



CAPITAL-ORIENTED INVESTMENTS IN THE ECONOMY OF THE REPUBLIC OF UZBEKISTAN: ACHIEVEMENTS, SHORTCOMINGS AND SOLUTIONS, AS WELL AS PROCESSES FOR IMPROVING THEM ON THE BASIS OF THE REQUIREMENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS.

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Annotation: The article analyzes the sources of financing capital investments in the market economy of the Republic of Uzbekistan, favorable investment climate, specificity of investment activities, social, organizational, legal, political, regulatory, capital investments and criteria for the recognition of financial assets based on IFRS in attracting foreign investments to the economy of Uzbekistan. Further improving the investment climate, attracting direct investment and disclosure of information to assets by Joint-Stock Companies in accordance with the requirements of International Financial Reporting Standards (IFRS) in financial statements have been highlighted in the investment environment.

Key words: Foreign Investment, Securities, bond, financial statement, economic growth, investment, normative, investment growth rate, enterprise, centralized financing sources, social, organizational, legal, political, normative, investment growth rate, capitalized investment.

Аннотация: В статье анализируются источники финансирования капитальных вложений в условиях рыночной экономики Республики Узбекистан, благоприятный инвестиционный климат, специфика инвестиционной деятельности, социальные, организационные, правовые, политические, регулятивные аспекты капитальных вложений и критерии признания финансовых активов на основе МСФО при привлечении иностранных инвестиций в экономику Узбекистана. В инвестиционной среде особое внимание уделяется дальнейшему улучшению инвестиционного климата, привлечению прямых инвестиций и раскрытию акционерными обществами информации об активах в соответствии с требованиями Международных стандартов финансовой отчетности (МСФО) в финансовой отчетности.

Ключевые слова: Иностранные инвестиции, Ценные бумаги, облигации, финансовая отчетность, экономический рост, инвестиции, нормативные показатели, темпы роста инвестиций, предприятие, централизованные источники финансирования, социальные, организационные, правовые, политические, нормативные показатели, темпы роста инвестиций, капитализированные инвестиции.

Introduction

The very strong impact of the COVID-19 pandemic on the world economy, climate change and changes in production and trade chains have forced transnational corporations to re-explore their approaches to international investment strategies. The flow of foreign direct investment was 1.58 trillion dollars in 2021, an increase of 64% from 2020. Total direct investment flows into Europe fell by 80% to US\$73 billion, This figure dropped to 57% in the UK, 47% in France and 34% in Germany. The volume of direct investment in the European

Union decreased by 73% and amounted to 103 billion US dollars. In the United States, the flow of investments decreased by 40 percent to US \$ 156 billion¹. These circumstances require the importance of attracting foreign investment and the effective use of the investment mechanisms of the countries.

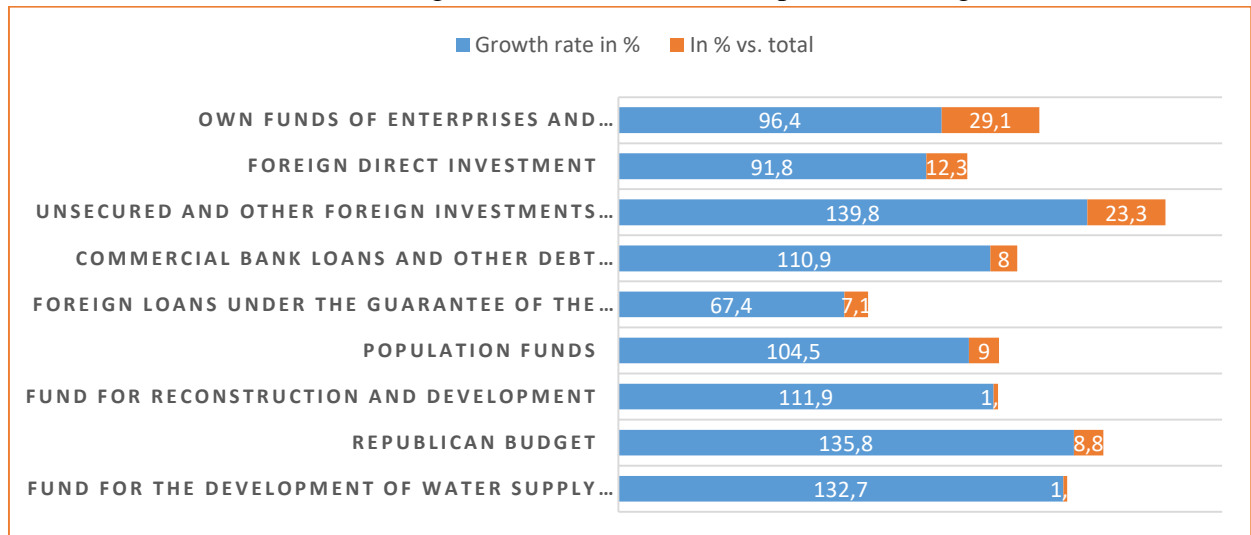
Materials and Methods

In the improvement of the securities market, the country is one of the main indicators that determine the improvement of the financial market. The improvement of trading systems, the high volume of commodity turnover, the profitability of securities and the liquidity of instruments in circulation play a decisive role in the improvement of the stock market. The effective organization of the activities of business entities depends on providing them with financial resources. Securities instruments are essential to ensure the free movement of financial resources between economic entities, and it will be possible to finance investment activities by issuing them.

Since independence, the Republic of Uzbekistan has paid great attention to attracting foreign investment in the economy of our country.

In 2021, 245 trillion soums were related from the total sources of financing for the advancement of economic and social spheres in the Republic of Uzbekistan. US \$ 23,1 billion is separated in the equivalent, representing 105,2% compared to 2020, in 2021, 61,9% or 151,5 trillion soums of the main investments were attracted, while 38,1% or 93,5 trillion soums of the enterprise, organization and population were financed from their own funds.

In total investments, the share of investments in capital, financed from centralized sources of financing, was 18,3%, or 44,8 trillion soums, 1,6% decrease from its share in 2020, while investments of 200,2 trillion soums or 81,7% of total investments were appropriated from decentralized sources of financing, an increase of 1,6% compared to the figure in 2020.



1-picture. Capital investments by financing sources,²

In 2021, self-financed investments of company and organisations -71 257,3 billion, or 29,1% of total investments. It should be noted that, the growth rate decreased by 3,6 % compared to 2020, the bulk of the investments received were financed at the expense of company and organisations. These numbers definitely prove that economic entities prefer to

¹ World Investment Report-2022: Investing in sustainable recover. UNCTAD/WIR/2022. https://unctad.org/system/files/official-document/wir2022_en.pdf

² Stat.uz

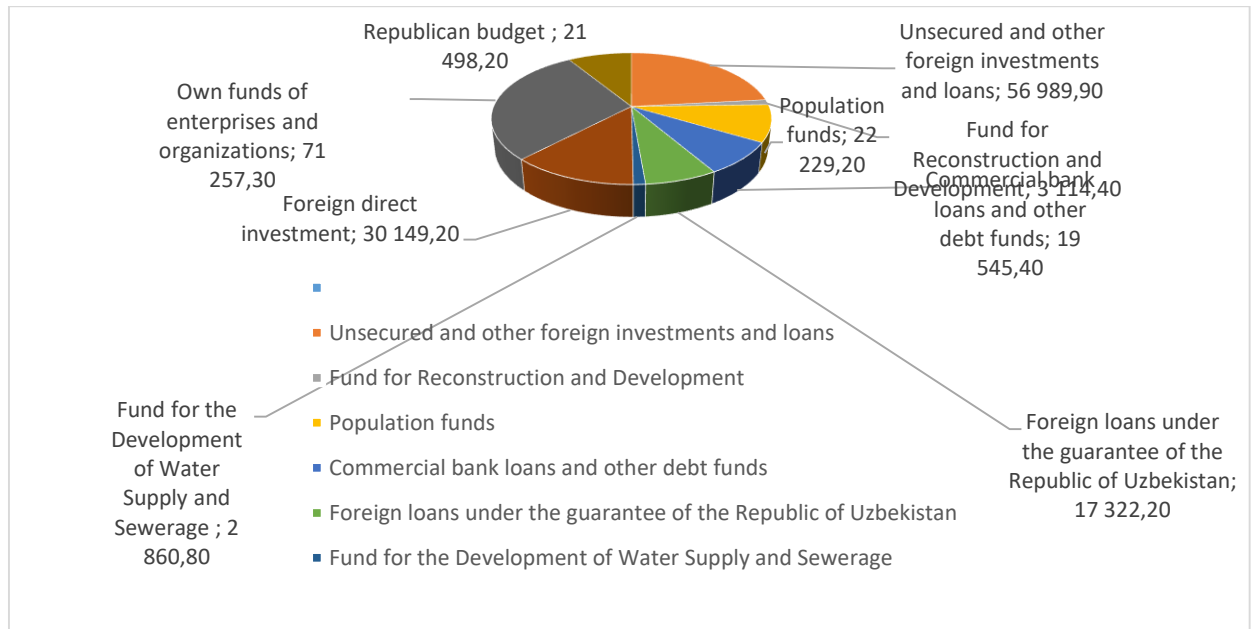
invest or modernize their activities on the sources of financing using their internal resources according to 1-picture.

In recent years, measures have taken to create a large-scale favorable investment environment, to attract and absorb foreign investments, in particular, foreign direct investments. As the result, 30 149,2 billion UZS are financed by foreign direct investment, or 1,8% reduced by points compared to the figure in 2020, with a share in total investments of 12,3%.

The highest rate of investment increase in terms of sources of financing was not guaranteed and was observed at the expense of other foreign investments and loans, increasing by 39,8% compared to 2020, at the expense of foreign direct and unsecured loans, the following large investment projects were carried out:

- Construction of a solar photoelectric plant with a capacity of 100 MW in Navoi region on the basis of Public-Private Partnership (test project);
- Construction of a gas-chemical complex on the basis of an agreement on the implementation of Geosciences and distribution of products at the "25th anniversary of Independence" in Surkhandarya region;
- Expansion of production capacity of Shurtan-gas chemical complex;
- Program for the reduction of production volumes of hydrocarbon raw materials in 2017-2021;
- Improvement of the "Muruntov" Mine (turn V) Stage 1;
- Program for modernization and improvement of effectiveness of the Republican main gas transmission system in 2021-2022.

With the involvement of Foreign Direct Investment, new technologies are being introduced, new types of goods and services appeared, which create the basis for further improving the quality of goods and services, ultimately increasing the quality of life of the population, increasing competition in the national economy.



2-picture. The structure of the investments acquired by sources of financing, in billion, soum,³

The highest indicators in the territorial structure of direct investments at the expense of the state budget were recorded in the regions of the Republic of Karakalpakstan, Samarkand and Syrdarya regions. 12,7% of total investments in these regions were made at the expense of

³ Stat.uz

the government budget, the highest share of investments of company and organisations at their own expense was observed in the Jizzakh region, which accounted for 47,5% of the investments received in the region did. It also accounted for 40,2% in Tashkent and 37,1% in Tashkent region. At the top of the indicators, the Khorezm region found that the total volume of investments acquired at the expense of the population is 21,0%. As a result of large-scale work on improving the investment climate for foreign investors, foreign investment in all regions of the Republic of Uzbekistan and the share of loans was increased.

Analysis and results

The highest rates in this direction were observed in Navoi and Bukhara regions. These areas are gaining more attention from foreign investors due to their rich nature of profitable settlements. As a result, the share of foreign investment and loans in the total volume of investments in capital amounted to 60,2% and 60% respectively.

1-table. Investments by financing sources in the cross section of Regions⁴

	Total investments, billion soum	Including in terms of funding sources (in % of total)						
		Republican budget	Enterprise and population funding	Population	Foreign investment and loans	Fund for the Improvement of Water Supply and Sewerage Systems	Fund for Reconstruction and	Commercial bank loans and other debt
Republic of Uzbekistan	244 962,60	8,8	29,1	9,0	42,7	1,1	1,3	8,0
Republic of Karakalpakstan	78,79	12,7	23,7	12,4	38,2	0,6	3,7	8,7
Regions:								
Andijan	12143,7	7,4	23,8	13,2	49,0	1,4	0,3	4,9
Bukhara	18995,6	5,1	18,1	10,2	60,0	1,0	0,5	5,1
Jizzakh	13224,4	7,0	47,5	4,4	28,9	1,5	1,0	9,7
Kashadarya	16225,1	6,7	18,2	12,2	55,9	2,7	0,7	3,6
Navoi	16309,1	4,0	16,2	9,0	60,2	0,5	0,4	9,7
Namangan	13302,4	7,6	25,1	16,2	32,6	1,4	0,5	16,6
Samarkand	17722,8	12,7	31,9	11,0	31,8	1,7	0,3	10,6
Surkhandarya	11326,5	11,9	14,0	14,4	44,1	6,6	1,2	7,8
Sirdaryo	8708,0	12,7	15,5	2,8	56,7	0,3	1,8	10,2
Tashkent	27822,4	7,5	37,1	8,4	37,8	0,7	0,5	8,0
Fergana	12920,6	10,3	27,2	13,6	39,7	1,4	1,5	6,3
Khorezm	8580,3	8,2	21,2	21,0	34,9	1,2	3,0	10,5
Tashkent city	38795,3	8,6	39,1	3,4	41,4	0,0	1,4	6,1

The general goal of modifying accounting reports to comply with the requirements of international financial reporting standards is to address the inconsistency between reports

⁴ Stat.uz



prepared under the IAS rules of the Republic of Uzbekistan and those acknowledged under the International Financial Reporting Standards (IFRS). A significant shortcoming in the current classification of financial investments, particularly securities, is the absence of clear criteria for distinguishing between long-term and short-term investments—one of the essential tasks of accounting.

The most basic goal of investors when using more opportunities in the financial market is to take advantage of investment resources. It also aims to increase the profitability of their investments while reducing the risk of investors. The financial market plays a decisive role in achieving these goals and in the effective implementation of the investor's tasks and investment policy, if it is sufficiently developed. World experience shows that the mechanisms of the stock market occupy a central place in financing the innovative development of economic entities.

“Accounting for financial investments in securities can be divided into several interconnected areas:

- Distribution of securities purchase costs
- Determination of the methodology for assessing financial investments in securities
- Organization of the balance sheet value of securities
- Revaluation issues of securities
- the method of writing off securities from the balance sheet and forming financial results on transactions concluded with them” (Мартынова, 2007).

To develop the infrastructure of financial instruments in Uzbekistan, they are included in the regulatory and legal documents. Article 96 of the Civil Code of the Republic of Uzbekistan is titled “Securities” and refers to documents confirming property rights with a special form and mandatory requirements. Securities include: bonds, promissory notes, checks, deposit and savings certificates, bills of lading, shares, and other documents designated as securities by law” (Article, 1997).

According to the law on Joint-Stock Companies of the Republic of Uzbekistan, companies are obliged to disclose important indicators in their financial statements.

In accordance with paragraph 5.1.1 of the Standard of Financial Instruments and Exchange No. 9, during the initial recognition of financial instruments, joint-stock companies must recognize a financial asset or a financial liability at fair value, plus or minus expenses directly related to the transaction, provided the asset or liability is not measured at fair value through profit or loss. Clauses B3.1.3-B3.1.6 of the Financial Instruments Standard No. 9 stipulate that if joint-stock companies use the approach of accounting for an asset valued at amortized cost as of the settlement date, this asset must be initially recognized at its fair value on the transaction date.

If a trade receivable does not have a significant financing component, in accordance with IFRS 9 “Financial Instruments” standard (or if the organization applies the practical simplification provided for in Clause 63 of IFRS 15), and notwithstanding the requirements of paragraph 5.1.1, upon initial recognition, the entity shall value trade receivables at transaction cost (as defined in IFRS 15).

One of the most important processes in investment accounting is determining the subsequent valuation of financial assets. Further evaluation of financial assets is accounted for in accordance with paragraph 5.2. After joint-stock companies initially recognize a financial asset, it is considered in line with clauses 4.1.1-4.1.5 of the Standard of Financial Instruments No. 9 (IFRS):



- (a) At amortized cost;
- (b) At fair value through other comprehensive income; or
- (c) At fair value through profit or loss.

Application of the impairment requirements set forth in Chapter 5.5 of IFRS 9 "Financial Instruments" is necessary for financial assets measured at amortized cost in accordance with paragraph 4.1.2 of IFRS 9 "Financial Instruments" and those valued at fair value through other comprehensive income in accordance with paragraph 4.1.2A. Additionally, when accounting for financial instruments, financial assets designated as hedged items by joint-stock companies, as per Clause 5.2.3 of the Standard of Financial Instruments No. 9 (IFRS), should apply the requirements of fair value hedges in portfolio hedging of interest rate risks, following the guidelines in Financial Instruments No. 39 "Financial Instruments: Recognition and Evaluation." This includes the hedging account requirements of paragraphs 6.5.8-6.5.14, and it is also possible to apply clauses 89-94.

The effective interest rate method is used to estimate the amortized value of financial instruments. In accordance with paragraph 5.4.1 of the Standard of Financial Instruments No. 9, interest income should be calculated using the effective interest rate method (see Appendix A and paragraphs B5.4.1-B5.4.7). This calculation should use the effective interest rate on the gross value of the financial asset.

An entity calculates interest income during the reporting period by applying the effective interest rate to the amortized cost of a financial asset if the credit risk on the financial instrument has significantly decreased and it is no longer considered to have credit impairment. If this decrease is in accordance with paragraph 5.4.1(b) and it can be objectively linked to a specific situation (for example, an improvement in the debtor's credit rating), then in subsequent periods, the interest income should be calculated using the effective interest rate applied to the gross balance sheet value.

A financial asset may be designated at initial recognition as a financial asset at fair value through profit or loss, without the right to subsequent reclassification, provided that such designation eliminates or significantly reduces the uncertainty in the application of measurement or recognition principles. This discrepancy, often referred to as an 'accounting discrepancy, may arise from the measurement of assets or liabilities on a different basis or from the recognition of gains or losses on a different basis.

When an entity appoints investments in equity instruments as instruments measured at fair value through other comprehensive income, as admitted by paragraph 5.7.5 of IFRS 9, it shall disclose the following:

- a) Investments in which equity instruments are designated as instruments measured at fair value through other comprehensive income.
- b) Reasons for choosing this alternative of presenting instruments.
- c) The fair value of each such investment at the end of the reporting period.
- d) Dividends recognized during the period, with a separate indication of dividends related to investments derecognized during the reporting period and retained at the end of the reporting period.
- e) The transfer of accumulated profit or loss from one item of equity to another item during the period and the reason for such transfer.

When an entity derecognizes investments in equity instruments at fair value through other comprehensive income during the reporting period, it should disclose the following:



- a) Reasons for writing off investments.
- b) The fair value of the investment at the date of derecognition.
- c) The accumulated gain or loss on the disposal of the investment.

The main elements of the external environment of an organization include:

- The whole society: Public opinion about the organization is formed.
- Partners: Customers, suppliers, investors, employees, etc., with whom the organization cooperates.
- The state: State bodies that regulate the activities of organisations based on laws, fiscal and law enforcement bodies, etc.

Identifying the necessary indicators reflected in the public report creates a special language that can explain the state and improvement trends of the object under study. Developing market relations and business turnover dynamics, along with attracting third-party investments, have created an obligation to reflect a new indicator of investment income in open reports of business entities.

Conclusion

In conclusion, investment is one of the main aspects in the development of the economy, emphasizing that we should perfectly and fully fulfill its types, classifications, sequences, implementation procedures. In the following chapters of our research work, we will consider such issues as the types, functions, dynamics and evaluation of the effectiveness of investments.

In our opinion, together with the achievements of the Republic of Uzbekistan in foreign direct investment, we can eliminate the shortcomings caused by the implementation of the following processes:

- ❖ further strengthening the attention of the state to this area, creating a solid legislative framework;
- ❖ to increase investment attractiveness of the industry;
- ❖ the sources of investment financing are capital-oriented, the composition and type of which are achieving more positive results in the process of studying perfect data;
- ❖ it is necessary to master foreign experience in this area and apply it in accordance with the country's economy.

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