

**AZERBAIJAN REPUBLIC**

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**ABSTRACT**

of the submitted dissertation for the degree of Doctor of Philosophy

**DIRECTIONS FOR INCREASING THE INVESTMENT  
ATTRACTIVENESS OF THE AZERBAIJANI ECONOMY**

Specialty: 5308.01. “General Economics”

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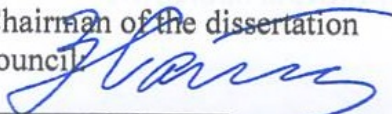
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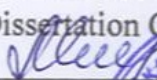
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## GENERAL CHARACTERISTICS OF THE WORK

### **The relevance and degree of usage of the dissertation topic.**

Since the beginning of the XXI century, wide-ranging and large-scale reforms have been carried out in the Republic of Azerbaijan. Such reforms attract attention with the development of the economy and the improvement of social life. Current reforms and development measures are also aimed at improving the investment environment and increasing the investment attractiveness of the economy. In particular, the conceptual documents, state programs and strategic road maps adopted in the last decade clearly reflect this view. All such measures implemented in the Republic of Azerbaijan have already shown their benefits. The economic development taking place in the country, increasing the demand for investments, constantly raises the issue of increasing the investment attractiveness of industries and entities. The increase in investment activity and attractiveness also makes it necessary to conduct research and studies in accordance with modern requirements. Such an approach stems from the serious changes taking place both in the world and in the country's economy. Fluctuations in energy prices and the contradictions caused by crises suggest more theoretical and practical research on investment attractiveness. All these important factors and views increase the relevance of the dissertation, making it necessary to conduct more research in this area.

Various researches on investment and its bases attract attention with their importance. The views of foreign economists, including the classics, on investment and its attractiveness stand out for its importance. Thus, A. Smith evaluates the issues of capital and economic development in connection, argues that their increase or decrease has an impact on production. D. Ricardo, T. Malthus, J.B. Sey and F. Bastia expressed the view that the market guarantees equality of deposits, savings and investment employment and economic equilibrium. F. Kene defines the structure of investments and presents them as initial and annual advances. It substantiates K. Marx's view that the ultimate goal of capital investment is to make a profit by the investor. J. Keynes emphasizes the importance of encouraging public private

investment in the economy, production and infrastructure. E.Hansen argues that the amount of money in circulation affects the investment process. P.Davidson and Minsk note that the market economy is related to production, and the production process continues for a long time. R.Harrod, E.Hansen, N.Caldor, E.Domar, J.Robinson study the impact of investments on the level of profitability.

Russian economists such as L.I.Abalkin, A.V.Kuznetsov, V.K.Savenok, V.N.Chapek, G.M.Kostyunina, V.K.Lisicha, A.S.Akulich and others are distinguished by their research on investment and investment attractiveness. Their research focuses on the development problems of domestic and foreign investment, the study of investment attractiveness in terms of macro and industry. I.A.Yakunina, A.P.Vojokov, B.B.Rubchov, V.V.Bulatov, A.T.Karjauva, A.N.Folomev, L.I.Yuzovich, in their researches substantiate the connection between the development of financial and stock markets and the increase of investment attractiveness.

The views of the country's economists on increasing the investment activity and attractiveness of the economy have attracted more attention in the last decade. Z.A.Samadzade, A.H.Nuriyev, E.A.Guliyev, R.P.Sultanova, D.A.Valiyev, B.H.Atashov, I.H.Aliyev, E.N.Karimov, G.Z.Yuzbashiyeva and others look at the development of the economy and its investment needs in the same light. Z.M.Mammadov, A.E.Karimov, A.A.Babayev, Y.A.Mammadov, E.M.Sadigov, F.F.Murshudlu, Sh.M.Sadigov pay special attention to the study of banking, financial and stock markets and investment activity. The development trends of the modern economy also bring to the fore the constant appeal to investment activity and attractiveness. Especially in the last ten years, the economic development in the world and in the country, the emerging demand for investment makes this view even more necessary. Based on such important points, there is a need for a new approach to investment attractiveness in the dissertation. The strategic development views and directions identified mainly in the Republic of Azerbaijan actualize the wider study of the issues of increasing the investment attractiveness.

**Object and subject of research.** The object of the research is the economic sectors, especially the non-oil sector, their investment

activity and attractiveness. The subject of the research is related to the investment environment of the economy, issues related to its attractiveness and the development of this area.

**The purpose and objectives of the dissertation.** The purpose of the dissertation – is to study the basics of investment attractiveness, modern experience in this field, to make proposals and recommendations to increase investment attractiveness by analyzing and assessing the current level of investment attractiveness of the country's economy. The following objectives have been identified to achieve the purpose of the dissertation:

- To study the theoretical and conceptual bases of investment attractiveness;
- To assess the emerging interests related to investment attractiveness;
- To analyze modern experience in the field of investment attractiveness;
- To investigate the current legal framework for investment attractiveness;
- To analyze the current level of development of the investment attractiveness of the economy;
- To evaluate the investment activity of financial markets.

**Research methods.** Methods such as statistical, analytical, comparative and systematic assessment, retrospective analysis and logical research were used in the preparation of the dissertation. The information base of the research consists mainly of reports and information of the State Statistical Committee of the Republic of Azerbaijan, the Ministries of Economy, Finance, the Central Bank, information of authoritative international financial institutions and organizations.

**The main provisions for the defense.** The following key provisions arising from the scientific novelties and results of the research are defended:

- There are differences in theoretical and conceptual views on investment attractiveness.
- It is necessary to coordinate different interests in investment attractiveness.

- In practice, it is important to improve the policy on investment activity and attraction.
- It is important to justify the strengthening of the investment environment in legal and regulatory documents.
- Attention is being paid to the development of Azerbaijan's investment attractiveness.
- There is a need to increase the investment activity of the country's financial markets.
- The main directions of Azerbaijan's investment attractiveness must be identified.
- The development of the market of alternative financial instruments in the country is especially important.
- It is important to strengthen the investment attractiveness of the private sector.

**The scientific novelty of the dissertation.** The main scientific novelties of the dissertation can be systematized as follows:

- Modern views on investment attractiveness and interests are put forward;
- The directions and bases of the strategy to increase the investment attractiveness in the country are determined;
- Ways of development of the market of alternative financial instruments and development program in this field are offered;
- A proposal is submitted to increase the investment attractiveness of business entities.
- Areas to increase the investment activity of the leasing service are identified.

**Theoretical and practical significance of the results of the dissertation.** The results of the research create new opportunities to identify modern theoretical and practical bases for increasing the investment environment and attractiveness in the country, expanding the investment activity of industries and entities. The results of the dissertation will have a significant impact on increasing the investment activity of economic sectors and economic entities, the identification and use of new sources of investment resources. The materials of the research can be used to improve the legal and methodo

logical documents to increase the investment environment and attractiveness in the country, as well as to develop teaching instruments in this area.

**Approbation and application.** The topic of the dissertation was discussed and approved in the scientific seminars of the Department of “Economics and tax” of the Azerbaijan University of cooperation in accordance with the general direction of scientific-research works.

The main provisions, results and proposals of the research are in 5 articles (one being abroad) in prestigious local and foreign journals recommended by the Higher Attestation Commission, XXIII Republican Scientific Conference of doctoral and young researchers of the Ministry of Education of the Republic of Azerbaijan, The materials of the international scientific-practical conferences devoted to the 100th anniversary of Azerbaijan Democratic Republic “Problems of improving food security of Azerbaijan state and increasing competitiveness of agrarian sector” at Azerbaijan Cooperative University and other scientific institutions were reflected in 3 theses (one being abroad).

**Name of the organization where the dissertation work is performed:** Azerbaijan University of Cooperation.

**The total volume of the dissertation with characters, indicating the volume of the structural units of the dissertation separately.** The dissertation is determined by the subject, object, purposes and objectives of the research. The structure of the dissertation consists of an introduction, three chapters, nine paragraphs, the results obtained, a list of sources and references. Cover and contents (2006 characters), introduction (12017 characters), Chapter I (66221 characters), Chapter II (46640 characters), Chapter III (63299 characters), result (12396 characters) and list of used literature (18431 characters), the total volume is 221010 characters. The number of characters in the dissertation is 202579 characters, excluding tables, figures, list of used literature and list of abbreviations.

## **MAIN CONTENT OF THE DISSERTATION**

**The introduction of the dissertation** includes the relevance and level of development of the topic, the object and subject of research,

purposes and objectives, methods, the main provisions for the defense, scientific novelty, theoretical and practical significance of research, approbation and application, etc. reflected.

**The first chapter of the dissertation entitled "Fundamentals and experience of investment attractiveness"** reviews the conceptual foundations of investment attractiveness, examines the interests of investment attractiveness and their consideration, and evaluates the organization of investment activity and attractiveness in international practice. The improvement of views on investment activity makes it necessary to study classical and modern theoretical and conceptual approaches on a new level. Classical economists emphasize the importance of investment for the development of a market economy. In particular, as A. Smith and his successors, D. Ricardo, T. Malthus, J. Say and F. Bastia expressed the view that the market guarantees equality of deposits, savings and investment employment and economic equilibrium. The main point in these approaches is the predominance of more liberal views on the regulation and use of the investment-capital factor<sup>1</sup>. Although the Mercantilists had a different approach to the concept of investment, but they also accepted the need to invest in production in order to develop the economy and increase national wealth. In the views of classical economists on the nature of investment and capital, it is expedient to systematize the main provisions in this way: the main reason for the increase in wealth should be related to the accumulation of capital; the main principle of economic management should be the complete elimination of interference.

Keynesian-neoclassical representatives believe that the amount of money in circulation affects the investment process. Experience shows that real investments in fixed assets are able to generate income in the long run. As a result, as in the neoclassical tradition, it is often illogical to use theoretical methods to determine their profitability.

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<sup>1</sup> ИСТОРИЯ ЭКОНОМИЧЕСКИХ УЧЕНИЙ. Харків: НТУ «ХПИ», 2004. 216с. Рос. Мовою. [http://repository.kpi.kharkov.ua/bitstream/KhPI-Press/15146/3/Dvinskikh\\_Istoriya\\_ekonom\\_ucheniya\\_2004.pdf](http://repository.kpi.kharkov.ua/bitstream/KhPI-Press/15146/3/Dvinskikh_Istoriya_ekonom_ucheniya_2004.pdf).



L.I.Abalkin notes that sustainable development is impossible without investment<sup>2</sup>. Y.Yakovets pays special attention to the factor of state regulation in the activation of innovation and investment activities<sup>3</sup>. Regardless of the differences in views on investment, forms of regulation, it plays an important role in the economy. The regional significance of investment activity has been growing over the last decade. There is a growing need for investment in the country to eliminate dependence on the oil sector and ensure balanced regional development. The President's views on the importance of increasing investment activity for economic, social and regional development are particularly noteworthy.

Assessing the attractiveness of an investment decision allows us to take into account the results obtained by different stakeholders and the influence of various factors on the possibility of achieving these results. In modern times, the activities of the enterprise should be based not only on the principles of profitability, but also on socio-ethical principles that serve the interests of itself and its staff, useful for the social development of the region in which the enterprise operates. We believe that such an important assessment should be given special attention in terms of investment attraction and activity.

Ignoring the interests of society and ignoring socio-ethical principles in resolving the issue of investment can deepen the gap between different segments of the population. Experience shows that it is not right to take a narrow view of investments and their attractiveness. It is necessary to take into account the various interests in this area and create conditions for their provision. From this point of view, it would be more expedient to classify investment classification from the point of view of interests: interests of subjects in investments; specific interests of the groups included in the subjects

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<sup>2</sup> Абалкин Л.И. Страна располагает всеми условиями для вывода экономики на путь устойчивого роста//Экономист.1996. №1. с.3-9.; <https://cyberleninka.ru/article/n/metodologiya-kolichestvennyh-issledovaniy-v-trudah-akademika-l-i-abalkina/viewer>.

<sup>3</sup> Яковлева Е.А., Шевченко А.Н. Механизмы регулирования инвестиционной деятельности в агротехнической сфере: монография. Воронеж: Научная книга, 2010. 244 с. 94

interested in investment. The interests of the entities in the investment can include: investments aimed at meeting the interests of the investor; investments aimed at meeting the interests of the enterprise. It is considered more expedient to systematize the interests arising in investment activities in the following way: national interests; regional interests; professional interests; interests of social groups; interests of municipal bodies; collective-group interests; family and individual interests; interests of private owners. We think that it would be more logical to prefer a classification that distinguishes such interest groups and is accepted by all: the interests of owners (shareholders); the interests of employees; interests of managers; consumer interests; interests of creditors; interests of suppliers; the interests of society and the state.

The modern methodology for assessing the attractiveness of investment projects, from the point of view of the interests of the entrepreneur, prefers the following three areas: analysis of profitability and return on capital indicators; analysis of the financial stability of the enterprise; investment risk analysis. Summarizing all the above, it is expedient to express the following view of the concept of investment attractiveness: Investment attractiveness is the ability of a particular investment decision to provide a certain value to an entity for different interest groups in the presence of a certain level of risk associated with the achievement or non-achievement of the intended outcome.

In international practice, the attraction of investments is always noticeable. Every developed or developing country is always interested in attracting favorable investments to its economy. In this regard, a relevant environment is constantly being created, especially for attracting foreign direct investment. In practice, some specific aspects are more important in terms of attracting foreign investment and their efficiency. First of all, the introduction of foreign companies and investments into national markets leads to the replacement or displacement of less efficient national entities. The second aspect of the effectiveness of attracting foreign investment is due to increased competition in local markets at the expense of foreign companies. Attracting foreign investment and the environment created in this

area have played an important role in the economic development of many countries. Attracting foreign investment in countries of East Asia, Latin America, the Association of Southeast Asian Nations, such as Malaysia, the Philippines, Indonesia and Thailand, has had a significant impact on the transformation and specialization of the national economy. The size of the level of integration of investment markets in different countries depends on the ratio between the amount of savings and the amount of investment. Research suggests that in most developing countries, the dependence between savings and investment is low. Despite the application of legal restrictions on capital inflows in most developing countries, the real situation shows that the differences between the level of investment-capital movement and investment flows are high. In practice, the control over the return on investment and capital is considered one of the ways to solve the currency and financial crisis.

Liberalization of foreign trade policy, along with influencing the flow of investment, also increasing the efficiency of national economies; acquisition of modern technologies; deepening the integration of economies into the world economy; is of particular importance in terms of increasing export assistance. The impact of the liberalization of the investment regime on the volume of foreign investment inflows is of a practical nature.

Prior to the Asian crisis, many countries in the region were characterized by stricter state regulation of investment flows. In order to revive the investment environment and accelerate the flow, many countries use the practice of tax breaks, rapid depreciation, reduction of corporate tax rates. The development of the Chinese economy demonstrates the effectiveness of the implementation of the investment strategy developed by the country's leadership's economic growth strategy. The investment regulation system created in the country (state regulation) means the achievement of significant positive results at the macro and sectoral levels. Among the directions of scientific and technical progress and technology development, aerospace and optical communication, biotechnology, genetic engineering, microelectronics and informatics, energy saving technologies, production of equipment for environmental protection and improve-

ment, and medical equipment are particularly noteworthy<sup>4</sup>. In Japan, other measures are being taken to increase investment attractiveness and activity. Relevant events include investment projects funded by local authorities and private companies. The Central Bank of Japan is also closely involved in such projects<sup>5</sup>. Investments in the creation of free import zones within relevant projects are also noteworthy.

**The second chapter of the dissertation entitled "Current state of investment attractiveness of Azerbaijan and its assessment"** focuses on the legal basis of increasing the country's investment attractiveness, analyzes the current level of development of investment attractiveness of the Azerbaijani economy, assesses the investment activity of financial markets.

The continuous increase in investment activity and attractiveness of the Azerbaijani economy necessitates the provision of connectivity at the macro, sectoral, regional and micro levels. The views expressed in many legal documents on the sustainable development of the economy bring to the fore a systematic and comprehensive approach to investment attractiveness. The increase in the investment attractiveness of the country's economy has also been marked by the recent improvement of the tax environment. In order to improve the business and investment environment, there is a growing focus on optimizing tax rates in connection with the transition from passive tax policy to active tax policy. Such an approach has recently become relevant in connection with the rapid elimination of the effects of the Covid-19 pandemic. It is important to give preference to the application of necessary stimulus mechanisms to intensify the attraction of domestic and foreign investment in the non-oil sector. Improving

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<sup>4</sup> <https://mirec.mgimo.ru/2012-01/knr-ot-mirovogo-importera-do-mirovogo-eksportera-kapitala>

<sup>5</sup> А.В. Кузнецов. Особенности инвестиционной стратегии Японии и перспективы сотрудничества с Россией. *Международные финансы*. Т. 21, № 6'2017. file:///C:/Users/User/Downloads/osobennosti-investitsionnoy-strategii-yaponii-i-perspektiv-sotrudnichestva-s-rossiey.pdf.; Лисица В. Правовое регулирование иностранных инвестиций в странах Азии, Северной и Южной Америки // *Инвестиции в России*. 2007. № 7. с.12-18.

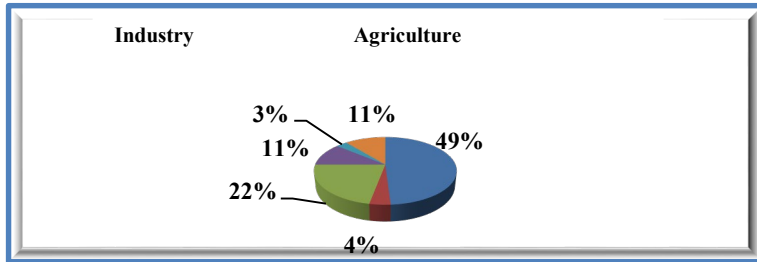
public-private investment cooperation in this area can also be considered important. Factors related to industry, especially the non-oil industry, should increase the country's investment attractiveness. Such a view is reflected in the program and strategic roadmaps of the last decade adopted in the country. These documents focus on the fundamental development of both traditional and new technological areas. The development of national industry has also recently been considered with the necessary state support. Investments are a key factor in the modern development of Azerbaijan. We believe that in the state programs and other documents to be adopted in the country in the future, the investment factor can also be assessed as the main stimulus that ensures the quantitative and qualitative growth of economic development.

Strengthening the investment attractiveness of the economy should be identified in connection with the continuous improvement of the investment environment in the country. The investment environment justifies the joint and coherent consideration of social, economic, political, legal and other conditions in the adoption of legal and program documents that are important for attracting investment to the country, regions and enterprises. Strengthening investment attractiveness is directly related to the more complete and effective policy in this area. Such a view is clearly reflected in a number of legal and conceptual documents adopted in the country.

Azerbaijan's economy has been showing significant development trends in recent years. Over the past decade, the volume of GDP has doubled, the volume of main stocks in the economy has increased 1.9 times, and investments in the economy have increased 1.5 times. Among the investments in main stocks in the economy, the largest share belongs to industry, or more precisely, the oil sector. While the share of industry in the share of investments in main stocks in the economy in 2010 was 43 %, in 2019 this figure increased to 49 % (Chart 1).

During the same period, the share of the construction sector in the share of investments in main stocks in the economy increased by 18 times to 22 %. Insignificant changes in this direction with high

growth have taken place in the agricultural, information and communication sectors.

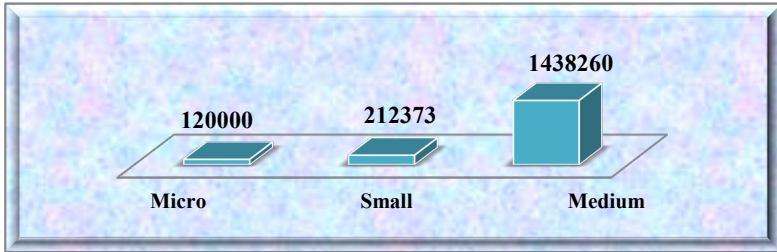


**Chart 1. Investments in main capital on sectors of the economy (%)**. Source: <https://www.stat.gov.az/source/agriculture/>.

Although the volume of investments in industry has increased 2.2 times over the last decade, this figure for the oil and non-oil sector differs in nature and composition. The volume of investments in the oil sector increased 1.9 times during this period, with foreign investment playing a key role in this growth, accounting for 60 %. During the compared period, a satisfactory growth rate of 5 times was observed in the refining industry, the main leading branch of the non-oil sector. However, such a development trend was mainly due to domestic investment (70%). Significant progress has been made in the development of the non-oil industry, which is of particular importance in terms of investment attractiveness. However, this area is not very attractive for foreign investment. Increasing the investment attractiveness of the Azerbaijani economy makes it necessary to strengthen innovation and increase investment in this area.

Entrepreneurs play an important role in the development of the private sector, but also in the non-oil sector. The volume of investments in main capital by micro, small and medium enterprises has almost doubled over the past decade and amounted to 7 billion manats. The volume of investments in main capital by these entities is also noticeable, accounting for 28 % of investments in the country's economy. Investments in the development of business entities are not considered satisfactory in terms of their modern development. Thus, while the volume of investments per micro-enterprise per year is

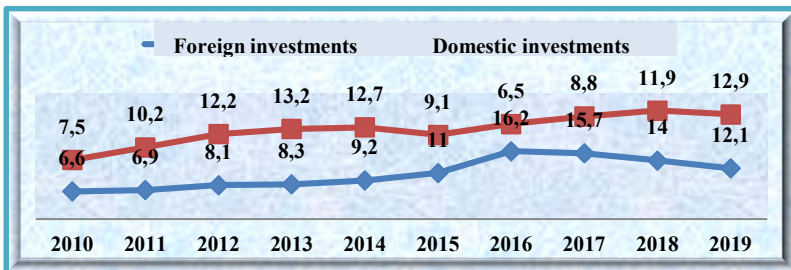
120,000 manats, this figure is 212,373 manats for a small enterprise and 1,438,260 manats for a medium-sized enterprise (Chart 2).



**Chart 2. Volume of investments per business entity (2019, manat).**

Source: <https://www.stat.gov.az/source/entrepreneurship/>.

Over the past ten years, the volume of investments in the economy increased by 2.3 times and reached 25 billion manats. During this period, the volume of domestic investment increased by 1.6 times and amounted to 12.9 billion manats, foreign investment increased by 1.8 times and amounted to 12.1 billion manats (Chart 3). While the bulk of foreign investment is in the oil sector, domestic investment is in the non-oil sector.

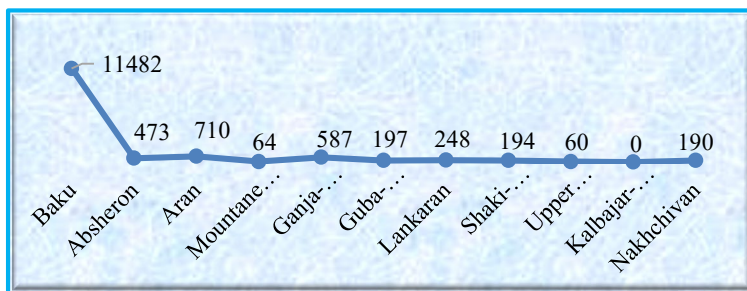


**Chart 3. Structure of investments in the economy (billion manats).** Source <https://www.stat.gov.az/source/finance/>;

<https://www.cbar.az/page-42/monetary-indicators>.

After the devaluation of the national currency (2015), the resources owned by private banks decreased, and the volume of their credit markets was limited. Despite all these problems, the volume of credit investments of private banks in the economy in 2019 increased by 2.4 times compared to 2010 and amounted to 12.3 billion manats. There is

also a point in the credit investments of banks and other similar organizations: this is a parallel increase in the volume of overdue loans and credit investments. Compared to 2010, the volume of loans of these organizations in 2019 increased by 1.7 times and amounted to 15.3 billion, while the volume of overdue loans increased by 2.6 times and reached 1.5 billion manats<sup>6</sup>. Repayment of loans, which is one of the most important problems of banking institutions, still remains serious. The attractiveness of banks' loans on their own funds is not the same in all areas. Thus, the most attractive areas for banks are trade, services and the household sector. Household loans are not economically oriented and are more consumer in nature. Banks' lending to the non-oil sector is not at a high level, and these areas are not considered attractive for banks. Credit investments of banking organizations by regions remain different in terms of territory and locations. Over the past decade, the share of Baku in bank lending has been high. So far, the capital accounts for 78 % of loans issued by banks (Chart 4).



**Chart 4. Credit investments of banks on regions (million manat, 2019-2020).** Source: <https://www.stat.gov.az/source/finance/>; [https://www.cbar.az/page-42/monetary-indicators](https://www.cbar.az/page-42/monetary-indicators;); <https://uploads.cbar.az/assets/73ab0fe87ecd3a82797c3fb2a.pdf>.

Although there are significant opportunities for the development of the stock market in Azerbaijan, its main development coincides with the last decade. Compared to 2010, the level of capitalization (turnover) of the country's stock market in 2019 increased more than

<sup>6</sup> <https://www.cbar.az/page-42/monetary-indicators>.



8 times and amounted to 16.4 billion manats. The level of capitalization of the stock market in GDP has been observed in the last decade with its own growth trends. Compared to macroeconomic indicators, the level of capitalization of the country's stock market over the past decade can be assessed positively. However, it is impossible to consider this indicator satisfactory in terms of investment security and attractiveness of the country's economy. The structural composition of the country's stock market is also noticeable in various directions. In 2010, the share of the fund market in the stock market was 21%, the bond market was 39 % and the repo (repurchase) operating market was 40 %. In 2019, there have been significant changes in these indicators. During this period, the share of the stock market in the fund market decreased by 12 % compared to 2010 and fell to 9%. The same comparison occurred in other markets: the share of the bond market increased from 39 % to 64 % during this period, while the share of the repo operating market decreased from 40% to 24 %<sup>7</sup>. The main stage of development of the derivative financial instruments (DFI) market took place between 2014-2018. The stock market, including DFI, which plays an important role in the development of the stock market in the country, is characterized by a weak position.

**The third chapter of the dissertation entitled "The main ways to increase the country's investment attractiveness"** identifies areas for increasing investment attractiveness in Azerbaijan, the development of alternative financial instruments in the country, ways to increase the investment attractiveness of businesses. Strengthening the investment environment in the economy makes it especially important to develop a strategy to increase attractiveness in this area. Such a strategy should cover such key areas as aimed at increasing investment attractiveness:

- Mobilization of internal resources for strengthening and developing the investment environment;

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<sup>7</sup> <https://www.cbar.az/page-42/monetary-indicators.;>

<https://uploads.cbar.az/assets/73ab0fe87ecd3a82797c3fb2a.pdf>

- Identification of investment-oriented use of resources and potentials mobilized within the country;
- Introduction of stimulating and attractive mechanisms to increase domestic and foreign investment activity;
- Implementation of measures to promote the flow of foreign investment in the economy;
- Increasing state care for increasing investment activity in the field of new technologies and production of competitive products;
- Identification of sources of investment and areas for reform for their efficient use;
- Implementation of systematic and sustainable measures to increase the investment attractiveness of the regions.

The strategy to increase investment attractiveness should determine the current and future policy of Azerbaijan in this area. This policy should include ensuring sustainable economic development in the country and improving indicators of socio-economic life. It is necessary to include the following important factors in the goal of the strategy for the development and attractiveness of the investment environment: strengthening and protecting the investment environment in the country; increasing the competitiveness of the economy and industries; identification of new sources of investment and increase the efficiency of use of these resources. Investment policy should also address such issues as: creating a healthy investment environment; identification of effective mechanisms for attracting and using investment resources; creation of a favorable environment to increase the investment attractiveness of economic activity areas; implementation of measures to increase the investment activity of financial markets and so on. It is expedient to define the tasks of the strategy to increase investment attractiveness accordingly:

- Increasing the investment attractiveness of the country's economy;
- Supporting the increase of investment activity of domestic and foreign investors;
- Achieving increase in investment and innovation activities of operating enterprises and economic entities;

- Increasing support for investment activities of entities producing competitive products in domestic and foreign markets;
- Supporting the increase of investment activity of financial and stock markets.

Based on the perspective development goals of the Republic of Azerbaijan, it can be considered expedient to pay special attention to the relevant priorities in the use of investment potential:

- ⇒ Development of investment infrastructure;
- ⇒ Deepening the functioning of financial markets;
- ⇒ Implementation of public-private partnership in large and special projects;
- ⇒ Strengthening the investment activities of leasing organizations and companies;
- ⇒ Organization of a system of providing marketing, consulting, legal and other such services related to investment activities for business entities;
- ⇒ Establishing relations of investment and other similar funds with the real sector and financial markets.

In order to strengthen investment activity and increase the attractiveness of the country, constant attention should be paid to improving the system of tools and methods necessary to support the interests of investors. Increasing the investment attractiveness of the economy and the formation of a reliable partner in this area highlights the need to bring the legal framework in line with international requirements. Strengthening the investment attractiveness of the Azerbaijani economy also necessitates the development of an innovative financing system in the country. In particular, it should be considered more expedient to look at the development of innovation activities at the level of national enterprises and economic entities. We believe that the development of innovation in the country and the increase in investment should be aimed at the production of competitive, science-based products of economic entities, accelerate the application of modern technologies in this area. The innovation and investment activities of the entities should be coordinated, and the focus should be on identifying important points, such as increasing the amount of profit to be achieved by reducing costs in the relevant field.

The development of the financial and stock market should also be assessed for its importance in increasing the investment attractiveness of the Azerbaijani economy. The balanced development of financial market segments justifies the expansion of investment activities in the banking sector, non-bank credit organizations and the fund market. It is also important to increase the level of capitalization of these markets, improve the regulatory system, and take measures to organize their activities in accordance with modern requirements. Strengthening the investment-oriented activity of the banking sector raises the issue of substantial capitalization of this sector, promotion of expansion of banking services and network in the regions, establishment of various banks, improvement of the mechanism of banking and investment services. The organization of the banking sector in accordance with modern requirements also justifies the continuous implementation of such important measures as: increasing the range of banking services; wide application of e-finance, banking services; improvement of bank-real sector relations, etc. Strengthening the corporate securities market, which is of particular importance in terms of investment attractiveness of the economy, should be considered as one of the priority issues.

There is a growing need for banks and financial institutions to provide new services and modern financial instruments. All these factors naturally bring to the fore the development of the market of alternative financial instruments in the country. The development of forward, futures, options and factoring markets as alternative financial instruments makes it important to develop a development program in this area. The purpose of such a program should include the following elements: improving the quality of financial market competitiveness in the country; ensuring a wide range of modern tools in the financial services market; meeting the demand for financial instruments for domestic and foreign investors; formation of a new financial center in the country; ensuring rapid economic development with the expansion and deepening of the financial market; increasing investment in the economy.

The development of forward, futures, options, factoring markets as alternative financial instruments raises the following important

issues: regulation of transactions (shares, options) carried out by individuals with information about confidential information of issuers; creation of legal mechanisms aimed at preventing manipulation in financial markets; establishment of a system of prudential control over professional participants of the securities market, etc. The introduction of such tasks in the development program of the alternative financial instruments market is mainly due to a special need:

- ⇒ Establishment of a mechanism for the application of a wide range of alternative financial instruments;
- ⇒ Formation of an effective infrastructure system that ensures the development of the market of alternative financial instruments;
- ⇒ Establishment of a mechanism for organizing and regulating the market of alternative financial instruments;
- ⇒ Creation and application of the legal framework ensuring the development of the market of alternative financial instruments.

The creation of a favorable tax environment for participants in the market of alternative financial instruments should include the improvement of tax policy in this area. It is necessary to pay special attention to the substantiation and development of such points in the development program of the market of alternative financial instruments:

- Identification of potential development opportunities for the alternative financial instruments market;
- Increasing the transparency of the alternative financial instruments market;
- Ensuring broad participation of various types of investors in the market of alternative financial instruments;
- Application of mechanisms to protect the interests and rights of investors and participants in the market.

Diversification of financing mechanisms for small and medium enterprises in Azerbaijan and the use of alternative financing instruments should create big opportunities for risk sharing with capitalist and investors. Such an approach should be legally sound, accompanied by important provisions such as ensuring the sustainability of

the financing party and protecting the rights of investors and increasing investment activity.

Increasing the investment attractiveness of the country should be primarily related to the development of business entities. Stimulating the activities of business entities should be primarily related to the creation of an effective support mechanism in this area. Financial support is considered important as one of such mechanisms. Financial support: should be determined based on the characteristics of business entities, development prospects and benefits. Financial support for business entities: should be provided for different stages of business activities; financing instruments for activities and time should be specified; the terms of return of funds to be provided must be determined. It is advisable to use a number of tools, such as a form of financing: improving lending conditions; favorable, preferential investment provision; guaranteeing operations with state guarantee; operations and risk insurance.

In order to improve the lending conditions of business entities, attention should also be paid to ensuring the implementation of necessary support measures by banks: widespread use of electronic document circulation mechanisms for entities; individual approach to lending to business entities, taking into account the specifics of their activities; application of targeted programs related to lending to entities; development of standards for investment and lending of business entities. Target models for providing guarantee support in this area should be identified together with state banks to ensure investment and lending to businesses. At the same time, there is a need to create a multi-channel system of investment provision and development of guarantee products in this area.

In modern conditions, leasing financing is also an effective form of investment. In connection with the development of leasing support, it is important to implement incentives in the field of financial leasing to leasing businesses. The widespread use of incentives for lending to leasing companies to support equipment and transport manufacturers is important for leasing to relevant entities. In the development of the economy, it is important to improve the conditions for leasing modern machinery, technology and equipment and

to facilitate their access. The widespread use of leasing services and tools related to the development of financial services markets is considered important in expanding the relationship of these markets with the real sector. The level of development of leasing services and the depth of investment orientation necessitate the provision of appropriate conditions: improvement of the legal and methodological framework for leasing activities; development of the state regulation system in the field of leasing activity; macroeconomic conditions and investment market conditions (investment concessions, bank interest, taxation, inflation rate); application of financial and accounting system for leasing operations in accordance with modern requirements.

Increasing the impact of leasing services on investment activity, first of all, make necessary the requirement to increase government support measures in this area. Measures of state support for the activities of leasing organizations and companies can be important in this regard. It would be expedient to take appropriate measures to increase the role of leasing in macro and micro economic development, to strengthen the impact on the country's investment activity. Increasing the level of capitalization of leasing organizations and companies is of particular importance in terms of strengthening their investment activities. The development of the leasing service market in Azerbaijan in itself raises the issue of strengthening marketing activities in this area. The main purpose of leasing services marketing should be to ensure the long-term and sustainable development of the leasing company.

**In the "Results" section of the dissertation it is possible to classify the scientific-practical proposals and recommendations arising from the essence of the research in this way:**

1. The basic principles of the classical views in the field of investment activity have not lost their significance. It would also be expedient to systematize the interests arising in investment activities in the light of modern requirements and challenges: national interests; regional interests; professional interests; interests of social groups; interests of municipal bodies; collective-group interests; family and individual interests; the interests of private owners.

2. Although progress has been made in the development of the non-oil industry, this sector is not very attractive for foreign investment. It is impossible to overestimate the innovative development of industry, especially the non-oil industry, and the amount of investment in this area.

3. The role of non-bank credit organizations in lending to the economy is attracting attention with its very passivity and limitedness. There is also a point in the credit investments of banks and credit organizations: this is a parallel increase in the volume of overdue loans and credit investments. The main attractive areas for banks are trade, services and the household sector. Banks' own investments in the real sector, especially in the non-oil sector, are not at a high level, and these areas are not considered very attractive for banks. The share of Baku city (78 %) in bank lending is high.

4. Although opportunities have been created for the development of the stock market in the Republic of Azerbaijan, its main development has been taking place over the last decade. Despite the fact that the capitalization of the stock market in GDP is 20 % and 36 % in non-oil GDP, the role of this market in terms of investment security and attractiveness of the economy can not be considered satisfactory. The corporate securities market (stocks, bonds), the main branch of the stock markets, is underdeveloped in Azerbaijan.

5. The development of the Azerbaijani economy makes it necessary to develop a strategy to increase investment attractiveness. In order to increase the attractiveness of investments, attention should be paid to improving the system of tools and methods necessary to support the interests of investors. Among the issues to be paid more attention to in terms of investment instruments, it is important to have tax incentives and state guarantees to provide loans and credits for the implementation of investment projects. Increasing the investment attractiveness of the country's economy also requires bringing the existing regulatory framework in line with international requirements and identifying opportunities to use new tools of state support in this area.

6. Strengthening the investment attractiveness of the Azerbaijani economy highlights the development of innovative financing systems



in the country. The development of the financial and stock market should also be considered important in increasing the investment attractiveness of the Azerbaijani economy. It is important to increase the level of capitalization of these markets, improve the regulatory system, and take measures to organize their activities in accordance with modern requirements.

7. Strengthening the investment-oriented activity of the banking sector raises the issue of capitalization of this sector, promoting the expansion of banking services and network in the regions, the establishment of various banks, improving the mechanism of banking and investment services.

8. The development of the forward, futures, options, factoring markets as alternative financial instruments in Azerbaijan makes it important to develop an appropriate development program in this area.

9. In the market of alternative financial instruments, the compliance of the legal regulation system with modern requirements requires the implementation of a number of important measures. Development of alternative financial instruments markets in Azerbaijan - should be connected with the expansion of the range of derivative financial instruments and the development of the market of forward transactions and contracts (forward, futures, options).

10. Stimulating the activities of business entities should be primarily related to the creation of an effective support mechanism in this area. In order to increase the volume of investment provision and lending to business entities, the target models of state support for these entities together with banks should be identified. At the same time, there is a need to create a multi-channel system of investment provision and development of guarantee products in this area.

11. At the current stage of development of the country's economy, it is especially important to improve the conditions for leasing modern machinery, technology and equipment and to facilitate their access. The development of leasing services in Azerbaijan should be primarily related to the development and adoption of improved legislation in this area. Increasing the level of capitalization of leasing organizations and companies is of particular importance in terms of

strengthening their investment activities. As one of the ways to increase the attractiveness of investment, it is expedient to ensure the participation of leasing companies in state-ordered events, to improve the conditions for them to obtain appropriate lending. In terms of the development of the leasing service market, leasing organizations and companies must define a comprehensive strategy for their marketing policy.

**The main content of the dissertation is reflected in the following scientific works:**

1. "Directions for improving investment activity" on "Problems of improving food security and increasing the competitiveness of the agricultural sector" dedicated to the 100th anniversary of the Azerbaijan People's Republic at the Azerbaijan Cooperation University international scientific-practical conference (June 1-2, 2018)
2. "The concept of investment attractiveness and its importance", Journal of ANAS News Economic Series, Baku. 2019 № 1,
3. "Investment attractiveness and creation of a favorable environment in this field", Scientific-practical journal of cooperation, Baku, № 3 2019,
4. XXIII Republican Scientific Conference of Doctoral Students and Young Researchers of the Ministry of Education of the Republic of Azerbaijan "Investment attractiveness and its bases in modern times" (December 3-4, 2019)
5. "Investment attractiveness in the CIS", Journal of ANAS News Economic Series. Baku. 2020, № 2,
6. "Current state of investment attraction of the economy of Azerbaijan", Moscow. Economic sciences. 2020. № 6 (187),
7. "Interests in investment attractiveness", News Economic Series Journal of ANAS, Baku. 2020 № 4
8. "Development of financial services in Azerbaijan" Problems and prospects for the development of the financial system in the minds of the collectors of the materials of the II International scientific-practical inter-conference. (m. Poltava, 09–10 receipt 2020 rock)

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