

# REPUBLIC OF AZERBAIJAN

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## ABSTRACT

of the dissertation for the degree of Doctor of Science

### **FORMATION AND EFFICIENCY PROBLEMS OF INVESTMENT ENVIRONMENT IN AZERBAIJAN**

Speciality: 5308.01 – “General economics”

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## GENERAL CHARACTERISTICS OF DISSERTATION

**The actuality of the subject.** The turmoil, instability and global crises experienced in the world economy in the last decades are very thought-provoking. International organizations and financial institutions have already lost their possible influence and have not achieved high results in regulating global processes. Despite the efforts of the world's leading countries, problems remain in international economic relations, especially in the intensive flow of financial and investment flows. The negative effects of the global financial crisis, which began in late 2008, have not yet come to an end, and since then, problems in the management of financial and investment resources by large banks, financial and credit organizations and investment funds have arisen. All this requires regulation and improvement in accordance with the new challenges.

Investments play a key role in overcoming the economic crisis, creating the basic conditions for structural changes in the national economy, technical modernization of enterprises and increasing competitiveness. Investments, as an economic category, fulfill the most important functions as an economic category, support the solution of economic problems at the macro, meso and micro levels, and create favorable conditions for economic reforms and economic restructuring. An effective investment strategy stands out as one of the main aspects of the stability, normal functioning and development of a market economy.

Attracting investments, especially ensuring a steady and intensive flow of foreign investment into various sectors of the national economy, is of exceptional importance for most economically developing countries, including Azerbaijan. Modernization of any sector of the economy, transfer of modern technologies, import of necessary equipment and facilities, creation of competitive production areas require attracting large investments. However, potential investors are reluctant to invest in the proposed projects. In order to involve them in these projects, it is necessary to make great efforts, develop business investment plans and projects and substantiate their efficiency reports. In addition, the level of political and economic

stability in the country involved in the investment, the adequacy of macroeconomic and macroeconomic indicators, the development of the finance and credit system and the financial services market, and most importantly, the adequacy of the investment climate in the country.

The formation of the investment climate and the solution of its efficiency problems are the main lines of the state's economic and investment policy. Adaptation of the basic conditions of the investment climate to the new challenges of our global world, including the current situation caused by the negative impact of the COVID-19 coronavirus pandemic, its regulation in connection with the development directions of the segments of financial markets at the global level, development of mechanisms for maximum efficient and productive investment activities, taking into account the global investment trajectory and the decisive factors and features of the international investment market and increasing the attractiveness of the investment climate are of strategic importance.

The investment climate is formed under the influence of political, economic, legal, social and other factors that determine the conditions of investment activity and the degree of investment risk. Considering the concept of risk while determining the investment climate is very important factor. The investment climate is an indicator that does not depend on private investors. The purpose of studying the investment climate is to examine subjective views on investment conditions, to make adequate decisions, to determine the main opportunities for their implementation in specific conditions and to reveal the nature and extent of various risks that may arise.

The mechanism of formation of the investment climate is a tool by which the state regulates the investment process and includes the necessary mechanisms for the formation of a favorable investment climate in the country, priority areas and principles for organizing important events and factors affecting the investment climate. Furthermore, the main purpose of creating a favorable investment climate is to ensure investment activity involved in investment projects and expressed in the growth of investment sources. In these processes, the investment climate has two main elements: 1)

investment activity and 2) investment attractiveness. Thus, these elements allow to make an objective decision on the implementation of effective investment activities.

Establishment of the investment climate in Azerbaijan and the implementation of measures in accordance with the requirements of modern times have been the focus at the state level since the first years after independence. The main objective was to create legislation on investment activities in the country, to take measures to sustain foreign investment, and thus to attract foreign investment to our country, primarily for the oil sector for that period. It should be noted that the historical efforts of the national leader Heydar Aliyev to cope with this difficult task. Thus, the “Contract of the Century” signed on September 20, 1994, with the participation of the world's largest oil and gas companies has allowed to rapidly increase the attractiveness of the investment climate in our country. Consequently, the flow of foreign investment in our country intensified in the subsequent processes, and a significant part of investments in our national economy consisted of foreign investments during the period of restoration of independence. However, the volume of foreign investment in the non-oil sector was not adequate to the priorities and goals of economic development of our country. This leads to the maximum improvement of the investment climate in this direction and increase of investment attractiveness. Therefore, a mechanism for formation of an investment climate and investment attractiveness should be created in our country in order to reduce the burden of targeted public investment by the state on the socio-economic development of the country's regions, infrastructure and support of various sectors of the economy.

This issue became much more relevant after the Great Karabakh Victory of the 44-day Patriotic War. Our lands, which have been under enemy occupation for almost 30 years, have been brutally invaded, and everything in these areas has been destroyed and devastated. At present, a large-scale infrastructure network is being established in the liberated territories, housing estates are being built, and measures are being taken to develop industrial areas. Projects based on "smart" technologies adequate to world experience and 11 road projects of

national and international importance are being implemented. The commissioning of the Victory Road to Shusha and preparations for the Great Return in the post-conflict areas have entered an intensive phase. Commissioning of Fuzuli International Airport, start of creation of Aghdam Industrial Park and “Araz Valley Economic Zone” Industrial Park in Jabrayil, construction of international airports in Zangilan and Lachin regions, implementation of “smart village” project on the basis of Agali villages of Zangilan region and preparations for the opening of the Zangazur corridor, which is important not only for the region but also at the international level should be assessed as a new period and a new stage of the investment climate and attractiveness in our country.

These issues require fundamental research, and for this purpose the formation of the investment climate, improvement of its economic mechanisms, in-depth study of the existing investment climate and attractiveness terms, development of more productive mechanisms, regulation and improvement measures to meet new challenges and the necessity of determination of appropriate solutions to these problems are noteworthy. These issues indicate the relevance of the subject of the dissertation.

It should be noted about the level of development of the subject, there are scientific works of domestic and foreign scientists on the conceptual study and assessment of issues related to the formation of the investment climate and efficiency in Azerbaijan, the study of economic mechanisms of the investment climate and factors affecting investment attractiveness. Azerbaijani economists-scientists, such as academician Z.A.Samedzadeh, A.F.Musayev, E.A.Guliyev, A.J.Muradov, A.A.Alakbarov, T.H.Huseynov, B. Kh.Atashov, I.H.Ibrahimov, A.Sh.Shakaraliyev, S.S.Gafarov, Y.A.Kalbiyev, M.M.Bagirov, A.G.Alirzayev, M.A.Ahmadov, R.A.Balayev, Z.F.Mammadov, M.J.Huseynov, E.M.Sadigov, Kh.M.Huseynova, J.B.Namazova, Sh.T.Aliyev, G.A.Azizova, M.J.Atakishiyev, A.D.Huseynova, A.E.Guliyeva, V.A.Gasimli, V.I.Bayramov, M.G.Gulaliyev, S.Z.Isayev, E.A.Ibrahimov, B.S.Ahmadov and others, highlighted the current problems related to the organization of the investment climate and conducted research on increasing the

efficiency of investment mechanisms and investment regulation, and improving public policy in this regard. In his fundamental monograph “Global Food Safety: realities, challenges and prospects”, Professor E.A.Guliyev emphasizes the importance of investment in the context of global food security and notes that a number of investments in agriculture, including nutrition, have positive effects on health and nutrition and all of these provide significant economic benefits. Professor T.H.Huseynov has conducted fundamental research on the role of investment in improving the economic and social efficiency of Azerbaijan. In his scientific works, Honored Scientist, professor B.Kh. Atashov conducted research on the dynamics of the development of financial markets and the problems of the investment market, which is an important segment of these processes and the organization and attractiveness of the investment climate. In his professor monograph “Dictatorship of Money”, professor Sh.S.Gafarov's researched to ensure transparency in the economy and society and to strengthen the fight against corruption. These issues are important in increasing the attractiveness of investment. In his scientific works, professor Z.F.Mammadov described the functions of financial and credit organizations in the formation and direction of investments. Professor Sh.T.Aliyev focused on improving the investment climate and increasing the attractiveness of the non oil and gas sector. Profesor E.M.Sadigov highlighted the financing problems that are important in increasing the attractiveness of the investment climate in modern times. Professor A.G.Alirzayev stressed the importance of investments in the socio-economic development of Azerbaijan in the framework of financial and budgetary issues.

Representatives of the classical school of economics, as well as a number of foreign scholars have a large number of scientific works and views on the important role of investment in the economy, the functions of investment in the financial market, mechanisms to strengthen investment activity, their impact and scope of economic development, the main factors determining the investment climate mechanisms of action to accelerate investment flows. In this context, the scientific approaches and works of A.Smith, A.Marshall, M.J.Keins, R.M.Solou, J.E.Stiqlits, R.Frenkel, L.Paez, J.A.Ocampo

and others are of particular interest. In addition, views on capital, its role in the economy, finance and financial resources, the problems of capital investment and investment efficiency in the diversification of the economy, as well as the determination of solutions to these problems in the global context have been reflected in dissertations and scientific articles of researchers-scientists, such as V.V.Ivanter, I.A.Artashina, A.M.Arshinov, M.U.Baychorov, K.V.Baldin, L.S.Valinurova, L.L.Igonina, I.Y.Tkachenko, N.I.Malikh, Y.A.Kashkaryeva, I.B.Maksimov, M.Y.Makhotayeva, M.A.Nikolayev, D.P.Malishhev, Y.N.Naumova, V.N.Myagshin, Y.N.Korniyakov, A.N.Yegorov, V.Y.Yatsushko, M.I.Burdin, V.V.Tatsiy, E.A.Utkin, B.S.Sherbakov and others. Approaching the essence of these scientific works and researches, it should be noted that the formation of investments, the creation of a functioning and favorable investment climate and ensuring the country's investment attractiveness require the solution of pressing problems. It conditions the improvement in accordance with the challenges of the time and the development and application of new mechanisms.

Based on these factors, it is important to eliminate the obstacles to improving the investment climate in the context of global economic challenges, to conduct ongoing research to objectively assess the existing investment climate and take the necessary measures to realize its potential and to take adequate measures. All this makes it important to study the problems of formation of the investment climate and efficiency.

**The object of the research** is banks, financial and credit organizations, investment funds, financial and investment markets, as well as relevant government agencies directly involved in investment activities in Azerbaijan.

**The subject of the research** is the formation of the investment climate in modern conditions and the study of efficiency problems, increasing investment attractiveness, ways, methods, regularities, principles and criteria for regulation and improvement in these directions.

**The purpose and the objectives of the research.** The purpose of the dissertation is to identify proposals for the formation of the



investment climate and solutions to efficiency problems, to increase the investment attractiveness in modern global conditions and to develop suggestions with serious scientific arguments to improve existing approaches and mechanisms. Because of this, in accordance with the structure of the research, a number of tasks have been set and implemented:

- formation of investment climate and study of theoretical approaches to economic mechanisms;
- consideration of issues of attractiveness and efficiency of the investment climate and explaining existing problems;
- study of methodological features of the conditions and factors that form the basis of the investment climate;
- study and generalize the issues of formation of investment climate and ensuring its efficiency in the world practice;
- reviewing the experience of economically developed countries in strengthening investment activity;
- analysis of the problems of economically developing countries in the process of forming the investment climate;
- study of the current state of the investment climate in Azerbaijan and assessment of legal aspects;
- analysis of mechanisms and investment activities related to investment attractiveness in our country;
- study of problems hindering the functioning and efficiency of the investment climate in Azerbaijan;
- research of the potential of the investment climate in our country and the prospects for taking institutional measures in post-conflict areas;
- assessment of the prospects for the establishment of investment institutions that can engage in activities related to the consolidation, attraction and investment of investments in the liberated territories;
- regulation of investment climate and activities in accordance with the Strategic Road Map;
- assessment of the possibilities of improving the most widely used investment mechanisms in modern conditions;

- determination of ways to improve the efficiency of the investment climate in the face of global challenges and the impact of the COVID-19 pandemic.

**Research methods.** In the research process, traditional methods and research methods known in economics have been preferred. First of all, a comprehensive and systematic approach to the problems related to the structure of the work has been provided. As economic methods, analysis and synthesis have been used more than comparative analysis. Analysis and assessments based on a statistical basis have been also used. In studying the theoretical and methodological bases of the research and making generalizations, a group of Azerbaijani and foreign scientists' scientific works have been referred to. The possibility of using the author's approaches to the problems posed in these processes has also considered.

Furthermore, internationally and nationally adopted documents and legal acts on the formation of the investment climate in the world practice and the definition of the most optimal ways of efficiency problems, and methodological materials prepared by specialized research institutes and centers on the investment climate and investment attractiveness have been used.

**The main provisions to be defended** are as follows:

- In the context of global changes and impacts, there is a need to improve the investment climate and investment attractiveness conditions in world practice;

- There is a need to improve the efficiency of the existing mechanisms of the investment climate and to renew the criteria to encourage potential investors;

- The instability of the dynamic investment flow in the countries of the world, the complexity of the processes of formation and direction of investments require the determination of new approaches;

- The formation processes of the investment climate in Azerbaijan need an objective analysis and evaluation, taking into account the new challenges;

- Increased investment attractiveness and maximum incentives for potential investors have led to the development of more advanced

mechanisms;

- Problems to be solved in the effective organization of investment activities, in particular attracting investments in the non-oil sector and improving the investment climate remained;

- In-depth study of the problems hindering the improvement of the investment climate in other areas, except for the oil and gas sector in Azerbaijan, and the introduction of more effective mechanisms is delayed;

- Despite the fact that the known targets of the Strategic Road Map have entered an intensive phase, the problems in the implementation of investment targets have made it important to identify new solutions;

- Negative trends and stagnation in economic development processes due to the impact of the COVID-19 pandemic created a need for larger investment flows in the post-pandemic period;

- The extensive rehabilitation and revitalization of the liberated territories and large-scale measures to be taken in these territories, the creation of social and industrial infrastructure, the establishment of promising sectors of the economy have created a need for sustainable and long-term intensive investment flows;

- In the context of global economic challenges in our country, it is necessary to solve the problems of efficiency of the investment climate at a high level and establish a serious basis for the dynamics of investment flows.

**Scientific novelty of the dissertation** are as follows:

- In a period of intensifying global impacts, conceptual scientific views and opinions on the creation of investment climate, provision of optimal approaches to solving efficiency problems, implementation of maximum improvements and importance of renewing the state's investment policy have been systematized;

- Based on the current development trends and practical realities of the world financial and investment markets over time, a block diagram of theoretical approaches to the formation of the investment climate and economic mechanisms has been developed;

- Political-legal, economic and socio-cultural factors of strategic importance in the formation of the investment climate and the

solution of efficiency problems have been substantiated and systematized;

- The efficiency problems in the formation of the investment climate have been summarized and the methodological features that have a significant impact on the formation of the investment climate have been determined;

- Based on the mechanisms of progressive and effective investment activity, strategic approaches to the creation of the investment climate, the main elements of the formation of the investment climate in world practice have been given schematically;

- In international practice, the factors that prevent the creation of an investment climate favorable to the mutual interests of investment market participants and the conditions of potential investors have been classified;

- An approximate scheme of the main elements of the investment climate in economically developing countries, with the similarity of targets and goals for creating the investment climate and the solution of efficiency problems in Azerbaijan, has been developed;

- The goals and objectives of the state investment policy, the main objectives of investment activity in line with the sustainable development of the national economy, the stages of implementation of the investment policy and the means of influence of the state on the investment activity have been determined;

- Based on modeling through regression and interaction of GDP dynamics in Azerbaijan and volume of investment from all sources in the economy, an increase of 3.2327 manat in the country's GDP in 2010-2020 due to an increase of 1 manat in investments in the economy from all sources has been identified and a relevant report has been developed;

- Based on the conditions and mechanisms necessary for the investment climate and investment attractiveness in Azerbaijan, a SWOT analysis has been carried out, revealing its strengths, weaknesses, opportunities and threats, and problems preventing the improvement of the investment climate have been identified;

- The structure of investment climate of Azerbaijan in terms of global threats and various risks has been developed, components have

been provided and assessment criteria that have a significant impact on the investment climate have been determined;

- The importance of establishing the Karabakh Investment Fund in order to form an investment climate and solve efficiency problems in the liberated territories has been substantiated and an algorithm-scheme of measures to organize its activities has been developed;

- Substantiated complex block diagram of the issues of organization of investment climate in Azerbaijan and adaptation of ways of solving investment efficiency problems to the goals of the Strategic Road Map has been given;

- In order to diversify the national economy in Azerbaijan and increase the investment attractiveness of the regions, the directions of improving investment mechanisms in line with the development goals of promising non oil and gas sectors have been determined;

- In the post-pandemic period, ways have been developed to renew the public investment policy in Azerbaijan in line with global economic challenges and to increase the efficiency of the investment climate, taking into account long-term perspectives and substantiation.

**Theoretical and practical significance of the research.** The scientific results, proposals and recommendations obtained in the research can be used to adapt the state investment policy in our country to contemporary challenges, to make it sufficiently suitable for global effects, to improve the investment climate and to increase investment attractiveness, to develop measures and to take regulatory steps. Moreover, approaches in the dissertation, methodological elements, proposed mechanisms and solutions to existing problems in this area have the potential in the formation and organization of the investment climate in the development of relevant projects and programs in increasing the efficiency of investment activities in the country and being quite favorable for potential investors, especially in the non-oil sector.

The scientific-theoretical provisions and materials given in the dissertation can be used in the preparation of textbooks, teaching aids and special bulletins related to the regulation of investments, creation of investment climate, increasing investment attractiveness,

management of investment projects and efficient use of investment resources. It is appropriate to use the scientific-theoretical and practical materials of the research, especially in the teaching of "Investment Management", "Investment Process Management", "Finance and Investments", "Financial Markets" and other subjects in economics universities.

**Approbation and implementation of the research.** The subject of the dissertation has been discussed and approved at the ongoing scientific seminars as a topical issue in modern times, in accordance with the general direction of research studies of the Chair of "Economics and Taxation" of the Azerbaijan Cooperation University.

The candidate's 26 articles and theses, including 5 articles and 2 theses, related to the thesis topic, have been published abroad in local and foreign authorized journals recommended by the Supreme Attestation Commission. The main provisions of the research have presented in the theses entitled "Ways to improve the mechanisms of state support to the agricultural sector in the context of modernization" at the international scientific conference "Economic Security: Current Situation and Prospects" (2018), entitled "Ways to increase the efficiency of the investment climate in Azerbaijan" at the international scientific-practical conference dedicated to the 100th anniversary of the Azerbaijan Democratic Republic, jointly organized by the Azerbaijan Cooperation University, the Ministry of Education of the Republic of Azerbaijan, the Union of Economists, the Agrarian Science and Information Consulting Center of the Ministry of Agriculture (2018), entitled "Analysis and assessment of the impact of investments on the growth of the national economy in Azerbaijan" at the International scientific-practical conference on "Economic growth and social welfare" dedicated to the 60th anniversary of the Institute of Economics of ANAS (2018), entitled "Theoretical and methodological problems of the interaction between the attractiveness of the investment climate and economic security" at the International scientific conference "Economic Security: Current Situation and Prospects" (2020), entitled "The role of investment activity in the effective use of the transit potential of the country's trade and logistics

infrastructure” at the Republican scientific conference on “The role of Azerbaijan's transit potential in economic development” (2020), entitled “Ways to increase the efficiency of the investment climate in Azerbaijan under modern conditions” at the IV International scientific-practical conference “Challenges of Modernity and Strategies for the Development of Society in the Conditions of New Reality” held in Moscow, Russian Federation (2021) and entitled “The relevance of the improvement of the state investment policy of Azerbaijan in the post-pandemic period” at the IV International scientific-practical conference “Modern Problems of Civilization and Sustainable Development in the Information Society” in Moscow (2021). In addition, articles on “Processes of formation of investment climate in the world and mechanisms for strengthening investment activity” (2018), “Actual problems and issues on formation and maintenance of rationality of investment climate in agrarian sphere of Azerbaijan” (2018), “Modern problems of forming and increasing the attractiveness of the investment climate in Azerbaijan” (2018), “Directions for improving the efficiency of the investment climate in modern conditions” (2018), “Directions for regulating the formation and increasing the attractiveness of the country's investment climate” (2018), “Assessment of investment climate and structure in the context of global economic challenges in Azerbaijan” (2018), “Investing in the development of the agricultural sector in the context of modernization is a key factor for food safety” (2018), “Analysis and assessment of problems hindering the improvement of the investment climate” (2019), “Modern aspects of processes and mechanisms of formation of investment climate” (2019), “Implementation of the experience of the world investment climate in Azerbaijan” (2019), “Importance of strategic approaches to increase the efficiency and activity of the investment climate” (2019), “Assessment of investment process management mechanisms in the context of global economic challenges” (2019), “Strategic aspects of investment activity in economically developed countries” (2020), “Problems of strengthening investment potential and creating infrastructure in Azerbaijan” (2020), “Priorities for improving the investment climate in Azerbaijan in the post-pandemic period” (2021), “Theoretical and

methodological approaches to the problems of efficiency of the investment climate” (2021), as well as articles entitled “The main objectives of improving investment mechanisms in the context of the Strategic Road Map of Azerbaijan” (2020) and “Strategic importance of increasing investment activity in the context of new challenges” (2021) in the journal “Financial Economics” and entitled “Historical importance of increasing the efficiency of the investment climate in Azerbaijan” (2021 - Scopus) in the journal "Questions of History", published in Moscow, Russia.

**The organization in which the dissertation has been accomplished.** The dissertation has been accomplished at the Azerbaijan Cooperation University.

**The total volume of the dissertation.** The total volume of the dissertation consists of 521987 characters including cover and contents (3210 characters), introduction (31278 characters), 5 chapter (Chapter I - 82793 characters, Chapter II - 84323 characters, Chapter III - 77929 characters, Chapter IV - 73418 characters, Chapter V - 81999 characters), conclusion (18607) and bibliographies (47326 characters). The number of characters in the dissertation, excluding tables, figures and bibliographies, is 453557 characters.

## **BRIEF OVERVIEW OF THE DISSERTATION**

**In the introduction of the dissertation,** the actuality of the subject, the object and the subject of research, purpose and objectives, methods, the main provisions to be defended, scientific novelty, theoretical and practical significance, approbation and implementation of the research have been reflected.

In the first chapter of the dissertation **“Theoretical and methodological bases of formation of investment climate”**, theoretical issues related to the formation of the investment climate and economic mechanisms have been studied, sufficient generalizations have been made, aspects of the attractiveness and efficiency of the investment climate have been researched, as well as the factors determining the investment climate and their methodological features have been determined.



Ensuring the sustainable and optimal development of the country's economy in modern times requires the consideration of many important factors. In this context, the investment factor is of particular importance. Therefore, the current development of the economy is mainly associated with innovation, which requires significant and sustainable investment. Investments play an important role in the economy and are important in strengthening various sectors of the economy, renewing production assets and transferring modern technologies. *“In modern conditions, investment is the most important tool for ensuring structural changes in the economy, the implementation of technical progress and improving the quality of economic activity, and significantly contributes to socio-economic changes that improve the living standards of the population”*<sup>1</sup>. The concept of investment climate is explained differently in the scientific and economic literature. There is currently no clear consensus on the key features of this category. In general, economists use several concepts: investment climate, investment attractiveness, investment activity, and so on. Some authors use these concepts as the same concept without explaining the main differences between them, while others believe that they are different. At present, there is no single approach to reviewing the investment climate, which creates a need for theoretical and methodological research in this area. S.Z. Isayev characterizes the investment climate by the degree of the current situation in the field of investment in any country<sup>2</sup>. In addition Dr. of Econ. G.A. Azizova states that the investment climate is a set of socio-economic, political and financial factors that determine the size, attractiveness, risk level of the investment market and ensure the flow of domestic and foreign investment in the country<sup>3</sup>.

Investment attractiveness consists of two parameters - investment potential and investment risk: 1) Investment potential is

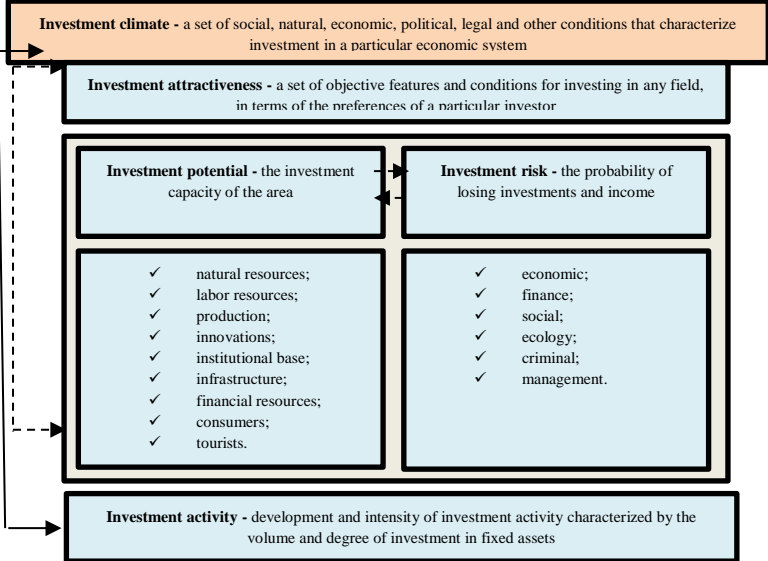
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<sup>1</sup> Журавлева, К.А. Инвестиционный климат и его составляющие // Молодой ученый. – 2018. – № 50 (236). – с. 127.

<sup>2</sup> İsayev, S.Z. İnvestisiya fəaliyyətinin hüquqi tənzimlənməsi. Bakı: İqtisad Universitetinin nəşriyyatı, 2011 – s. 59.

<sup>3</sup> Əzizova, G.A. Dövlətin investisiya-innovasiya siyasəti. Bakı: İqtisad Universitetinin nəşriyyatı 2012. – s. 34.

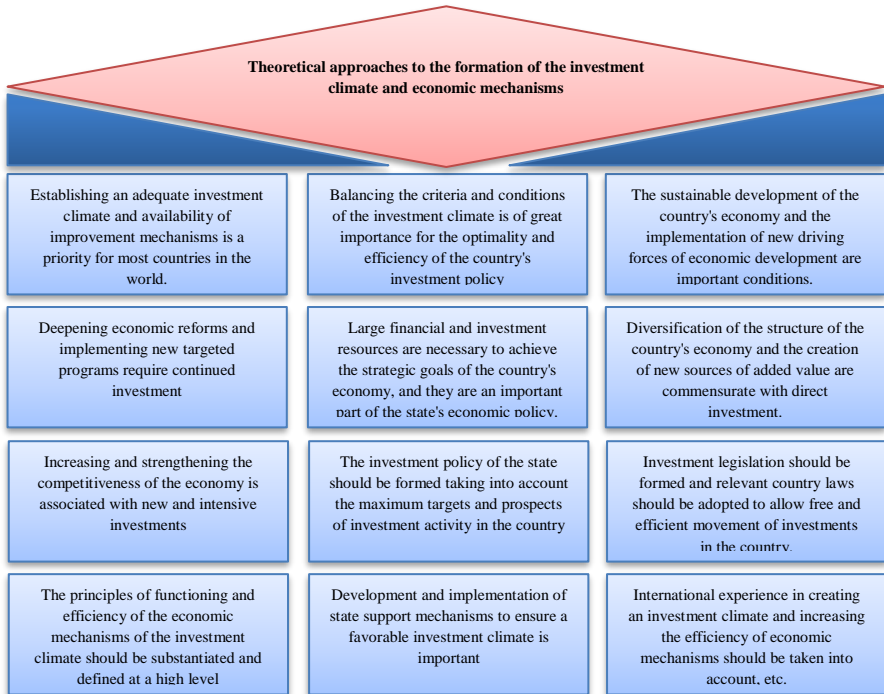
tangible, technical, financial and intangible assets with quantitative and qualitative characteristics. The investment potential of enterprises, regions and the economy as a whole determines the existence of factors that characterize their investment attractiveness. In our opinion, investment potential is an economic category that characterizes the characteristics and opportunities of the investment climate. The composition and structure of investment potential should determine the economic growth potential of the country and its regions. 2) Investment risk is the probability of financial losses in the form of capital or income losses due to uncertainty in the terms of investment activities. Investment risk is the probability of partial or complete loss of invested funds. It should be noted that the more profitable the selected investment project looks, the higher the probability of losing money. Based on the above theoretical considerations, we can schematically show the relationship between the concepts of investment climate, investment attractiveness, investment potential, investment risk and investment activity (Figure 1).



**Figure 1. Schematic description of the main structural elements and relationships of the investment climate (developed by the author)**

Based on the study of the formation of the investment climate and economic mechanisms, it is important to take into account the determination of conceptual approaches to these issues in the context of deepening modern global influence and increasing new challenges.

Based on their importance, Figure 2 shows a block diagram of theoretical approaches to the formation of the investment climate and economic mechanisms.



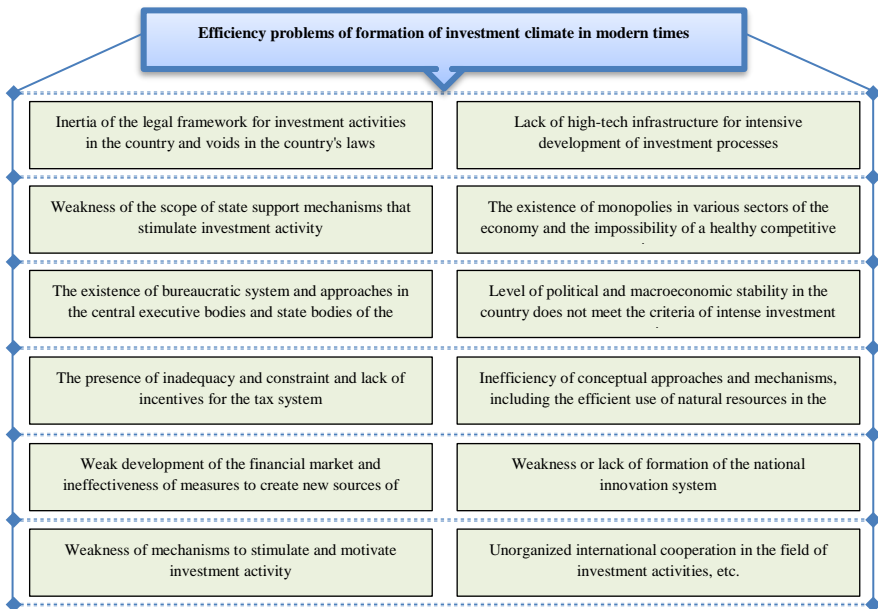
**Figure 2. Block diagram of theoretical approaches to the formation of the investment climate and economic mechanisms (developed by the author).**

According to Figure 2, in the context of modern challenges, the formation of the investment climate and the maximum improvement and, if necessary, renewal of its economic mechanisms is a maximum priority in the economic policy of the world. Therefore, it is necessary to ensure a more sustainable, productive and efficient investment

activity strategy and to form and develop the investment climate in accordance with the requirements of potential investors.

It should be noted that the formation of a favorable investment climate is an extremely difficult and complex problem to solve in areas with unstable political, economic and social environment. Therefore, the reduction of factors that negatively affect the investment climate and the improvement of positive factors should be set as an important task.

In modern times, a block diagram has been developed on the problems of efficiency in the formation of the investment climate, and the main components are reflected in Figure 3.



**Figure 3. Block diagram of efficiency problems of formation of investment climate in modern times** (developed by the author).

Given the nature of the problems of efficiency of the investment climate in modern times and the difficulties it creates, it should be noted that the elimination of problems that hinder the efficiency of the investment climate in the country (look at: Figure 3) or taking

measures to prevent such problems should be considered as the main tasks and activities of the state investment policy. Strengthening the investment potential and attracting the necessary resources to economic and financial turnover for the effective organization of investment activities, and the active focus of the resource and raw material potential on the production processes regulate many issues and expand the institutional development. Increasing the attractiveness level of the investment climate and making it more attractive for investors largely depends on the adequacy of investment resources<sup>4</sup>. Financial and investment resources should be used transparently and sparingly, accounting documents and financial statements should reflect objective reality. For this reason, real funds should be mobilized from all possible sources in order to create investments and a suitable investment climate should be created. T.H.Husenov rightly writes: *“The continuation of the policy of increasing domestic investments at the expense of the public and private sectors, the implementation of tax policy that encourages domestic investment and the creation of a more favorable investment climate in the country for the processing industry and agriculture sector can create conditions for increasing investment activity... In the current economic situation, increasing public investment is an important factor in increasing gross national income”*<sup>5</sup>. In this regard, a systematic assessment of issues related to the formation of the investment climate in the main areas of activity and priorities of state regulation of the economy should be provided.

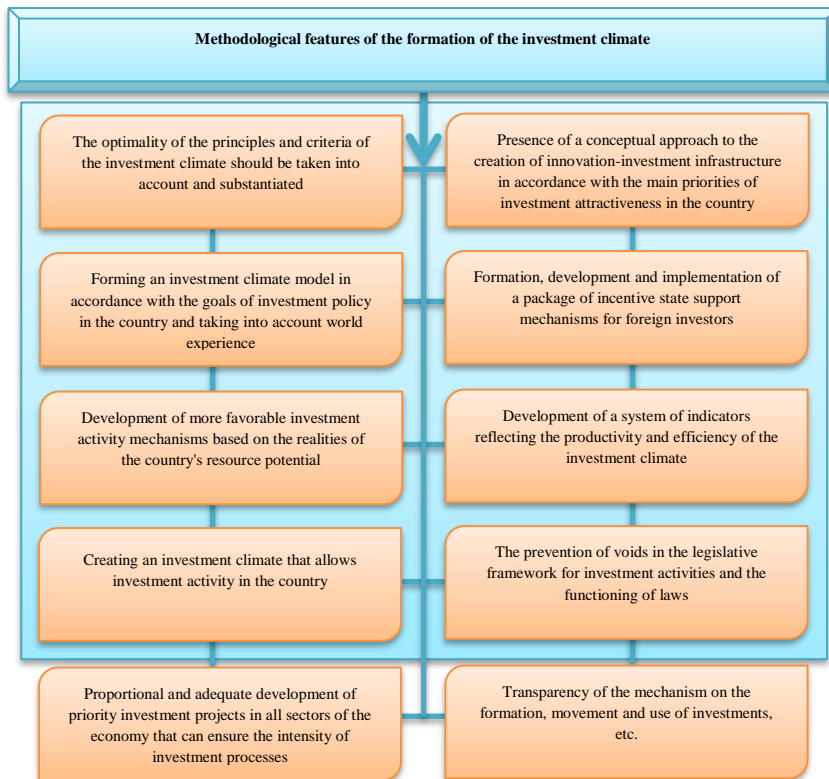
It should be noted that an in-depth study of the methodological features of the formation of the investment climate and the formation of approaches within the economic development priorities of each country, the main tasks and strategic goals can be more effective. In this case, the implemented methodological principles, criteria and methods differ in effectiveness, productivity and efficiency. Therefore, as an integral part of our research, we considered it

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<sup>4</sup> Əhmədov, B.S. İnvestisiya resursları və onların formalaşdırılması yolları/ İqtisad elmləri: nəzəriyyə və praktika jurnalı, № 1, 2011, s. 38.

<sup>5</sup>Hüseynov, T.H. Azərbaycanın milli iqtisadi inkişaf modeli: nəzəriyyə və praktika, Monoqrafiya. Bakı: Elm, 2015. – s. 52.

important to develop a block diagram of the problems of efficiency in the formation of the investment climate in modern times (look at: Figure 4)



**Figure 4. Block diagram of methodological features of the formation of the investment climate** (developed by the author).

According to the expressions in Figure 4, it is possible to see that there are enough issues to be resolved within the efficiency problems of the formation of the investment climate. That is why in most countries of the world there are great difficulties and obstacles in creating a more favorable investment climate.

In the second chapter of the dissertation **“International experience in the formation and efficiency of the investment**

**climate**”, processes of formation of investment climate in the world countries have been researched, mechanisms of strengthening investment activity in economically developed countries have been studied and approaches to problems of formation of investment climate in developing countries have been defined.

According to the experience of developed countries, the use of fiscal incentives for investment activities should be more purposeful than taking into account the macroeconomic situation and regional features of development as much as possible. Based on a comparative analysis of the implementation of economic methods of state regulation of investment activity in the EU countries, the differentiation of state support measures for investment activity in the country in accordance with the socio-economic differences between the regions and the middle republic is more noticeable. *“The movement of investment capital reflects the vectors of economic growth, and countries are trying to create the most favorable conditions for attracting investment, and various administrative, economic and legal mechanisms are actively used in these processes”*<sup>6</sup>. The establishment of an optimal public investment policy and the development of functioning mechanisms and tools in this direction, as a result, constitute a solid basis for the maximum improvement of the investment climate in the country and for attracting the needed foreign investment more intensely.

It should be noted that approaches to the investment climate in many countries around the world are quite progressive and effective. In the following chapters, we will discuss the main features of the existing investment policy, investment climate and investment attractiveness in economically developed and developing countries. International experience draws attention to increasing the attractiveness of such an investment climate in small countries and the application of high technologies. For instance, the experience gained in the formation and development of the investment climate in a small

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<sup>6</sup>Коварда, В.В., Рогов, Р.А. Исследование основных проблем привлечения иностранных инвестиций в экономику России // Вестник Евразийской науки, 2019 №1, Том 11 / 2019, No 1, Vol 11. – с. 4.

country - Ireland - is commendable. Due to the favorable investment climate in the country, the country is home to major IT companies, and over the past 20 years, 1,150 international companies, including Google, Facebook, Twitter, Airbnb, LinkedIn, Dell, IBM, Microsoft, Apple, HP, Intel and PayPal have chosen Ireland for their European production facilities and headquarters. Thus, the tax and legal system of this country, which is important in attracting the investment climate, is very simple and effective. For instance, the lowest corporate tax in Europe is in Ireland - 12.5%, or taxes on capital growth are very attractive, and so on. All these approaches attract more foreign investors, and they are not afraid to actively invest. *“Minimizing bureaucracy in investment management also plays an important role in increasing the attractiveness of the investment climate”*<sup>7</sup>. Furthermore, there are several other small countries that are more attractive for investment. For instance, foreign investment has played a strategic role in the economic growth and development of Singapore, which is located in a very small area and has no natural resources. This country has always been in the first place in the world for its investment potential in the last decade. Singapore's laws provide a high level of interest to foreign investors and investment donor countries, so the inflow of foreign investment into the country is very high. Another example is South Korea. *“As a result of structural reforms, it has become possible to increase the attractiveness of the investment climate in the long term”*<sup>8</sup>. In South Korea, corporate taxes have been reduced, administrative procedures have been simplified, and the maximum amount of foreign capital has been significantly increased. In international practice, it is also important to identify factors that slow down the flow of investment and reduce investment attractiveness, and to take systematic measures. In the world experience, the main factors hindering the more intensive organization

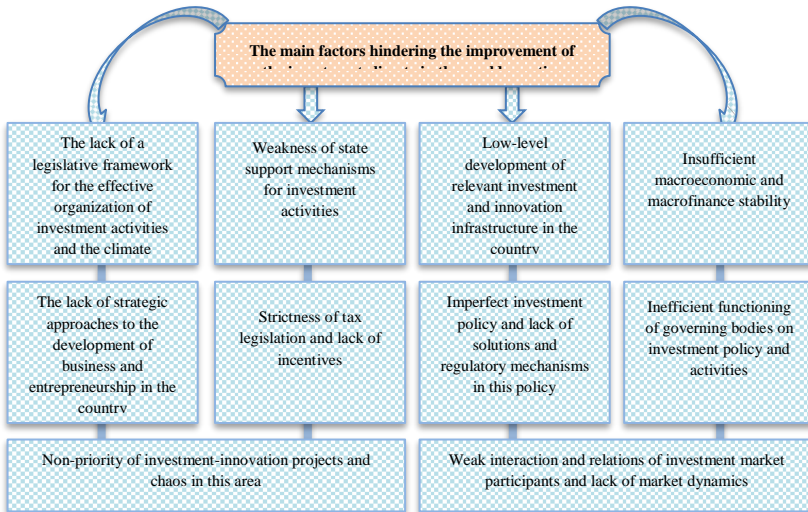
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<sup>7</sup>Валинурова, Л.С. Управление инвестиционной деятельностью. Москва: Кнорус, 2010. – с. 133.

<sup>8</sup>Седаш, Т.Н., Бирюков А.В. Использование зарубежного опыта для повышения конкурентоспособности и инвестиционной привлекательности российских регионов // Финансы и кредит. – 2013. №38 (566), – с. 62.



of investment activities and the improvement of the investment climate have been indicated in Figure 5.



**Figure 5. Classification of the main factors hindering the improvement of the investment climate in the world practice** (developed by the author)

We noted the problems of creating an appropriate infrastructure in the formation of the investment climate and the creation of favorable conditions for potential investors. We would like to emphasize once again that this factor plays an important role in attracting domestic and foreign investment in an organized manner.

The United States is the world's largest investor and the leading investment center. In this country, investment policy is based on targeted comprehensive programs and development programs at the regional level. The main goal of public investment policy in the United States is to ensure sustainable economic growth, increase employment, reduce inflation and balance of payments. Economically developed countries are investing more in areas with special economic zones and economic mechanisms. Given the fact that there are 5,400 such economic zones in 147 countries around the world, it is possible to imagine the scope of investments. Furthermore, more than 500 new special economic zones are expected to be created in the coming years,

which will further increase the existing competition in the global investment market. Economically developed countries are improving the mechanisms of investment activity in the short and long term. In the near future, the focus will be on creating more effective areas for attracting investment. First of all, the creation of high-tech digital infrastructure will play an important role in this direction<sup>9</sup>. We consider it appropriate to pay more attention to the Chinese experience in terms of creating an investment climate among economically developed countries. The reason is China's active involvement in attracting investment, as well as investing in many countries around the world. *“In terms of investment attractiveness, China attracts more foreign investors on five factors: 1) macroeconomic stability; 2) investment climate; 3) scientific and technical potential; 4) human capital and 5) political conditions”*<sup>10</sup>. In our opinion, China's economic success is based on a balanced and attractive public investment policy and the important role and support of the state in regulating investment mechanisms.

In the third chapter of the dissertation **“Analysis of the processes of formation of the investment climate in Azerbaijan”**, the legislative framework of state investment policy and investment activity in modern times has been analyzed, a comprehensive analysis of investment activity and structure in the country has been carried out, and the specific features of the processes and mechanisms of formation of investment climate have been studied.

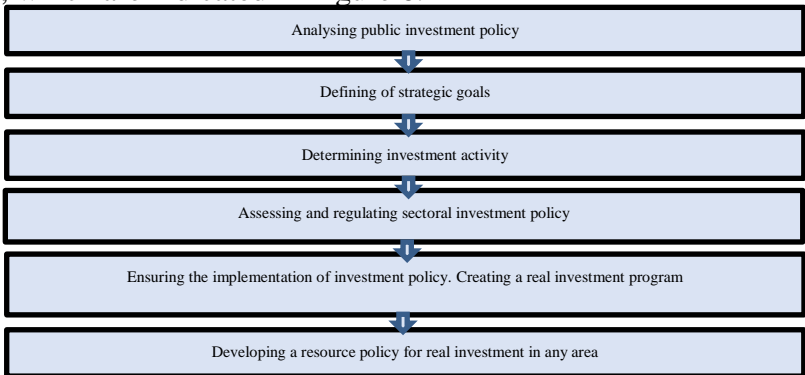
The investment policy of each state should be an integral part of the economic policy of this state, aimed at increasing the efficiency of the state's investment activities. Public investment policy is important as part of socio-economic policy. The optimality of this policy creates a closer unity between society and the state, which stimulates the development of the national economy. Investment policy reflects the attitude of the state to investment activity, and it reflects the main goals

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<sup>9</sup> Доклад о мировых инвестициях 2019. Конференция Организации Объединенных Наций по Торговле и Развитию. – ЮНКТАД., Организация Объединенных Наций, 2019. – с. 17.

<sup>10</sup> Никулина, С.И. Опыт привлечения иностранных инвестиций в КНР // Финансовый журнал. 2014. №3 (21). – с. 169.

and priorities of the state in the direction of investment activity. In particular, the state should have maximum goals and effective mechanisms to attract foreign investment. Professor A.Sh.Shakaraliyev writes: *“The main reason for attracting foreign investment to the country's economy is to overcome the long-standing stagnation and crisis in the economy, as well as to increase the investment activity of entrepreneurship through foreign investment, despite the limited level of domestic savings”*<sup>11</sup>. The investment policy pursued by the state is mainly elucidated as a set of factors aimed at creating a favorable investment climate in the country and factors that can determine the state of the foreign investment climate. Researcher Sh.T.Aliyev explained the essence of investment policy as follows: *“Investment policy is a system of measures determining the main directions of capital investment, its effective movement and effective direction. Such measures are mainly implemented at the state level, and the direction of these measures is determined in accordance with the country's foreign trade policy, international economic relations, the model of national economic development”*<sup>12</sup>. The implementation and realization of the state's investment policy consists of a number of stages, which are indicated in Figure 6.



**Figure 6. Stages of investment policy implementation**  
(developed by the author)

<sup>11</sup>Şəkərəliyev, A.Ş., Şəkərəliyev Q.A. Azərbaycan iqtisadiyyatı: reallıqlar və perspektivlər. Bakı: Turxan, NPB, 2016. – s. 112.

<sup>12</sup>Əliyev, Ş.T. Azərbaycanın xarici iqtisadi siyasəti. Sumqayıt: Sumqayıt Dövlət Universitetinin Nəşriyyatı, 2015.–s. 21.

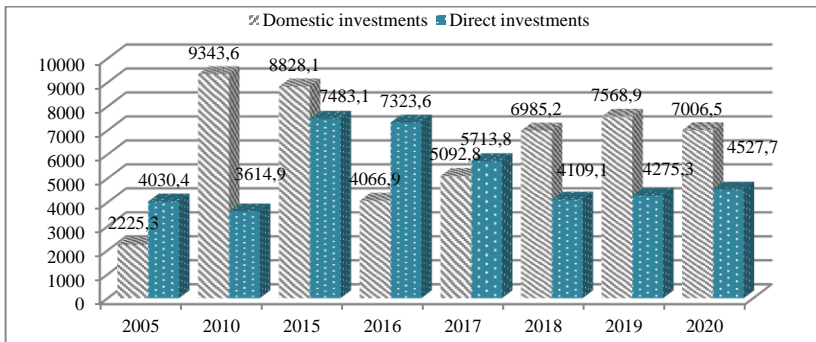
In Table 1, the dynamics of investments in the Azerbaijani economy has been analyzed. Given that the double devaluation of the national currency, the manat, in 2015 could create bias for the analysis, we considered it appropriate to conduct most of the investment analysis in US dollars. For this, we refer to official statistical sources (look at: Table 1).

**Table 1. Dynamics of investments in the Azerbaijani economy, in mln. dollars (2005-2020 years)**

Indicators:	2005	2010	2015	2016	2017	2018	2019	2020
Investments from all sources, (including foreign investments):	7118,5	17591,4	19547,2	14228,0	14213,3	15221,7	14698,0	13131,9
Domestic investments	2225,3	9343,6	8828,1	4066,9	5092,8	6985,2	7568,9	7006,5
Foreign investments, including:	2225,3	8 247,8	10719,1	10161,1	9120,5	8236,5	7129,1	6125,4
- Financial loans	698,4	3405,9	2210,2	2197,8	1783,3	2880,0	1736,1	-
Direct investments, including:	4030,4	3614,9	7483,1	7323,6	5713,8	4109,1	4275,3	4527,7
- Oil and gas sector	3799,9	2955,3	6622,7	5617,4	4900,8	3142,0	3345,2	3922,1
- Non oil and gas sector	230,5	659,4	860,4	1706,2	813,0	967,1	930,1	605,6
Oil bonus	1,0	2,0	2,0	0,1	1,4	450,1	450,8	-
Other investments	163,4	1225,0	1023,8	639,6	1622,0	797,3	666,9	1597,7
Share of foreign investments in total investments, as %	31,26	46,89	54,84	71,42	64,17	54,11	48,5	46,65

Source: Azerbaijan in numbers. Statistical summary. 2021, p. 196.

In Figure 7, comparative dynamics of foreign and domestic investments in the economy in Azerbaijan in 2005-2020 is given. According to the figure, domestic investment increased rapidly from 2005 to 2010 and increased 4.2 times during that period. Between 2005 and 2016, it showed a high growth rate of 87.5% in direct investment. In addition, in 2016, domestic investment decreased more than 2 times and only resumed growth rate from next year to 2019. In 2020, domestic investment fell again due to the Covid-19 pandemic. However, in 2020, the volume of direct investments increased by 5.8% compared to 2019 and amounted to 4.53 billion dollars (look at: Figure 7).



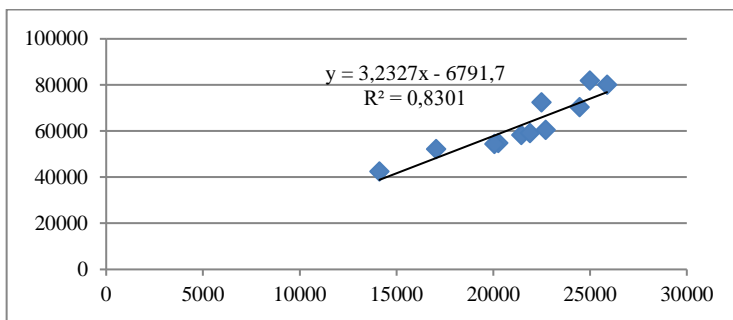
**Figure 7. Comparative dynamics of foreign and domestic investments in the economy in Azerbaijan in 2005-2020 years, in mln.dollars** (Developed according to the data of the State Statistics Committee of the Republic of Azerbaijan - <https://www.stat.gov.az>).

In modern times, investments in the country's economy have great efficiency and impact. Sustainable investments play an important role in attracting the resource potential of various sectors of the economy to the economy and value added and creating financial sources. One of the main spheres of influence is directly related to economic growth and the impact of investment on the country's GDP in general. For instance, if we look at the dynamics of the country's GDP in 2010-2020 and the interaction of the volume of investments in the economy from all sources, and try to model the effect in regression, we get:

**Table 2. Dynamics of GDP and investments in the economy from all sources in Azerbaijan in 2010-2020 years, in mln. manats**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP, in mln. manats	4246	5208	5474	5818	5901	5438	6042	7033	8009	8189	7243
Investments in the economy from all sources (including foreign investments), in mln. manats	1411	1704	2025	2144	2189	2005	2270	2446	2587	2498	2248
	5,0	2,0	3,7	2,0	4,1	0,0	5,2	7,8	2,0	6,2	2,2
	8,9	8,8	1,0	8,2	0,6	7,4	6,4	2,5	7,0	6,6	4,0

<i>Regression analysis statistics</i>								
R	0,911117							
R <sup>2</sup>	0,830135							
Normalized R	-1,22222							
Standard error	5350,357							
Number of observations	1							
<i>Analysis of variance</i>								
	Df	SS	MS	F	Significance F			
Regression	11	1,26E+09	1,14E+08	43,98312	-			
Residue	9	2,58E+08	28626315					
Total	20	1,52E+09						
	Ratio	Standard error	t- statistics	P-value	Down 95%	Top 95%	Down 95,0%	Top 95,0%
Y-result							3,2E-297	3,249E-297
Factor X 1							3,3E-297	3,298E-297
Factor X 2							9,7E-298	9,678E-298
Factor X 3							9,7E-298	9,678E-298
Factor X 4							1,8E-306	1,78E-306
Factor X 5							3,8E-308	3,755E-308
Factor X 6							8,7E-298	8,722E-298
Factor X 7							-7E-297	8,362E-297
Factor X 8							-2E-281	1,777E-281
Factor X 9							-2E-281	1,777E-281
Factor X 10	-6791,71	10552,29	-0,64362	0,535873	-30662,64052	17079,22	-30662,6	17079,2224
Factor X 11	3,232714	0,487443	6,631977	9,57E-05	2,130039985	4,335387	2,13004	4,33538707

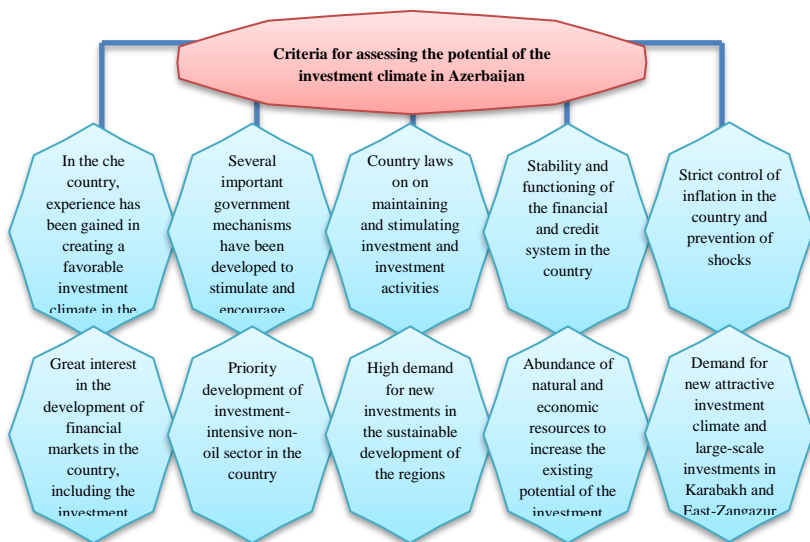


$$y = 3,2327x - 6791,7$$

According to the indicators given in Table 2 and to the regression model data, an increase of 1 manat in investments in the economy from all sources in 2010-2020 will lead to an increase in the country's GDP by 3.2327 manat.

In the fourth chapter of the dissertation **“Problems of efficiency and potential of the investment climate in Azerbaijan”**, the problems hindering the improvement of the investment climate in the country have been studied and identified, the potential of the existing investment climate in Azerbaijan has been adequately assessed and the impact of the establishment of the Investment Fund in post-conflict areas on the regional investment climate has been evaluated assessed and predicted. Improving the investment climate and overcoming obstacles to its adequacy also increases confidence in the state and government structures. Thus, the approaches of government agencies to the policy of improving the investment climate can either increase or decrease the level of confidence in them. This is reflected in the investor's confidence, respectively. When efforts to engage economic subjects and other market participants are made in a transparent manner and accompanied by modern reforms, confidence in companies can increase and thus strengthen investor interest. To this end, the executive bodies and structures responsible for the investment policy of the state should be made more efficient and effective mechanisms should be developed and implemented. In these processes, government agencies, local governments, businesses and entrepreneurs have certain responsibilities. The most important areas of activity of the expert circles are: 1) creation of more favorable

conditions for attracting investments to the country's economy and elimination of existing barriers; 2) creation of a favorable and healthy competitive environment in all sectors of the economy; 3) expansion of entrepreneurial activity, especially intensification of small and medium enterprise development; 4) elimination of excessive regulation and unreasonable state interference in the activities of economic entities; 5) increasing the role of central and regional government agencies in solving problems that hinder investment and eliminating bureaucracies; 6) increasing the efficiency of natural monopolies and improving the system of state regulation of tariffs, thus preventing the expansion of situations that undermine the attractiveness of the investment climate; 7) formation of knowledge and high-tech economy, and so on. Moreover, one of the important points is to achieve better results in attracting foreign direct investment in the non-oil sector of the economy. Our research materials have allowed us to develop a block diagram of the criteria for assessing the potential of the investment climate in Azerbaijan. This is reflected in Figure 8.



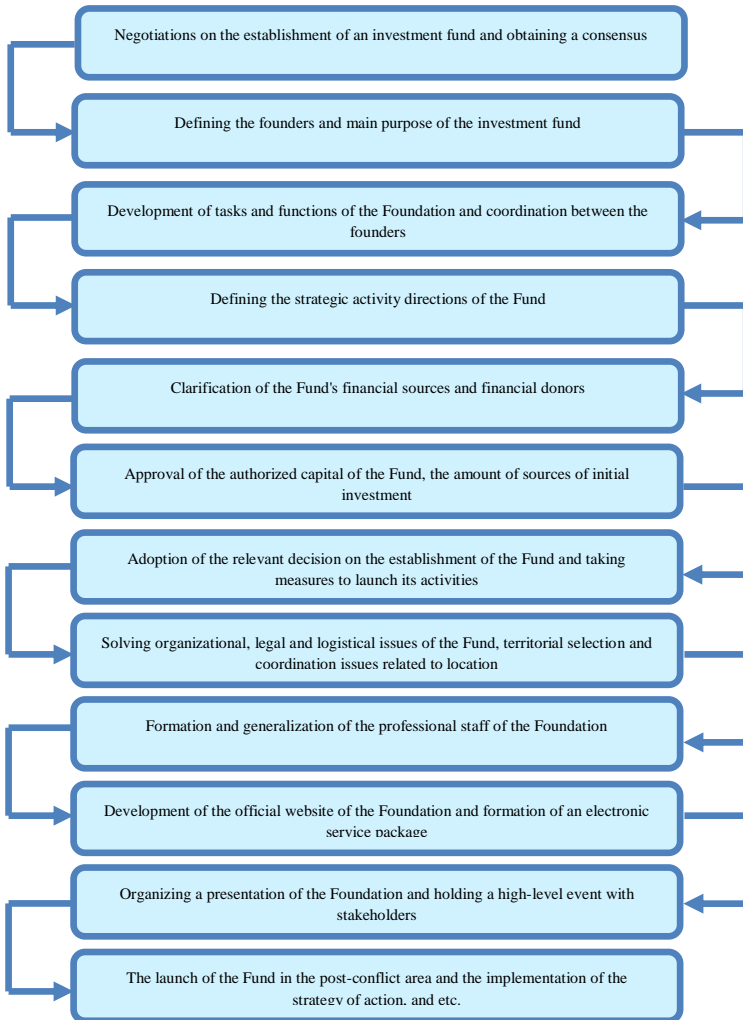
**Figure 8. Block diagram of criteria for assessing the potential of the investment climate in Azerbaijan (developed by the author).**



According to Figure 8, in assessing the potential of the investment climate in Azerbaijan, we should note the strategic importance of the oil and gas sector, the country's leading economy, and the experience and mechanisms for attracting large and sustainable foreign investment. This allows us to form and develop the potential of the most favorable and sustainable investment climate in other sectors of our economy, primarily in the non-oil sector and in our country as a whole. To this end, measures to assess many important factors, to improve the legislative framework in accordance with modern requirements, to renew mechanisms for investment promotion and state support, to accelerate the development of financial, innovation and technology markets, to strength relations with potential investor companies around the world, to create an exemplary and attractive investment climate, especially in the newly established economic regions of Karabakh and East Zangazur should be taken without delay.

The conceptual essence of the proposed "Karabakh Investment Fund" is to provide a more efficient and accessible access to alternative investments in post-conflict areas. An algorithm-scheme, which includes measures related to the organization, establishment and development of this fund, is shown in Figure 9.

The launch of a similar investment fund in post-conflict areas may be of interest to companies and firms and innovation and technology centers seeking to participate in the construction and revitalization processes in these areas. Thus, they can cooperate and partner with a financial-investment institution specializing in solving the problems of financing of their projects and attracting investments. As a result, additional opportunities will be formed to accelerate the restoration and construction work in post-conflict areas, the creation of production and service enterprises in various areas, and the creation of new jobs.



**Figure 9. Algorithm-scheme of measures related to the establishment and organization of the Karabakh Investment Fund (developed by the author).**

In the fifth chapter of the dissertation “**Directions for increasing the efficiency of the investment climate in Azerbaijan in the context of global economic challenges**”, the issues of adapting the investment climate and activities to the goals of the strategic

roadmap have been studied and evaluated in the context of modern perspectives, directions for improving or renewing investment mechanisms were identified and ways to increase the efficiency of the investment climate have been substantiated.

In order to stimulate the development of the financial services market by the state, it is necessary to have working mechanisms for all financial segments, including investments, and to provide national strategic interests in all processes and at the same time, important steps must be taken for foreign investors to operate effectively. Attracting investments for the development of real sectors of the economy, as well as the allocation of funds by the country's banking and credit institutions to the real economy and the provision of affordable loans have always led to certain discussions. Stimulation of these issues by the state remains relevant.

Adapting the investment climate and activities in our country to the goals of the Strategic Road Map is currently a top priority. Thus, after the definition of these targets, the negative impact of global events, first of all, the COVID-19 pandemic, continues, and we have not yet entered the postpandemic stage. Furthermore, the new perspectives and realities created as a result of the Great Karabakh Victory of the 44-day Patriotic War attract more attention to the opportunities for expanding investment activities and the geography of potential investors. In particular, the prospects for the establishment and operation of the Zangazur International Corridor will have a significant positive impact on the investment climate in the region and in the country as a whole.

Ensuring investment attractiveness in the country, improving investment mechanisms and developing a model of economic mechanism of investment are important conditions. In order to apply the identified and developed investment strategy model, it is more expedient to identify the strengths and weaknesses of investment attractiveness and to formulate and improve the country's investment policy based on these factors. It is expedient to conduct a comprehensive analysis to identify the positive and negative factors affecting the investment attractiveness of the economic entity. Such an analysis will allow studying and explaining the real potential for

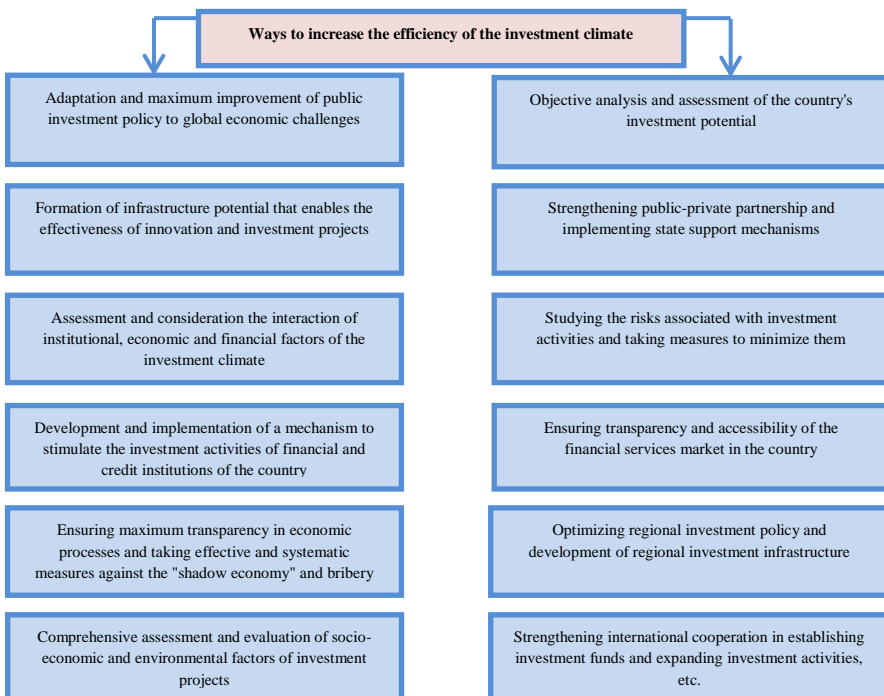
improving the investment climate<sup>13</sup>. Global economic challenges require maximum improvement and renewal of investment mechanisms. It is true that it is not an easy task to improve and renew the existing investment mechanisms against the background of global shocks and ongoing instability in the world economy, but it is possible to identify areas for improvement in the field by summarizing certain ideas.

We believe that one of the main directions of the state's investment policy is the policy of attracting foreign direct investment, and foreign direct investment is characterized as an important source of funding for the investment needs of the country's economy. In our opinion, the policy of attracting foreign direct investment should include a number of priority measures: 1) formation of the basic principles of the policy of attracting foreign direct investment in accordance with the requirements of modern times; 2) determination of more adequate approaches to stimulate investors; 3) creation of an adequate investment climate to attract foreign direct investment; 4) establishment of investment risk insurance system; 5) creation of a legislative framework that stimulates the intensification of foreign direct investment, etc. The interest in attracting foreign investment necessitates the establishment of a system of incentives and guarantees, both at the legislative level and within the framework of special agreements between the government and specific investment companies. A number of conditions must be met by the investor when formulating specific investment incentives. It will be important to combine incentive mechanisms into a single package in accordance with the development priorities of individual sectors of the national economy.

In general, ways to increase the efficiency of the investment climate in Azerbaijan have been indicated in Figure 10.

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<sup>13</sup>Голованова, Л.А., Крылова, А.И. Основы экономического механизма обеспечения инвестиционной привлекательности региона. // Электронное научное издание «Ученые заметки ТОГУ» 2016, Том 7, № 4, с. 781.



**Figure 10. Ways to increase the efficiency of the investment climate in Azerbaijan (developed by the author).**

Comprehensive and systematic review and implementation of the areas of activity in Figure 10 and issues important for improving the efficiency of the investment climate in our country are important conditions. The main conditions for the formation of a favorable investment climate are stable economic growth, political stability and the existence of market institutions, first of all, transparent and stable economic legislation and a developed credit and banking system. In addition, state support measures for investment are very important, and so on.

### **Some of the main results of the research, new scientific approaches, suggestions and recommendations**

Creating a favorable investment climate in modern times can create more fertile conditions for the intensification of investment

flows into the country's economy and thus ensure sustainable economic growth. To this end, taking measures in a number of areas and taking into account the factors can be effective. In the near future, improving the efficiency of the investment climate and increasing investment attractiveness will depend to a large extent on the country's resource potential and the quality of this potential. In our opinion, in order to improve the investment climate, first of all, the prevention of illegal economic activities and the provision of a healthy competitive environment, minimizing obstacles to the development of entrepreneurship will be in the forefront. A number of issues are more important in these areas:

1. Development and implementation of more effective stimulus mechanisms on expanding the works in the country to identify and prevent illegal entrepreneurial activities, increasing the role of the investment factor in the development of entrepreneurship, maximum renewing of domestic investment mechanisms and intensively attracting foreign investments;

2. Application of modern information technologies that accelerate investment processes, especially the construction of digital technology infrastructure.

3. Implementation of measures and mechanisms to ensure access to long-term financial and credit resources on favorable terms for investors.

Moreover, a set of measures in a number of areas to improve the efficiency of the investment climate in the context of global economic challenges are presented:

1. Diversification of sources of investment resources, which are important for various sectors of the economy, should be ensured, and in these processes, the population's savings should be directed to the real economy.

2. Measures should be taken to provide high-level state support for large and priority investment and innovation projects, and in this regard, state support mechanisms should be developed that are acceptable in international practice.

3. An improved management system should be formed in our country in order to form, distribute investments and apply an optimal control mechanism over the flow of investment flows.

4. An attractive and favorable investment market should be formed in Azerbaijan, considering global economic threats and current development directions of the world financial and investment market.

5. In the world practice, we believe that the main problems that hinder the improvement of the investment factor are: 1) imperfection and inefficiency of the legal framework; 2) low level of development of investment and innovation infrastructure in the country; 3) inadequacy of state support mechanisms and low level of efficiency; 4) the oppressive nature of the tax system; 5) slow elimination of artificial barriers to entrepreneurship and business development; 6) weak development of the financial services market, etc.

6. The Entrepreneurship Development Fund operates in Azerbaijan. Every year, the Fund finances various projects in various sectors of the economy, especially in the non-oil sector and the service sector, and provides soft loans. However, a very limited number of businesses benefit from these opportunities. It may be effective to expand the Fund's financial capacity, provide more concessional loans and finance investment projects by attracting additional investment resources, including investments from foreign sources.

7. There is a need to raise investment and innovation activities in the economic regions of the country to the level of modern requirements. Bank-credit organizations with free balance sheets do not operate in the regions, there are no specialized financial-investment groups and funds, and attractive financial services are limited. All this can be assessed as an indicator of underdevelopment of the investment climate in the regions. In this regard, a comprehensive review and assessment of the factors affecting the investment climate and investment attractiveness in the regions of the country and taking adequate measures are the issues that need to be addressed.

8. In our opinion, the systematic solution of the problems that hinder the improvement of the investment climate should be assessed as the main way to solve the problems of the efficiency of the

investment climate. There is a need for the elimination of barriers created for one reason or another, establishment of investment and innovation environment, involvement of natural resources in production turnover and reflection in export potential, elimination of monopolies in various fields of non-oil sector, formation of alternative and free financial and investment sources and the organization of economic activity zones based on world experience.

9. More appropriate and stimulating conditions and mechanisms should be developed to establish multifaceted relations with potential investment-oriented and investing companies and firms, and to attract investors to these projects, especially from countries with close economic cooperation with Azerbaijan. Furthermore, presentations should be actively held, an appropriate electronic portal should be created, presentations should be made in various countries and international financial and investment institutions and holdings. In addition, in the near future, It is expedient to organize the Karabakh and East Zangazur International Investment Forum by inviting the world's leading investment and financial entities, prominent political and economic figures, Nobel Prize winners and financial and investment giants.

10. By approaching strategic goals related to the productive use of the natural potential of the Karabakh and Eastern Zangazur economic regions and and the ensuring of the "Great Return" for IDPs, the establishment of the Karabakh Investment Fund, which has a free balance in post-conflict areas and will be located here, can support the formation of an investment climate in the liberated territories on the most favorable terms and the intensification of the flow of potential investors to the region. The algorithm-scheme of measures to be taken in connection with the establishment and organization of the activities of this Fund is reflected in the dissertation. We believe that it is important to consider the establishment of the Fund as soon as possible. Thus, the current "Karabakh Revival Foundation" operates more as a public association and organization. Formation and development of the Karabakh Investment Fund as a professional financial and investment entity that can operate at the international



level is the main target. It would be more attractive to locate this Fund in the Aghdam region or near Fizuli International Airport.

11. In order to maximize the improvement of the investment climate in Azerbaijan and increase investment attractiveness, the establishment and operation of unified management mechanisms for investment and innovation processes in the country can be more effective. The real situation is that there is no national innovation system, multifunctional innovation centers and innovation zones. It is difficult to expect that the “Agency for Innovation and Digital Development”, which operates under the Ministry of Digital Development and Transport of the Republic of Azerbaijan, will provide more than limited field interests. In this regard, there is a need for a more free central government structure with more functions. We believe that it is expedient to establish the “Azerbaijan Investment and Innovation Holding” by further improving the activities of the “Azerbaijan Investment Holding”, established by the Presidential Decree dated August 7, 2020. In this case, the opportunities for more efficient implementation of large and priority investment and innovation projects in promising areas of the national economy, consolidation of investment resources, maximum improvement of the investment climate and increase of investment attractiveness, etc. can be significantly increased.

**The main content of the dissertation is reflected in the following 26 scientific publications:**

1. Dünya ölkələrində investisiya mühitinin formalaşdırılması prosesləri və investisiya fəallığının gücləndirilməsi mexanizmləri // “Elmi Əsərlər” jurnalı (AMEA İqtisadiyyat İnstitutu), Bakı.– 2018. № 01. – S. 138-145.

2. Актуальные проблемы и вопросы по формированию и обеспечению рациональности инвестиционного климата в аграрной сфере Азербайджана // USA, Philadelphia. Technology and science. 30.03.2018, Международный научный журнал ISJ Theoretical & Applied Science, Impact Factor JIF: 1.500; Impact Factor SIS (Texas, USA): 0.912; Impact Factor ICV=6.630. 2018. Issue: 07 Volume: 59. – P. 307-312.

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