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FINANCIAL INSTRUMENTS AS A MECHANISM FOR ATTRACTING FOREIGN INVESTMENT

Abstract: This article discusses financial instruments to attract foreign investment in the Republic of Uzbekistan. The theoretical essence of financial instruments is studied, and the process of the emergence of the financial market of the Republic of Uzbekistan is also investigated.

Key words: Investments, financial instrument, financial market, bonds, stocks, securities, stock market.

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Introduction

In investment activities, especially in the securities market, the concept of a financial instrument is among the key ones. The role of financial instruments in the financial market is very significant. They serve as a mechanism for the redistribution of financial resources with the help of financial intermediaries and, thanks to their wide capital management capabilities, attract a large circle of investors. Financial instruments allow to earn income by diversifying the sources of its receipt, provide liquidity, insure the company against risks. Financial instruments are in constant development, which is associated with the appearance of their various types with new qualities, characteristics and goals. These processes arise interest in a detailed study of the nature, classification and systematization of existing theoretical views on financial instruments.

The term “financial instrument” is considered a rather new term for the CIS countries and in particular for Uzbekistan. He found his use in the economic science of the CIS countries with the beginning of the transition to a market economy. Until now, there is no unambiguous interpretation of this term, and the existing definitions are mainly owned by Western economists.

F. Fabozzi defines financial instruments as “financial intangible assets whose value lies in future cash flows”. [12]

Carol Alexander gives the following definition: “A financial instrument is a tradable, legally sound claim for the income or assets of a company.”[13]

D.A. Shevchuk under financial instruments refers to various forms of short-term and long-term investment, which are traded on financial markets. Financial instruments include cash, securities, options, forward contracts, futures and swaps.

The main source that most accurately disclosed the essence of a financial instrument is international financial reporting standards (IFRS). According to IFRS 32: “a financial instrument is any contract under which a financial asset arises simultaneously from one organization and a financial liability or an equity instrument from another”. [14]

Analyzing the above definitions, we can say that there are different approaches to the term financial instrument. A financial instrument is explained as, securities, financial asset and financial liability, contract and agreement, and also as a form of attracting short-term and long-term investments.

In many cases, financial instruments are classified mainly as equity and debt, or as primary and

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derivative. Primary financial instruments include: stocks, loans and borrowings, bonds, other debt securities, payables and receivables.

Derivative financial instruments are options, futures, forward contracts, interest rate swaps, currency swaps. The emergence of derivative financial instruments is explained by many reasons: hedging, speculativeness, protection of the interests of owners.

Securities are the most striking instrument of attracting foreign investment. It should focus on the role and development of the securities market in the Republic of Uzbekistan.

In March 1991, the "Toshkent" Republican Universal Commodity and Stock Exchange was opened as an open joint stock company. In January 1992, the Stock Department of the Toshkent Exchange for the first time in the republic began to conduct regular trading in securities. In June 1992, the Republic of Uzbekistan adopted the Law of the Republic of Uzbekistan "On exchanges and the activities of exchanges." [15] This law introduced significant adjustments and established mandatory requirements for the activities of exchanges. According to this law, the authorized capital of the exchange was to be at least 50 million rubles. Exchanges could not create any commercial structures. The founders of the exchange could not be ministries, departments, state committees, etc. [16]

The Law of the Republic of Uzbekistan "On Securities and Stock Exchange" dated September 2, 1993 No. 918 was a major event in the development and regulation of the stock market of sovereign Uzbekistan. This law regulated the activities of the stock exchange and other professional participants in this market, and also determined the legal basis for the circulation of securities (stocks, bonds, treasury bonds, derivatives, certificates of deposit, bills of exchange).

On April 8, 1994, the Republican Stock Exchange "Toshkent" was established in accordance with the Decree of the President of the Republic of Uzbekistan "On measures to further deepen economic reforms, ensuring the protection of private property and the development of entrepreneurship" dated January 21, 1994 No. 745. [7] In 1995, subsidiaries of the RSE "Toshkent" were established in Andijan, Samarkand, Bukhara and then in other regions. They began to represent the interests of the exchange in the regions of the republic.

In accordance with the Decree of the President of the Republic of Uzbekistan dated March 26, 1996 No 1414, the Center for Coordination and Development of the Securities Market under the State committee of the Republic of Uzbekistan for assistance to privatized enterprises and development of competition is being established. The center is

determined by the authorized state body for regulating the securities market. [11]

On April 25, 1996, the Law of the Republic of Uzbekistan "On the mechanism for the functioning of the securities market" was adopted. This law determined the participants in the securities market, as well as measures of responsibility for participants in the securities market for non-compliance with the law. [6]

On April 26, 1996, the Law on Joint Stock Companies and the Protection of Shareholders Rights was adopted. This law defined the organizational foundations of a joint stock company, its creation, management, operation, liquidation, protection of the rights and interests of investor shareholders".[1]

On August 29, 1998, the Law of the Republic of Uzbekistan "On the activities of depositories in the securities market" was adopted. Based on this law, a two-tier system of depositories was created in the Republic of Uzbekistan: the state depository and the second-level depository. [4]

In 1997-2000 market for government short-term bonds has formed. In 2001-2006 new securities appeared: certificates of deposit, corporate bonds, bonds of the Central bank.

On July 22, 2008, the Law of the Republic of Uzbekistan "On the Securities Market" was adopted. This law combined the previously adopted 4 laws: "On Securities and the Stock Exchange", "On the mechanism of functioning of the securities market", "On the activities of depositories in the securities market" and "On the protection of investors in the securities market". In 2015, the law was adopted in a new edition. Simplification of the procedure for issuing securities, conclusion of transactions with securities through the introduction of information and communication technologies are the main distinguishing characteristics of the new adopted law. And also the requirements for professional participants in this market were revised. This law provides for the implementation of professional activities in the securities market of the following entities:

- investment intermediary (broker, dealer),
- investment adviser,
- investment
- depository,
- Settlement and Clearing house,
- trustee of investment assets,
- transfer agent,
- Organizer of OTC Securities Trading. [3]

Securities under this law are defined as "documents certifying property rights or a loan relationship between the legal entity issuing these documents and their owner, providing for the payment of income in the form of dividends or interest and the possibility of transferring the rights arising from these documents to other persons". [3]

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On August 29, 2016, a new Unified software and hardware complex was launched on the securities market, thanks to the efforts of the State Competition Committee and the Korean Stock Exchange. In other words, the domestic stock market has joined international capital markets.

Based on the decree of the President of the Republic of Uzbekistan dated January 14, 2019 No. 5630 "On measures to radically improve the system of managing state assets, antitrust regulation and the capital market", the Agency for development of the capital market of the Republic of Uzbekistan was established. The Agency is the successor to the Center for coordination and development of the securities market at the State Competition Committee of the Republic of Uzbekistan. The highest organization of the Agency is the Cabinet of Ministers of the Republic of Uzbekistan. The Agency is an authorized state body for regulating the securities market. [8]

If analyze the history of the development of the stock market of the Republic of Uzbekistan, a legislative regulatory framework and the necessary infrastructure of the stock market have now been created. There is a technologically advanced stock exchange with a network of developed branches and offices in the regions. There are coordination and development bodies that contribute to the comprehensive development of the securities market. However, the mechanism of the securities market does not function as effectively as in other countries. The evidence of these statements is the fact that, according to the results of 2017, the trading turnover of the largest exchange - RSE "Toshkent" - is only 37.8 million dollars, or 0.12% of GDP. [18]

In developed countries, one of the strongest segments of the investment market is the stock market (or securities market), which helps to accumulate large investment resources and achieve maximum investment mobility. At the present stage of economic development, the stock market of our country is not ready to solve the problems associated with the provision of investment resources for the economy.

Despite the positive trends in the stock market, it remains one of the weakest elements of the country's financial system. In the early stages of the establishment of the stock market in Uzbekistan, it performed a narrow function, one of which was technical support for the privatization of state-owned enterprises. In this regard, a primary market appeared in Uzbekistan, but with its own characteristics: it was used exclusively in the privatization process, and in most cases there was practically no public offer. Thus, most of the issue of shares by enterprises was not related to investments. In modern conditions, the function of redistributing property rights is gradually losing its significance - privatization has provided a sharp mass of private owners. With further liberalization of economic policy and deepening

global integration, the need for a developed stock market will grow.

The main objective of the functioning and development of the stock market in Uzbekistan should be to attract strong sources of investment to revive modern production and ensure further growth. That is, in our opinion, such sources of investment should be directed, first of all, to the implementation of projects on innovative and technological modernization of the production sector. Improving the regulatory system of the securities market requires identifying priority areas of state policy in the stock market and developing measures for its further development, the formation of a unified approach to the regulation of banking and non-banking financial institutions in the stock market.

According to the Law of the Republic of Uzbekistan "On Foreign Investments", a foreign investor has the right to make investments - through equity participation in the authorized funds and other property of business companies and partnerships, banks, insurance organizations and other enterprises created jointly with legal and (or) individuals of the Republic Uzbekistan 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, etc. [2]

Shares are the most common type of securities and one of the main financial instruments for attracting foreign investment in the Republic of Uzbekistan. Joint-stock companies began to appear in the republic after independence, by transforming large state enterprises into joint-stock companies. Until the end of 1994, 26.1 thousand enterprises were transformed into joint-stock companies. Their shares formed the basis of the securities market in the republic. As of January 1, 2004, there were already more than 1 million shareholders in the republic - individuals who repurchased shares on the Republican Stock Exchange. [17]

According to the decree of the President of the Republic of Uzbekistan from 08.01.2018. "On measures to radically improve the investment climate in the Republic of Uzbekistan": the minimum size of the authorized capital of joint-stock companies now amounts to 400 million soums; the minimum authorized capital of enterprises with foreign investment is 400 million soums, which previously amounted to 600 million soums; the minimum share of a foreign investor in the authorized capital of an enterprise with foreign investment is 15% (before 30%); a foreign founder can be either a legal entity or an individual. [9]

Certificates of deposit. In 1992, the State Bank of the Republic of Uzbekistan on July 6, 1992 approved the "Rules for the issue and circulation of certificates of deposit" for legal entities and

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individuals. Small batches of certificates of deposit of individual banks, for example, Turon Bank, were already put up for auction at the stock department of the “Toshkent” exchange. At the moment, commercial banks are actively involved in the market of certificates of deposit. The procedure for issuing deposit and savings certificates is regulated only by the Central Bank of the Republic of Uzbekistan.

Bonds are another important instrument of the stock market of the Republic of Uzbekistan. Corporate bonds are leading in the bond market. The main issuers of corporate bonds are commercial banks. Until 2003, private enterprises, limited liability companies, and open joint-stock companies could be issuers of corporate bonds. Then this practice was suspended. Currently, bonds worth about 338 billion soums are in circulation. [18]

Government securities were issued in 1992 for a period of 20 years and were redeemed after 22 years. In 1996, government short-term bonds (T-bills) were first issued. These securities were issued by the Ministry of Finance to cover the state budget deficit. In accordance with the terms of the issue, the main investors were legal entities-residents of the country.

Government bonds have not been issued in Uzbekistan since 2011. It was decided to issue government securities in the presence of a deficit of the state budget. Since 2005, the state budget has been working with a surplus. However, the state budget for 2019 is planned with a deficit of 4.5 trillion soums, that is, in the amount of 1.1% of GDP. The budget deficit is planned to be covered by state treasury bonds in the amount of 3 trillion soums.

Eurobonds. In 2019, Uzbekistan issued debut Eurobonds in the amount of \$ 1 billion for a period of 5 and 10 years. The resolution of the Cabinet of Ministers of the Republic of Uzbekistan “On measures for the issue and placement of international bonds of the Republic of Uzbekistan” dated January 16, 2019 was adopted.

Municipal bonds. Over the entire history, the issue of municipal bonds was not observed in Uzbekistan. However, by decree of the President of the Republic of Uzbekistan No.5515 dated August 17, 2018, the issue of a Tashkent city bond was allowed to attract free funds of the population. Paragraph 17 of this decree sets forth the following: “To allow the khokim (mayor) of the city of Tashkent to raise free funds of the population for profitable investment projects by issuing securities in the form of bonds of the city of Tashkent or shares of newly created business companies”. [10]

If we conclude from the above, we can say that the main legal document regulating the stock market is the Law of the Republic of Uzbekistan “On the Securities Market”. This law defines 6 types of securities, of which only 3 types (stocks, corporate bonds, certificates of deposit) are traded on the market. Bond issuers are joint stock companies, mainly commercial banks. Since measures have been taken to radically improve the state of the stock market and the investment climate of the republic, positive changes are expected. (issue of Eurobonds, municipal bonds). In this regard, financial instruments to attract foreign capital, at the moment, may be stocks, Eurobonds, corporate bonds.

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