



STRATEGY FOR ATTRACTING INVESTMENTS TO SMALL BUSINESS ENTITIES AND ITS MECHANISM

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**Abstract:** This article describes the strategy of attracting investments to small business entities and its mechanism, as well as the prospects for effective use of a favorable investment environment in attracting foreign investments.

**Key words:** small business, foreign investment, investment environment, investment activity, investment attractiveness, efficiency.

**Introduction**

The increasing globalization of the world economy creates a qualitatively new environment for the economic growth of countries and determines the importance of researching the free movement of foreign capital investments. Foreign investments play an important role in the development of any country, because they consist not only of attracting the necessary capital, but also of the transfer of modern technologies. In modern conditions, foreign investments are the most important means of providing conditions for getting out of the economic crisis, structural changes in the national economy, the growth of technical progress, and improving the quality indicators of economic activity.

Research analysis confirms that foreign investment as a source of financing helps to solve the problem of lack of own funds. With their effective use, the country can not only compensate for the lack of domestic investment resources, but also increase the production efficiency and competitiveness of domestic products due to the introduction of the latest technologies and the analysis of advanced management experience of other countries. In addition, it is the attraction of foreign investments that brings the country to the world markets, establishes relations with the world economy and helps to get out of the crisis<sup>1</sup>. For many years, increasing the volume of attracting foreign investments has been a priority direction of the development of the world economy.

However, in recent years, the economy of our country has not recovered from deep structural deformations, and remains behind the developed countries of the world in terms of the gross productivity of all production factors and, accordingly, the level of population well-being. This is due to the instability of the investment policy in the country, gaps in the investment legislation, lack of appropriate institutional support for the development of the investment market.

<sup>1</sup> Hanzjuk M.S., Yakubovska A.O. Investment climate in Ukraine: the realities of the political crisis. Collection of scientific articles of the International scientific and practical conference "Problems of socio-economic development of entrepreneurship", Montreal, November 28, 2014, pp. 45–49.



Foreign investors always pay a lot of attention to the assessment of the investment environment in the country when making decisions. Foreign investments are one of the ways to solve the problem of lack of financial resources of local investors for meeting the demands of the national economy and its innovative development. Foreign investments are values that foreign investors place on objects of investment activity for profit or to achieve social benefits.

Foreign capital is especially needed in the production sectors of food products, widely demanded goods and services, medicines and other vital products, and all agricultural products, which help to bring the economy out of crisis. The analysis shows that the creation of modern infrastructure, including transport, technically equipped warehouses, telecommunications, business infrastructure and household services, should be included among the priority directions in attracting investments to small business and private business entities of Namangan region.

Investments will form the production capacity in the new scientific and technical base and take competitive positions in the world markets, will be the basis for the development of enterprises, individual sectors and the economy as a whole. According to the assessments of local and foreign experts, the investment environment in Namangan region remains unfavorable, and the activity of investment entities is quite low, which is caused by:

unfavorable investment conditions, in particular, the imperfection of the legislation on investment protection (property rights, tax administration, requirements for obtaining ownership rights to land plots, implementation and control of business activities);

underdevelopment of the investment market and investment infrastructure;

absence of legal bases and effective mechanisms of public-private partnership in investments. Investment processes are characterized by contradictory trends and problems, including: imbalance in the distribution of investment resources, low efficiency of the use of invested investments, ineffective implementation of targeted programs, insignificant economic and social results of capital investments for the economy. In this regard, Sirichenko states that "The revitalization of investment activities requires, first of all, appropriate regulatory and legal support aimed at creating a developed investment base."<sup>2</sup>.

In recent years, a number of important steps have been taken in the field of legislation in our country, which allows us to hope for effective changes in the direction of increasing the flow of investments and effective use of investment resources. In our opinion, an important direction of improving the investment activity of the Republic of Uzbekistan is the implementation of investment activity development programs, which allows to ensure the attraction of investments for the implementation of selected investment projects and the main sectors of the economy, increasing the volume of exports and replacing important imported goods, introducing high technologies. ensuring the development of market infrastructure ensures the development of investments.

<sup>2</sup> Sirichenko N.S. Economic essence and classification of investments in the conditions of global transformations. Scientific Bulletin of Mukachevo State University. "Economy" series. 2015. Issue 2(4). Part 1. P. 264.

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Of course, Namangan region can potentially become one of the leading countries for attracting foreign investments, as its huge domestic market and location on the "Great Silk Road" make it possible. However, this is hindered by political instability, imperfect legislation, underdevelopment of production and social infrastructure, and insufficient information supply. In this regard, the integration of the Republic of Uzbekistan into the world economy creates a high level of competition at the same time as establishing cooperation with other countries. This means that the small business entities of Namangan region are ready for this high level of competition.

Namangan region has decent opportunities for this. Foreign investors follow a number of factors when making investment decisions and choosing an object for the implementation of an investment project, in particular:

that the competitive advantages of creating one's own production abroad outweigh the costs of locating it;

that the recipient country attracts investors with its geographical features;

the independent implementation of these two advantages should be more beneficial for the investor than using them through local enterprises, that is, the advantage of internationalization. In modern scientific literature, the set of factors listed above is called "JMS rules" with the first letters of the English keywords in each of the three components<sup>3</sup>.

The first and third factors explain foreign direct investment by the specific characteristics and competitiveness of individual enterprises. The second - connects them with the geographical factor and tries to take into account the specific characteristics of the macroeconomic environment in which the enterprise operates. It should be noted that today there is no accepted explanation about the reasons why enterprises choose one or another area for placing an investment project.

By determining the relative importance of various factors, all of them can be divided into three groups: country attractiveness in terms of costs, country attractiveness in terms of sales, country attractiveness in terms of culture, language and political risk. Namangan region is an attractive region for foreign purposes, which is confirmed by such factors as a large market, high education level of the population, a favorable composition of the workforce, especially engineering and technical personnel, a relatively low level of wages and a developed infrastructure in need of modernization.

Studies show that the advantages of foreign investments for Namangan region remain. First, they create additional opportunities for restructuring and modernization of the production apparatus without new debts and help to develop private entrepreneurship.

Second, they represent additional funds for investment in the country and thus can contribute to economic growth.

<sup>3</sup> L.O. Chernyshova Peculiarities of attracting and stimulating foreign investment in Ukraine. Business Inform. 2013. No. 2. P. 87–90.



Thirdly, with the help of foreign investments, modern technologies, management and marketing know-how, new jobs are created and existing jobs are preserved.

Fourth, foreign investors are interested in maximum production and profitability, which encourages the development of local industry.

Fifth, they contribute to access and international division of labor and affect the competitiveness of manufactured goods.

Sixth, it creates ideal conditions for understanding the internal relations and laws of the market economy. Providing work experience in a modern enterprise, working on the basis of the principle of market economy, they contribute to the formation of work ethics and show interest in product quality.

In Namangan region, there are many obstacles and risks in realizing potential opportunities for investment activities. In addition, foreign investors use bank statements to make their capital investment decisions. This, in turn, requires attention to the development of banks' activities and the moderation of interest rates. Most importantly, in the fight for a limited number of goods, Namangan region should pay due attention to the issue of increasing the competitiveness of the economy of small business entities.

Obstacles in investment legislation. So far, the flow of foreign direct investment to Ukraine is hindered by: - the negative impression left by the reforms;

slow privatization;

instability of the inflation rate;

inability of foreign investors to participate in privatization on an equal basis with local investors;

frequent changes and reversals of laws;

if foreigners are not granted land ownership rights, it is prohibited to sell the territory of enterprises;

always having to pay extra high formal and informal fees to get permission or right to use infrastructure services;

directors of non-state enterprises transformed into joint-stock companies react negatively to the participation of investors;

lack of state guarantees to foreign investors, in addition, the loan volume is limited by the amount of working capital that acts as a guarantee, and the high impact of power outages on the continuous production process.



Despite the listed obstacles, the state of investment flows directed to small business entities of Namangan region is consistent with economic theory and practical experience of investors in other countries of the world. Theoretically, problems can be solved, now obstacles need to be overcome one by one. For this, in the conditions of the formation of the modern global space, the specific features of attracting foreign investments to the Namangan region should be focused on improving the investment environment, investing in enterprises with high profitability and growth prospects.

Thus, to reach a national agreement between various social groups and political parties to solve the additional national problem of reducing the impact of negative factors on the investment environment; equalization of economic indicators and fight against inflation; development of legal bases of investments; radicalization of the fight against crime; in order to compensate for the losses resulting from the slowdown of capital turnover, it is appropriate to develop a specific mechanism for giving tax incentives to banks and foreign investors for long-term investments, and strategies for attracting investment to small business entities.

The investment attraction strategy is an important document in determining the priorities and directions of foreign direct investment attraction. Developing an investment attraction strategy should begin with an understanding of what advantages the region offers to investors and how it compares to competitors. When assessing the competitiveness of industries and developing a list of industries that may be attractive to investors, it is necessary to decide on which countries marketing activities should be directed (Figure 1).

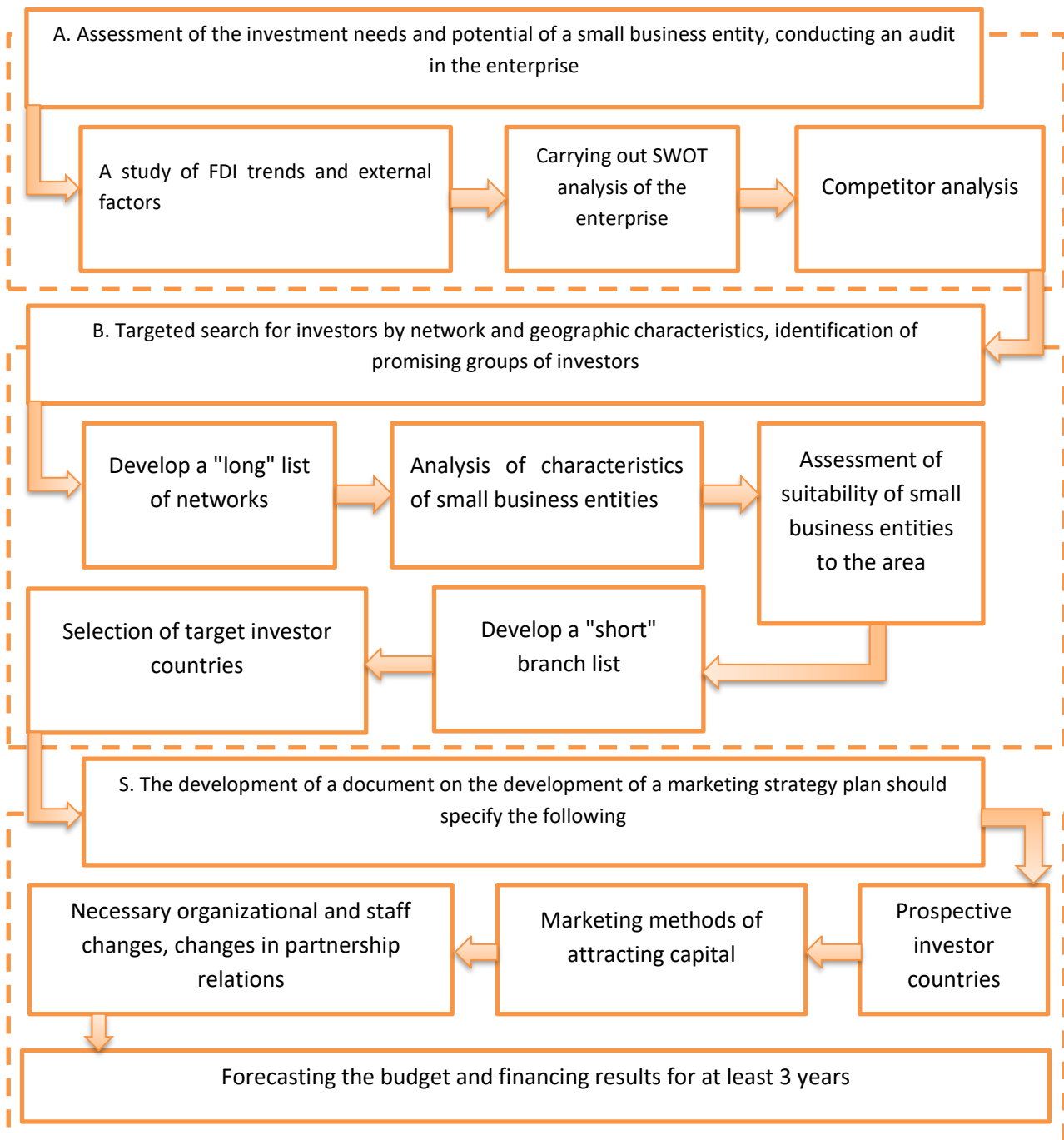


Figure 1. Strategy mechanism for attracting investments to small business entities



The result of strategic planning should be a detailed document that describes "who", "where" and "what" will be the object of investment attraction activities. The plan should be sufficiently detailed and future-oriented, which allows planning of activities for at least 3 years. At the end of these three years, the process should be repeated and the strategy revised in light of changing domestic conditions, competitive advantages and global economic trends.

It is important to remember that strategy development and implementation is not a strictly sequential process. Activities such as area audit and identification of promising sectors can be carried out simultaneously. The development of a three-year strategy should not exceed three months. The above steps for developing a strategy can be reviewed in detail.

A. Assessment of investment needs and potential of the region, conducting an audit in the region:

study of direct investment trends and external factors: global and regional direct investment trends show "who", "where" and "why" are investing and help identify the most promising directions;

carrying out a SWOT analysis of small business entities: in this, identifying the strengths and weaknesses of the entities, as well as threats and opportunities, should dynamically express not only the enterprise, but also the present and future shortcomings and advantages of the region from the point of view of investors;

competitor analysis: using the SWOT analysis of small business entities, it is necessary to compare the selected object with other competitive areas;

B. Targeted search for investors by network and geographic characteristics, identification of promising groups of investors:

When developing a "long" list of networks, the initial list should include: networks already operating in the region; industries operating in competitive areas or similar areas; a realistic "wish list" of areas of interest; sectors where direct investments are particularly important are envisaged, which in turn allows to express the existing opportunities in small business entities operating in other regions;

analysis of the characteristics of small business entities: in this case, it is necessary to analyze the structure, main participants and trends of each sector in order to assess the possibility of investments and understand the goals of investors in the process of investing abroad;

when assessing the suitability of small business entities for the area, it should be evaluated in terms of compliance with national development goals and local characteristics in each area;

By developing a "short" list of branches, a short list can be prepared by evaluating the relevance of each small business area to the selected entity from a regional perspective. This list should contain a large number of networks without spreading available resources;



the target investor is necessary to make the most of the available advertising opportunities in the selection of countries, where the selection of countries is determined by the presence in these countries of priority for potential investors for the industry of the region.

S. Development of a document on the development of a marketing strategy plan:

Prospective investor countries;

Marketing methods of attracting investments;

Necessary organizational and staff changes, changes in partnership relations;

Budget and financing for 3 years. The following should be determined.

Any approach to the development of an investment attraction strategy must be developed. Because the development of a strategy is of principle importance, it allows to concentrate limited resources in areas that are of interest to potential investors. This increases the chances of success in attracting direct investment.

In conclusion, the expected results from the implementation of the strategy of attracting investments to small business entities are as follows:

effective regulation of the business environment and ensuring entrepreneurial economic growth at all stages of the activity of small business entities;

increase in the level of competition in the domestic market and the opportunity for small business entities to widely use the necessary financial, property and natural resources;

increase the number of small business enterprises successfully competing in world markets;

small business entities will have wide access to any necessary infrastructures for their development;

the developed competence of entrepreneurship in the society leads to prosperity and enrichment of small business;

the state actively and effectively implements state policy in the field of small business;

expanding the participation of small business entities in the formation of effective state policy;

small business development policy is based on quantitative indicators;

small business entities can successfully compete in the public procurement market and domestic and foreign markets;

increases the level of added value created by enterprises of small business entities and ensures an increase in the number of officially employed people.





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