

# REPUBLIC OF AZERBAIJAN

*In manuscript law*

## ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

### **DIRECTIONS FOR IMPROVING THE INVESTMENT ENVIRONMENT IN THE REGIONS OF THE REPUBLIC OF AZERBAIJAN**

Specialization: 5308.01 – General economics  
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## GENERAL CHARACTERISTICS OF THE WORK

**Relevance of the topic and degree of development:** Azerbaijan, located at the crossroads of Europe and Asia, has begun to form as a dynamic player in the global economy. With a rich cultural heritage, large energy resources, efforts to diversify the economy, and a strategic geopolitical position, Azerbaijan has great potential for economic growth and development. In recent years, the state has taken important steps to attract domestic and foreign investments, identifying the main role of investments in promoting sustainable development. However, despite these efforts, the investment climate, especially at the regional level, needs to be further improved in order to tap into the country's full economic potential.

The Republic of Azerbaijan has adopted "open door" and "one window" policies to attract investments to its economy. At present, the government is taking continuous steps towards carrying out economic reforms, improving the business environment and promoting growth in the non-oil industry. In terms of the development of the investment environment in Azerbaijan, the rights and advantages of investors are protected, property rights are ensured, and equal conditions are created for local and foreign businessmen. Protection of the rights of investors and improvement of their activities in our country are governed by the following laws and other regulatory legal documents: Establishment of Appeal Boards, "On Protection of Foreign Investments", "On Investment Activity" and "On Suspension of Inspections in the Field of Entrepreneurship".

The regions of Azerbaijan, consisting of different economic and geographical landscapes, are an integral part of the country's overall economic growth and prosperity. In terms of ensuring sustainable economic growth and development in our country, attracting domestic and foreign investments is an undeniable fact. It is necessary to establish the right investment environment in order to attract investments to the country and advance in regional competition. In this regard, it is necessary to develop various policies, measures and activities for the stability and sustainability of the investment environment. If we take into account that after the agreement of the century, a large investment flow was observed

in Baku and its surrounding regions, but such similar economic development and investment did not occur in the regions, at this time, we will witness the emergence of the improvement of the investment environment in the regions. Between 2015 and 2022, the average capital investment in fixed assets in Baku was 10,755 billion AZN, and was 6,418 billion AZN in the regions. For this reason, the factors affecting the development of the general investment environment in the regions: infrastructure, technological development, regulatory frameworks, tax and financial policy, political stability, etc. should be investigated. There is a need to do serious work in the direction of eliminating regional investment deficiencies by identifying and solving the main problems faced by investors.

The successful implementation of the investment program is first of all manifested in the application of advanced techniques and technology, the volume of production, the value of the works and services. Therefore, it is very important to accurately identify the sources of investment financing and systematically analyze and evaluate them in order to achieve these goals.

The investment environment is a complex and dynamic system under the influence of various factors, both internal and external. These factors affect the performance of assets, the overall investment environment, and understanding them is important for investors to achieve their investment goals. Investors often seek stability and predictability in the political environment to reduce uncertainty and risk associated with investment decisions.

The unique economic policies and conditions of the region can also have a positive or negative impact on the investment environment. Thus, an investment environment that promotes transparency, trust and stability is vital to attracting capital and supporting economic growth. Regions that provide incentives for investment have greater opportunities to attract investors and stimulate business growth. Measures such as low tax rates, simplified regulatory procedures and investment subsidies increase the attractiveness of the region for entrepreneurs and investors. In addition, regions with a strong, diversified economy, skilled workforce and modern infrastructure can have an even more favorable investment climate. A society characterized by strong social cohesion and minimal

corruption always fosters mutual cooperation and trust between businesses, investors and government. As a result of this trust, a stable investment environment is formed, which in turn promotes economic growth in that region.

Many works have been devoted by world scientists and local researchers to the broad meaning of the concept of investment environment, its relevance, essence, effects it can have on the country and other issues. Keynes J., Laffer A., Domar E. by world scientists, mainly in terms of ways to eliminate factors affecting the development of the investment environment, directions for attracting foreign direct investments, issues of regional development and elimination of inequalities between them, as well as the impact of tax and other benefits on investments Sprague J., Denisia V., Cohen D., Adelman I., Hulten C., Reside E.R., Klemm A., Rodrik D., Buckley P.J., Dunning J.H., Karatas A., Erdoğan A., Yavan N. approaches should be specially emphasized. With these studies, they made deep contributions to science.

Many scientific works have been written in this field by prominent researchers and thinkers of Azerbaijan. Mainly among our local scientists Z.A.Samadzade, V.M.Shiraliyev, G.R.Keibullayev, Z.F.Mammadov, R.A.Guliyev, R.P.Sultanova, A.X.Nuriyev, T.H.Huseynov, M.A.Aliyev, A.H.Agarzayev, B.S.Ahmadov, A.H.Mammadov, I.Z.Seyfullayev, A.Q.Alirzayev and others' studies, scientifically based approaches to the essence of ways to increase investments are put forward, studies on the problems of increasing investment attractiveness are kept in the main focus. In general, the impact on the investment environment and the policy of their formation from this point of view were directly considered in our research.

**The object and subject of the research.** The object of the research is the investment environment in the Republic of Azerbaijan, including its regions. This includes various aspects such as the current state of the investment environment in Azerbaijan, especially in its regions, the works being carried out, as well as the policy framework that supports the interaction of the public and private sectors involved in the formation of a favorable investment environment for the country as a whole and its individual regions.

The subject of the research is the relationship between the development of regions and the investment environment in the Republic of Azerbaijan. This includes studying various factors such as the investment climate in the country's regional development, including ways to increase investment, regional economic development, and changes in the nature of incentives applied. The study can also examine the shortcomings and current prospects arising from the relationship between the development of regions and the investment environment in Azerbaijan.

Research goals and objectives. The main goal of the dissertation work is to conduct analyzes and make relevant recommendations on the direction of improving the investment environment in the regions of the Republic of Azerbaijan.

To achieve the main goal of the research, the realization of following tasks are planned:

- To study the theoretical and methodological bases of investment;

- To analyze the essence of the investment environment, its object, functions, including its principles;

- To conduct analyzes in the direction of improving the favorable investment environment in the regions, to make recommendations for effective strategies and policies to be implemented;

- Specify strategic directions that can attract local and foreign investments, promote regional growth and help sustainable development;

- Conducting a comprehensive analysis of the investment environment, researching existing deficiencies in this area and determining ways to eliminate them;

- To substantiate the assessment of the impact of macroeconomic factors on the country's investment environment;

- Analyze plans for measures such as lower tax rates, simplified regulatory procedures and investment subsidies;

- Providing insights and recommendations for policymakers, investors and stakeholders involved in shaping the investment landscape by examining various factors such as infrastructure, regulatory reforms, investment incentives, financing options, human capital development, regional marketing and management.

As a result, the successful implementation of these recommendations can stimulate economic growth in the Republic of Azerbaijan, eliminate the development gap between regions, create employment opportunities and raise the general standard of living of the population.

**Research methods.** The theoretical and methodological bases of the research consists researches and reports of local and foreign economists, academic analysis centers, international economic organizations (International Monetary Fund, World Bank, Organization for Economic Cooperation and Development, etc.), state programs, normative-legal acts, strategic path maps, the National Concept of the Future, materials obtained from the reports of the Ministry of Economy, the State Statistics Committee of the Republic of Azerbaijan, the Central Bank, etc. Systematic approach, comparison, economic-mathematical modeling, economic-statistical analysis, synthesis, generalization, induction, deduction and graphical methods were used in the research work. Also, a regression model was applied to identify and quantify the relationship between the data.

**The main provisions defended:**

1. Compilation of scientific-theoretical views on the formation of the investment environment and development characteristics of its structures;
2. Researching the macroeconomic aspects of the potential of the investment environment;
3. Justification of the relationship between the investment environment and economic growth;
4. Methodical approach to the development and evaluation of investment projects adequate to the investment environment of the region
5. Comprehensive analysis of the current situation of attracting foreign investments to Azerbaijan;
6. Assessment of investment environment opportunities in the regions;
7. Determination of directions for increasing the mechanisms of the investment environment and its impact on the use of investment potential;

8. Ways to ensure the effectiveness of the mechanism of regulation of the investment environment in Azerbaijan;

9. Studying the problems of increasing the level of use of investment environment opportunities in the region.

**Scientific novelty of the research** - the scientific novelty of the research work is characterized in the following form:

- Multiple linear regression analysis was carried out to determine the relationship between investments in Azerbaijan and inflation, public debt, trade balance, political stability, daily oil production volume, rule of law, corruption control and shadow economy indices.

- As a result of the comprehensive analysis of the international experience, in the implementation of the investment promotion policy in our country, it was proposed to divide the regions into regions of different degrees and to create industrial clusters by region.

- An analysis of the impact of the macroeconomic policy implemented in Azerbaijan on the improvement of the investment environment was carried out.

- Differences between the capital and regions in the volume of investments directed to fixed capital by enterprises in Azerbaijan were analyzed.

- The direct effects of the tax policy on the investment environment were analyzed using different methods.

- Ways to ensure the efficiency of the mechanism of regulation of the investment environment in Azerbaijan have been studied.

- Directions for eliminating the problems of increasing the level of use of investment environment opportunities in the regions have been determined.

**Theoretical and practical significance of research.** The research carried out within the framework of the dissertation includes many analyzes and assessments, scientific-theoretical views as well as economic theories and syntheses. For this reason, the research can be used in the writing of bachelor's, master's, doctor of philosophy dissertations, in the creation of scientific works, including in the implementation of scientific research. In addition to the theoretical importance of the research, there is also its practical importance. In the research, there is a multi-linear regression analysis, mathematical-statistical models and



statistical information prepared on the basis of long-term statistics of many factors affecting investments. The main results of the research can be of practical importance in eliminating the factors that have a negative impact on the investment environment in the regions, and in increasing the effectiveness of the tools that influence investments and the promotion policy. Based on the results obtained in the research work, it can be used in state programs for the development of regions in the country, in the improvement of investment legislation, in the preparation of strategic reform programs, in the development of educational and methodological tools in the areas of investment and regional development.

**Approval and application.** The provisions analyzed in the thesis work and the obtained results were presented at International Scientific Conferences held in Azerbaijan and abroad. "Education and Research Activity in the New Era: Realities and Challenges", "Biltek-VI. Current Development of Science, Technology and Humanities" was discussed at the International modern scientific research conference and other conferences. 5 scientific articles related to the research work were published in the country (4 of them are included in the list of periodical scientific publications recommended for the publication of articles by the Supreme Attestation Commission under the President of the Republic of Azerbaijan), and 1 scientific article was published abroad.

**The name of the organization where the dissertation work was carried out** - Dissertation work has been carried out at the Ganja State University of Ministry of Science and Education of the Republic of Azerbaijan.

**Dissertation structure and volume** - The research paper consists of 196 pages in total, including 3 chapters, 9 subchapters, introduction, conclusion and proposals. Introduction 13940, First chapter 85698, second chapter 78420, third chapter 57132, conclusion 8739, Literature 23874, 153 titles, the total volume of the dissertation consists of 243929 marks.

## **STRUCTURE OF THE DISSERTATION**

### **Chapter I. Theoretical-methodological and regional aspects of the formation of the investment environment in the economy**

- 1.1. The formation of the investment environment in the economy and the theoretical basis of the investment process
- 1.2. Investment climate formation factors and regional characteristics
- 1.3. A methodical approach to the preparation and evaluation of investment projects adequate to the investment environment of the region

### **Chapter II. Analysis and evaluation of the aspects that condition the investment environment in the regions of the republic of Azerbaijan**

- 2.1. Study of financial aspects in the development of the investment environment of the regions
- 2.2. Descriptive and regression analysis of factors affecting the investment environment in Azerbaijan
- 2.3 Analysis of regional aspects of the formation of investment potential in the country and assessment of the opportunities of the investment environment in the sectoral division

### **Chapter III. Directions for creating a favorable investment environment in the regions**

- 3.1 Increasing the impact of the innovative development policy on the level of investment environment of the regions
- 3.2 Ways of influence of budget and tax factors in improving the investment environment in the regions
- 3.3 The role of forming a favorable investment environment in the regions in attracting foreign investments

**Conclusion**

**Bibliography**

**Abbreviations**

**Appendices**

## **THE MAIN CONTENT OF THE DISSERTATION WORK**

### **1. Compilation of scientific-theoretical views on the formation of the investment environment and development characteristics of its structures.**

The essence of the concept of investment is the act of investing money or resources in the hope of obtaining income or profit in the future. Investing involves placing funds in financial assets, physical assets, or business ventures with the goal of increasing wealth, generating income, or creating value. Investment decisions are based on a number of factors, including the expected return on the investment, the level of risk involved, the liquidity of the investment, and the investor's goals and preferences. Common investment types include stocks, bonds, real estate, mutual funds, exchange-traded funds and alternative investments such as commodities, hedge funds, and private equity. Investing is an important part of personal finance and wealth management, as well as business and economic development. It plays an important role in promoting innovation, creating jobs and accelerating economic growth, and is a key driver of progress and prosperity in modern societies. Investment can take many forms, such as buying stocks, buying real estate, building a business, or acquiring educational skills. An investment objective is generally to achieve specific financial goals, such as achieving long-term financial growth, saving for retirement, or funding a child's education. Investment always involves some degree of risk because future returns are uncertain. It can be affected by a wide range of factors such as economic conditions, market fluctuations, changes in technology or consumer preferences. However, by carefully considering potential risks, rewards, and diversifying investments across different asset classes, investors can help minimize risks and achieve their long-term financial goals. Investments are an important part of finance and there are many models that investors can use to make informed decisions.

### **2. Investigating the macroeconomic aspects of the potential of the investment environment.**

Investing is an important aspect of long-term wealth creation, and understanding the investment environment is critical for investors to make informed decisions. The investment environment is a complex and

dynamic system under the influence of various factors, both internal and external. These factors affect the performance of assets, the overall investment environment, and understanding them is important for investors to achieve their investment goals. Economic conditions are one of the most important factors shaping the investment climate. Economic indicators such as inflation, interest rates, GDP growth and unemployment rates can influence investor behavior and asset performance. Investors often seek stability and predictability in the political environment to reduce uncertainty and risk associated with investment decisions. For example, when the government imposes policies that are unfavorable to business, such as high taxes or excessive regulations, this can discourage investment and harm economic growth. Technological innovation creates new investment opportunities and disrupts existing industries. For example, the rise of e-commerce has created new investment opportunities in the retail sector, while advances in renewable energy have disrupted the traditional energy industry. Investors who understand and capitalize on these technological changes can reap significant gains, while those who fail to adapt risk losing value in their portfolios.

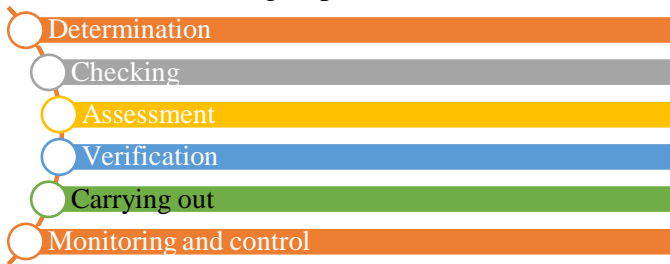
### **3. Justification of the relationship between the investment climate and economic growth.**

The overall economic growth of the country is significantly affected by the level of savings (investments) it can generate. Due to their relatively poor situation, developing countries (DCs) often face the problem of low savings. Relying only on these limited savings for investment may not be sufficient to ensure significant economic growth. As a result, DCs are trying to take advantage of foreign investments (foreign savings) to accelerate their economic development. There are two main forms of foreign investment that are attracted to the DCs: foreign private equity investments and foreign loans. Foreign private capital investment refers to direct investments of foreign individuals or legal entities in businesses and enterprises within the country. On the other hand, external credit refers to financial loans and borrowing from international sources to finance various development projects and initiatives. Through access to foreign investment, DCs can add to their savings, facilitate the implementation of critical projects and accelerate

economic growth. This flow of foreign capital provides these countries with valuable resources and expertise, ensuring development and prosperity in the long term.

#### **4. Methodical approach to the development and evaluation of investment projects adequate to the investment environment of the region.**

Projects are evaluated and developed using a structured methodology to ensure that investments are sound, financially viable in an investment environment. Investment project preparation and evaluation methodology helps to ensure that investments are sound and financially efficient as a result of identification of potential projects, screening based on investment criteria, their detailed evaluation, project approval, financing, implementation according to plan, monitoring, control and closure after completion of the project. This methodology usually involves the following steps:



#### **Scheme 1. Investment project preparation and evaluation methodology**

**Source:** "F.B. Aliyev. Development of Investment Project Evaluation Methodology and Its Characterization from the Enterprise View. 2007." compiled by the author based on the data of indicated article.

In the conditions of the modern market economy, the main requirement for enterprises is their ability to create additional value, which includes many factors: employee wages, loan payments, profits, and minimum obligations to shareholders. If the enterprise does not have such an ability, it is doomed to lose its competitiveness and be forced out of the market [59, p.88-89]. There are some methods that are based on efficiency criteria. These methods include cost-effective methods:

- The cost method is based on the analysis of total costs related to the project to be implemented. This method makes it possible to evaluate

the economic efficiency of a certain project during the year compared to alternative projects.

- Profitability or efficiency methods are based on the analysis of the obtained results of investments, i.e. the profit earned (surplus, products, balance sheet, annual economic impact).

While evaluating investment projects that take into account the time process, these methods are divided into two main groups, which include: static and dynamic methods. The static method can perform calculations based on indicators used in accounting calculations: for example, reduced costs, efficiency ratio, economic annual effect, payback period, etc. Dynamic methods (annuity, accumulated value, discounting) use parameters based on the internal rate of return of the project and the net present value, that is, discounted valuations. They are also distinguished in terms of the number of criteria used in measurements in investment project evaluation methods. From this point of view, assessment models are divided into 2: normative and multifactorial. In the methods, multi-criteria and single methods are selected. If we first look at the multi-criteria optimization method, in addition to the profitability of the project with this method, there are several different indicators: stability of capital growth, risk, safety, payback period, environmental and social efficiency. When using normative models, it is necessary to use a multi-criteria method, since the assessment is carried out only based on financial and economic indicators<sup>1</sup>.

## **5. Comprehensive analysis of the current situation of attracting foreign investments to Azerbaijan.**

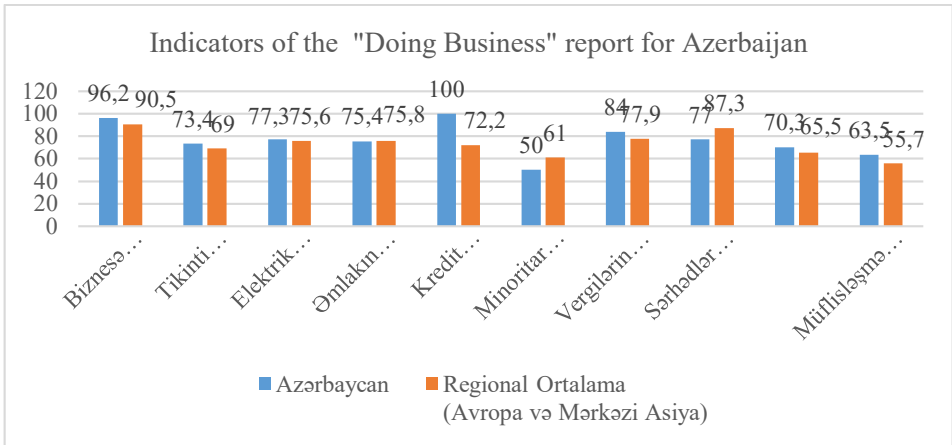
Digitization of public services has been a priority among local reforms for several years now. Since the creation of the "ASAN" and "Electronic tax" platforms, their annual renewal has been consistently highly appreciated due to their convenience for users. These platforms effectively reduce bureaucracy, speed up procedures and increase transparency by increasing flexibility. The reforms implemented in the direction of the Electronic customs platform for foreign businesses were expected. For this reason, it has been ranked third among effective

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<sup>1</sup> Khamitova, N.A. Management of Investment Projects // - Management of construction economics and management scientific-practical journal, - 2018. No. 1, - 159 p.

reforms for two years in a row. However, in the current year, there have been delays in resolving technical issues related to customs procedures e-platform, and there have been instances of time-consuming delays in the decision-making process at the operational level<sup>2</sup>.

In 2018-2019, the government implemented various reforms related to the registration of real estate rights, loans and protection of minority shareholders. As a clear example of these reforms, Azerbaijan has achieved the maximum result on the Credit Access indicator. But it is important to make such progress in other areas as well. If we look at the graph, we will see that we have achieved a lower result than the average of the countries of the region on indicators such as the protection of minority investors and property registration. In this regard, the effectiveness of the reforms implemented in those areas should be reviewed.



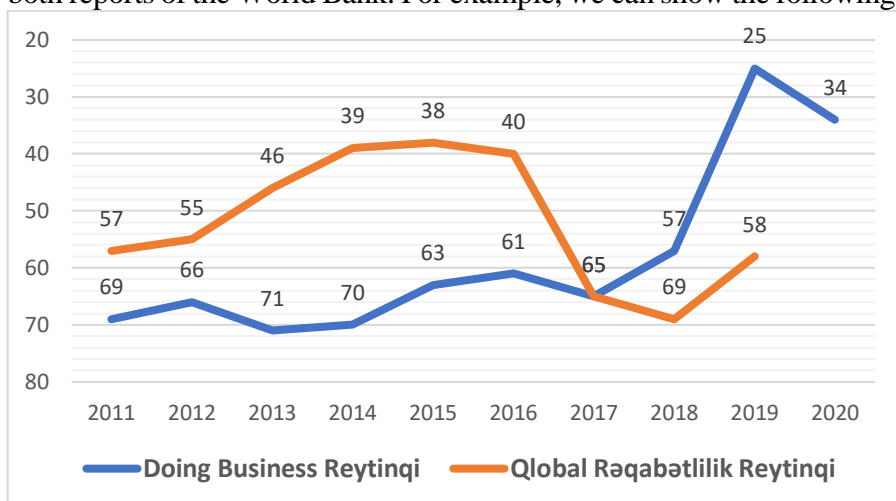
**Chart 1. The indicators of the Azerbaijan based on the "Doing business" report.**

**Source:** Prepared by the author based upon information obtained from the [www.doingbusiness.org](http://www.doingbusiness.org) platform.

Increasing sustainability in the non-oil sector has been a consistent priority for Azerbaijan since 2016. Azerbaijan has made significant progress in the Doing Business ranking since 2018, rising from 57th to 25th, but then fell to 34th in 2020. However, despite our decline in 2020 compared to the previous year, this indicator is considered a fairly

<sup>2</sup> European Union Business Environment Report. Azerbaijan 2020 / – 2020. - 80 p.

high indicator among the countries of the world. On the other hand, we can see that Azerbaijan's position in the Global Competitiveness Report of the World Economic Forum has decreased slightly since 2016. Here, high indicators were achieved mainly between 2013 and 2016. It is a great result that we ranked 38th among the countries of the world in terms of competitiveness in 2015. In 2019, despite the spread of the COVID-19 pandemic at the global level, it rose from 69th to 58th place, a positive result. In general, these indices are calculated depending on the level of assessment of various indicators affecting the investment environment in both reports of the World Bank. For example, we can show the following:



**Chart 2. Dynamics of global competitiveness and business start-up indices.**

**Source:** Prepared by author based on information from Doing Business report.

Based on the results of our research, written in both local and international literature, it has been revealed that the improvement of the investment environment is directly related to the increase of capital investments in the country. During the literature review, mainly through the SPSS program, it was revealed that there is indeed a positive relationship between 11 economic and political indicators and investment in the country (both domestic and foreign). The existence of interaction between these 11 economic-political indicators, that is, our independent



variables and dependent variables, has been shown on the basis of many mathematical-statistical coefficients and values shown above.

**Table 1. Regression model: symbols and their meanings:**

<b>Y1 → Capital investment, billion USD</b>	<b>X1 → Economic growth</b>
<b>Y2 → Foreign direct investment (FDI)</b>	<b>X2 → GDP</b>
<b>Y3 → Percentage of FDI in GDP</b>	<b>X3 → Inflation</b>
<b>Y4 → Domestic investments</b>	<b>X4 → Unemployment</b>
<b>a → Intersection of variables</b>	<b>X5 → Trade balance</b>
<b>b → Population trend coefficient (Regression coefficient)</b>	<b>X6 → Government debt</b>
<b>U → Margin of error</b>	<b>X7 → Rule of law</b>
	<b>X8 → Control of Corruption</b>
	<b>X9 → Political Stability</b>
	<b>X10 → Shadow Economy</b>
	<b>X11 → Daily Oil Production</b>

**Source:** Compiled by the author.

**Table 2. Variables of the study:**

<b>Independent variables</b>	<b>Dependent variables</b>
<b>Independent Variables</b>	Capital investment
<b>Economic growth</b>	Foreign direct investment (FDI)
<b>GDP</b>	Percentage of foreign direct investment in GDP
<b>Inflation</b>	Domestic investments
<b>Unemployment</b>	
<b>Trade balance</b>	
<b>Government debt</b>	
<b>The rule of law</b>	
<b>Corruption Control</b>	
<b>Political Stability</b>	
<b>Shadow Economy</b>	
<b>Daily Oil Production</b>	

**Source:** Compiled by the author.

## **6. Assessment of investment environment opportunities in the regions.**

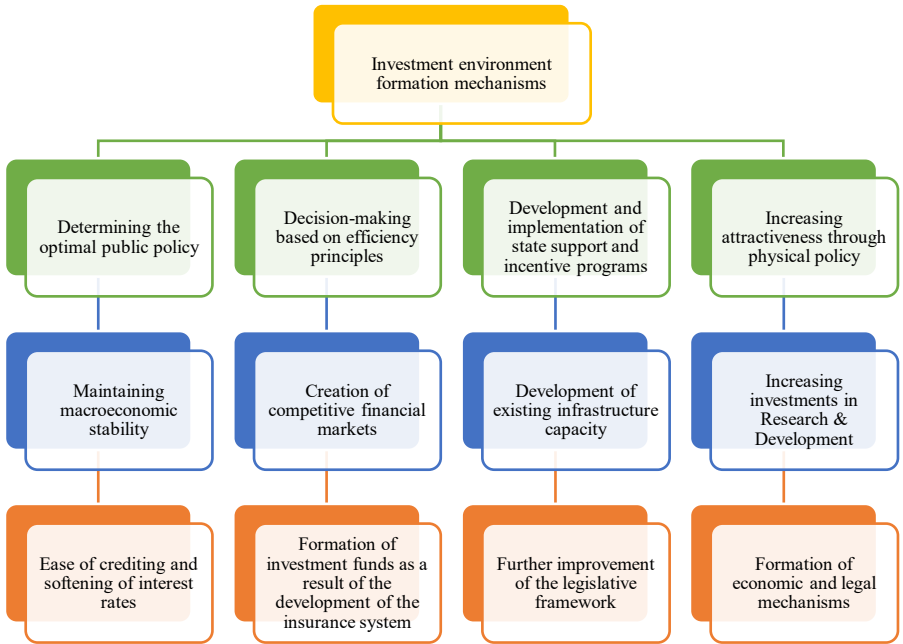
The impact of the investment climate on regional development is very important. Favorable investment environment attracts businesses,

investors and entrepreneurs. As a result, the creation of new jobs creates conditions for economic growth and improvement of the standard of living for the population of the region. In this chapter, we have tried to examine the role of the investment climate in regional development, including the factors that contribute to a favorable investment climate and its benefits. A favorable investment climate creates favorable legal, economic and regulatory conditions for investment and business development. Investors need to believe in the safety and profitability of their investments because businesses need operational efficiency and profitability. In addition, the region's unique economic policies and conditions can have a positive or negative impact on the investment environment. Thus, an investment environment that promotes transparency, trust and stability is vital to attracting capital and supporting economic growth. Regions that provide incentives for investment have greater opportunities to attract investors and stimulate business growth. Measures such as low tax rates, simplified regulatory procedures and investment subsidies increase the attractiveness of the region for entrepreneurs and investors. In addition, regions with a strong and diversified economy, skilled workforce and modern infrastructure can have an even more favorable investment climate. In addition, the social and cultural environment of the region also plays a role in the formation of the investment environment. A society characterized by strong social cohesion and minimal corruption fosters mutual cooperation and trust between businesses, investors and government. As a result of this trust, a stable investment environment is formed, which in turn promotes economic growth in that region.

## **7. Determination of directions for increasing the mechanisms of the investment environment and its impact on the use of investment potential.**

In recent years, we are witnessing the application of the investment-based development model, focusing on increasing investment activity and non-oil exports. A number of important measures have been implemented in the direction of strengthening the investment environment, stimulating its activity and promoting non-oil exports. Looking at the results of the conducted research, we see that the

development of the investment environment for each country has a direct impact on its investment potential. In general, we witness economic, political and social factors as the main directions for the investment environment. Looking at the subcategories in each direction, each has a positive effect separately. However, this should not mean that there is no interaction between each of these parameters. Because there is a chain link between the economic system, the general policy of the state and the social situation of the country, and all the development indicators appear in the manifestation of these three components. There are many effective mechanisms for shaping the investment environment. It is expected to result in the development of the general investment environment as a result of the implementation of the following mechanism in order to eliminate the shortcomings that emerged when the research was conducted.



**Scheme 2. Investment environment formation mechanisms**

**Source:** "E. Mammadova. Modern Aspects of Investment Environment Formation Processes and Mechanisms 2019". compiled by the author based on the information obtained from the article.

## **8. The main directions of the implementation of the budget-tax mechanism in improving the investment environment in the regions.**

The functions of taxation include the tax policy of the state and serve various purposes within the general economy. The function of tax regulation is carried out with various objectives such as stimulating or limiting investments in specific sectors and regions through different tax rates, tax holidays, tax bases and concessions. Direct taxes have a greater impact on investment activity than indirect taxes and are more effective in the process of their regulation. The effectiveness of general tax incentives varies objectively in different areas. Therefore, when dealing with tax regulation, it is important to select a target based on assessing the role, impact or priority of that target within the economic system. It is possible to approach the assessment of the efficiency of this type of regulation from a dual perspective. As an example of the measures aimed at achieving the goals shown in the picture, we can show selective concessions such as the creation of special economic zones, differentiation of tax rates by territory and area.



### **Scheme 3. Directions of tax regulation**

**Source:** Prepared by the author based on the information obtained from his book “A.Mammadov and İ.Seyfullayev. Tax and investment. 2013.”

## **9. Directions of regulation of the activity of the investment environment in the Republic of Azerbaijan and raising the level of using its opportunities.**

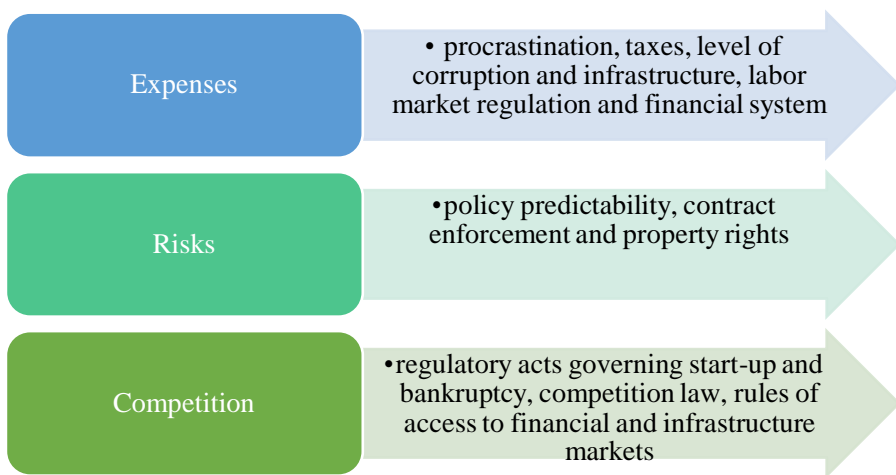
In recent times, many successful reforms have been implemented in terms of increasing the investment potential and attractiveness of the national economy. Due to the growth rate and development of the economy, the positions of our country in the reports prepared by the

world's famous organizations related to the business environment and general economic development continue to improve. For the effective development of investments, the activation of many incentive mechanisms is of great importance. Therefore strong countries of the world such as Turkey, Great Britain, USA, Germany, UAE, Russia and France invest in Azerbaijan at different levels every year. In order to simplify the entrepreneurial activity and improve the investment climate in the republic, the areas of activity that require licensing have been reduced from 59 to 37. Land, property and profit taxes for SMEs are exempt for 7 years. Entrepreneurs operating in the field of agriculture are exempted from taxes other than land tax. With the support of digital transformation, which is the demand of the modern world, the process of starting a business for foreign investors has been greatly simplified by automating it. Also, residents operating in preferential regions such as industrial parks and neighborhoods are exempted from import duties, VAT, property and income tax for a period of 10 years and other concessions are provided. Attracting investments by the government has always remained a priority direction. For this reason, in each of the Strategic Roadmaps and Future Vision Concepts, the issues of improving the country's investment climate are always relevant, and strategies for implementing innovations have been developed<sup>3</sup>.

Based on the data of the World Bank, the table below shows the three main means of influence by governments on the development of firms and companies as a result of the development of the investment environment:

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<sup>3</sup> Decree of the President of the Republic of Azerbaijan "On some measures in the field of licensing" // adopted on December 21, 2015. - Baku: - Order, - 2015



**Scheme 4. The means of influencing the development of firms and companies as a result of the development of the investment environment by governments**

*Source: Prepared by the author based on the information obtained from his report "OSCE. Useful resources on the business and investment environment. 2006".*

## CONCLUSION AND RECOMMENDATIONS

The experience of developed societies in the modern world shows that in order to ensure the development of each country, it is necessary to develop it not only on one side, but on the whole country, that is, including the regions. In order to maintain its stability and sustainability, inter-regional development disparities should be minimized. Since the 20th century, each of the developed countries has taken many steps to promote backward and underdeveloped regions in their internal regions. As a result, the data we obtained prove that these steps have had a positive effect. Concepts such as investment potential, attractiveness and environment in Azerbaijan have begun to be developed more actively in the last decade. On the basis of the programs adopted by the state, the development of regions and the increase of general investments are envisaged. In most of his meetings, the head of state puts the increase of investments in the regions as the main task before the state bodies. This direction shows us that the state is seriously interested in improving the investment climate. The main goal of the changes made in the adopted

laws, Orders and Decrees in general legislation is to create an environment suitable for investment at the international level.

1) In terms of effective and result-oriented construction of the activities of institutions operating in the field of investment promotion, indicators for the evaluation of their work should be developed and applied. A long-term accountability system should be established for the projects implemented at the expense of those groups. Because it is possible to evaluate the benefit of the given concessional resources to the economy of individual regions of the country.

2) Creation of Regional Hubs: Health, Tourism, Education, etc. In the world experience, there are examples of the Silicon Valley type, and the application of such experiences in our country can give special impetus to the development of regions in the above-mentioned areas.

3) Monitoring of tax benefits in enterprises operating in the regions, world experience shows that there is a need to form a regional control mechanism that monitors the way in which the benefits given by the state are used by the enterprises benefiting from these incentives. So, if the goal is to stimulate investments, then it is important to direct them in directions such as making more investments or renewing the base of the enterprise by setting obligations for the use of those benefits.

4) Creation of clusters in the regions of Azerbaijan is considered necessary from the point of view of the development of our regions. A proper strategy should be developed to create these clusters. There are successful examples of regional clusters in Ukraine, Russia and Turkey, which have similarities mainly in our regional and socio-economic past. It is thought that the development of the agro-industrial sector in the Republic, as well as the formation of the value chain in this area, the clusters that will be created in the field of cotton can greatly support the development of regions in our country.

5) The work done in the field of obtaining membership and integration to international organizations should be expanded. One of the organizations that investors pay attention to the most is the WTO. As a result of the acceleration of membership in this organization and the implementation of the commitments, it is expected that there will be a significant increase in investments in the Republic. One of the facts we encountered during the research is that foreign investors are following the

process of Azerbaijan becoming a member of this organization. Because the issue here is not the name of the organization, but the positive changes in the business and investment environment of our country, especially its individual regions, as a result of the implementation of its obligations to the countries.

6) It is necessary to use the opportunities of the "Business Development Fund" created by the merger of the "Entrepreneurship Development Fund" of "Azerbaijan Investment Company" OJSC more efficiently. In order to invest in the regions, its financing issues should be provided in a more stable form. Thus, there is a need to increase the volume of allocated long-term loans.

7) Four independent regression analyzes were conducted in order to determine the factors affecting the improvement of the investment environment in Azerbaijan. Thanks to regression analysis, we witnessed whether the relationship between the influence of the independent variables on the dependent variables is true. The main purpose of the mentioned 4 regression models was to determine the independent variables affecting the country's investment environment. It was supported by the results that all the regression models are reliable tools in determining the country's investment environment. Based on the results obtained through the models, it can be noted that economic development, GDP, trade balance, public debt, rule of law, shadow economy, unemployment, political stability and daily oil production have a statistically significant effect on various indicators of the country's economic environment.

8) We see that there is a statistical relationship between indices such as corruption control and rule of law and investments. Based on this analysis, we can say that when the control of corruption in the country increases, when the rule of law is protected, as a result, all this has a direct positive effect on the investment environment. The level of this index has always been high in every country with high investment in the world. For this reason, the fight against corruption in Azerbaijan should be continued, and every component included in the principle of the rule of law should be protected in both the supreme and regional courts of the country.



9) In accordance with the requirements of the recently adopted "Competition Code", the provision of healthy competition between enterprises will depend on the formation of a favorable investment environment both in the country as a whole and in its individual regions. The success of the work to be done in this direction depends to a large extent on the fair, justified and objective selection of the winners determined in the tenders conducted by the government among various enterprises and organizations related to the winning of state-ordered investment projects. Therefore, it is inevitable to establish a favorable investment environment for the formation of competitive local enterprises that stimulate economic development in the country. This means ensuring objectivity in determining the real tender winners in the regions.

10) Political stability is one of the most important factors influencing every investor's decision in terms of protection and development of the investment environment. In terms of the sustainability of the large investment projects implemented in the territories liberated from occupation and taking into account the long-term reconstruction works to be carried out in those regions, the end of the war as a result of the conclusion of the peace agreement will greatly benefit the investment environment of our country in terms of political stability.

11) We see that there are sharp differences between the investments directed to the fixed capital between Baku and the regions. From this point of view, by applying a special tax regime in the regions, especially in the regions liberated from occupation, if the purchase of fixed assets and capital expenses specified in the section of expenses not deducted from income in Article 109 of the tax code are changed so that they are directly deducted from income, not through amortization allocations, the total investment in the regions will have a positive effect on the environment.

**The main provisions of the dissertation are reflected in the following scientific articles:**

1. İnvestisiya qoyuluşlarında sosial məsuliyyətli investisiyaların əsas istiqamətləri // Bakı Biznes Universiteti. Audit jurnalı. Bakı, 2022.

2. Beynəlxalq Kapital Axınları // SOCAR. Azərbaycan Neft Təsərrüfatı Jurnalı. Bakı, 2023.

3. Влияние Налоговой Политики На Приток Прямых Иностранных Инвестиций: Обзор Литературы // Научно-исследовательский экономический институт Министерства экономики Республики Беларусь. Экономический бюллетень. Минск, 2023.

4. Relationship Between Foreign Direct Investment and Income Inequality / Biltek-VI International Symposium On Current Developments in Science, Technology And Social Science. Malatya, september 16-18, 2022

5. Təşviq konsepsiyası və beynəlxalq təşviq siyasətləri // Azərbaycan Dövlət Texnologiya Universiteti. İnnovasiyalı və İqtisadiyyat və Menecment. Gəncə 2022

6. Birbaşa xarici investisiyaların inkişaf etməkdə olan ölkələrə təsiri // Bakı Avrasiya Universiteti. Sivilizasiya jurnalı. Bakı, 2022

7. Birbaşa Xarici İvestisiya Və Gəlir Bərabərsizliyi Arasında Əlaqə / Bakı Avrasiya Universitetində Müstəqil Azərbaycan: gerçəklik işığında Respublika konfransı, Bakı, 24-26 may, 2022

8. İvestisiya qoyuluşlarında təşviq siyasətinin rolu / “Yeni dövrdə təhsil və tədqiqat fəaliyyəti: Reallıqlar və Çağırışlar Konfransı. Beynəlxalq Elmi Konfrans. Mingəçevir, 16-17 dekabr, 2022

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10. Azərbaycan Respublikasında İvestisiya Mühitinin Formalaşmasında Regional Aspektlərin Təhlili // Bakı Biznes Universiteti. Audit jurnalı. Bakı, 2024.



The defense of the dissertation will be held on October 30, 2024 at 16:00 at the meeting of the ED 2.10 Dissertation Council operating under the Azerbaijan State University of Economics.

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It is possible to get acquainted with the dissertation in the library of the Azerbaijan State University of Economics.

Electronic versions of the abstract are posted on the official website of the Azerbaijan State University of Economics [www.unec.edu.az](http://www.unec.edu.az).

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