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## **IMPROVING FINANCIAL MECHANISMS TO ENSURE INVESTMENT AND INNOVATION ACTIVITY IN UZBEKISTAN**

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### **Abstract**

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#### **Keywords:**

global pandemic,  
science development,  
targeted financing,  
capitalization, tax  
environment,  
innovation activity,  
project financing,  
international markets,  
innovation policy,

It is known that in recent years, the pandemic has had a negative impact on the economies of countries around the world. At the same time, countries pay special attention to the recovery of their economies and the identification of strategies aimed at increasing the economic activity of enterprises operating in them and the production of innovative products. The Republic of Uzbekistan has also set a number of tasks in this regard. The practical implementation of these tasks will serve to achieve economic efficiency. Therefore, the relevance of this article is determined by ensuring competitiveness by improving financial mechanisms for investment and innovation activity, achieving financial stability in enterprises, the production of products in line with market demand and further accelerating the enterprise innovation process.

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### **INTRODUCTION**

It is known that the Covid-19 pandemic in the world has created a difficult situation in the implementation of investment projects, the decline in financial flows, which has led to a decline in the share of foreign direct investment. In the context of limited resources and steady growth of needs, the steady development of the national and world economy remains directly dependent on the provision of investment and innovation activity. On the other hand, the innovative activity of business entities also ensures investment efficiency in its financing, which gives it an advantage in global competition. The successful practice of launching a satellite into space by a single private business in 2020 is itself a testament to the level of innovation activity in the world.

Apple is once again leading in the ranking of the most innovative companies for 2021, published by the consulting company Boston Consulting Group (BCG). Looking at the top five in the rankings, Alphabet, which owns Google, as well as Amazon, Microsoft and We will see Tesla enter as well. It should also be noted that their capitalization has already exceeded a trillion dollars. This year's truly innovative companies include companies that developed the Covid-19 vaccine, such as Pfizer, Johnson & Johnson, Moderna and AstraZeneca. The fact that it is included in the list of fifty names shows how important innovative activity is for today and in the future. In this regard, Huawei, Facebook, Toyota, Nike, Xiaomi, Ikea and Adidas There are also popular

brands such as. In general, companies that continue to be innovative in their capitalization show that the investment efficiency in these processes is very high.

The investments in the economy of our country and the funds allocated from the state budget for the development of an innovative economy show that the sustainable innovative development of any society is inconceivable without investment. Especially today, it is clear that the innovative development and growth of any country depends on the state of investment attraction. However, it is also true that the effectiveness of funds allocated from the state budget in this regard remains low.

the Republic of Uzbekistan in 2020 as a result of Covid-19, the volume of investments in fixed assets decreased by 8.2% compared to 2019 and amounted to 202.0 trillion UZS. UZS [1]. It is well known that "the basis of the country's development is, without a doubt, science and innovation" [2]. To mitigate the effects of the global pandemic, "it is necessary to increase investment projects to achieve economic growth and create competitive industrial chains. At the same time, the tasks aimed at ensuring financial stability in enterprises through the financial mechanisms of investment and innovation activity of existing enterprises, the production of innovative products in accordance with market demand show the relevance of our research.

### **RESEARCH METHODOLOGY**

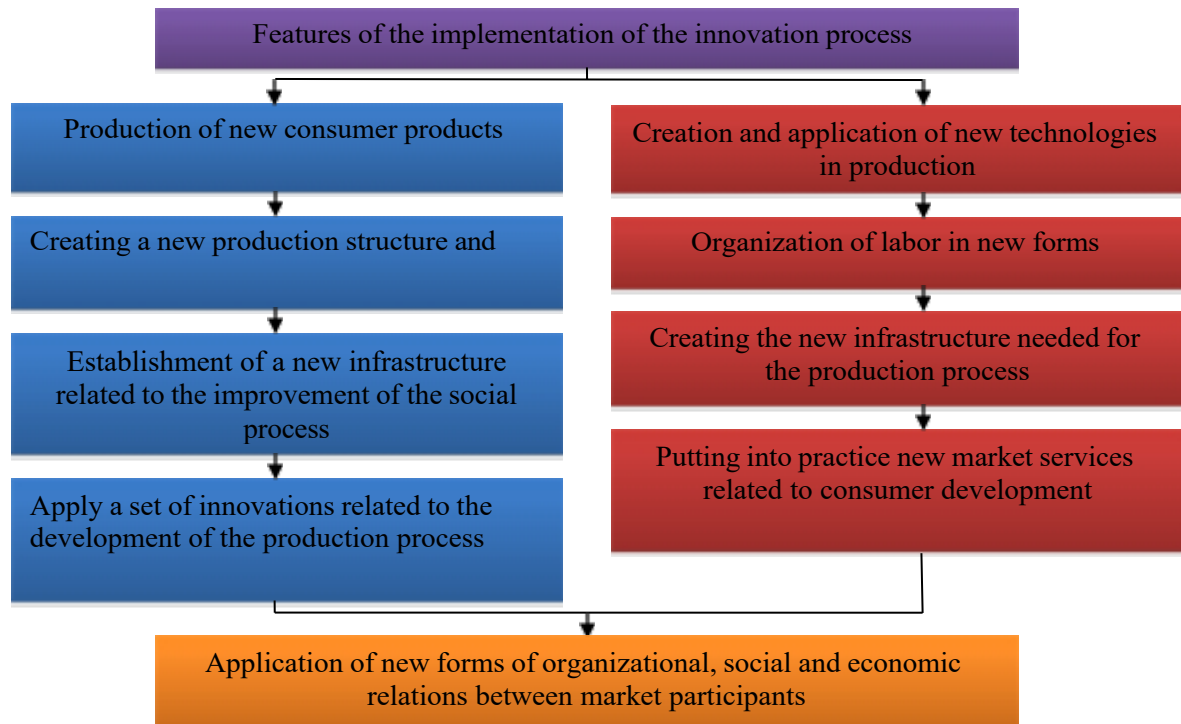
The topic used analysis and synthesis, induction and deduction, systematic approach, abstract-logical thinking, monographic observation, statistics, economic analysis, fuzzy set theory and economic-mathematical methods.

### **ANALYSIS AND RESULTS**

Improving the production process at the level of world standards based on the development of science and technology depends on the amount of innovative investment allocated to it. Investments in the development of the innovation process can be made by the state, private businesses and foreign countries and entrepreneurs.

The purpose of attracting investment is to conduct the production process on the basis of expanded reproduction and to ensure the growth of net profits of market participants. These goals can be achieved by ensuring that innovative investment funds grow based on market demand. Investment funds allocated to the innovation process are a category with economic and social characteristics.

One of the main ways to ensure the economic independence of market economy entities is to ensure the competitiveness of their products or methods of social services based on the development of innovative processes. In our opinion, the innovation process should cover a long period of time. It is also possible to see the features of the implementation of the innovative process (Figure 1).



**Figure 1. Features of the implementation of the innovation process\***

Reforms in our country to modernize production require not only the modernization of equipment and technological processes used in enterprises, but also an innovative approach to the organization of management and accounting. In this regard, it is important to study some practical aspects of the evaluation of products produced by enterprises. Our country is moving towards an innovative economy. This means striving to use all resources wisely for the benefit of the present and future generations.

It is known that in times of crisis in the world economy, the issue of improving the efficiency of the use of funds allocated to enterprises and the scientific community comes to the fore. To this end, the European Innovation Scoreboard (EIS) is published annually in the European Union. Technical efficiency indicators have been calculated for a number of EU countries based on the methodology of analyzing the operating environment. Based on the results, all countries are grouped into 4 groups: innovation leaders; innovative followers; countries that are moderately innovative; countries lagging behind in development.

- Using this method, the following indicators are analyzed:
- Scientific intensity of gross domestic product (GDP);
- the number of scientists per million population;
- Expenditures on education (% of GDP);
- number of national patent applications;
- high-tech exports, compared to industrial exports (%);
- Exports of information and communication technologies, relative to total exports (%).

\*Developed by the author.

Developed countries such as the United States, Japan, South Korea, and Germany make effective use of the costs of developing innovative activities. At the same time, in countries in transition, these funds are used inefficiently. In general, the main factor determining the sustainable development of the innovative economy today is the creation of new types of products in terms of research and principle, the formation and development of the country's innovative environment using the results of development, creation, operation and subsequent introduction of new technologies. is to realize.

Table 1 below shows the indicators of innovation activity in the Republic of Uzbekistan.

**Table 1**

**Indicators of innovation activity in the Republic †of Uzbekistan  
in 2015-2021**

Indicators	2015	2018	2019	2020	2021	1 year compared to 2015 +/-
<b>Total number of operating enterprises</b>	273 627	300240	339034	419490	503538	229 911
<b>Number of operating innovative enterprises</b>	2134	3144	3916	6771	7995	5861
<b>Volume of production of innovative products by enterprises, million UZS</b>	8023629	28871465	26811438	31142796	36489241	28465612

According to the table, the number of operating enterprises in 2015 amounted to 273,627, and by 2021 - 503,538. The number of innovative active enterprises in the country increased from 2,134 in 2015 to 2021. The number of innovatively active enterprises increased from 0.6% in 2015 to 3.7% by 2020, compared to the total number of operating enterprises, despite such a high trend.

The observation of this trend can be explained by the growing attention to investment activity in our country.

†Developed by the author on the basis of data from the State Statistics Committee of the Republic of Uzbekistan.

Table 2

**Expenditures on technological, marketing and organizational innovations by sources of funding, billion UZS**

Indicators	Years						
	2010	2015	2016	2017	2018	2019	2020
<b>Costs of technological, marketing and organizational innovation</b>	<b>264.4</b>	<b>5528.3</b>	<b>2571.4</b>	<b>3929.7</b>	<b>5528.2</b>	<b>6402,4</b>	<b>6836.7</b>
<b>Including sources of funding:</b>							
<b>Own funds of the organization</b>	184.3	1251.8	1180.0	1026.4	1251.8	1559.6	1649.3
<b>Foreign capital</b>	48.3	156.6	314.9	136.2	156.6	384.6	412.1
<b>Commercial banks loans</b>	30.0	280.1	157.3	207.8	280.1	298.7	312.6
<b>Other funds</b>	1.8	3839.7	919.1	2559.3	3839.7	4159.5	4462.7

If we look at the analysis of Table 2 above, in 2018, 22.6% (1251.8 billion soums) of expenditures on technological, marketing and organizational innovations will be at the expense of the organization's own funds, 2.8% (156.6 billion soums) of foreign capital, 5.1% (280.1 billion soums) were financed by loans from commercial banks, 69.5% (3839.7 billion soums) from other sources.

Today, one of the most important indicators of the country's innovative activity is the cost of research and development. In the Republic of Uzbekistan, this figure is 0.2% of GDP.

Particular attention is paid to improving financial mechanisms to ensure investment and innovation activity in the Republic of Uzbekistan. An example of this is the creation of a favorable tax environment for enterprises operating in the economy in recent years. In particular, tax incentives have been introduced to increase the flow of investments, the rapid introduction of modern innovative technologies with the widespread application of scientific and technological advances in the economy, social and other spheres, the modernization of production, technical and technological re-equipment. However, there are inconsistencies in the legal framework for the provision of these tax benefits, the lack of a mechanism for monitoring the results of tax benefits, the lack of clear conditions for tax benefits, insufficient effective and modern tax mechanisms to increase investment and innovation activity of enterprises. Such cases create the need to improve tax incentives in the regulation of investment and innovation activities of enterprises.

The legal basis for granting tax benefits was critically analyzed and inconsistencies were identified. In particular, the first part of Article 30 of the Tax Code provides for tax benefits in the Tax Code, other laws and decrees of the President of the Republic of Uzbekistan, and the second part states that " may be carried out by public authorities ". However, in practice, tax benefits have been applied on the basis of the Tax Code, laws

and other normative legal acts in addition to the decrees of the President of the Republic of Uzbekistan (Table 3).

In order to eliminate these inconsistencies, in particular, Article 30 of the Tax Code, a proposal has been developed and implemented to clarify the regulations governing the bodies authorized to provide tax benefits and tax benefits.

**Table 3**

**Analysis of enterprises using tax benefits in Uzbekistan in terms of regulations<sup>‡</sup>**

	2016	2017	2018	2019	2020
<b>Tax Code of the Republic of Uzbekistan</b>	17719	24734	56411	34568	42623
<b>Other laws of the Republic of Uzbekistan</b>	55	25	105	82	64
<b>Decrees of the President of the Republic of Uzbekistan</b>	3499	4814	2620	1859	3218
<b>Decisions of the President of the Republic of Uzbekistan</b>	9155	12341	17257	16542	22134
<b>Orders of the President of the Republic of Uzbekistan</b>	71	17	67	72	86
<b>Resolutions of the Cabinet of Ministers of the Republic of Uzbekistan</b>	367	7132	8241	7412	8461
<b>Orders of the Cabinet of Ministers of the Republic of Uzbekistan</b>	3	0	2	4	5
<b>Ministry of Justice of the Republic of Uzbekistan (on the basis of joint decisions of ministries and departments)</b>	0	42	12	17	19

In our national tax legislation, in particular, Article 159 of the Tax Code of the Republic of Uzbekistan taxable profit of the taxpayer to the amount of funds allocated for modernization, technical and technological re-equipment of production, minus the depreciation calculated in the relevant tax period, but not more than 30% of taxable profit reduction is defined. We analyze the impact of this benefit on the investment activity of taxpayers in Khorezm region in Table 3 above.

<sup>‡</sup> Data for 2016-2018 Giyasov Sarvar Azamovich Abstract of the dissertation of the Doctor of Philosophy (PhD) in Economics "Improvement of tax incentives in the regulation of innovation and investment activities of enterprises" on page 15. The data for the remaining 2019-2020 are based on the National Database of Legislation of Uzbekistan and the State Tax Committee of the Republic of Uzbekistan.

Table 4

Status of use of investment discounts by enterprises (million UZS)<sup>§</sup>

№	Name of enterprises	Accrued depreciation	Investment amount	Difference +/-
1.	AMIR BEST MIX TRADE Limited Liability Company	194654,2	173244,0	-21410,2
2.	TRITON MEGA LUX Limited Liability Company	17231,2	15748.6	-1482,6
3.	SHIFO FARM 2020 Limited Liability Company	6456.7	6182.8	-273.9
4.	VEROMIX Limited Liability Company	16330.9	17231.3	900.4
5.	BOGOT GEO PLAN Limited Liability Company	18561,4	18263.7	-297.7
6.	"GREEN HOUSE UNIVERSE" limited liability company	9879.3	8793.2	-1086.1

According to Table 4, AMIR BEST MIX TRADE has allocated 173244.0 million UZS for modernization. UZS and could not take advantage of the amortization due to the higher depreciation allowance for this period. TRITON MEGA LUX has issued 15748.6 million UZS worth of goods. UZS, SHIFO FARM 2020 - 6182.8 mln. Despite the investment, VEROMIX did not receive an investment discount, and VEROMIX provided only 44.5 million UZS for 17231.3 thousand UZS. UZS or 0.3 percent investment discount.

Based on the above research, studies and case studies, it is clear that Uzbekistan still has a long way to go to improve financial mechanisms to ensure investment and innovation. For example, we believe that to increase the ability of enterprises to use tax incentives, including investment discounts, to achieve investment activity, the total amount of investment should be reduced from taxable profit. Only then will we be able to ensure high results of investment and innovation activity in our country.

### CONCLUSION

The financial mechanisms for ensuring investment and innovation activity in Uzbekistan have been studied and the following conclusions have been drawn on its improvement:

- Further strengthening the role of financial ties in improving the efficiency of innovation and investment activity, regular critical analysis of the performance of domestic enterprises in ensuring investment and innovation activity, expanding sufficient information opportunities in the analysis;

- expanding the internal and external capabilities of the enterprise, which affect the growth rates of indicators of investment and innovation activity in the world practice, ways to increase the efficiency of effective decision-making and use in the financing process;

- Analysis of the impact of taxes on the investment and innovation activity of enterprises, to prevent the financing of their activities through taxes for a certain period of time, to achieve additional benefits and financial resources, as well as a high level of

<sup>§</sup> Data of the State Tax Committee of the Republic of Uzbekistan.

financial strength of the enterprise;

- Effective use of investment resources involved in the production of innovative products in our country. As a result, targeted financing should be provided in accordance with the growth rate of production, investment volume, composition, intensity and development of investment activities and indicators of internal potential of the region (patents, inventions, developments and intellectual potential) affecting innovation activity.

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