

REPUBLIC OF AZERBAIJAN

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**IMPROVING THE STIMULATION OF MAIN
CAPITAL INVESTMENT IN THE MANUFACTURING
INDUSTRY**

ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

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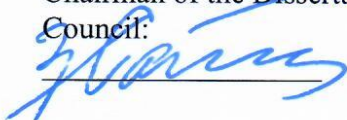
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GENERAL CHARACTERISTICS OF THE WORK

Relevance and degree of development of the dissertation topic. As a result of successful economic policy and extensive reforms implemented in our country, the Azerbaijani economy is developing dynamically. The measures taken to develop the non-oil sector in this direction have a special role in the long- run. In accordance with the "Azerbaijan 2030: National Priorities for Socio-Economic Development" approved by the Decree of the President of the Republic of Azerbaijan dated February 2, 2021, the non-oil economy must become the center of development. One of the main conditions for the growth of this sector is to ensure the sustainable development of the manufacturing industry.

The manufacturing industry has a significant share in the non-oil sector of our economy. At the same time, the manufacturing industries differ from the extractive industries in their flexibility in development. These areas are more innovative and open to the application of scientific and technical innovations and advanced technologies. In this regard, these areas have the potential to grow rapidly based on the expansion of investments.

In the 2000s, investments in the country's manufacturing industry increased rapidly, and a generally high growth rate was observed in this area. At the same time, the necessary sustainability in this direction is not observed in the long- run.

In the last decade, there has been some instability in the dynamics of main capital investment in the manufacturing industry. The average annual growth rate of main capital investment in the manufacturing industry weakened in 2014-2017. This is especially true in some areas of the manufacturing industry. The share of the manufacturing sector in total investment in industry has decreased. In 2018-2020, a sharp increase in main capital investment in the manufacturing industry was ensured, but structural problems in this direction have not been fully resolved. Consistent and necessary growth of investments in a number of important areas of the manufacturing industry, including ensuring food security of the country, which plays an important role in increasing employment,

has not been ensured. This situation does not correspond to the strategic development objectives of the manufacturing sector. In this regard, the solution of the problem of investment provision in the manufacturing industry in accordance with the requirements of a comprehensive and consistent development of this area remains relevant.

The solution to this problem is primarily related to the formation of effective investment incentives. In this regard, there is a need to both improve existing mechanisms and introduce new incentives.

In view of the above, the study of issues of stimulating investment in main capital in the manufacturing industry is of particular importance

The study of theoretical and practical issues of stimulating investment in main capital in the manufacturing sector, including the manufacturing sector of the economy in our country was carried out by Z.A.Samadzade, E.A.Guliyev, H.A.Khalilov, I.H.Ibrahimov, M.A.Mammadov, G.A.Safarov, B.X.Atashov, G.A.Ganjiyev, A.F.Abbasov, I.H.Aslanzade, R.T.Hasanov, T.H.Huseynov, M.C.Huseynov, I.M.Abbasov, T.I.Karimov, F.F.Fikartzade, N.S.Majidov, V.Z.Zeynalov, A.H.Tagiyev, A.L.Aliyev, T.N.Aliyev etc. considered in his works.

At the same time, the problems of investment stimulation were solved by foreign scientists S.A.Sirotkin, A.N.Vasilyev, V.Semyonov, I.S.Stepanova, O.A.Chernova, V.A.Shvandr, V.Daskovskiy, A.M.Margolin, J.Brown, F.J.Fabozzi, K.Farla, I. Kaur, A.Damodaran, L.E.Kochard, C.M.Rittereiser, et al. studied in his works.

At the same time, the issues of stimulating main capital investment in the manufacturing industry were not the subject of special research in the research of these scientists. At the same time, the solutions to the problems of theoretical as well as practical importance on improving the incentives for investment in main capital in the manufacturing industry have not been sufficiently explored. There is a need to study in detail the issues of supporting the development of industrial parks and neighborhoods by

stimulating investment in main capital, expanding investments in the manufacturing industry, improving the incentive mechanism, increasing the role of development institutions in stimulating investment in the manufacturing industry.

Object and subject of the research. The object of research is the manufacturing industry and its fields in the Republic of Azerbaijan. The subject of the research is the mechanisms and rules of stimulating investments in main capital in the manufacturing industry.

Goals and objectives of the research. The main purpose of the research is to study the state of stimulation of main capital investment in the manufacturing industry in modern conditions and to develop scientifically sound proposals to improve existing mechanisms in this area.

In order to achieve the goal of the dissertation, the following research objectives have been identified:

- to study the necessity and features of stimulating investments in main capital in the conditions of market relations;
- disclosure of the structure of the mechanism for stimulating investments in main capital;
- analysis of the current state of the level, dynamics and structure of investments in the manufacturing industry;
- assessment of the application of customs-tariff and tax instruments to stimulate investment in main capital in the manufacturing industry;
- to study the formation and application of the preferential credit mechanism in financing investments;
- identification of important areas for stimulating main capital investment in the country's manufacturing industry and preparation of relevant proposals.

Research methods. During the research, structural analysis, analysis of dynamic series, generalization, comparison, econometric analysis, systematic approach, etc. methods were used.

The main provisions of the defense:

Given the complex nature of the system of incentives for investment in main capital, it is necessary to implement a systematic

approach to its study. In this case, in terms of a comprehensive disclosure of the structural organization of the incentive mechanism, it is important to classify its elements according to their economic nature and forms of impact.

- The realization of strategic development goals in the country's industry is related to ensuring high growth rates of main capital investments in the manufacturing sector in the medium and long term. This situation necessitates the effective stimulation of investment in the manufacturing industry.

- The system of stimulating investment in the manufacturing industry formed in our country should be consistently developed in accordance with the increase of economic and financial opportunities, as well as the relevant institutional capacity. This process should focus primarily on expanding effective stimulation tools and tools.

- The development of a system to stimulate investment in main capital in the manufacturing industry is associated with more active tax and credit instruments. In this regard, the tax exemption of the part of profits directed to investments in main capital, as well as the introduction of investment and tax credit instruments can play an important role in increasing the investment of relevant potential economic entities operating in the sector.

- There is a need to increase the role of the incentive mechanism in the system of stimulating investment in the manufacturing industry. It is important to do this on the basis of reconsidering the minimum amount of encouraged investment, expanding the composition of incentive tools, increasing the number of regions encouraged for production based on innovative technologies.

- Within the framework of the investment promotion mechanism, it is necessary to identify a separate region covering the liberated territories and to determine more favorable conditions for the promotion of main capital investments in the manufacturing industry for that region.

- Along with strengthening the capacity of existing development institutions in the system of stimulating investment in

the manufacturing industry, it is considered expedient to establish a specialized investment bank that will facilitate the effective solution of the problem of financing investment projects in priority sectors.

- In order to increase the attractiveness of industrial zones for investors operating in the manufacturing sector, in addition to increasing the duration of tax benefits for residents, the expansion of the range of services provided on concessional terms, the creation of joint service areas and cluster structures in industrial parks can be considered.

The scientific novelty of the research. The scientific novelty of the dissertation is as follows:

- Features of stimulating investments in main capital in the conditions of market relations were announced;

- the structure of the mechanism for stimulating investments in main capital has been systematically studied and relevant generalizations have been made;

- The dynamics of investments in the manufacturing industry and the main trends in the field structure were identified and the factors that determine them were disclosed;

- The processes of formation of the system of stimulating investments in the manufacturing industry in modern conditions were announced and assessments were made on the current situation in this field;

- Proposals on improving the mechanism of preferential credit in financing investments in the manufacturing industry were prepared;

- Recommendations were made to develop a mechanism to stimulate investment in the manufacturing industry within industrial zones;

- Directions for improving the mechanism for promoting investment in main capital in the manufacturing industry have been identified;

- proposals were developed to increase the role of development institutions in stimulating investment;

Theoretical and practical importance of the dissertation. Recommendations based on the results obtained during the

dissertation provide opportunities for manufacturing industry enterprises to strengthen the stimulation of main capital investment, accelerate the process of attracting main capital investment in the manufacturing industry, improve the mechanisms of development of investment institutions to stimulate investment.

The results of the dissertation, recommendations and provisions include the preparation of strategically important documents and projects for the development of the manufacturing sector of the country's economy, improving the mechanisms for attracting investment in the manufacturing industry. As well as economics, project management, investment management, enterprise (firm) can be considered appropriate in the teaching of economics, investment activity in industry and innovation policy.

Approbation and application of research. The results of the research, suggestions and recommendations were reported at international and national scientific-practical conferences and were positively evaluated. The main content of the dissertation is reflected in 8 articles and 10 theses published in our country and abroad.

Application of the results and proposals received in the dissertation work was accepted by “Azerigas” PU (17.03.2021) and it was considered expedient to use it in the assessment of investment resources, strategic plan for reconstruction and improvement of gas supply infrastructure, action plans.

Name of the organization where the dissertation work is carried out. Azerbaijan Architecture and Construction University.

The entire volume of the dissertation, denoted by a character, as well as the volume of the dissertation's structural units separately. The structure of the dissertation is determined by the purpose of the research and the objectives. Dissertation work, introduction (1946 symbols), introduction (13087 symbols), three chapters (Chapter I-67128 symbols, Chapter II-63378 symbols, III chapter-61874 symbols), result (8658 symbols), in Azerbaijani, Russian, English It consists of a list of 144 titles. The total volume of the dissertation is 216,406 symbols.

MAIN CONTENT OF THE DISSERTATION

1. The role of capital investment and incentive mechanism.

The dissertation analyzes and summarizes the main conceptual views on the nature, role and stimulation of investment in main capital.

It is shown that investment, being one of the factors determining the development of the economy, increases the production potential. At the macro level, investment, implementation of a policy of consistent expansion of production, acceleration of scientific and technological progress, structural change in the economy and balanced development of all its sectors, creation of the necessary raw material base for industry, social development, defense and security, unemployment and environmental problems solution, etc. is the basis for. Investments at the micro level also play an important role. The study notes that investments are needed to ensure the normal operation of enterprises, the stable financial position of the business entity and maximize profits. To ensure the competitiveness of products and services produced without investment, to eliminate the consequences of moral and physical depreciation of main capital, to acquire securities and invest in the assets of other enterprises, to implement measures to protect the environment, etc. It is not possible.

The process of directing investments into production is indirect. Cash is accumulated through the securities market or bank deposits before being converted into real assets. Therefore, financial investments, which are the initial stage of the movement of investment resources into production, should be taken into account in approaches to strengthening investment in industrial production.

Stimulation of real and sometimes financial investments plays a leading role at different stages of development of national economies. Stimulation of financial investments, which is an important factor in increasing the efficiency of investment processes, is of great importance in a market economy with a developed, civilized stock exchange and effective infrastructure. In the post-transformation economy, first of all, the stimulation of production investments plays an important role as a key factor in ensuring economic development.

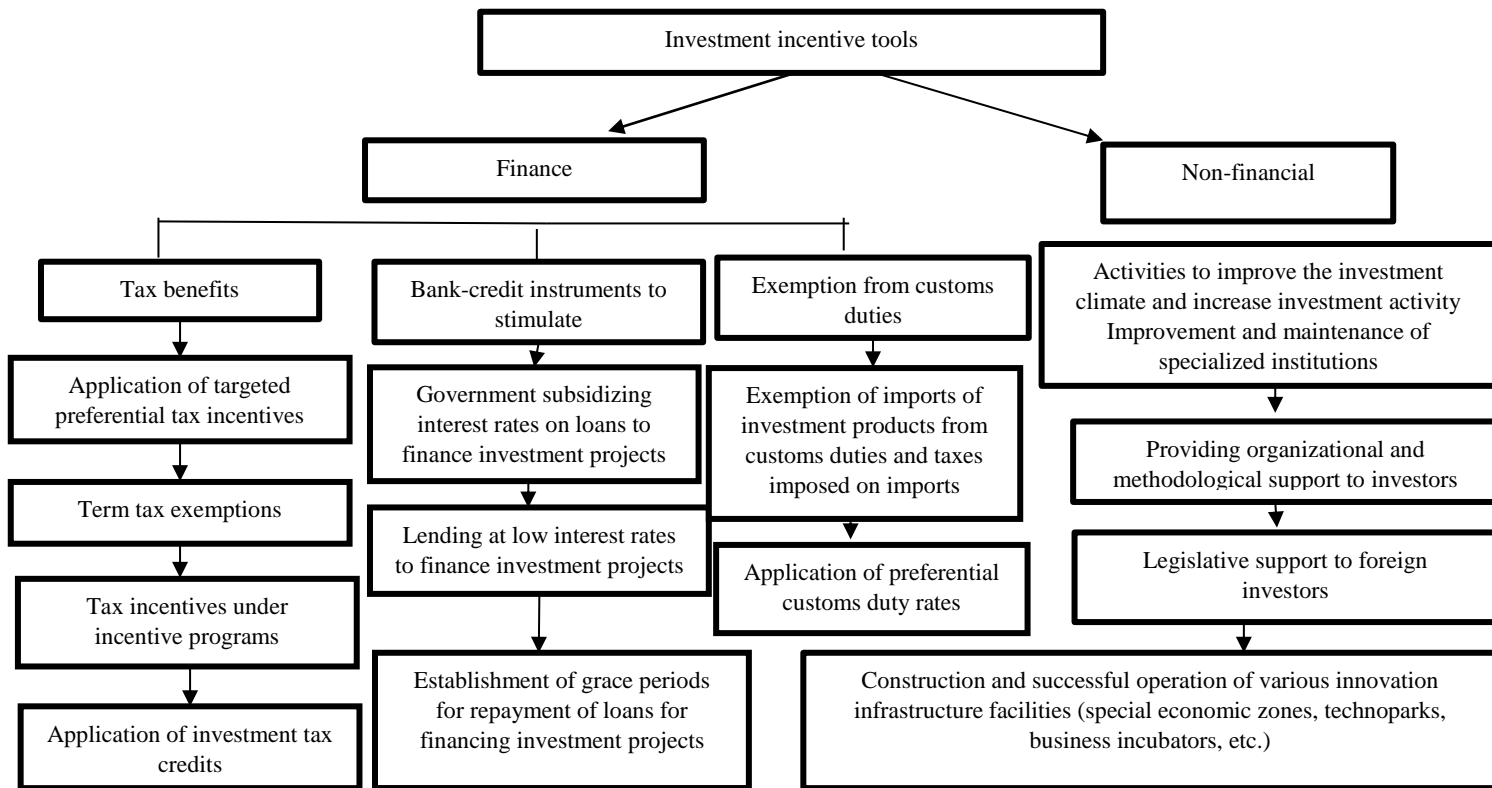
Stable and balanced development of the economy is ensured by the regularity of investment processes. Changes in investment during these processes not only have a direct impact on income in the economy, but also have a multiplier effect. From this point of view, the initial increase or decrease in the volume of investment leads to multi-source changes in income.

The dissertation shows that the state acts as a unique system-creating factor, creating a regulatory framework for all participants in the investment process. At the same time, the state itself is a subject of investment activity and invests budget funds in priority projects or allocates these funds to investors on a competitive basis and provides them with various forms of support.

The choice of forms and methods of investment activity depends on the general state of the economy, the amount of income and savings, the structure of production, the purchasing power of the population, and so on. depends.

By performing its specific functions, the state guarantees certain rights to the subjects of investment activities and protection of capital investments.

Given the complex structure of the investment incentive mechanism, it is necessary to classify its elements according to different criteria. According to the author, the classification of the elements of the system according to their economic nature is important in terms of comprehensive disclosure of the structure of the structure of the incentive mechanism. Financial and non-financial instruments are separated according to this criterion. Based on the general approach, the classification can be carried out according to the following scheme.



***Scheme. Classification of investment incentive tools according to the nature of their impact.
(Scheme compiled by the author)***

2. Analysis of the dynamics and structure of main capital investments in the manufacturing industry.

The manufacturing industry can play an important and sustainable role in diversifying the economy. It should be noted that in the past 2000s, industrial production in our country has generally developed at a high pace. The volume of industrial production increased 1.8 times in 2005-2020. During the period under review, growth was also observed in the manufacturing industry. Thus, the production volume of the manufacturing industry increased 2.1 times during the period.

Ensuring the further rapid development of the manufacturing industry is primarily due to the gradual increase in investment in this area.

In order to more clearly clarify the role of investments in main capital in the growth of gross output in the manufacturing industry, an econometric analysis of the dependence of the indicators mentioned in the dissertation was conducted.

A widely used auto regression model was used to study the impact of main capital investment on output in the sector. According to the data for 2005-2020, the model took the following form.

$$ESM = 891.4648 + 0.863983 ESM_{t-1} + 0.826302 ES\dot{I}Q_t + \varepsilon$$

Here:

ESM – t volume of production output to the manufacturing industry per year;

ESM_{t-1} - volume of production output to the manufacturing industry in the year preceding the year in t;

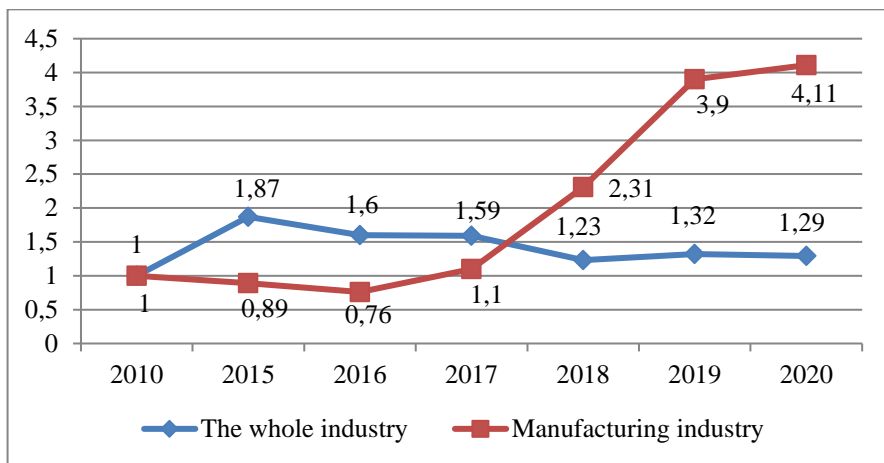
ES \dot{I} Q - volume of main capital investments in t year;

ε - model error.

The results of the relevant tests proved the reliability of the model and its parameters.

As can be seen, the regression coefficient on investments in the model received a value of 0.826. Each million manat investment in this area will lead to an increase in production in the field of 826 thousand manat. The indicator we are considering represents a short-term or current multiplier of main capital investment in output in the

field. According to the calculations made in accordance with the relevant parameters of the model, the volume of the long-term multiplier is equal to 6. All this allows us to say that investment will continue to be a key factor in increasing production in the manufacturing industry.



Graph 1. Growth of main capital investments in 2010-2020
(times, compared to the base period)

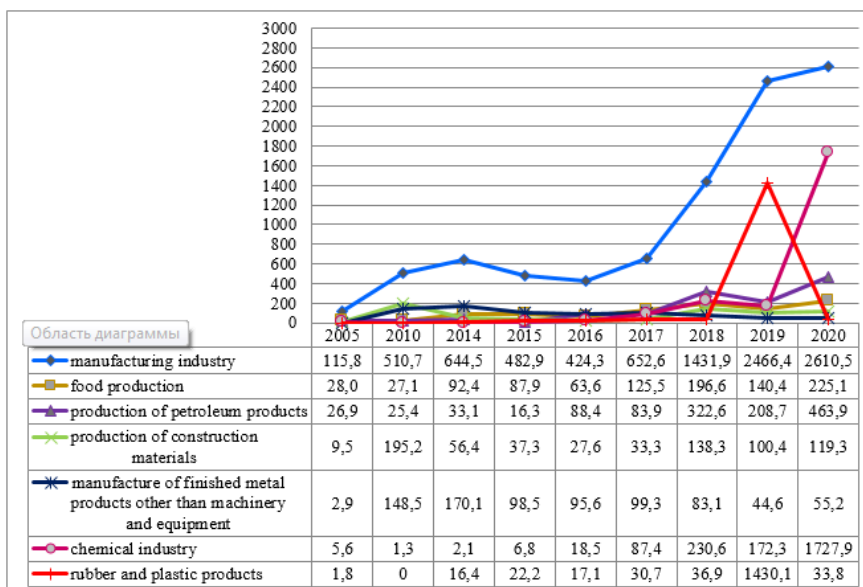
Source: The diagram was prepared by the author based on the information of the Statistics Committee of the Republic of Azerbaijan.

The dissertation analyzes the dynamics of main capital investment in the manufacturing industry. It is noted that the priority given to the development of the manufacturing industry as one of the important sectors of the non-oil sector of the economy has led to a rapid increase in total investment in main capital in this area. The volume of investments in the manufacturing sector increased 18 times in 2005-2020 and 3.8 times in 2010-2020.

As can be seen from Figure 1, although the growth rate of investment in the manufacturing industry in 2010-2017 lags behind the industry as a whole, this trend has been reversed since 2018. As a result, the share of the manufacturing sector in investment in industry has increased significantly in recent years. This indicator was 11.9% in 2010, 5.7% in 2015, and 28.8% in 2020.

At the same time, as is clear from Figure 2, there is a structural disproportion in investment in the manufacturing industry. The dissertation provides an extensive analysis in this direction. The general results of this research are as follows:

First, instability is characteristic of the dynamics of investment in almost all sectors of the manufacturing industry. There is no sustainability in the growth of investment in key areas. In some years, there has been a sharp one-sided increase in investment in the sector.



Graph 2. Dynamics of investments in the manufacturing industry for 2005-2020 (million manats)

Source: The diagram was prepared by the author based on the information of the Statistics Committee of the Republic of Azerbaijan.

Second, there has been a long-term decline in investment in a number of important areas of the manufacturing industry, including the production of finished metal products, which play an important role in increasing export potential and imports, as well as in the production of construction materials.

Third, the role of state main capital in the growth of investment in recent years has been high.

The solution of these issues is closely linked with the improvement of mechanisms to stimulate the sustainable and proportional growth of main capital investment in the manufacturing industry

3. Features of the formation of a system of incentives for investment in main capital in the manufacturing industry.

The dissertation examines the formation of mechanisms to stimulate investment in main capital in the manufacturing industry and makes relevant assessments.

It is noted that in the early period of state independence, initiatives to actively use tax instruments to stimulate investment were met with certain difficulties. At that time, investment opportunities remained limited due to the fact that macroeconomic stability in the country was not fully restored and the economic crisis continued. In this regard, the concessions provided for in the legislation did not ultimately serve as an effective incentive to increase progress in main capital investment.

The adoption of the Tax Code of the Republic of Azerbaijan in 2000 was a new stage in the use of tax instruments for economic development. According to Article 3 of the Code, the tax system must encourage entrepreneurship and investment. The code also contained provisions related to tax benefits. However, the active role of the tax mechanism as a factor in stimulating investment was not provided at that time. Substantial progress in this area has begun with the formation and development of industrial zones in our country, as well as the application of investment promotion rules. The dissertation analyzes the tax benefits applied in these areas and explains their role as investment incentives.

The application of customs instruments also plays an important role in stimulating investment in main capital in the manufacturing industry. Machinery and equipment imported for the purpose of making investments in this sector are exempt from customs duties and VAT on import. The list of such products is constantly expanding.

At the same time, it is noted that more effective stimulation of investments in the manufacturing industry in the Republic of Azerbaijan can be achieved through the formation of a diversified system in this area. It should be considered necessary to make the role of tax and customs instruments and credit instruments more active in this system in the future.

The dissertation examines the application of the soft loan mechanism as one of the important means of stimulating investment in the manufacturing industry. It is noted that the necessary progress in this direction was directly related to the development of the banking and credit system in the country. On the other hand, the expansion of financial opportunities for the introduction of a soft loan mechanism has created a favorable environment.

Preferential lending for investments in the manufacturing industry has played an important role in the activities of the Entrepreneurship Development Fund. Consistent improvement of the mechanism for granting soft loans has enabled the successful implementation of investment projects in the manufacturing sector. At the same time, it is concluded that the need to expand the scope of soft loans in this area is growing as one of the conditions for ensuring the priority of the development of the manufacturing industry, one of the most important sectors of our economy. In this regard, it would be expedient to restore the priority of financing the manufacturing sector and its areas in the activities of the Fund.

On the other hand, in order to increase the role of the Fund in investing in the manufacturing industry, it is expedient to consider the issue of improving the relevant mechanisms for further expansion of its capabilities in the future.

It should be noted that the necessary condition for the implementation of changes in this direction is closely linked with the development of the banking system in the country. In this regard, improving the sustainability and reliability of investment lending banks should be considered a priority

4. Development of a mechanism to stimulate investment in industrial zones.

One of the important factors in the development of the manufacturing sector at the level of modern requirements is the formation of infrastructure systems for this field in accordance with modern world experience. Institutions such as industrial zones, industrial parks, industrial districts equipped with modern engineering infrastructure are a priority in these systems.

The creation of favorable conditions for the residents engaged in the manufacturing industry in the created industrial parks creates a strong incentive for large-scale investments within these structures.

In this regard, prioritizing the expansion of industrial zones in the current industrialization policy in our country allows to improve the investment provision of the manufacturing sector.

The dissertation analyzes the mechanisms applied in the industrial zones created in our country in the field of investment stimulation, as well as the experience applied in other countries in this direction. It is noted that the creation of industrial parks in our country, the work done in this direction has led to an increase in investment in the manufacturing sector and increase the attractiveness of this sector for investors. In this regard, the development of industrialization in this direction is also important for the long term.

It is necessary to further improve the stimulation of business activities of residents engaged in entrepreneurial activities in industrial parks

In this regard, the expansion of the scope of means of production provided in industrial parks on favorable terms for residents can be ensured. If necessary, discounts may be applied for the lease of buildings used for production purposes, taking into account the relevant experience of other countries. Such a rule can serve as an important incentive when new industrial parks are established in areas where previously existing industrial facilities are located.

Taking into account the characteristics of the manufacturing industry, there is a need to improve the stimulation of the activities of residents in industrial parks in the direction of the formation of clusters of small, medium and large enterprises.

The industrial parks and neighborhoods created in our country were created not on the basis of the formation of a voluntary cluster of entrepreneurs, but on the initiative of the state. At the same time, in the future, the creation of special economic zones, industrial parks, as well as the infrastructure of industrial districts at the expense of private sector capital will be stimulated. In the coming period, there will be a need to improve benefits for residents operating in the cluster. In this regard, the creation of favorable conditions for the widespread use of low-interest loans along with preferential taxes within the clusters can be considered as an issue of particular importance.

Another important issue is the continuation of the current benefits for residents, primarily tax benefits, and their consistent improvement.

The study shows that in terms of stimulating investment of residents of industrial zones, it is expedient to expand the types of discounted services provided under these structures. Such services may include leasing in industrial parks, technical supervision, expansion of transport and logistics services, technical testing services, outsourced management and business consulting services.

It is important to use industrial infrastructure, especially in the regions of the country, and to make effective use of the business partnership mechanism operating within these structures. In line with the relevant experience of other countries, such an approach can play an important role in expanding the dissemination of best practices in production, as well as in expanding export activities. In this regard, the creation of favorable conditions for the development of business partnerships can also play a role in activating investment activity within industrial zones.

Taking into account the expansion of the coverage of industrial zones in the regions of the country in the future, the issue of establishing joint service areas for these institutions in different regions may also become relevant. In order to ensure effective steps in this direction, a comprehensive analysis of the relevant experience of countries with experience in the creation and operation of industrial infrastructure is expedient.

5. Expanding investment incentive.

The incentive mechanism has a special place in the investment incentive system. This mechanism not only increases investment through targeted incentives, but also improves the sectoral and regional structure of the manufacturing sector. By the Decree of the President of the Republic of Azerbaijan dated April 20, 2016, the areas of economic activity in which the investment is carried out, the minimum amount related to the volume of the investment project and the administrative territorial units in which the investment project will be implemented were identified. A number of key areas of the manufacturing industry are included in this document.

The dissertation refers to the analysis of the experience of other countries in the field of investment promotion in our country, as well as the large-scale tasks ahead in the development of the manufacturing industry will be related to the development of specific incentives in the future.

First of all, there is a need to reconsider the minimum amount of investment in individual regions and areas in order to fully implement the measures related to the expansion and reconstruction of the relevant areas provided for in the investment promotion document

The incentive document is based on the criteria of the level of development of the relevant regions and their location on the border with other countries. There are significant differences in the level of development of the regions included in different regions. Taking this into account, it is expedient to separate a group of weak regions and identify a separate region in order to make the promotion more effective as a tool for development in the future. Undoubtedly, more weak conditions for investment incentive was applied for the region.

At the same time, it is necessary to separate a separate incentive zone covering the liberated territories and to determine more weak conditions for that region.

In determining the terms of the incentive, attention is drawn to the fact that there are favorable conditions necessary for the future efficient operation of manufacturing enterprises to be established as a result of investments. In this regard, the availability of appropriate

infrastructure and human resources is of particular importance for successful production. These factors are primarily important for modern, especially high-tech industries. In view of the above, it may be necessary to promote, for example, the production of pharmaceutical products, as well as the production of chemical products in other regions with appropriate conditions.

In the coming period, it is expedient to coordinate investment promotion measures with new financing mechanisms, taking into account the world experience.

Such mechanisms should include the application of financing mechanisms that are not yet widespread in Azerbaijan, including startups, venture funds, "angel investors", trust funds in innovation-oriented manufacturing.

6. Increasing the role of development institutions in stimulating investment.

The role of the state in expanding investment in the manufacturing industry in a market economy is mainly ensured by the formation of relevant development institutions and the creation of favorable conditions for their activities. Extensive work has been done in this direction in the Republic of Azerbaijan.

The Business Development Fund, the Agrarian Credit and Development Agency (AKIA), and the Azerbaijan Export and Investment Promotion Foundation (AZPROMO) have been established to serve the development of the non-oil sector of the economy. Development institutions also play an active role in addressing the development of the manufacturing industry.

Expansion of development institutions has played a role in ensuring investment in the manufacturing industry. This is most evident in the activities of the Entrepreneurship Development Fund in financing investment projects in the field with soft loans. At the same time, it is expedient to expand funding by the Fund in priority areas.

The role of other development institutions in financing the manufacturing industry can also be significantly increased. In this regard, first of all, there is a need to effectively use the opportunities of the "Business Development Fund" created by the merger of the

"Entrepreneurship Development Fund" of the "Azerbaijan Investment Company" OJSC within the new institutional reform.

At the same time, increasing the scale of leasing, purchase and timely leasing of equipment from countries producing new technological equipment can be considered favorable for export-oriented industries.

The newly established mechanisms, in turn, also pave the way for the establishment of enterprises for the manufacturing of agricultural products, the implementation of investments in the modernization of existing enterprises on favorable terms. In order to take full advantage of this advantage, it is expedient to expand the activities of AKIA in the direction of financing the manufacturing sector.

In our opinion, such an approach can be considered a convenient way to increase manufacturing capacity in the relevant areas, opening wide opportunities for the development of vertical integration processes in the agricultural sector in accordance with modern requirements. We must take into account that the manufacturing of agricultural raw materials plays an important role in the manufacturing industry of our country.

At the same time, taking into account the relevant world experience, it is expedient to expand development institutions in our country. In this regard, first of all, there is a need to create a specialized investment bank. Establishment of this bank can create conditions for the effective solution of the problem of financing projects aimed at the development of the manufacturing industry in priority areas.

THE RESULT

- The impact of stimulating investment in main capital on the development of the manufacturing industry is realized through an appropriate mechanism. The investment incentive mechanism has a complex structure and includes several subsystems. A high level of investment activity can be achieved through the effective use of financial and non-financial incentive tools to stimulate investment.

Measures taken to improve the investment climate ultimately result in an increase in investment activity. Depending on the nature of the impact of the tools used, it is possible to distinguish between direct and indirect forms of investment incentives. In modern conditions, both direct and indirect forms of stimulating investment activity demonstrate their effectiveness. Their ratio is not stable and may vary depending on the goals and objectives of the state's socio-economic policy.

- Prioritization of the manufacturing industry as one of the important sectors of the non-oil sector of the country's economy has led to a rapid increase in total investment in main capital in this area. At the same time, structural problems remain in this direction. The solution to these problems is closely linked to the improvement of mechanisms to effectively stimulate the sustainable and proportional growth of main capital investment in the manufacturing industry system.

- Effective stimulation of investments in the manufacturing industry in the Republic of Azerbaijan can be achieved through the development of a diversified system in this area. It is especially important to make the role of tax and credit instruments more active in this system in the future. In this regard, it is expedient to exempt from tax the part of the profits of all enterprises operating in the manufacturing industry, which is directed to investment in main capital. At this stage, the application of this practice, which is relatively widely used in the world, has the potential to play an important role in stimulating the expansion of investment opportunities in the manufacturing industry of relatively large profitable enterprises in our country.

- It is considered expedient to consider the application of investment and tax instruments to stimulate investment in the manufacturing industry through the tax mechanism. In this case, the exemption of the manufacturing enterprise's profits from taxes during the implementation of relevant projects and their subsequent payment to the Central Bank at a low interest rate provides for the strengthening of investment incentives. In accordance with the experience of other countries, investment tax credits should be used,

as a rule, for the implementation of investment projects aimed at the application of new, innovative technologies in manufacturing enterprises

- As in other areas, the incentive mechanism applied in our country has begun to play an important role in stimulating investment in the manufacturing industry. In order to accelerate progress in this direction, first of all, there is a need to revise the minimum amount of investment in individual regions and areas in the investment promotion document issued in accordance with the relevant rules. Taking into account the relevant world experience in the field of investment incentive, it is expedient to expand the composition of incentive tools. In this regard, the use of incentive tools such as social insurance contributions and energy use (consumption) tariffs can be shown.

- Given the availability of appropriate infrastructure and human resources, it is important to increase the number of regions where production is promoted, especially in modern, especially high-tech, industries.

- In order to ensure greater involvement in investment in rehabilitation and development, it is advisable to establish a separate incentive zone consisting of liberated areas. Undoubtedly, more favorable conditions for investment in the manufacturing industry will be applied for the region.

- In modern conditions, state support measures for the development of industrial zones are important in stimulating investment in the manufacturing industry. In order to increase the attractiveness of industrial parks for investors:

- Given the long-term nature of the industrialization process in the country, the issue of extending the period of tax benefits for residents in accordance with the experience of other countries may be considered.

- It is important to expand the range of services provided by industrial zones, the organization of leasing services within industrial zones, technical control, expansion of transport and logistics services in accordance with best practices in this direction.

- taking into account the experience of countries with historically long and extensive experience in the establishment of industrial zones, issues related to the establishment of joint service areas in industrial parks located in the same region can also be considered.

- Establishment of a cluster structure of small, medium and large industrial enterprises in industrial parks can be considered effective

• Expansion of the activities of development institutions in providing investment in the manufacturing industry has played a role in the development of this sector. This is especially evident in the financing of investment projects in the field with soft loans. At the same time, development institutions operating in the country can play a more active role in achieving the strategic development goals of the manufacturing industry. There are several main directions in this regard:

- Preference for financing of the manufacturing industry by key development institutions should be continued in the long- run. At the same time, the Business Development Fund should ensure the restoration of the practice of allocating funds for projects in priority areas in the manufacturing industry.

- In order to meet the needs of the expansion of the manufacturing industry, there is a need to expand the capacity of development institutions, primarily the Business Development Fund, and improve the mechanism of operation. In this regard, in the future the Fund may consider the implementation of the rule of annual allocation of additional funds from the state budget, as well as the application of the rule of subsidizing interest on loans provided by commercial banks to attract more concessional loans to the manufacturing industry.

- It is necessary to ensure the active role of each of the development institutions in the financing of the manufacturing industry. In this regard, the implementation of appropriate measures within the framework of institutional reforms related to the reorganization of the Entrepreneurship Development Fund and the

Azerbaijan Investment Company in the form of a merger can play an important role.

- Taking into account the relevant world experience, it is expedient to expand development institutions in our country. In this regard, first of all, it is expedient to establish a specialized investment bank. The establishment of such a bank can facilitate the effective solution of the problem of financing projects aimed at the development of the manufacturing industry in priority areas in the context of the instability of commercial banks in the provision of investment-oriented loans. The investment bank can also increase leasing for export-oriented industries, purchase and lease modern equipment from abroad

• In order to ensure the long-term sustainable growth of the manufacturing industry, it is expedient to deepen reforms aimed at further improving the overall business environment, especially to attract foreign direct investment.

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1. İmamquliyeva G.S., “Emal sənayesində investisiya qoyuluşlarının strukturu”/Doktorantların və gənc tədqiqatçıların XIX Respublika elmi konfransı, 7-8 aprel, Bakı- 2015, səh 238-240.

2. İmamquliyeva G.S., “Qeyri-neft sənayesində əsas kapitalla investisiyaların səviyyəsi və dinamikası”/III International Scientific Conference of Young Researchers, 17-18, April 2015, Baku, Azerbaijan, p 600-603.

3. İmamquliyeva G.S., “Processing industry dynamics and structure of investment in fixed assets./Tikintinin iqtisadiyyatı və menecment jurnalı №1, Bakı-2016, səh 67-73.

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5. İmamquliyeva G.S., “Emal sənayesində investisiya qoyuluşlarının stimullaşdırılması istiqamətləri”/Bakı Biznes Universiteti, Audit jurnalı №1, Bakı-2017, səh 122-127.

6. İmamquliyeva G.S., “Emal sənayesinin investisiya təminatında inkişaf institutlarının rolu”/AMEA İqtisadiyyat İnstitutu, Elmi Əsərlər jurnalı №3 may-iyun, Bakı-2017, səh 130-136.

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8. İmamquliyeva G.S., “Sənaye infrastrukturalarının inkişafının emal sahələrinin investisiya təminatının yaxşılaşdırılmasında rolu” Kənd Təsərrüfatı İqtisadiyyatı Elmi-Tədqiqat İnstitutunun Elmi əsərlər jurnalı №4, Bakı-2017, səh 59-66.

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12. İmamquliyeva G.S., “Əsas kapitalla investisiyaların stimullaşdırılması makroiqtisadi mexanizminin xüsusiyyətləri”/Turizm və qonaqpərvərlik tədqiqatları jurnalı №7, 2018, səh 130-141.

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18. İmamquliyeva G.S., Qarabağ regionunda emal sənayesinin dirçəlməsi və inkişafında investisiya amili”/Qarabağ regionunun iqtisadi və sosial inkişaf problemləri mövzusunda Respublika Elmi-praktiki konfransı, Bakı-2021, səh 326-328.

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