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IMPROVING REGIONAL INVESTMENT ATTRACTIVENESS: EVIDENCE FROM YOUTH INDUSTRIAL AND ENTREPRENEURSHIP ZONES IN UZBEKISTAN

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Abstract. The article examines the key factors influencing the efficiency and attractiveness of regional investment projects in Uzbekistan, with particular emphasis on institutional conditions, financial mechanisms, and the role of Youth Industrial and Entrepreneurship Zones (YIEZs). The study explores the conceptual foundations of the investment environment, investment climate, and investment attractiveness, drawing on international and national theoretical perspectives. Using analytical and comparative methods, the research evaluates existing barriers to investment efficiency, including infrastructure gaps, regulatory inconsistencies, high project costs, and limited investor protection. Special attention is given to the functioning of YIEZs as a policy instrument aimed at promoting youth entrepreneurship and stimulating regional economic development. Based on statistical data and project implementation reports, the article assesses current outcomes in YIEZs and identifies structural challenges that affect project performance. The study proposes an improved financial mechanism for leasing production facilities to young entrepreneurs, aiming to reduce entry barriers and enhance project sustainability. The research concludes that strengthening institutional coordination, expanding financial incentives, and improving infrastructure are essential for increasing investment project efficiency and creating a more competitive regional investment environment in Uzbekistan.

Keywords: *Investment, investment environment, investment projects, regional economy, youth industrial zones.*

INTRODUCTION

The effectiveness of regional investment projects plays a crucial role in shaping economic growth, social development, and territorial competitiveness, particularly in countries undergoing structural transformation such as Uzbekistan (Agit et al., 2024). Over the past decade, Uzbekistan has implemented wide-reaching economic reforms aimed at liberalizing markets, improving the business environment, and stimulating both domestic and foreign investment (OECD, 2025). These reforms have resulted in a significant increase in the number of investment projects initiated across various regions of the country. However, despite rising investment activity,

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the efficiency of project implementation remains uneven due to disparities in regional capacities, institutional readiness, and resource availability.

Regional development in Uzbekistan is characterised by substantial differences in economic structure, industrial specialisation, and infrastructure quality. While major urban centers such as Tashkent, Samarkand, and Navoi attract large-scale investments due to better-developed logistics, qualified labour, and administrative support, peripheral regions face persistent limitations in attracting and effectively executing investment projects. These disparities highlight the need to examine not only the volume of investments but also their efficiency, long-term sustainability, and contribution to socio-economic outcomes (Mallinson, 2021).

Investment project efficiency depends on multiple interrelated factors, including project planning quality, financial sustainability, regulatory procedures, and the institutional competence of regional authorities. Uzbekistan has made notable progress in streamlining approval processes, enhancing transparency, and expanding public-private partnerships. Nevertheless, challenges remain, particularly in ensuring consistent project monitoring, strengthening local governance capacities, and reducing bureaucratic bottlenecks that can slow or distort investment outcomes (Abdullaeva et al., 2025; Yang et al., 2024).

In Uzbekistan, investment activity is carried out through the development and implementation of investment projects, which, according to the current Uzbek legislation, are understood as economically feasible both by volume and timing of capital investments (Vershinina & Bambaeva, 2013).

To increase the economic potential of the regions of Uzbekistan, it is necessary to attract foreign direct investment in the economy, create a favorable investment environment for investors, ensure and develop the attractiveness, further liberalize the economy, organise and improve the free exchange of goods, as well as develop necessary production capacities (Rakhmatullaev, 2024). It is important not only to create a new infrastructure, but also to modernise and enhance the existing one.

1. METHODOLOGY

To review the scientific and theoretical foundations of increasing the attractiveness of the investment environment in the Uzbek regions, it is necessary to tackle the essence of categories that are closely linked, such as "investment environment", "investment climate", and scientific and theoretical concepts related to them. The concept of investment environment, according to a number of foreign economists, including J.D. Daniels and L.H. Radeba, states that the concept is synonymous with the concept of business environment (Daniels & Radeba, 2014).

On the other hand, in scientific research by A.M. Basenko and P.V. Taranov, the terminological aspects such as "investment environment" and "investment climate" refer to the level of riskiness during the investment of capital, the internal and external conditions and facilities that form the level of attractiveness of investment in relation to a clearly planned object (Basenko & Taranov, 2016).

At the same time, according to research conducted by E.M. Pernia and J.M. Salas, the investment climate can be broadly defined as "the existing and expected policy, institutional and behavioral environment that affects the returns and risks associated with investment" (Pernia & Salas, 2005).

Additionally, Mamadiyarov and Makhmudov (2020) state that the attractiveness of the investment environment is assessed in terms of profitability, investment environment, infrastructure, development prospects, and the level of investment risk. Investment attractiveness is determined by the simultaneous influence of the country's investment potential and the level of investment risk. By assessing such indicators, it would be possible to determine the appropriateness and attractiveness of investments, as the level of investment risk is directly related to the investment environment.

There are a number of problems in doing business with foreign and local investors:

- projects and initiatives of business activities reported by foreign and local investors at the regional level are not fully formed by the mechanism of proper support by all local state authorities and responsible state organisations;
- the activities of relevant ministries and agencies are not clearly coordinated in terms of not violating the guarantees of the rights of foreign and local investors who wish to actively engage in investment activities;
- as a result of increasing illegal interference in the activities of investors, the confidence of foreign investors to protect their financial resources from risks for investment activities in the regions remains at a low level;
- the incomplete formation of the necessary production infrastructure, the strong need for technical and technological modernisation of the existing infrastructure occur, with a potentially negative effects on the start and expansion of business acitvities;
- the investment environment is unattractive as a result of the insufficient development of the financial market, the high participation of financial institutions with a state share in the infrastructure of financial services, the formation of investment projects mainly at the expense of bank capital;
- Due to cases of artificially inflating the costs of investment projects, especially those financed through centralised investment sources, the efficiency of state budget funds and other centralised financial resources allocated to these projects remains very low. In addition, the strengthening of offshorization processes has hindered the development of the regional investment environment, among other negative effects.

Unfortunately, Uzbekistan currently does not have the investment attraction mechanisms that are available in many countries worldwide (US Department of State, 2024). Many organisations prefer not to take any economic responsibility, attracting financial resources from outside. This is a reason why it is necessary to define the status of investment banks in the economic regions by law and to organise a preferential working process along with it.

It would be preferable to increase the activity of the state during the investment process, which also means:

- increasing the value of investments within the framework of the development of the state guarantee;

- to outline the conditions that ensure the entry of investments into the economy;
- to strengthen and develop the position of the banking community in investment activities.

2. RESULTS

Regarding the development of the investment environment in the regions, the tariff and notary preferences given to newly established special economic zones should be revised based on the proposals of investors. It is expedient to consider the concessions given when making calculations with the local budget in agreement with the regional administrations.

Also, the factors that have a direct impact on the attractiveness of the investment environment in the country and regions are the processes related to currency and inflation. To stabilise it, the following main tasks should be performed:

- a free-floating currency mechanism should be chosen to ensure stable internal and external exchange;
- to ensure that a real exchange rate is taken into account in the pricing of the main export products;
- to strongly monitor activities so that the effect of domestic inflation does not lead to a decrease in the competitiveness of local exporters;
- to ensure effective use of intensive and extensive methods of increasing gold and foreign exchange reserves (an intensive method – the attraction of capital from foreign countries; an extensive method – the effective use of domestic potential);
- to optimise the economic policy aimed at quality organisation of the production and services market to prevent the growth of inflation.

In addition, it would be appropriate to use the factor of YIEZs for further liberalization of the investment environment climate (World Bank Group, 2021).

YIEZs have emerged in recent years as one of Uzbekistan's targeted policy instruments designed to stimulate youth entrepreneurship, foster regional innovation, and reduce unemployment among young people. Established under national programmes promoting small business development, these zones provide young entrepreneurs with access to land plots, subsidised infrastructure, and simplified administrative procedures. The government aims to create an enabling environment where young innovators can transform business ideas into production-ready projects, especially in manufacturing, agro-processing, handicrafts, and service industries. YIEZs serve as a platform for nurturing local value chains, encouraging import substitution, and expanding export-oriented activities.

A key feature of YIEZs is the preferential support mechanisms offered to participants, including tax incentives, reduced rental costs, and access to soft loans through state financial institutions. These measures help mitigate the common barriers young entrepreneurs face, such as a lack of start-up capital, limited collateral, and insufficient managerial experience. Additionally, the zones promote technological adoption by facilitating access to shared equipment, laboratories, and training centers. Regional governments play an important role in managing YIEZs, ensuring infrastructure readiness, and monitoring project performance.

Despite their growing importance, the effectiveness of YIEZs varies across regions. Some zones have successfully attracted dynamic young entrepreneurs and created new jobs, while others face difficulties related to infrastructure delays, limited local demand, or insufficient coordination among institutions. Strengthening governance frameworks, improving mentorship programmes, and expanding market access for youth-led enterprises remain crucial for maximising the impact of YIEZs. Overall, YIEZs represent a promising tool for stimulating inclusive regional development and empowering the younger generation within Uzbekistan's rapidly evolving economic landscape.

It is planned to implement a total of 4059 investment projects in youth industrial and entrepreneurship zones established in the regions of our republic. The total value of investment projects is 5792.5 billion soums.

Table 1. Information on the Implementation of Investment Projects in YIEZs in 2022 (developed by the author based on Statistics Committee of the Republic of Uzbekistan, n.a.)

Indicators	**Projects**							
	Number of investment projects	**Total value, million soums**	From that, according to the sources of financing					
			Own funds, million soums	Loans in national currency from the Young Entrepreneurs Support Fund, million soums	Loans in foreign currency from the Young Entrepreneurs Support Fund, million dollars	Loans of commercial banks in national currency, million soums	Loans of commercial banks in foreign currency, million dollars	Foreign investment, million dollars
Implemented projects	249	663 018	564 839	27 770	130	34 051	150	3150
Being implemented	1731	2 768 972	1 945 301	270 498	2862	303 489	7910	13 968
Future projects	2079	2 360 567	1 370 061	601 039	15 571	93 158	12 383	–

According to data represented in Table 1, a total of 249 projects with a total value of 663 billion 18 million soums have been implemented by YIEZs. More than 564 billion of their own funds were invested by young entrepreneurs into these projects.

In addition, 27 billion soums will be allocated from the Young Entrepreneurs Support Fund for the implementation of these projects. A loan of 770 million soums and 130 million US dollars was allocated. It is noteworthy that foreign investments in the amount of 3 million 150 thousand US dollars were attracted for these projects as well.

To increase the effectiveness of investment projects in the area of YIEZs, which are important for the development of the investment environment in the regions, the leasing of buildings by commercial banks to young business entities for production and service can have a positive effect.

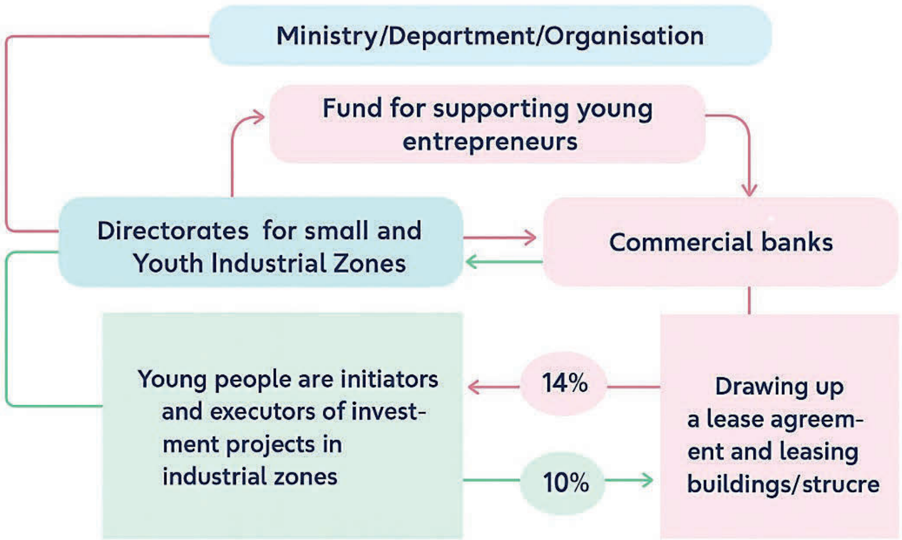

Fig. 1. A mechanism for leasing buildings/structures in youth industrial zones in the development of the investment environment of the regions (developed by the author based on Decree of the President of the Republic of Uzbekistan, 2021).

Figure 1 illustrates the financial and organisational mechanism designed to support young entrepreneurs operating in YIEZs of Uzbekistan. It shows how several institutional actors interact to facilitate the leasing of buildings and structures required for production or service activities. At the center of the scheme is the Directorate for Small and Youth Industrial Zones, which allocates financial resources to commercial banks for the construction or provision of buildings. These funds are issued to commercial banks at a preferential annual interest rate of 10 % in national currency. Based on these resources, commercial banks then lease completed buildings to young business entities at an annual rate of 14 %, ensuring a modest financial margin while maintaining affordability for young entrepreneurs.

The mechanism also requires young entrepreneurs to pay an initial down payment equal to 10 % of the value of the leased building, thereby encouraging financial responsibility and commitment. The Fund for Supporting Young Entrepreneurs plays an additional supportive role by helping channel financial resources into the system, particularly for youth-led investment projects. Ministries and other responsible state organisations ensure regulatory and administrative coordination, reducing bureaucratic barriers during project implementation. The model demonstrates a circular financial flow where resources originate from state-supported structures and return through bank-managed leasing processes.

To increase the attractiveness of the investment environment of the Uzbek regions, it is proposed to rate the effectiveness of strategic investment projects. As a result, the rating mechanism would be developed, including specific and, to some extent, flexible rating categories (Bozorov, 2018).

CONCLUSION

Increasing the efficiency of regional investment projects in Uzbekistan requires a comprehensive and well-coordinated policy framework that links institutional reforms, financial mechanisms, and regional development priorities. The analysis confirms that despite the growing number of investment initiatives across the country, their effectiveness remains uneven due to regional disparities in infrastructure readiness, governance capacity, and institutional support.

Strengthening the investment environment, therefore, demands not only the attraction of funds but also systematic improvements in project planning, monitoring, and implementation practices. The research highlights that YIEZs play an important role in stimulating local economic activity, particularly by encouraging youth-led enterprises, yet the effectiveness of these zones varies widely depending on regional administrative capacity and infrastructure availability. The proposed financial mechanism for leasing production buildings to young entrepreneurs illustrates a practical approach to reducing entry barriers and improving access to necessary physical assets. Ensuring the sustainability of this mechanism requires stable financing, transparent management, and effective coordination between directorates, banks, ministries, and support funds.

The study also reveals that regulatory complexity, inflationary pressures, and insufficiently developed financial markets remain major obstacles to creating a fully attractive investment climate in the regions. To address these challenges, policy measures should focus on enhancing the stability of exchange rate mechanisms, ensuring fair competition among financial institutions, and preventing artificial cost inflation in investment projects. A shift toward more rigorous financial and economic evaluation of projects, including liquidity assessments and long-term return analyses, is essential for reducing investment risks and ensuring better allocation of public resources. International experience shows that regions with strong digital infrastructure, clear legal frameworks, and transparent incentive systems are more successful in attracting sustainable investments.

Consequently, Uzbekistan needs to broaden its strategic approach by incorporating modern assessment tools, improving training and governance capacities, and aligning national and regional development programs. Strengthening production infrastructure, expanding access to high-quality financial instruments, and improving stakeholder coordination will contribute significantly to enhancing the efficiency of regional investment projects and increasing the overall attractiveness of the country’s investment environment.

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