

38

Fecha de presentación: mayo, 2022

Fecha de aceptación: agosto, 2022

Fecha de publicación: octubre, 2022

WAYS TO INCREASE

THE EFFICIENCY OF THE INVESTMENT CLIMATE IN AZERBAIJAN

FORMAS DE AUMENTAR LA EFICIENCIA DEL CLIMA DE INVERSIÓN EN AZERBAIYÁN

Mammadova Elnura Bunyad¹

E-mail: mammadova.elnura.b@gmail.com

ORCID: <https://orcid.org/0000-0003-2721-5733>

¹Azerbaijan Cooperation University. Azerbaijan

Suggested citation (APA, seventh edition)

Elnura Bunyad. M (2022). Ways to increase the efficiency of the investment climate in Azerbaijan. *Revista Universidad y Sociedad*, 14(S5), 382-393.

ABSTRACT

The article investigates ways to increase the efficiency and activity of the investment climate in Azerbaijan, which is striving to strengthen an independent economic development model. Using common methods of economics, the problems and prospects of investment climate efficiency have been analyzed. To diversify the country's economy, reduce dependence on oil and develop the non-oil sector, the importance of eliminating barriers to intensive investment has been substantiated. International experience is addressed to form the investment climate and then interpret the current situation in Azerbaijan. The topic of developing and implementing more productive mechanisms to attract foreign investment, the development and evaluation of strategic approaches for investment activity and the improvement of the efficiency of the investment climate have been focused on. Considering the short- and long-term perspectives and the impact of the COVID-19 pandemic, recommendations as well as potential obstacles to the implementation of more effective investment mechanisms have been generalized.

Keywords: Azerbaijan, problems of efficiency of investment climate

RESUMEN

En el artículo se investigan formas de aumentar la eficiencia y la actividad del clima de inversión en Azerbaiyán, que se esfuerza por fortalecer un modelo de desarrollo económico independiente. Utilizando métodos comunes de la economía, se han analizado los problemas y las perspectivas de la eficiencia del clima de inversión. Para diversificar la economía del país, reducir la dependencia del petróleo y desarrollar el sector no petrolero, se ha fundamentado la importancia de eliminar las barreras a la inversión intensiva. Se aborda la experiencia internacional para formar el clima de inversión para luego interpretar la situación actual en Azerbaiyán. Se ha enfocado el tema de desarrollar e implementar mecanismos más productivos para atraer inversión extranjera, el desarrollo y la evaluación de enfoques estratégicos para la actividad de inversión y la mejora de la eficiencia del clima de inversión. Considerando las perspectivas de corto y largo plazo y el impacto de la pandemia de COVID-19, se han generalizado recomendaciones, así como potenciales obstáculos para la implementación de mecanismos de inversión más efectivos.

Palabras clave: Azerbaiyán, problemas de eficiencia del clima de inversión

INTRODUCTION

The study of the problems of the efficiency of the investment climate and the development of more effective mechanisms is one of the most important issues in modern times. In particular, attracting sustainable foreign investment to developing countries is considerable. After the restoration of Azerbaijan's independence in 1991, large-scale investments have been needed to develop the national economy. These processes, in fact, reflected certain economic regularities. Related research materials are presented in the following sections. First of all, we need to briefly comment on the approaches and mechanisms for the formation, movement and use of capital, finance and investment in world economic processes.

Problems of efficiency of capital, financial resources and investments in world economic processes and stages of economic development, regulation of flow processes of these resources, productive use and adequacy of resources involved in economic processes have been considered at all stages of the development of economics. On the basis of all this, scientific considerations have been formed. In the history of Economic Thought, especially in the Middle Ages, the interpretation of financial matters, the organization of finance and related literacy issues have been focused. The founders and prominent representatives of the classical school of economics also attached great importance to the movement of capital, its role and functions in the economy (Smith, 2011).

Similar approaches are also very relevant today. Unfortunately, resources aimed at the development of any type of economic activity, the purposeful expansion of any sector, increasing the competitiveness of enterprises, including investment resources are often used inefficiently. The practical mechanisms applied do not prove their values. Issues of transparency and integrity are also negative issues. These approaches of the author are still seriously relevant today. In the modern era of the continuing negative effects of the global financial crisis, optimal modeling of the use of financial resources, more efficient regulation of the movement of real resources in financial markets, ensuring the development of financial markets, as well as maximum improvement of approaches to regulating investments and related mechanisms are characterized as important elements. The important role of investment in enhancing the competitiveness of the economy should be emphasized (Solow, 1956).

It is impossible to disagree with a prominent economist on this issue. Even those ideas have become more relevant in recent decades. The problems of renewing the mechanisms related to the movement and settlement of

investments in the world, expanding the scope of the risks related to them, and improving the existing investment mechanisms in the context of global problems and crises have come into prominence. Also, relationships in the use and regulation of resource potential, including financial and investment resources are process between enterprises and government, between enterprises, and between employees and owners. The influence of each of them should be considered (Keynes, 2012). Ensuring access to capital for economic processes and enterprises, which are the main subjects of these processes, and developing mechanisms to attract the necessary investments are of importance. Productivity in economic processes and the rational use of capital in the proper use of the competitive advantages of the enterprise and firm engaged in the business and the regulation of related matter are considerable (Porter, 2003).

The problems of attracting, moving and using investments in the world economic processes are quite complex and actual. Particularly, due the negative effects of the global financial crisis that started in late 2008, the problems of formation and attraction of investments have recently increased. In various sectors of the economy, return on investment (ROI) issues in large investment projects developed by enterprises, increasing risks and restrictions on the international movement of financial resources require a high level of improvement of existing investment mechanisms and strengthen of investment regulation measures. The role of investment in economic processes is one of the most important factors for the development of states and national economies.

Real measures to ensure investment activity in Azerbaijan are directly related to the implementation of the oil strategy and the modernization of various sectors of the economy, reconstruction, renewal of the material and technical base. The multiplier effect creates sources of economic growth and finance, as well as more productive sources of value added, and provides additional incentives for inclusive development of the economy as a whole (Atashov, 2016). As a result of such approaches, the volume of investments made in the economy in the country has grown steadily in the last 10-15 years, and the total investment volume has not decreased despite the financial problems and difficulties in the world.

All these show that Azerbaijan, which currently is most significant part in the South Caucasus economy, should improve its public policy to increase the efficiency of the investment climate, develop and implement more effective mechanisms based on world experience in order to increase its economic strength and competitiveness in the region and the world.

Taking this into account in the publication of this article, scientific studies, ideas and opinions of the leading representatives of the classical school of economics and a group of other world economists on capital movements, financial issues, financial efficiency and investments are considered. A group of methods widely used in economics has been implemented. According to the author, methodological approaches should be based on the optimal assessment and evaluation of the investment attractiveness of economic entities. Regarding attracting and encouraging investment, along with government support mechanisms, enterprises intending to attract investment should prioritize their own resources. If this is not enough, it is necessary to choose options for attracting resources from other sources, including foreign investment, and for this purpose, an action mechanism should be developed and implemented to allow investment attractiveness.

DEVELOPMENT

According to Smith (2011), just as the capital of an individual increases only by the amount saved from annual income or profit, the capital of a whole society can be increased in the same proportion to the sum of individuals' capitals. Marshall (1993) noted that in real life there is no clear difference between cases involving capital and cases not related to capital. In the works and considerations of Keynes (2012), sustainable financial resources and investments have an important role in ensuring economic development and strengthening employment. According to Solow (1956), about the systematic implementation of necessary measures to increase economic growth and competitiveness of the economy, it has been stated that financial resources and investments have an important role. Porter (2003) considered sustainable investment important in increasing competitiveness and forming these advantages. Stiglitz and Ocampo (2004; 2008) focused on reducing the dependence of the economy on energy resources in the context of globalization and diversification of the economy. In these issues, they highlighted the development of mechanisms for the efficient use of capital and foreign exchange resources.

A group of researchers, including Tsogoeva and Tsokov (2016) studied the role of foreign investment in the sustainable development and growth of the country's economy. Turygin (2014) considered investment and the appropriate investment environment as an important factor in ensuring economic growth. Chuvakhina (2019) focused on current trends and prospects of global investment policy. Aksenova and Prikhodko (2010) emphasized the importance of an objective assessment of the country's

investment attractiveness and consideration of factors that hinder the favorable investment climate.

Aslanov and Grebenik (2018) paid attention to a detailed analysis of the country's investment strategy and ways to solve the problems of attractiveness of the investment climate for economic entities. Afontsev (2014) has indicated that sustainable investment is necessary to ensure a sustainable pace of development in the world economy. Glushchenko (2009) paid attention to the adaptation of methodological approaches to investment attractiveness and investment climate to the requirements of the time. Vasyukov (2020) studied the investment attractiveness factor in economically developed countries. Derkach (2013) discussed the theoretical and methodological aspects of public policy in the field of investment regulation. Kiseleva and Makeeva (2016) stated that a comprehensive investment analysis is needed to improve the efficiency of the investment climate. Lukyanova and Shumaev (2012) emphasized the investment climate factor in the high economic efficiency of investment projects. Markovskaya and Anyushkina (2020) studied the impact of direct investment on the economies of economically developed countries.

It is worth noting that in such countries, direct investment has a positive impact on economic growth and economic diversification. Ryabinin and Khudorenko (2016) assess the development and implementation of the methodology for assessing the country's investment climate as an objective necessity. Sedash and Biryukov (2013) researched the current aspects of world experience in increasing the investment attractiveness of the country's economy and especially the regions. Sergeev et al., (2014) emphasized the role of investments in the economy and the importance of the investment climate factor. Vashakmadze et al., (2018) highlighted the importance of rapid development of the region's infrastructure and adaptation of the investment climate to the requirements of the time in accelerating regional economic processes.

The research of Azerbaijani scientists and researchers on the problems of improving the efficiency of the investment climate in Azerbaijan over the past 20 years has also been noteworthy. Guliyeva (2020) has published a monograph on the specifics of investment activities and the problems of improving the investment climate in Azerbaijan. Aliyev et al., (2004) developed a methodology for assessing the investment climate. Atashov (2016) seriously assessed the role of investment in the development of the financial services market and highlighted the problems of increasing the attractiveness of the investment climate in Azerbaijan. Musayev (2014) substantiated the role of tax incentive mechanisms in motivating the investment climate for investors. Shakaraliyev and Shakaraliyev (2016) emphasized

the complexity of the problem of investment attractiveness among the tasks of generalizing the modern problems of the Azerbaijani economy and identifying solutions. In his scientific works Aliyev (2014, 2021) highlighted the importance of sustainable investment flows in the diversification and more efficient organization of the national economy in Azerbaijan. To this end, he elucidated the conceptual issues of the state's investment policy.

From the above it is known that in order to improve the investment climate, measures should be taken to create favorable conditions, eliminate obstacles to the movement of investments and build investment potential for the long term. In addition, to create and develop new investment potential resources, infrastructure should be established for efficient use of existing resources - natural and economic resources - and action mechanisms should be developed and implemented. Also, to strengthen investment activity in the country, it is important to objectively assess the effectiveness of existing mechanisms of the investment climate and improve them in accordance with the requirements of the time. Measures should be taken to provide state support to the participants of economic development processes, to develop and implement the necessary mechanisms, to provide access to cheap and long-term credit resources for economic and business entities, to substantiate investment projects and achieve their attractiveness.

Although many economically developing countries have been active in the global investment market and the distribution of financial resources to third countries over the past 20-30 years, the United States and other economically developed countries play an important role in attracting direct investment worldwide. For instance, a brief analysis and characterization of the global investment market at the end of 2018 shows that \$ 1.3 trillion of direct investments were made worldwide, and the main exporters of these investments were the United States and economically developed countries. Although investment activity in developed countries has weakened in recent years, the share of these countries in global financial and investment markets remains high. Moreover, investments play an important role in ensuring economic activity, especially in the implementation of projects to address the problems of socio-economic development in the regions (Vashakmadze et al., 2018).

Considering the objective aspects and basic features of the investment climate formation processes in the world, increasing the efficiency of the investment environment and strengthening investment activities are important issues. In this case, the effective use of investments can have a positive impact on economic development, as well

as give a substantial impetus to the solution of socio-economic problems in the country. Furthermore, it will provide additional incentives to increase the level of human capital development, to accelerate the dynamic development of production and economic processes in the country, to ensure the sustainable development of various sectors of the national economy, the create strong infrastructure and material and technical base and to use economic resources efficiently. In addition, increasing the efficiency of the investment climate and strengthening investment activity will be possible to form additional potential for intensive development of the financial market in the country, improvement of financial-credit and financial-investment policy, provision of the dynamics of economic growth, achievement of economic development goals, provision financial and investment resources to economic and commercial entities operating in various sectors of the economy. Furthermore, it is important to develop and implement mechanisms that can ensure both the efficient use of investments and the sustainable use of investment resources.

[World experience in shaping the investment climate and ensuring its efficiency](#)

In order to provide a more sustainable economic development in the world economic processes, to develop promising sectors of the economy and to ensure the development and application of high technologies, large amounts of financial resources and investments are required. However, the formation of investment resources and the realization of investment exports are within the economic power of very few countries. Thus, most countries in the world need foreign investment.

Formation of investments and creation of a favorable environment for investment are important conditions. For instance, economically developed countries are more likely to invest in areas with special economic zones and economic mechanisms. Considering the fact that there are 5,400 such economic zones in 147 countries around the world, it is possible to imagine the breadth of the geography of investment. At the same time, more than 500 new special economic zones are expected to be created in the coming years. This will further increase the existing competition in the global investment market.

Economically developed countries are improving the mechanisms of investment activity in the near and long term. It would be more concise to compare the indicators of investment activity of a number of countries. For instance, in 2017-2018, direct investment in the United States amounted to 529 billion dollars. For comparison, this indicator was 65 billion dollars in Canada, 67 billion dollars in France, 63 billion dollars in Germany, 165 billion dollars in

the United Kingdom and 273 billion dollars in the largest economically developing country - China. In the export of direct investment to other countries, Japan was more active in 2017-2018, and the volume of exported investments amounted to 303 billion dollars. After Japan, China and France are in the ranking. In China and France, exports totaled 288 billion dollars and 143 billion dollars, respectively (United Nations, 2019).

In Figure 1, the indicators of the top 10 countries in the world in terms of attracting foreign direct investment for 2018-2019 are comparatively indicated.

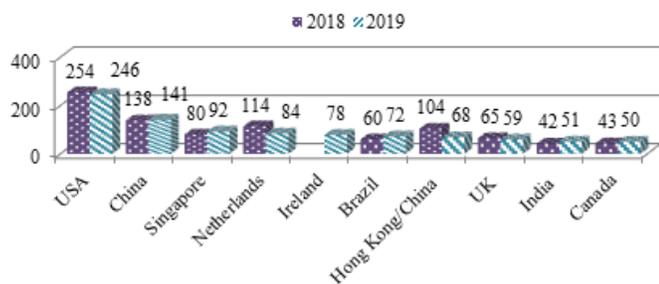


Figure 1. Top 10 countries in the world in terms of attracting foreign direct investment (2018-2019), billion US dollars.

Source: Developed by the author

According to the analysis of Figure 1, the United States maintained its leadership in attracting foreign direct investment in 2018-2019. Investment activity in China and its province of Hong Kong, which has the status of an economically developing country, has remained stable and high. Competing with the top seven economies, Singapore and the Netherlands, as well as Brazil and India, are among the most economically developing countries. In Singapore, the country's laws ensure the interests of foreign investors and investment donor countries at a high level and are quite active (Sedash & Biryukov, 2013).

Improvements in the policies of states to attract investment in world economic processes should be considered as a necessary and legitimate process. Thus, there is strong competition between economically developed countries and developing countries to increase the attractiveness of the investment climate (Pichkov, 2011). Moreover, research on the movement and efficiency of investment within the European Union has proven that the traditional investment policies of leading European countries need to be updated and investors are looking for more attractive mechanisms and economic tools. Furthermore, the issues of increasing the incentives for investment flows, especially in attracting foreign direct investment and optimizing the criteria and indicators related to investment efficiency are emphasized (Vasyukov, 2020).

In general, in economically developed countries, opportunities are created to strengthen economic activity and increase the efficiency of business processes by increasing the attractiveness of the investment climate: 1) expanding the common market; 2) achieving most suitable conditions for access to world markets; 3) formation of a favorable business environment; 4) increasing the competitiveness of the taxation system; 5) creation of an effective legal system accepted all over the world; 6) formation of highly qualified staff; 7) development of scientific and technical base; 8) ensuring financial accessibility; 9) increasing the level of protection of intellectual property; 10) raising corporate governance standards, so on.

The formation and development processes of the investment climate in Azerbaijan

After Azerbaijan regained its independence, one of the issues of strategic state importance was the formation of investment policy and its organization in accordance with national interests. After the signing of the "Contract of the Century" in 1994, many foreign companies came to the country. Thus, a significant level of financial resources began to flow into Azerbaijan. At that time, the legislation on investment activities needed to be further improved. For this purpose, the country law "On investment activity" was adopted on January 13th, 1995. The signing of regional and international agreements for the implementation of energy projects and the development of new areas has provided a great deal of investment activity in the country. As more investments are made in the oil and gas sector, there is a need to seek additional sources of financial resources to modernize other sectors of the economy and ensure high-tech development. However, this issue has not been resolved yet in line with the current economic power, position and image of the country at the international level.

The need to establish various investment funds and institutions for this purpose has been a matter of debate for a long time. Thus, despite the adoption of the country's law "On Investment Funds" on October 22nd, 2010, investment activity in the non-oil sector in our country is still. Additional measures to stimulate investment activity in our country and to protect the rights of foreign investors for investing more actively are considered as priority activities of the state. For instance, on the basis of the Presidential Decree dated January 18th, 2018, a number of additional measures have been determined to promote investment activities and protect the rights of foreign investors. It is expected that in the near future, priority will be given to attracting more improved mechanisms of investment

activity. Thus, active and effective use of state regulation mechanisms is one of the important conditions for maximizing the investment climate (Valimammadov, 2017).

In addition, favorable conditions for foreign investment have been formed in our country, including effective tax and customs regimes. Development of financial market in the country, in particular, increase of economic activity of economic entities, creation of mechanisms to ensure their access to investment and credit resources are highlighted issues. For instance, the Credit Guarantee Fund established by the Decree of the President of the country dated September 15th, 2017, may stimulate the development of the financial market and further improve the investment climate in our country. Moreover, determination of incentive mechanisms, including incentive tax deductions due to the improvement of the tax system, may play an important role in accelerating the development of the national economy and ensuring innovative development.

In order to increase the efficiency of the investment climate and ensure investment activity, macroeconomic stability should be established in the country. An investment climate should be created for the efficient movement of domestic and foreign investment flows throughout the country, which will allow for the comprehensive development of the economy and related issues should be kept in focus. Barriers to investment should be removed, and investment initiatives should be valued and motivated at a high enough level. In order to increase the efficiency and activity of the investment climate, first of all, the legislative framework should be improved, and the country's laws should be adopted in accordance with world experience. The functioning of investment protection mechanisms should be provided, and the movement and use of investments, as well as transparency in the organization of entrepreneurial activities and business processes should be ensured. The principles of accountability in the financial and investment aspects should be assessed at the level of world standards, the accuracy of financial and investment reports should be highlighted, and the state should develop and implement systematic measures to actively attract investment and stimulate investment activity in general.

Analysis of the macroeconomic situation and investment activity in Azerbaijan

The domestic investment increased rapidly from 2005 to 2010 and increased 4.2 times during that period (Figure 2). In the 2005-2016 period, it showed a high growth rate of 87.5% in direct investments. It should also be noted that in 2016, domestic investment fell by more than half and only re-growth from next year to 2019. In 2020, domestic investments fell again due to the known Covid-19 pandemic. However, it is noteworthy that the volume of direct investments in 2020 increased by 5.8% compared to 2019 and reached 4.53 billion manats.

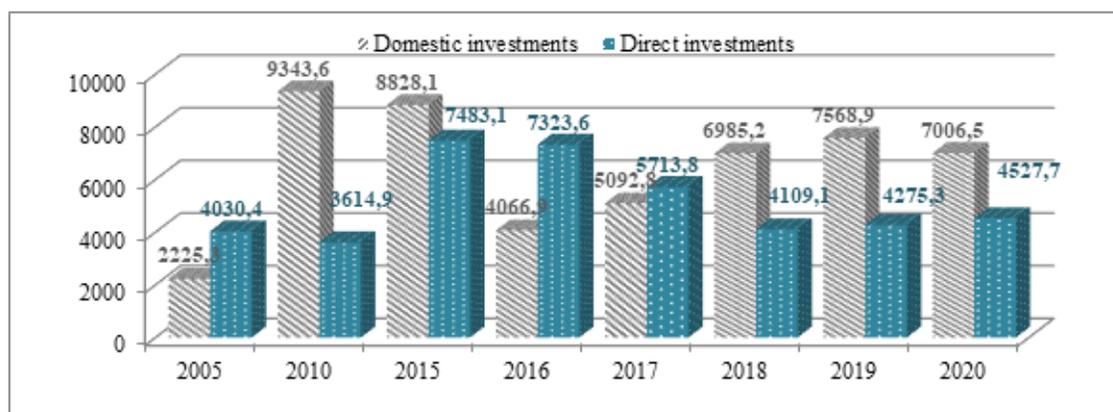


Figure 2. Comparative dynamics of foreign and domestic investments in the economy in Azerbaijan in 2005-2020, million manat

Source: Developed by the author according to the State Statistical Committee of the Republic of Azerbaijan-SSCRA <https://www.stat.gov.az>

In Figure 3, foreign investment in all sources in Azerbaijan in 2005-2020 reflects the dynamics of domestic and foreign investment in graphical form. As can be seen, the volume of investments from all sources in 2015 amounted to 19.5

billion dollars, but in subsequent years there was a decrease, and in the last two years this decline has accelerated and at the end of 2020 amounted to only 13.1 billion dollars.

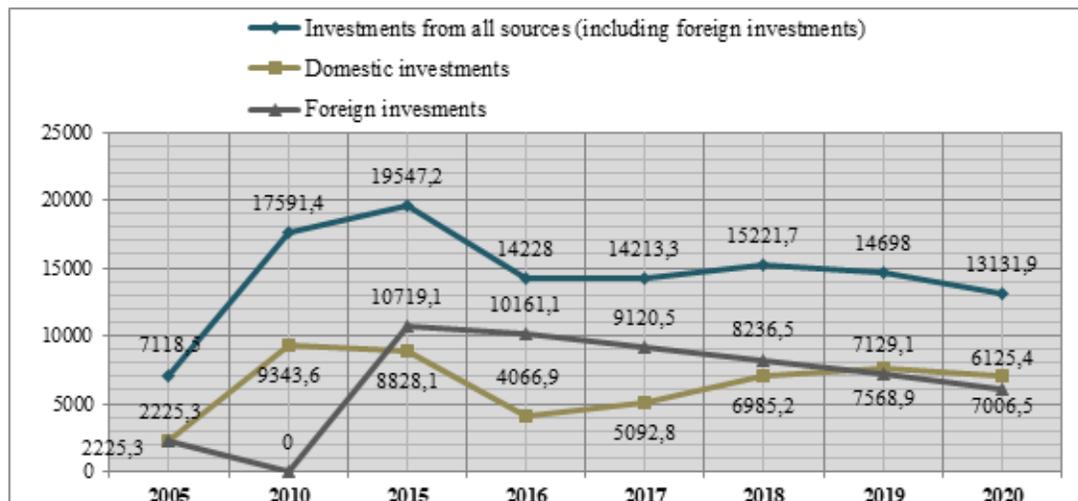


Figure 3. Distribution of foreign investments in Azerbaijan by sectors in 2011-2020, million US dollars

Source: Developed by the author according to SSCRA <https://www.stat.gov.az>

In Figure 4, the dynamics of direct investments in the oil sector and the non-oil sector in Azerbaijan in 2005-2020 have been analyzed. According to the analysis, investments in the non-oil sector increased 7.4 times in the period until 2016. In the same period, the increase in direct investments in the oil sector was only 47.4%. In the following years, the volume of investments made in the non-oil sector did not increase much, on the contrary, it decreased slightly in 2020 to 606 million dollars. The volume of investments in the oil sector continued to grow in 2018-2020 and reached 3.9 billion dollars from 3.1 billion dollars.

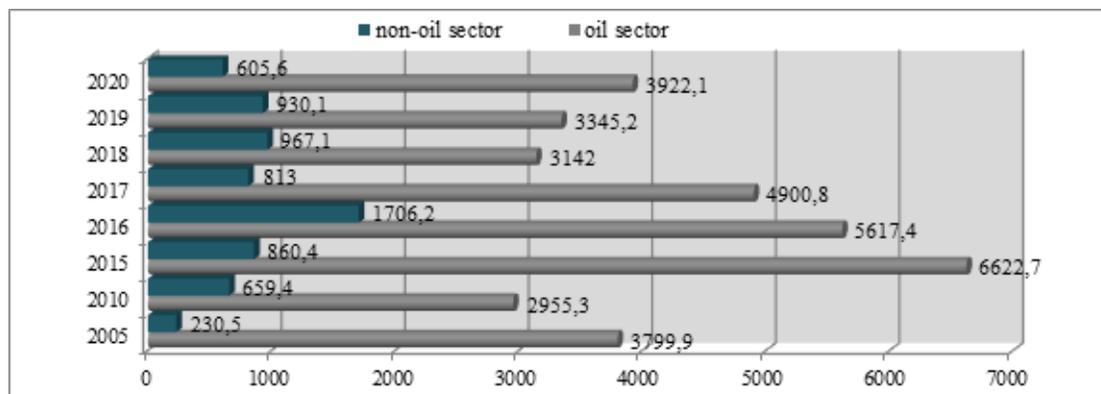


Figure 4. Dynamics of direct investments in the oil sector and non-oil sector in Azerbaijan in 2005-2020, million US dollars

Source: Developed by the author according to the SSCRA <https://www.stat.gov.az>

Investments in the country's economy in modern times have great impact and benefits. Sustainable investments play an important role in attracting the resource potential of various sectors of the economy to the value added and in creating financial sources. One of the main spheres of influence here is directly related to economic growth and the impact of investments on the country's GDP in general. For example, if we look at the dynamics of the country's GDP in 2010-2020 and the interaction of the volume of investments to the economy from all sources, and try to model the effect in regression, we get using the data indicated in Table 1 and indicators of the regression model, due to an increase in investments directed to the economy from all sources on 1 manat in 2010-2020 causes an increase in GDP by 3,2327 manat.

Table 1. Dynamics of the country's GDP and investments directed to the economy from all sources of Azerbaijan in 2010-2020, mln. man.

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP	y	42465,0	52082,0	54743,7	58182,0	59014,1	54380,0	60425,2	70337,8	80092,0	81896,2	72432,2
Investment directed to the economy from all sources	x	14118,9	17048,8	20251,0	21448,2	21890,6	20057,4	22706,4	24462,5	25877,0	24986,6	22484,0
Regression statistics												
R		0,91112										
R2		0,83014										
Normalized R		-1,22222										
Default error		5350,36										
Observations		1										
Analysis of variance												
	Df	SS	MS	F	F - Significance							
Regression	11	1,26E+09	1,14E+08	43,98312	-							
Residue	9	2,58E+08	28626315									
Total	20	1,52E+09										
	Coefficients	Default error	t-statistics	P-Value	Low 95%	Upper 95%	Low 95,0%	Upper 95,0%				
Y- intersection									3,2E-297	3,249E-297		
X 1 Factor									3,3E-297	3,298E-297		
X 2 Factor									9,7E-298	9,678E-298		
X 3 Factor									9,7E-298	9,678E-298		
X 4 Factor									1,8E-306	1,78E-306		
X 5 Factor									3,8E-308	3,755E-308		
X 6 Factor									8,7E-298	8,722E-298		
X 7 Factor									-7E-297	8,362E-297		
X 8 Factor									-2E-281	1,777E-281		
X 9 Factor									-2E-281	1,777E-281		
X 10 Factor	-6791,71	10552,29	-0,64362	0,535873	-30662,64052	17079,22	-30662,6	17079,2224				
X 11 Factor	3,232714	0,487443	6,631977	9,57E-05	2,130039985	4,335387	2,13004	4,33538707				

Source: Developed by the author

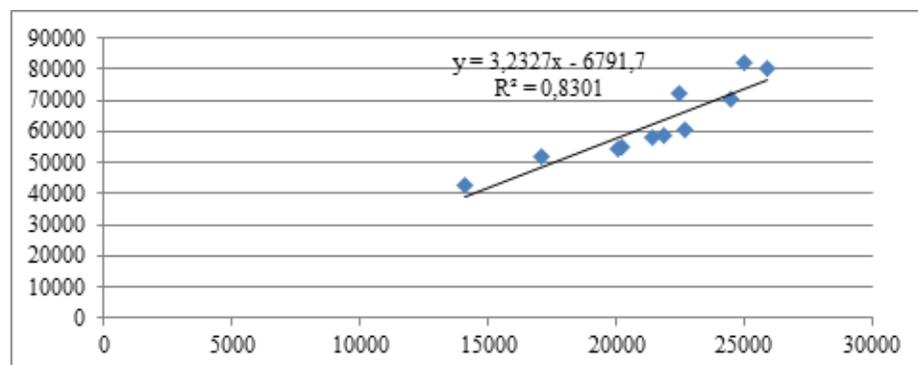


Figure 4. $y = 3,2327x - 6791,7$

Source: Developed by the author

According to this the investment potential of the Azerbaijani economy is high, but it is important to study this potential in a more systematic and purposeful way, to identify effective mechanisms, to master international experience more deeply. Therefore, it would be expedient to objectively assess the current investment climate in the country and notify the prospects for increasing investment potential.

Prospects for assessing and increasing the efficiency of the investment climate in Azerbaijan

Investment has an important role both in the economy as a whole and in the economic processes formed at the level of individual sectors and enterprises. The country's production potential, the efficiency of production activities, the field structure of production and the structure of reproduction and the rate of economic growth are formed on the basis of qualitative and quantitative parameters of investment. In macroeconomic terms, the country's total investment expenditures differ in three forms: investment in fixed assets, investment in housing construction, and investment in resource development. Demand for investment in the economy is formed by the influence of the following factors 1) improvement of the existing economic situation in the country, investment financing opportunities and channels for the conversion of savings into investments; 2) organization of interaction of the level of use of productive forces; 3) costs of goods and products, including the depreciation rate of the use of capital, and the level of wages; 4) retained earnings, depreciation, tax liabilities; 5) interest rate, return on investment; 6) the ratio between the special and borrowed funds owned by the firm; 7) assessment of the firm's stock market, calculation of the replacement cost of capital.

The volume of aggregate savings in the economy is one of the main factors determining economic growth. Without savings, it is impossible to invest and achieve economic

growth accordingly. In an open economy, attracting foreign investment also has an important role in the implementation of investment, as well as aggregate savings. In our view, it is important to summarize the principles and criteria for assessing the investment climate and structure in the context of global economic challenges in Azerbaijan: 1) public investment policy to meet global economic challenges; 2) efficiency and flexibility of investment attraction mechanisms; 3) stimulating features of state support mechanisms; 4) non-rigidity of the tax regime and adequacy of incentive mechanisms; 5) transparency and development level of the customs regime; 6) the predominance of the principle of inadmissibility of artificial interference in investment activities; 7) stimulating the establishment of investment funds, associations and societies; 8) development of financial and investment markets; 9) accelerating the development of the property and real estate market; 10) level of the country's balance of payments; 11) the level of inflation in the country; 12) level of development of the financial and banking sector in the country; 13) increasing the efficiency of investment and innovation activities; 14) compliance of investment activity infrastructure with modern requirements; 15) ensuring the priority of investment projects; 16) establishment of free movement of foreign capital in the legislation; 17) compliance of foreign investment protection legislation with international practice; 18) formation of the legislative base providing flexibility of investment activity, and so on.

In the near future, a significant increase in investment in the non-oil sector should be considered as a strategic goal in measures to increase the efficiency of the investment climate in the country and expand the scope of strategic approaches to ensuring investment activity. In his regard, necessary mechanisms and principles of operation should be determined. To increase the efficiency of the investment climate, it is necessary to provide new strategic approaches in line with modern global financial

and investment challenges. In this context, comprehensive measures should be taken.

Final remarks

A great number of questions arise when considering the effectiveness of the investment climate in Azerbaijan. Selection of the most relevant of these questions and define as the subject of discussion is quite difficult issue.

As a result, there is a need to expand and deepen discussions on the problems and prospects of improving the efficiency of the investment climate in Azerbaijan and to organize fundamental research on an ongoing basis. The active participation of both domestic and foreign scientists in these processes is important. For instance, it is important to address: 1) What is the degree of compliance of modern mechanisms of the investment climate in Azerbaijan with the conditions and principles of advanced world practice? 2) Why experience and mechanisms implemented in the efficiency of the investment environment in the oil and gas sector in Azerbaijan cannot attest themselves in other sectors of the economy, and why do foreign investors have low investments in these sector? 3) How to increase the effectiveness of government measures, support mechanisms and fiscal measures to attract investment in the non-oil sector in Azerbaijan? 4) What is the level of relation and proportionality between the goals and priorities of diversification of the national economy in Azerbaijan and the investment policy of the state? 5) What measures should be taken and mechanisms should be applied to increase the efficiency of the investment climate in the most important and promising areas of the Azerbaijani economy in the near future? 6) In general, what should be done to strengthen investment cooperation at the international level in order to increase the efficiency of the investment climate in Azerbaijan in the near and long term?

Of course, there are many questions and it is important to look for answers to these questions based on scientific arguments when approaching the current situation. Furthermore, due to the current global pressures, including the negative effects of the COVID-19 pandemic, the efficiency of the investment environment in Azerbaijan needs to be adequately raised and maximally improved.

CONCLUSIONS

In the context of global economic challenges, it is still possible to create additional opportunities to increase investment activity in Azerbaijan, especially to attract foreign investment by improving and updating the principles and

criteria for assessing the level of investment climate and structure. To this end, measures should be taken to update strategic goals and objectives, create an effective investment climate that reflects objective realities, and increase the efficiency of investment mechanisms, and conceptual approaches should be highlighted. It is important to highlight that strategic aspects of investment activity in modern economically developed countries require new approaches to a number of issues, and in this regard, improvements should be made and more effective mechanisms should be developed and implemented. Also, in the investment policy of the state and the priorities of international cooperation, it is inevitable to consider the global effects and realities of the COVID-19 pandemic in the investment policies of economically developed countries.

It is proposed to develop and implement a State Program “On increasing the efficiency of the investment climate in the Republic of Azerbaijan in 2022-2030” to increase the efficiency of the investment climate and strengthen the investment potential of various sectors of the economy, especially non-oil sector in Azerbaijan by assessing the opportunities for large-scale investment projects in the liberated territories - in the newly created Karabakh economic region and the East Zangazur economic region.

Also, there is a need for a central government structure in Azerbaijan to effectively coordinate and regulate measures to adapt the investment environment to world practices and to encourage more foreign investors. In the economically developed countries of the world, there are central bodies that fulfill these functions. In Azerbaijan, this function is fulfilled by a body within the Ministry of Economy, and its powers and activities are regulated in accordance with the orders and instructions of the ministry. We think that this situation should be changed. To strengthen public investment policy, it is expedient to establish the “Azerbaijan State Investment Agency” with more independent and broad powers. As a result of the activity of such an Agency, it may be possible to update or deepen the investment policy in the country and to accelerate the solution of the problems of increasing the efficiency of the investment climate.

Finally, to increase joint efforts to address the efficiency of the investment climate in Azerbaijan and ensure the participation of leading world companies in solving these problems, the problems of updating the policy of international investment cooperation, localization of goals and development of action mechanisms to create a more productive investment environment should be addressed.

REFERENCES

- Afontsev, S. A. (2014). World economy in search of a new growth model. *World Economy and International Relations*, 2, 3–12.
- Aksenova, N. I., & Prikhodko, E. A. (2010). Modern approaches to assessing the investment attractiveness of the country. *Journal of Investment Potential*, 32(416), 46–53.
- Aliyev, A. I., Nagdiev, S. A., & Aliyev, I. A. (2004). Methods of assessing the investment climate. *Modern Knowledge-Intensive Technologies*, 2, 122–123.
- Aliyev, S. (2014). Economics of Azerbaijan: Upgrading and implementation of effective instruments. *Life Science Journal - Acta Zhengzhou University Overseas Edition*, 11(5), 321–326.
- Aliyev, S. (2021). *Problems of the Azerbaijani Economy Diversification in Modern Conditions*. 38–44. <https://doi.org/10.2991/assehr.k.210322.081>
- Aslanov, M. A., & Grebenik, V. V. (2018). Fundamentals of analysis of investment strategy and company policy. *Bulletin of Eurasian Science*, 2, 15–21.
- Atashov, B. K. (2016). *Financial markets*. Cooperation Publishing House.
- Chuvakhina, L. G. (2019). Features of global investment policy: Modern trends and prospects. *Bulletin of AGTU*, 2(14), 142–148.
- Derkach, A. A. (2013). Theoretical and methodological aspects of investment and state regulation of investment activities. *Economics and Politics*, 8(105), 21–25.
- Glushchenko, M. E. (2009). Methodological approaches to assessing investment attractiveness. *Economic Analysis: Theory and Practice*, 2, 49–57.
- Guliyeva, A. (2020). Problems of financial and investment support modelling of the regional social and economic development. *WSEAS Transactions on Business and Economics*, 17, 741–752.
- Keynes, J. M. (2012). *The General Theory of Employment, Interest and Money*. Cambridge University Press.
- Kiseleva, O. V., & Makeeva, F. S. (2016). *Investment analysis*. Knorus.
- Lukyanova, A. N., & Shumaev, V. A. (2012). Improving the methodology for assessing the economic efficiency of investment projects. *Journal of Innovation and Expertise*, 1(8), 115–136.
- Markovskaya, E. I., & Anyushkina, E. S. (2020). *Analysis of the impact of foreign direct investment on economic growth in developed and developing countries*. Lider Publishing House.
- Marshall, A. (1993). *Principles of Economic Science*. Progress Publishing House.
- Musayev, A. F. (2014). *Innovation economy and tax incentives*. Azerbaijan University.
- Pichkov, O. B. (2011). USA in world investment processes. *Issues of Entrepreneurship and Economy*, 4(8), 9–12.
- Porter, M. E. (2003). *Building the microeconomic foundations of prosperity: Findings from the microeconomic competitiveness index*. Harvard Business School.
- Ryabinin, E. V., & Khudorenko, E. A. (2016). Improving the methodology for assessing the country's investment climate. *Journal Statistics and Economics*, 13(6), 18–22.
- Sedash, T. N., & Biryukov, A. V. (2013). Using foreign experience to increase the competitiveness and investment attractiveness of Russian regions. *Finance and credit*, 59–65.
- Sergeev, I. V., Veretennikova, I. I., & Shekhovtsov, V. V. (2014). *Investments*. Yurit Publishing House.
- Shakaraliyev, A., & Shakaraliyev, G. (2016). *The economy of Azerbaijan: Realities and perspectives*. Turkhan Publishing House.
- Smith, A. (2011). *The wealth of nations*. Simon & Brown.
- Solow, R. M. (1956). A Contribution to the Theory of Economic Growth. *The Quarterly Journal of Economics*, 70(1), 65–94. <https://doi.org/10.2307/1884513>
- Stiglitz, J. E. (2004). Capital-market Liberalization, Globalization, and the IMF. *Oxford Review of Economic Policy*, 20(1), 57–71. <https://doi.org/10.1093/oxrep/grh004>
- Stiglitz, J. E., & Ocampo, J. A. (2008). *Capital Market Liberalization and Development*. Oxford University Press.
- Tsogoeva, M. I., & Tsokov, Z. B. (2016). Foreign direct investment and economic growth. *Economic sciences*, 35–42.
- Turygin, O. M. (2014). Investments as a source of economic growth: Comparative analysis of Russia and other countries. *Modern Problems of Science and Education*, 6. <https://science-education.ru/ru/article/view?id=16427>

United Nations. (2019). *World Investment Report 2019*.

https://unctad.org/system/files/official-document/wir2019_en.pdf

Valimammadov, M. S. (2017). Investment climate and current state of state regulation in Azerbaijan. *Journal of Economic and Social Research of Azerbaijan*, 4(4), 25–34.

Vashakmadze, E., Kambou, G., Chen, D., Nandwa, B., Okawa, Y., & Vorisek, D. (2018). Regional dimensions of recent investment weakness: Facts, investment needs and policy responses. *Journal of Infrastructure, Policy and Development*, 2(1), 37–66. <https://doi.org/10.24294/jipd.v2i1.159>

Vasyukov, E. A. (2020). Comparative analysis of attractiveness factors for FDI in developing and developed countries. *Finance and Management*, 1, 38–52.