DIRECTIONS FOR ENHANCING INVESTMENT CLIMATE ATTRACTIVENESS: INSTITUTIONAL AND FINANCIAL MECHANISMS IN THE CONTEXT OF UZBEKISTAN'S REGIONS

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Abstract: This article examines policy directions for enhancing the attractiveness of the investment climate across Uzbekistan's regions and analyzes institutional and financial mechanisms that stimulate investment activity. The study systematizes key constraints shaping the regional investment climate—including infrastructure gaps, bureaucratic barriers in land allocation, limited financial-market depth, insufficient coordination in investor guarantees, and regulatory inconsistencies. Using portfolio evidence from Youth Industrial and Entrepreneurship Zones (2022) and indicators on strategic investment projects (2023), the paper discusses the structure of funding sources and risks related to costs and effectiveness. The results suggest that identifying regional 'driver' sectors, introducing a rating-based appraisal of investment projects, supporting production infrastructure through credit/subsidy and leasing instruments, strengthening currency–inflation stability, and minimizing undue state interference can improve predictability and investor confidence.

Keywords: investment climate, regional development, foreign direct investment, infrastructure, leasing, project rating, youth industrial zones, strategic projects.

1. Introduction

Investment-climate attractiveness is closely linked to regional economic potential, resource endowments, demographic capacity, and the quality of infrastructure. Where the investment climate is stable, capital inflows accelerate, technological modernization intensifies, and employment expands. Conversely, complex regulation, high transaction costs, and uncertainty undermine investor confidence and constrain the territorial and sectoral diversification of foreign direct investment (FDI). In this sense, assessing and improving the regional investment climate is a strategic priority for evidence-based economic policy.

In Uzbekistan, recent reforms—economic liberalization, public-administration modernization informed by international best practices, streamlining licensing and permitting, digitizing tax and customs procedures, and reducing interference by state bodies in business activity—have aimed to create more favorable conditions for investors. Nevertheless, regional differences persist in service quality for investors, infrastructure readiness, transparency of land-allocation processes, and the practical enforcement of legal safeguards.

In practice, the 'legality–transparency–predictability' triad is crucial for sustained investor engagement. Investors are particularly sensitive to the consistency of land allocation, infrastructure connectivity, contract enforcement, foreign-exchange risk, and tax/customs administration. When inter-agency coordination is weak or decisions are perceived as discretionary, the cost of capital rises and project timelines lengthen.

This article pursues three objectives: (1) to systematize the main institutional constraints that weaken the regional investment climate; (2) to describe the composition of funding sources and the implications for performance and risk using evidence from youth industrial zones and strategic projects; and (3) to propose policy mechanisms, including project rating and infrastructure support through leasing and credit/subsidy instruments.

2. Methods

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Research design. The study employs a mixed approach comprising: (a) institutional and regulatory analysis; (b) descriptive analysis based on secondary statistics and portfolio indicators; and (c) conceptual modeling of mechanisms proposed to improve the investment climate. This design supports a comprehensive assessment of regional investment conditions.

Data sources. The analysis relies on: (i) a structured list of regional investment-climate constraints; (ii) portfolio indicators for Youth Industrial and Entrepreneurship Zones (status as of 2022); and (iii) summary indicators for strategic investment projects (2023). These were drawn from the materials provided by the author and the regulatory references cited therein.

Operational definitions. 'Investment climate attractiveness' refers to the set of institutions and conditions determining the cost–risk–return trade-off for investors, including regulation, legal safeguards, infrastructure, financial services, currency–inflation stability, and the competitive environment. A 'regional driver sector' denotes sectors with high value-added and export potential that pull regional growth.

Analytical procedures. First, text materials were coded via content analysis into categories (institutional barriers, financial constraints, infrastructure gaps). Second, portfolio tables were summarized to describe funding composition and project status (completed, ongoing, prospective). Third, project appraisal approaches were synthesized into discounted and non-discounted method groups, and a rating-based project evaluation model was proposed.

3. Results

Key constraints in the regional investment climate. Content analysis grouped the constraints into seven blocks: (1) incomplete regional mechanisms to support investor initiatives; (2) weak inter-agency coordination in implementing investor protections and guarantees; (3) increasing unlawful interference in investor activity and limited risk-protection instruments; (4) insufficient production infrastructure and strong needs for technical/technological modernization; (5) bureaucratic obstacles in land and facility allocation and incomplete digitization of related processes; (6) expansion of investment activity largely through centralized sources with relatively low effectiveness; and (7) underdeveloped financial markets, dominance of bank capital, and limited diversification of investment sources.

Portfolio evidence from Youth Industrial and Entrepreneurship Zones. As of 2022, 249 projects had been completed in youth industrial and entrepreneurship zones, with a total value of 663,018 million UZS. Financing is dominated by entrepreneurs' own funds (564,839 million UZS). Additional sources include credits from the support fund in national currency (27,770 million UZS), credits in foreign currency (USD 130 million), commercial bank loans (34,051 million UZS in national currency and USD 150 million in foreign currency), and foreign investment (USD 3,150 million). These patterns suggest that SMEs still rely heavily on own funds and that intermediation instruments and long-term affordable financing require strengthening. Portfolio dynamics further indicate 1,731 ongoing projects and 2,079 prospective projects. This points to strong demand and entrepreneurial initiatives at the regional level; however, the scarcity of long-term affordable capital, capital-market instruments (bonds, equity finance), and risk-sharing mechanisms can keep projects locked into a bank-credit model.

Infrastructure support through a leasing mechanism. Providing production and service facilities on a lease (leasing) basis in youth industrial zones can be an effective instrument to improve the investment climate. Under the proposed model, the support fund provides resources to commercial banks at a 10% rate; banks then lease facilities to young entrepreneurs at a 14% rate, while entrepreneurs make a 10% down payment (as a share of the facility value). This mechanism (a) expands access to resources; (b) accelerates asset renewal and modernization; (c) increases regional industrial capacity; and (d) helps create a predictable and stable business environment.

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Indicators for strategic investment projects. In 2023, 46 strategic investment projects were implemented with a total value of USD 22,350.9 million. Financing was composed of FDI and foreign credits (USD 12,176.7 million), foreign credits under state guarantees (USD 3,120.9 million), initiators' own funds (USD 3,751.8 million), the Reconstruction and Development Fund (USD 284.6 million), and budget funds (USD 27.4 million). The high share of external financing highlights the importance of managing FX risk, rigorously assessing economic effectiveness, and increasing transparency in the criteria for providing state guarantees.

Rating-based evaluation of project effectiveness. The findings support introducing a rating-based evaluation mechanism for strategic projects. A rating approach can compare projects across: (i) economic effectiveness (NPV/IRR; discounted cash flows), (ii) social impact (employment; local value chains), (iii) risk profile (FX, inflation, infrastructure), (iv) institutional readiness (land, permits, partnerships), and (v) environmental and energy-efficiency criteria. This enables resources to be allocated to higher-impact projects and reduces risks of cost inflation and inefficient spending.

Table 1. Investment projects in Youth Industrial and Entrepreneurship Zones (as of 2022)

Category	**No. of projects**	**Total value (million UZS)**	**Own funds (million UZS)**	**Fund loans (million UZS)**	**Fund loans (USD million)**	**Commercial bank loans (million UZS / USD million)**	**Foreign investment (USD million)**
Completed	249	663,018	564,839	27,770	130	34,051 / 150	3,150
Ongoing	1,731	2,768,972	1,945,301	270,498	2,862	303,489 / 7,910	13,968
Prospective	2,079	2,360,567	1,370,061	601,039	15,571	—	—

Note: Compiled based on the materials provided by the author.

Table 2. Summary indicators of strategic investment projects (2023)

No. of projects	**Total value (USD million)**	**Expected balance (USD million)**	**Own funds (USD million)**	**RDF (USD million)**	**FDI & foreign loans (USD million)**	**State-guaranteed foreign loans (USD million)**
46	22,350.9	19,361.4	3,751.8	284.6	12,176.7	3,120.9

Note: Budget funds are additionally recorded at USD 27.4 million.

3. Discussion

The results indicate that institutional reforms and financial instruments must be mutually reinforcing to improve the regional investment climate. On the institutional side, streamlining and digitizing permitting procedures, minimizing undue interference by state bodies, and ensuring the practical enforcement of legal safeguards can raise investor confidence. However, if infrastructure gaps and financing bottlenecks are not addressed, regulatory improvements alone may not deliver the expected scale of capital inflows.

Portfolio evidence from youth industrial zones suggests that many small and medium projects remain dependent on entrepreneurs' own funds, reflecting the relatively high cost of credit, strict collateral requirements, and limited capital-market depth. The proposed leasing mechanism helps relax these constraints by reducing upfront capital needs and enabling a more predictable repayment structure while accelerating the provision of ready-to-use facilities in industrial zones.

For strategic projects, the prominent role of FDI and foreign borrowing signals deeper integration with global capital markets. Yet, the sizeable share of state-guaranteed borrowing requires cautious fiscal management. Without robust appraisal and risk assessment, rising public-contingent liabilities can send negative signals to investors. A rating-based evaluation framework strengthens

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transparency, supports selective resource allocation, and reduces risks associated with inflated costs and inefficient expenditure.

Macroeconomic stability—especially currency and inflation dynamics—directly affects investment decisions. Under a floating exchange rate regime, managing expectations, monitoring export competitiveness, and effectively using international reserves can improve predictability. Moreover, strengthening domestic production and service markets to curb inflationary pressures contributes to a stable environment for long-term investment planning.

Overall, a ‘policy package’ approach is likely to be most effective: (1) identify regional driver sectors and build an investment pipeline; (2) digitize land allocation and permitting while enforcing transparent standards; (3) accelerate infrastructure through leasing and credit/subsidy instruments; (4) adopt project rating and monitoring for strategic initiatives; and (5) strengthen institutional accountability in investor services.

4. Conclusion

This study highlights three priority directions for enhancing regional investment-climate attractiveness in Uzbekistan: (1) institutional reforms and effective enforcement of legal safeguards; (2) financial mechanisms that accelerate infrastructure provision (notably leasing); and (3) rating-based appraisal of investment projects to improve transparency and allocate resources toward higher effectiveness.

Policy recommendations include: (a) strengthening ‘one-stop-shop’ investor services and digitizing inter-agency coordination; (b) moving land allocation and permitting processes to end-to-end electronic platforms to reduce discretion; (c) scaling facility leasing in youth industrial zones with clearly regulated terms; (d) linking criteria for state guarantees in strategic projects to rating outcomes and risk profiles; and (e) promoting diversification of investment sources through capital-market instruments, private funds, and public–private partnerships at the regional level.

Future research should develop a regional integral index of investment-climate quality, empirically test the proposed rating criteria, and evaluate the fiscal and social impacts of the leasing model.

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