economic outcomes:

- Negative (loss, damage, loss);
- Zero;
- Positive (gain, benefit, profit).

The effectiveness of risk management organization is largely determined by the classification of risk. Under the classification of risk should be understood allocation of risk for specific groups according to certain criteria in order to achieve their goals. Evidence-based risk classification clearly identifies the location of each risk in their overall system. It creates opportunities for the effective use of appropriate methods, techniques of risk management. Each type of matching t own risk management system.

Depending on the possible outcome risks can be divided into two large groups: the pure and speculative.

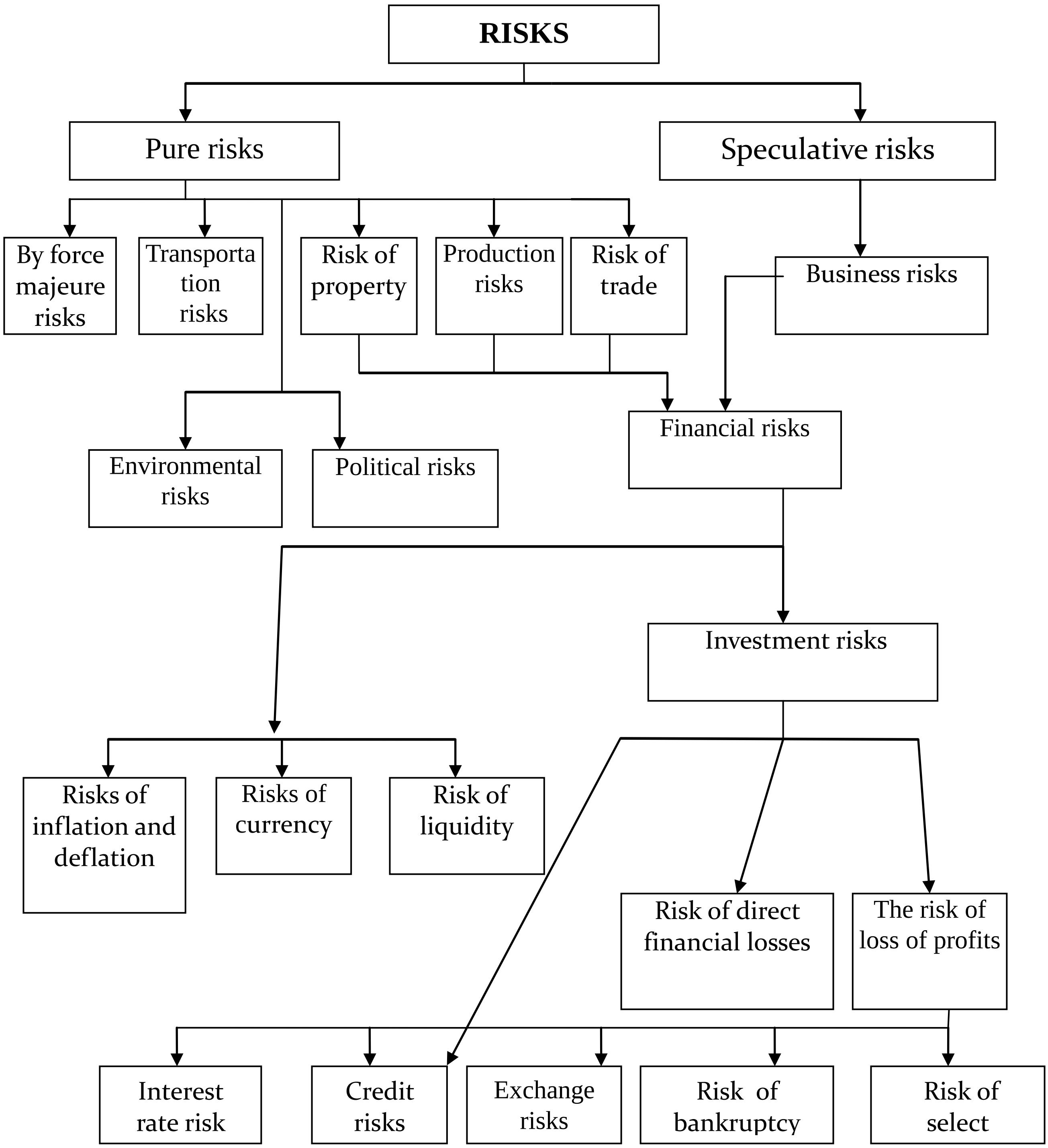

Figure 19.1. The main types of risks[49]

[49] Инвестиции: учеб. пос. / И.Ю.Ткаченко, Н.И. Малых. – М.: «Академия», 2009. – С. 112.

Pure risks imply the possibility of a negative or no results. These risks include the following risks: force majeure, environmental, political, transportation and part of the commercial risks (economic, industrial, commercial).

Speculative risks are expressed in the opportunity to receive both positive and negative results. These risks include financial risks, which are part of commercial risks.

Depending on the underlying cause of the risk (basic or natural), they are divided into the following categories: force majeure risks, environmental, political, transportation, commercial risks.

By force majeure risks include risks associated with the manifestation of the elemental forces of nature: earthquake, flood, storm, fire, epidemics, etc.

Environmental risks - these are the risks associated with environmental pollution.

Political risks linked to the political situation in the country and the activities of the state. Political risks arise in breach of production and sales process for reasons that are not directly dependent on the entity.

Political risks are:

- The impossibility of economic activity as a result of hostilities, revolutions, worsening political situation in the country, nationalization, confiscation of goods and businesses, the embargo, due to the failure of the new government to carry out the obligations taken by the predecessors, and the like;

- The introduction of a delay (moratorium) on the external payments for a certain period due to the onset of an emergency (strike, war, etc.);

- Adverse changes in tax laws;

- Prohibit or restrict the conversion of local currency into the currency of payment. In this case, the obligation to exporters may be made in local currency, which has limited scope.

Transportation risks - these are the risks associated with the transportation of cargo transportation: road, sea, river, air, rail, etc.

Business risks are the risk of loss during the financial and economic activity. They represent the uncertainty of the results of this business deal.

On a structural basis risks are divided into commercial property, industrial, commercial and financial.

a) *Property risks* - these are the risks associated with the probability of loss of the property owner by reason of theft, sabotage, negligence, over-voltage and technical and technological systems, etc.

b) *Operating risks* - risks associated with a loss of stopping production due to the impact of various factors, and especially the loss of or damage to fixed and current assets (equipment, raw materials, transportation, etc.), as well as the risks associated with the introduction of production new equipment and technology.

c) Business risk is *the risk* associated with a loss because of delay in payment, non-payment during the transportation of the goods, not before the delivery of the goods, etc.

g) *Financial risks* are associated with the probability of loss of financial resources.

Financial risks are divided into two types of risks: risks associated with the purchasing power of money and the risks associated with the investment.

1) The risks associated with the purchasing power of money include the following types of risk: inflation and deflation risk, currency risk and liquidity risk.

Deflation - is the reverse of inflation is reflected in lower prices and thus to increase the purchasing power of money.

a) Inflation risk - the risk that, with inflation derived income depreciate in terms of real purchasing power faster than they grow. In such circumstances, an entrepreneur is a real loss.

b) the deflationary risk - is the risk that the growth of deflation occur decline in prices, worsening economic conditions and reduced business income.

c) Currency risk is the risk of foreign exchange losses related to the change of one currency against another, during the foreign, credit and other foreign exchange transactions.

d) Liquidity risk - is the risk associated with the possibility of loss on the sale of securities or other products due to changes in their quality assessment widely-used value.

2) Investment risks also include the following sub-risks: the risk of loss of profits, the risk of yield decrease the risk of direct financial losses.

a) The risk of loss of profits - is the risk of indirect (side) financial loss (loss of profit) as a result of non-implementation of some measures (insurance, hedging, investment, etc.).

b) The risk of yield reduction can occur as a result of reducing the amount of interest and dividends from portfolio investments on deposits and loans.

Portfolio investments are associated with the formation of an investment portfolio and represent the purchase of securities and other assets.

The risk of falling income includes interest rate risk and credit risk.

An interest rate risk is the risk of losses by commercial banks, credit institutions, investment and other financial institutions as a result of higher interest rates paid by them on borrowed funds, interest rates on loans granted. Interest rate risk also includes the risk of loss that may be incurred by investors in connection with a change of dividends on shares in market interest rates on bonds, certificates and other securities.

Increase in market interest rates leads to a decrease in the market value of securities, especially bonds with a fixed interest rate. With increasing interest may also begin mass dumping of securities issued under a low fixed interest rates and the terms of issue, taken back early by the issuer. Interest rate risk is borne by the investor by investing in medium-and long-term securities with a fixed interest rate at the current market average percent increase compared to a fixed level. In other words, the investor would receive income gains at the expense of increasing the percentage, but cannot release their funds invested in the above-mentioned conditions.

Interest rate risk is the issuer, will issue a mid-term and long-term securities with a fixed interest rate at the current market average percent decrease compared to a fixed level. In other words, the issuer could raise funds at lower rates.

A credit risk - the risk of non-payment by the borrower of principal and interest owed to the lender. To the credit risk is the risk of such an event in which the issuer t that issued debt securities will be unable to pay interest on it or the principal amount of the debt.

Credit risk can also be a kind of risk of direct financial losses. Risks of direct financial losses include the following varieties: exchange risk, selective risk, the risk of bankruptcy, as well as credit risk.

a) *Stock exchange risks* pose a risk of loss from exchange transactions. These risks include the risk of default on commercial transactions, the risk of non-payment of commission brokerage firms, etc.

b) *selective risk* - is the risk of incorrect choice of species of capital investment, the type of securities for investment in comparison to other types in the formation of an investment portfolio.

c) The risk of bankruptcy is a hazard due to the wrong choice of capital investment, total loss of the entrepreneur's own capital and its inability to pay for obligations assumed.

As mentioned, in any economic activity there is always a possibility of losses arising from the specific of certain business transactions. The risks of such losses are commercial risks. Commercial risk is uncertainty about the possible result of the uncertainty of the result of the activity.

Capital investment is always accompanied by a choice of investment options at risk. Selecting different options of investing is often associated with considerable uncertainty. For example, a borrower takes a loan the repayment of which it will produce future income. However, these gains do not know it exactly. It is also possible that that future earnings may not be enough to repay the loan. In investing capital also have to take some risks, that is, to choose a certain degree of risk. For example, the investor must decide where he should invest: into a bank account where the risk is small, but the gains are small, or in the more risky, marginally profitable event (venture capital investment, the purchase of shares). To solve this problem it is necessary to quantify the amount of financial risk and to compare the risks of alternatives, that is, to begin the process of managing investment risks.

19.2. Steps of managing investment risks. Risk analysis.

Before beginning to explain the meaning of risk management, we must know some definitions:

- ❖ A hazard is something that has the potential to cause harm.
- ❖ A risk is the likelihood of the potential hazard being released and causing damage or injury.
- ❖ A control is a recommended or prescribed way of carrying out the work that, if followed, should reduce the risk.

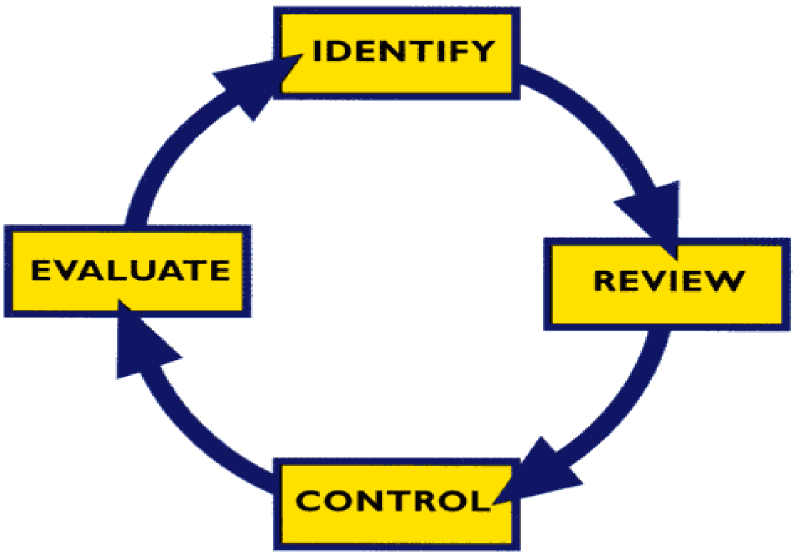

Figure 19.2. Risk assessment

The aim of risk management is to reduce all risks to the lowest level possible.

A risk assessment is a process to identify potential hazards and analyze what could happen if a hazard occurs.

Investment risk management refers to the use of different measures, allowing x to some extent predict the risk events and to take measures to reduce the degree of influence of risk. The main purpose of risk management – is to reduce their impact.

Investment risk management is carried out in several stages:

1. Definition of risk factors;
2. Risk analysis and assessment;
3. Planning the work to mitigate the risk or consequences;
4. Prevention and control of risks;
5. Gathering information about risky situations and their consequences, as well as making recommendations for the future.

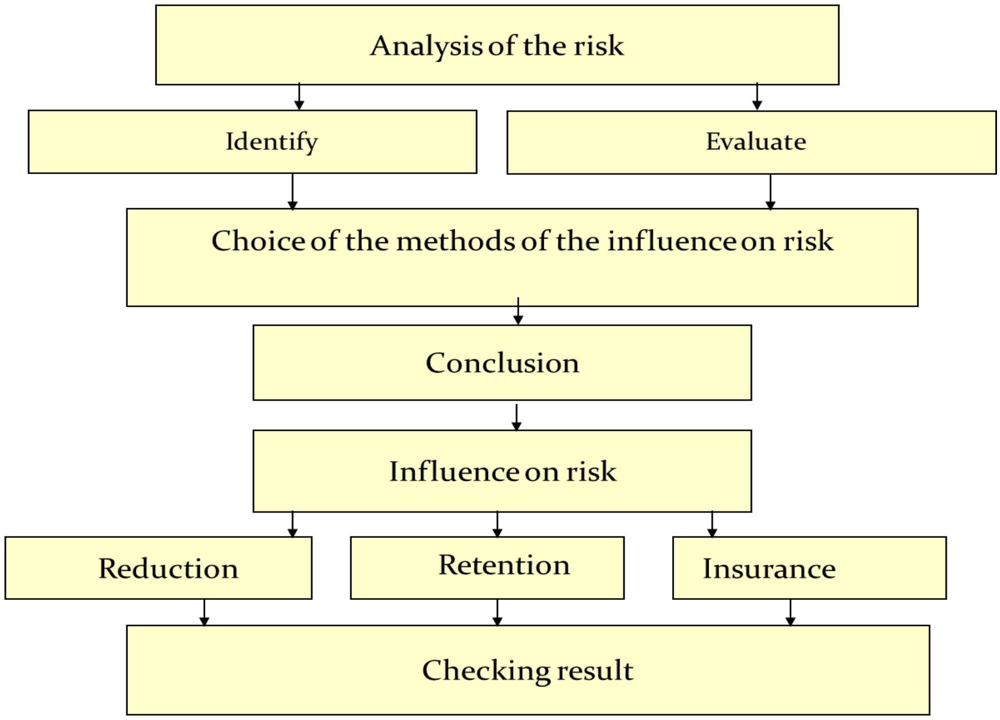

Figure 19.3. Steps of risk management[50]

[50] Nosirov E.I., Mamatov B.S., Shoislomova N.Q., Sharifxodjayeva K.U. Investitsiya risklarini boshqarish. O'quv qo'llanma./ i.f.d. A.V.Vahobovning umumiy tahriri ostida. – T.: "Fan va texnologiya", 2012. –b. 36

At the first stage the factor that is the cause of the risk event or events that may affect the investment project. Should be noted that there are some risks that are not amenable to management, that is, they do not depend on the activities of the participants of the investment project. In these cases, large sums of funds needed to prevent the effects of risks. The most appropriate method is insurance. Insurance companies own large funds of funds that can be used by participants of the investment project in the case of investment risk. In addition, the insurance companies themselves are involved in the management of risk: they assess risk, own rich base of data in this area, have been monitoring the impact of risks to have certain programs to prevent risky situations.

Many financial transactions (venture capital investment, the purchase of shares, credit operations, etc.) are associated with a fairly significant risk. They need to assess the risk and determine its value at this point begins the analysis and assessment of risk.

The degree of risk - the probability of this event loss, and the amount of potential damage from it.

Risk analysis is divided into qualitative and quantitative. Qualitative analysis involves determining the types of risks inherent in these activities, their causes (source factors) arise, the risks associated with possible scenarios and their consequences, the development of ways to reduce the risks. Qualitative analysis to include the application of the method of analysis experts, the method of analogies, etc. The main disadvantage of the qualitative analysis is its subjectivity, that is dependent on the knowledge and experience of analyzing the person, and the lack of quantitative indicators of the degree of influence of risk or potential damage from it.

Financial risk, as well as any other risk is mathematically expressed by the probability of loss, which is based on statistical data and can be calculated with high accuracy. To quantify the amount of financial risk, it is necessary to know the potential impact of any individual action and the likelihood of the consequences themselves. Probability means the ability to produce a specific result. With regard to the economic problems of methods of the theory of probability can be reduced to the determination of the probability of events, and to the choice of the possible events of the most preferred on the basis of the results of the analysis of probability and expectation of events and the preference of the events themselves.

For a quantitative analysis of the risks include:

- Definition of statistical parameters (dispersion, variation, etc.);
- Analysis of the sensitivity of the project;
- Determination of the critical points of the project;
- The method of scenarios;
- Monte Carlo method;
- Methods based on the concept of discounting.

Mathematics for the choice of strategy in a particular situation given by the theory of probability. It allows the entrepreneur or manager to better understand the specific situation and to minimize the risk.

Analysis using methods of probability theory encourages the entrepreneur (manager) to consider all possible alternatives as their action and strategy partners, competitors. The formalization of this process can improve the understanding of the problems of the entrepreneur as a whole. Thus, this theory - the actual science of risk. Game theory allows us to solve many economic problems associated with the selection, determining the best position, subordinate only to certain limitations arising from the conditions of the problem.

The value of the risk, or the risk is characterized by two parameters: the mean expected value (expectation) and the volatility or variability of possible results (variance, standard deviation).

Average expected value - is the value of the magnitude of the event, which is associated with the uncertainty of the situation. Average expected value is a weighted average of all possible situations where the probability of each outcome is used as the frequency or the weight of an equivalent value. Average expected value is the result we expect, on average.

The average value is a generalized quantitative characterization and does not allow to take a decision in favor of an option to invest capital. For the final decision must be measured (calculated) value of distraction available results.

The variability of the possible results is the degree of deviation of the expected results of the mean. In other words, the degree of accuracy of our prediction. For this use in practice, the dispersion or standard deviation (the square root of the variance). The variance is a weighted average of the squared deviations of actual results from the expected average value. The standard deviation is a named value and is specified in the same units, which is measured in varying sign. The variance and standard deviation are measures of absolute variability.

The most common methods of analysis of investment risks is to the:

- Analysis of the sensitivity of the project;
- The definition of “break-even”;
- Evaluation of the sustainability of the project.

Assume the risk of forcing the businessman above all the uncertainty of the economic situation, that is unknown conditions of political and economic environment surrounding a particular activity, and the prospects for change in these conditions. The greater the uncertainty of the economic situation in the decision, the greater the risk.

The uncertainty of the situation is determined by the following factors: lack of complete information, accident opposition.

The lack of complete information about the economic situation and the prospects of change forces the entrepreneur to seek opportunities to acquire the missing additional information, and if not possible to act at random, based on their experience and intuition.

The uncertainty of the economic situation is largely determined by the factor of chance.

Randomness - this is what happens in similar circumstances differently, and therefore it cannot be foreseen and predicted.

However, when a large number of observations for the random variables can be found that in the world there are certain laws of chance. The mathematical apparatus for the study of these laws gives the probability theory.

The entrepreneur in the process of their actions should choose a strategy that will allow it to reduce the degree of opposition, which, in turn, will reduce the degree of risk.

19.3. Ways to reduce investment risks

The last stage of the management of investment risk is to find ways of reducing the investment risks. Reducing risk means reducing the likelihood and amount of losses due to the impact of risk.

When choosing a specific means of resolving investment risk s investor shall apply the following principles:

- Do not risk more than they can afford their own capital;

- It is necessary to think about the consequences of risk;

- You cannot take risks for the sake of many small.

The implementation of the first principle means that, before investing investor should:

- To determine the maximum amount of loss on this risk;

- Compare it with the amount of capital to invest;

- Compare it with all their own financial resources and determine whether it will lead to the bankruptcy of the investor.

Volume loss of capital investment may be equal to the amount of capital to be less than or greater than he.

The main methods of reducing the investment risks are: diversification, redundancy, insurance, obtaining additional information.

Diversification - a method of reducing the investment risks for which there is a distribution of investments by various objects of investment, by increasing the range of products, the expansion of credit or financial portfolio, the distribution of investments in different sectors of the economy, the recipient countries, the expansion of activities of the enterprise, etc. Diversification can be conventionally equated to the phrase “do not put your eggs in one basket”, in relation to investment, this means not to invest all available funds to one item in the production of one type of product or the purchase of securities of one company or one industry. The investment portfolio should be allocated to loss resulting from one type of investments covered by profits from other investment object. The diversification of the company is expanding its operations species, that is, except for core operations management of financial, operational and other activities, as well as the production of several types of goods, it is advisable interchangeable.

Reservation - is the creation of targeted additional funds of funds that will be directed against losses resulting from the impact of investment risks.

Limitation - is setting a limit, that is, limiting the amounts of expenses, sales, credit, etc. Limitation is an important means of reducing the risk and applied by banks when granting loans, signing a contract for an overdraft, and the like; economic entity - the sale of goods on credit (credit cards), traveler's checks and euro-check etc.; investor - in determining the amounts of capital investment, etc.

Insurance - This is a financial relationship. To them must have two sides: the insurer and the insured. The insurer provides for the payment of the insured due to monetary fund (insurance or reserve fund). The essence of insurance is that the investor is willing to give up the revenue side, if only to avoid the risk, that is, he is willing to pay for reducing the risk to zero. In fact, if the cost of insurance is the possibility of losses, the investor is not prone to risk can be insured so as to ensure full recovery of any financial losses that you may incur.

For the purpose of insurance is characterized created a monetary fund and the expenditure of its resources only to cover losses (assistance) in a pre-defined cases, the probabilistic nature of the relationship, because it is not known in advance when an event occurs, what will be its strength and from whom it will affect policyholders , repayment of funds, as these funds are intended to provide compensation for all losses to policyholders (and not for each individual).

While insurance is a redistribution of funds between the parties to create an insurance fund in compensation for damage to one or more insurers carried out by the loss distribution at all. Number of policyholders who have made payments over a given period, the number more than receiving a refund.

Completeness of information enables the investor to make an accurate prediction of activities and thereby reduce the risks. Information today is a very valuable commodity for which the investor is willing to pay big money, and if so, then investing in information is one of the areas of entrepreneurship. The cost of the complete information is calculated as the difference between the expected value of any purchase, when complete information is available, and the expected value when the information is incomplete. Even if the weather will not be entirely accurate, yet profitable to invest these funds in market research and sales market, providing a higher quality sales forecasts for the future.

Financial risks are resolved through a variety of means and methods. Means to address the financial risks are their escape, hold, transfer, reducing the degree.

By avoiding risk means simply an evasion activities associated with risk. However, to avoid the risk of an entrepreneur often means giving up a profit.

Retention of risk involves the risk of abandonment of the investor, that is his responsibility. Thus, the investor, investing venture capital in advance certain that he can own funds to cover the possible loss of venture capital.

Transferring risk means that the investor has assumed the responsibility for the risk of someone else, such as an insurance company. In this case, there was a transfer of the risk by insuring the financial risk.

Questions for discussing and control

1. What do you understand under the terms “risk” and “investment risks”?
2. Explain the nature of the risks?
3. What is the objective need for investment risk management in a market economy?

4. How are investment risks classified?
5. Do you know what types of risks affect the investment project?
6. Explane the nature and types of financial risks?
7. Explain the nature of systemic and non-systematic risks?
8. What are the stages of risk management?
9. What methods are used in risk assessment?
10. What are the key aspects of quantitative and qualitative risk analysis?
11. What are the statistical methods of risk analysis?
12. Describe the meaning of the method “Breake even point”?
13. What is the formula for determining the “Breake even point”?
14. What factors are considered when determining the “Breake even point”?
15. Describe the essence and content of the scenarios method of investment project risk assessment?
16. Can you explain the content of the expert assessment method?
17. Do you know ways of reducing investment risks?
18. Which risk principles should the investor follow before making an investment decision?
19. What is the “risk diversification”?
20. Explain the nature of risk insurance?
21. What do you understand under the term “sharing risks between project participants”?
22. Explain the importance of establishing financial reserves as one of the ways to reduce risks?
23. What measures are taken to reduce credit risk in banks?
24. Can you explain the essence of investment risk insurance?

GLOSSARY

Alternative projects - investment projects requiring close in value of the sum of financial, material and human resources.

Attracted sources of financing - funds provided on a continuous basis on which payment made to the owners of these funds as income (in the form of dividends, interest) and which cannot be returned to owners. Among them are funds from the issue of shares, additional contributions (shares) in the share capital, as well as targeted public funding for a grant or shared basis.

Basic capital - a set of assets, which operate in production in unchangeable natural form for a long period, in several production cycles and carrying its value to newly created product in parts.

BERI index - an indicator to assess the investment climate in different countries, which is the sum of the scores of expert assessments of indicative factors determining certain aspects of the investment climate based on 15 factors with different specific weight (used to assess the investment climate in 45 countries).

Bidder - a contender for tenders who passed qualification and bid whose offer registered by organizer of competitive bidding.

Bill - a security, which is a written promissory strictly prescribed form on which the promisor should certainly pay at maturity to the owner of bill (note holder), the designated amount of money.

Bond - a debt security that reflects the relationship of the debt and giving the holder (owner) income in the form of a fixed percentage of its face value.

Borrowed sources of financing - money resources received as a loan for a specified period and repaid with the payment of interest. These include loans, borrowed resources, and bonds of enterprises.

Business - the economic activity, the purpose of which is to make a profit.

Business income (total income of the company) - revenue from the sales of goods, services and property values, interest earned through the provision of money on credit, and other financial or material receipts.

Business plan - a detailed project plan, a document that reflects the goals, the activities proposed for future work, material costs, the financial outlook for the new project, or further development of the company. Business plan is essential to the owners or managers of the enterprise in order to identify what is required to achieve success. However, it is especially important for external circumstances, in particular when it comes to loans. In this case, the business plan will help to assess the creditworthiness of the borrower and the future competitiveness of the enterprise in the market.

Capital Construction - a separate branch of economics dealing with the construction, repair, and modernization of fixed assets for all manufacturing and non-manufacturing industries. Finished products of the industry is building, structure, premises, etc.

Capital investments - investments in fixed assets (buildings, machinery, and equipment) in tangible assets, construction, reconstruction, etc.

Centralized sources of investment financing - funds of cash generated from the republican and local budgets, extra-budgetary funds, as well as foreign investment and loans raised by the Government guarantee.

Charter capital - the initial amount of capital of firms, as defined by its charter and formed mainly due to the revenues from the sales of the shares or funding into shares by shareholders.

Concession - permit issued on behalf of the state to a foreign investor to exercise a certain kind of economic activity associated with the provision of property, land and mineral resources with the right of mining and construction of various structures based on the concession contract.

Conjuncture - a set of features that characterizes the current state of the economy in a given period.

Consumption - the use, consumption, use of goods in order to meet the needs.

Contract method of organization of capital construction - this is a temporary hiring contractor specializing in capital construction, to carry out construction work at the site.

Contractor - a legal person having a license to carry out construction work that has taken the commitment to build a specific object.

Controlling stake - the proportion of shares concentrated in the hands of one owner and giving an opportunity to actual control and management of the Company.

Convertible currency - the currency freely and unreservedly exchanged for other foreign currencies. Currency conversion can be complete, when the exchange made to any foreign currency, and partial, when the currency of the country exchanged only for some currencies and not in all operations of international payment transactions.

Cost of production - expressed in monetary terms of current expenditures of the production and sales of products.

Credibility - the presence of the preconditions for the loan, the ability to timely return the loan and interest on it.

Credit - a loan in the form of money or goods on terms of repayment, maturity, availability, intended use and the payment of interest.

Creditor - one of the participants in the credit relationship, acting as an entity that provides loan.

Dealer - a person (company), exercising stock exchange or trading and at their own expense and on his own behalf. It has a place on the stock exchange, quotes of any securities. Revenues of dealer formed by the difference between the purchase price and the selling price of currencies and securities, as well as by changing their courses.

Depreciation – allocation of the cost of a tangible asset over its useful life.

Derivative financial instruments - securities confirming the right or obligation of the owner to buy or sell a traded primary securities, currencies, commodities or intangible assets at predetermined conditions in a future period (options, swaps, futures and forward contracts).

Discounting - the process of bringing the cost of cash flows occurring at different times to the same period of time, generally, defining the current (current) value of future cash flows.

Diversification - a method of reducing the investment risks, where investments are distributed by various objects of investment, by increasing the range of products, the expansion of credit or financial portfolio, the distribution of investments in different sectors of the economy, the recipient countries, the expansion of activities of the enterprise, etc.

Dividend - part of the profits of the joint-stock company, annually distributed among the shareholders in the form of income on shares held by them in accordance with the number and type of shares that are in their possession.

Emission - the release into circulation of banknotes in all forms. Issue of securities may be private (the issue of shares and bonds by joint stock companies) and state (government bonds).

Financial instruments - a separate financial product that can act as a means of payment, savings and exchange. Financial instruments are cash and currency, securities, settlement documents, precious metals, plastic cards, deposits, insurance and credit services, etc.

Financial investment - an investment in securities and other financial instruments (shares, bonds, notes, certificates of deposit, foreign currency, government bonds and loans). In addition, some scientists consider investing in hoarding items (gold and jewelry, antiques, numismatic coins, collectible items) as a financial investment in relation to the common goals of such investments - saving the cost of capital and obtaining speculative profits from the sale of financial investments.

Financial leasing - type of lease, where the lease agreement must meet one of the following requirements:- At the end of the lease, the leased item becomes the property of the lessee; - The term of the leasing contract exceeds 80 percent of the life of the leased object or the residual value of the leased object at the end of the lease is less than 20 percent of its original value; - The lessee has the right to purchase the leased object at a fixed price or a price determined at the end of the lease; - The total amount of payments for the period of the lease agreement exceeds 90 percent of the value of the object of leasing.

Foreign Currency - The currency of other countries, as well as the settlement documents in currencies of other countries.

Foreign direct investments - investments of non-residents of the country directly to the objects of material production, including the purchase, construction or expansion of company's (branch) capital as well as all other operations associated with the establishment of (gain) control of the company, irrespective of its legal form or extension of the company. Direct investments provide investors with effective control over the production of the investee.

Foreign exchange market - a system of socio-economic and institutional relations of the purchase and sale of foreign currency and payment documents in foreign currency.

Foreign investments in the Republic of Uzbekistan recognizes all types of tangible and intangible benefits and their rights, including intellectual property rights, as well as any income from foreign investments invested by foreign investors in the business and other activities not prohibited by law, mainly for profit (income).

Free economic zone - the zone of free trade, where particularly favorable economic conditions created for foreign and national entrepreneurs.

Free trade zone - an area within which a group of countries support free duty-free trade.

Goodwill - an intangible asset carried only in the event of a sale (purchase) of the company as a whole, the price paid for the acquired company's reputation, its communications, favorable location, good customer relations, high morale of employees and other factors (intangible price of business).

Inflation - the fall in the purchasing power of money, which shows itself in higher prices for all goods and services, or, in terms of monetary equilibrium, the manifestation of monetary instability in the sense that the money in the economy more than the goods.

Infrastructure - a set of industries, serving the production and circulation of goods and services, as well as the population. It includes transportation, communications, trade, logistics, finance and trade mediation, utilities, science, education, health, protection of the environment.

Innovation - novelty in engineering, technology, labor and management, based on the use of science and best practices, and the use of these advances in a variety of locations and activities.

Innovative activities - a process aimed at the implementation of the results of completed research and development or other scientific and technological achievements into a new or improved product sold on the market, to the new or improved technological process used in practice, as well as the additional research and development.

Innovative investment - an investment, invested in the design and development of a new generation of engineering and technology

Insurance – a policy where funds created through the funds of enterprises, organizations and citizens of special insurance funds, allocated for compensation. Insurance provided by public authorities, insurance companies. Insurance is a way to reduce investment risk.

Intangible assets - assets that have no physical features, but endowed with the "intangible value" and thus bring the company additional income. These include trademarks and signs, production secrets, copyright laws, patents, good reputation of the company, etc.

Investment activity - a set of actions of subjects of the investment activity related to the implementation of investment.

Investment activity objects - objects of production of tangible and intangible goods (factories, equipment, securities, deposits, currency, industrial property, etc.).

Investment conditions - these are the factors of the investment climate, which created by the government, public policy, and in a relatively short period can be changed or improved (economic, political conditions, development of market infrastructure, etc.).

Investment policy - it is an integral part of the financial policy of the state, which is a set of methods and measures to attract, distribution and effective use of internal and external investment resources. The purpose of the state investment policy - the implementation of structural reforms in the economy, GDP growth, higher living standards and welfare of the population through the mobilization and effective use of investments.

Investment potential - a set of investment climate factors that have evolved historically in the country for centuries and are difficult to change or improve the so-called "objective" factors. These include natural resource potential, labor, production, innovation, consumer and financial capacity of the country.

Investment program - a mechanism of state forecasting of socio-economic development of the country, part of the financial policy of the state, reflecting the priorities of government investment processes.

Investment risk - the probability of an unfavorable situation, as a result do not get planned profit or lose all profits and the initial investment.

Investments - tangible and intangible benefits and the rights funded in objects of economic and other activities in order to obtain certain benefits.

Investor - entrepreneur, organization, or government, carry out investments.

Issuer - the institution or enterprise that issue securities.

Know-how - a collection of different knowledge, scientific, technical, financial, industrial, commercial or other administrative, character, experience, practically applied in the enterprise or professional activities, but which are not yet in the public domain.

Lease agreement - a written contract between the lessor and lessee, designed in accordance with the legislation containing the description of the leasing object, obligations of the parties, the terms, size, time and manner of payment of lease payments, etc.

Lease payment - compensation of lessee to the lessor the value of the object of leasing, as well as the interest income of the lessor. Lease payments allocated for the entire duration of the contract and pays by portions, their size and frequency established by the lease agreement.

Leasing - under the laws of the Republic of Uzbekistan, a special kind of a finance let under which one party (the lessor) on behalf of another party (the lessee) acquires from a third party (the seller) the property according to the property lease agreement (the object of leasing) and provides it to the lessee for a fee in certain conditions of the contract for possession and use for a period exceeding twelve months.

Lessee - a person who acquires the leased item in his possession and use under the lease agreement.

License - 1) to provide by organizations and individuals the right to use patented inventions, technologies, technical and commercial information, **2)** authorization for the various activities within certain limits issued by public authorities in relation to those species that need to control, or for the collection of payments issued for permission.

Liquidity - 1. Ability to turn the assets into cash to pay obligations in liabilities. 2. The speed of implementation, sales, conversion of tangible wealth into cash.

Mortgage loans - long-term loans secured by real estate - land, industrial and residential buildings.

Natural resources - natural means of production, the gifts of nature, the minerals used in the production of goods and services. A distinction made among naturally renewable, non-renewable and renewable by human natural resources.

Offer - Bid of the applicant in respect to the object of tenders submitted under the conditions specified in the tender documentation.

Open Joint - Stock Company – joint-stock company whose members may sell their shares without the consent of other shareholders. Such corporation may conduct an open subscription for shares issued by them and available for sale under the conditions established by law and other regulations. Open joint-stock company is obliged to publish annually to the public an annual report, balance sheet, profit and loss account.

Operational leasing - type of lease in which the object of leasing given temporary use not for one, but several alternate lessees for the amortization period of operation of the lease object.

Ordinary shares – shares, give their holders the right to participate in the general meeting of shareholders and to generate revenue, the value of which depends on the actual size of the profit of the company and the shareholder's stake.

Patent - 1) a document or certificate issued to the inventor and certifying his copyright and the exclusive right to the invention; 2) a document granting permission to practice any profession or craft, subject to the conditions and making fixed payments (patent acquisition).

Pledge - one of the ways to ensure the fulfillment of obligations. The lender (the pledgee) has the right in case of not fulfillment of the obligation by the debtor (the pledger) secured by collateral, to obtain satisfaction from the sales of the pledged property. The subject of the collateral may be things, securities, other property and property rights. The foreclosure of the pledged property decided by the court.

Preferred shares – shares, entitle the holder the priority right to receive income in the form of a solid, pre-set percentage. In the event of liquidation of the

Company, the holders of preferred shares invested funds in stocks will receive at their nominal price. Preferred shares have no voting rights in decision-making.

Primary financial instruments - financial instruments, which characterized the release into circulation by the primary issuer and confirm the direct property rights or debt instruments (stocks, bonds, cheques, promissory notes, etc.).

Profit - the excess of revenues from sales of goods and services over the cost of their production and sale of these products. Profit calculated as the difference between the revenues from the sale of the product of economic activity and the amount of costs of factors of production of these activities in terms of money.

Project finance - a long-term investment project, where the return on investment is based on the future cash flows of the project rather than the balance sheet figures of project sponsors.

Real investment - is an investment in fixed assets (buildings, equipment) and necessary for their functioning of working capital (raw materials, supplies, money, etc.), as well as investments in intangible assets (licenses, patents, trademarks, etc.).

Rent - a contract whereby the lessor provides the lessee their property for temporary use for a (rental) fee.

Risky business - kind of business, mainly for small firms that have settled in the high technology industries and engaged in the commercialization of innovation.

Securities - documents containing proprietary rights, entitling them to receive a specified portion of income.

Self-financing - economic system in which the union or the company covers all the costs both at simple and at the expanded reproduction of own sources.

Share – a security certifying the participation of the owner in the formation of funds of the company and gives the right to receive an appropriate stake of its profits (dividends), and the right to vote according to the proportion of equity.

Shareholder - owner of the joint-stock enterprise, the owner of the shares conferring the right to receive a certain income, and to participate in managing the affairs of the company.

Social investments - investments made in human capital, skills and work experience, as well as the development of other forms of intangible benefits.

Solvency - the ability of the state, entity or person to perform timely and fully its payment obligations arising from trade, credit, or other operations related to money.

Subcontractor - participator of capital construction, who is employed by general contractor and is responsible to him for its obligations and time terms of its part of the construction work.

Syndicate - a temporary union of creditors for the implementation of major investment projects that take on the implementation of all lending activities while maintaining production and legal independence of its member banks.

Syndicated loans - loans for the implementation of large and strategically important investment projects provided by multiple lenders to a single borrower syndicate of lenders.

Tender commission - a commission, composed of representatives of the involved investors, customers, consisting of an odd number of members, the main function of which is to determine objectively the winner of the tender on the documents submitted.

Tenders - competitive bidding method of selecting the optimum supplier of goods, works and services in accordance with the criteria and conditions set out in the tender documentation.

The consolidated list of priority investment proposals - is part of the state investment program, which specifies projects that need investment, where revealed the goal of the project, the required amount, the initiator of the project, the planned timing of the investment and the required amount.

The cost of the loan - the amount that the borrower pays the lender for the loan. The main components of the cost of the loan is the interest rate, commissions & fees and insurance premium.

The economic method of organization of capital construction - an organization at the company department (management) of capital construction with a set of permanent staff positions and techniques.

The investment climate of the country - a combination of economic, political, social, environmental and other factors that determine how favorably to invest in the economy of the country. The favorable climate characterized by political and economic stability, the presence of the legal framework, moderate taxes, benefits, provided to investors, etc.

The investment project used in two senses: - As a business, activity, activities involve the implementation of a set of actions for the implementation of investments to achieve certain goals; - As a system of organizational - legal and financial settlement documents necessary for the implementation of any future action or describing such actions.

The lessor - the person acquiring the object of leasing a property to subsequent transfer of object to the lessee at lease.

The life cycle of the investment project - the period from inception of the idea of the investment project, including preparation, implementation, sales growth, until the last gained revenue from the sales (the bankrupt of project).

The subjects of investment activity may be residents of the Republic of Uzbekistan - individuals and legal entities, state governments and local governments, foreign governments, international organizations, foreign legal and natural persons, stateless persons and citizens of Uzbekistan residing abroad for a long time.

Trademark, trade name - registered in the relevant government department designation, placed only on the product or its packaging, and serves to individualize similar goods and their manufacturers.

Venture financing - high-risk financing in high-tech projects by investors investing in the share capital of the small research firms (share purchase) or selection of investment loans for the medium and long-term period for an innovative project.

Warranty – a type of collateral, in which the individual, company or government guarantees repayment of borrowed funds, if the borrower fails to return the loan on time or the interest.

Work force - all the mental and physical abilities that can be used by people to produce goods and services.

Working capital - material resources involved and fully expended during one production cycle.

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