

RESEARCH ARTICLE

Improving The Evaluation System Of Risk And Return Indicators In Private Capital Investments In Uzbekistan

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Abstract

This study examines the improvement of the evaluation system for risk and return indicators in private capital investments in Uzbekistan. The research focuses on the growing importance of private capital as a source of economic development, innovation, and business expansion in emerging economies. In recent years, Uzbekistan has implemented significant economic reforms aimed at attracting domestic and foreign investment, improving the business environment, and strengthening financial markets. However, investors still face challenges related to market uncertainty, regulatory changes, financial transparency, and risk assessment mechanisms.

The paper analyzes the theoretical foundations of investment risk and return evaluation and explores international approaches used in private equity and venture capital investments. Particular attention is given to the identification of financial, operational, legal, political, and macroeconomic risks affecting private capital investments in Uzbekistan. The study also evaluates existing methods for measuring investment performance, including profitability indicators, risk-adjusted return models, and portfolio diversification techniques.

Based on comparative analysis and current market conditions, the research proposes an improved framework for evaluating investment efficiency and risk management in Uzbekistan's private capital sector. The proposed system integrates quantitative and qualitative indicators, enhances transparency in investment decision-making, and supports sustainable capital allocation. The findings of the study may be useful for policymakers, investment funds, financial institutions, and private investors seeking to increase investment attractiveness and ensure long-term economic stability in Uzbekistan.

KEY WORDS

Private capital investment; investment risk; return indicators; risk assessment; investment efficiency; private equity; venture capital; financial performance; portfolio management; economic reforms; emerging markets; Uzbekistan; investment attractiveness; risk management; capital allocation; financial markets.

INTRODUCTION

The effective allocation of private capital investments represents one of the fundamental drivers of sustainable

economic development in modern economies. Private capital plays a crucial role in financing innovation, supporting entrepreneurial activity, and increasing the overall competitiveness of national economies. In recent years, the Republic of Uzbekistan has been implementing comprehensive economic reforms aimed at improving the investment climate, liberalizing markets, and expanding the participation of private investors in national economic development. These reforms are particularly significant in the context of Uzbekistan's transition toward a more market-oriented economic model. In addition to the existing legislative framework regulating investment activities, in 2025, the government has initiated new regulatory reforms designed to stimulate alternative investment mechanisms such as venture capital and private equity funds. In particular, Uzbekistan is currently developing a draft law on alternative investment funds, which is intended to introduce internationally recognized investment structures and strengthen the legal basis for venture capital and private equity investments [1]. These reforms reflect the government's strategic goal of diversifying sources of capital and creating favorable conditions for private investors. In this context, the effective evaluation of risk and return indicators becomes a fundamental component of directing private capital investments toward the most efficient sectors of the economy. A well-developed system for assessing investment risks and expected profitability enables investors to make rational financial decisions, allocate resources efficiently, and reduce the probability of financial losses.

Private capital investments are characterized by a direct relationship between risk and expected return, which constitutes one of the central principles of modern financial theory. Investors generally expect higher potential returns as compensation for assuming higher levels of uncertainty or risk. This concept forms the foundation of modern investment analysis and portfolio management. The theoretical framework explaining the relationship between risk and return was developed in the works of Markowitz [2] and Sharpe [3], whose contributions laid the foundation for modern portfolio theory and asset pricing models. Markowitz's portfolio theory emphasizes the importance of diversification and the optimization of investment portfolios based on expected return and risk variability. According to this theory, investors can reduce the overall risk of their portfolios by combining assets with different risk characteristics. Sharpe's Capital Asset Pricing Model further explains how systematic risk influences expected returns in financial markets by introducing the

concept of the risk premium associated with market volatility. These theoretical approaches remain fundamental tools in evaluating investment projects and determining optimal capital allocation strategies in both developed and emerging economies [4].

The importance of effective risk and return evaluation systems becomes particularly significant in emerging markets such as Uzbekistan, where investment opportunities are expanding alongside economic reforms. Since 2017, the government under the leadership of Shavkat Mirziyoyev has implemented extensive institutional reforms aimed at improving the investment climate and attracting both domestic and foreign investors. One of the key legal frameworks regulating investment activities is the Law of the Republic of Uzbekistan "On Investments and Investment Activity [5]" adopted in 2019, which establishes equal conditions for investors and guarantees legal protection of investments. These reforms have increased private capital participation in sectors such as infrastructure, energy, manufacturing, agriculture, and technology. International organizations such as the Organisation for Economic Co-operation and Development also emphasize that Uzbekistan's reforms contribute to creating a more transparent and investor-friendly environment [6].

The importance of investment inflows is also emphasized in the Presidential Decree №21 [7] contributed to Development Strategy of New Uzbekistan until 2030, which identifies investment attraction as a key driver of economic modernization. Within this framework, the government aims to ensure average annual growth of 5–7% in foreign investment inflows and to implement more than 400 strategically important technological and infrastructure investment projects with a total value of \$150 billion across various sectors and regions of the economy. These objectives reflect the government's commitment to expanding private sector participation and strengthening the role of private capital in national economic development.

Despite the progress achieved in improving the investment climate, investors operating in emerging economies continue to face various types of financial and institutional risks. These risks include market volatility, regulatory uncertainty, exchange rate fluctuations, operational inefficiencies, and macroeconomic instability. Therefore, the development of a comprehensive system for evaluating risk and return indicators is essential for ensuring the effective allocation of

private capital investments. In practice, investors rely on a variety of financial indicators and analytical tools when assessing the attractiveness of investment projects. Among the most commonly used indicators are Net Present Value (NPV), Internal Rate of Return (IRR), and risk-adjusted return measures. These indicators enable investors to compare alternative investment opportunities and determine whether expected returns justify the risks involved in the investment process [8].

The Internal Rate of Return represents one of the most widely used indicators for evaluating investment profitability. The IRR reflects the discount rate at which the net present value of future cash flows becomes equal to zero. Investors typically compare the IRR of a project with their required rate of return in order to determine whether the project is financially viable. If the IRR exceeds the required return, the investment is considered attractive. Another widely used indicator is Net Present Value, which measures the difference between the present value of expected future cash inflows and the initial cost of investment. A positive NPV indicates that the investment project generates value above the required rate of return and therefore contributes to the investor’s financial objectives. These financial indicators are commonly used by investment funds, private equity firms, and venture capital investors when evaluating potential investment opportunities [4].

In addition to profitability indicators, risk evaluation represents

a critical component of investment analysis. Investment risks may arise from several sources, including market risk, financial risk, operational risk, and political risk. Market risk refers to fluctuations in prices, demand conditions, and macroeconomic factors that may influence investment performance. Financial risk is associated with the structure of financing, including the use of borrowed capital and changes in interest rates. Operational risk arises from inefficiencies in project implementation, management practices, or technological failures. Political and regulatory risks may emerge from changes in government policies, legal frameworks, or institutional stability. In emerging markets such as Uzbekistan, political and regulatory risks often play an important role in shaping investor expectations and influencing capital flows.

In practical investment analysis, investors rely on a combination of quantitative indicators to assess both the expected profitability and potential risks associated with private capital investments. These indicators help determine whether the expected return adequately compensates for the level of risk involved in a particular investment project. Table 1 presents several commonly used financial indicators applied in private capital investment evaluation, including benchmarks typically observed in private equity and venture capital markets. These indicators allow investors to evaluate project viability, compare alternative investment opportunities, and construct portfolios that balance risk and return effectively.

Table 1. Typical Risk–Return Indicators Used in Private Capital Investment Evaluation [9]

Indicator	Definition	Typical Benchmark in Private Capital Investments
Internal Rate of Return (IRR)	Discount rate that makes the net present value of an investment equal to zero	15–30% expected return for private equity investments
Net Present Value (NPV)	Present value of future cash flows minus initial investment cost	Positive NPV indicates a profitable investment
Payback Period	Time required to recover initial investment	4–7 years for most private equity projects
Risk Premium	Additional return required above the risk-free rate	5–10% above government bond yields
Debt-to-Equity Ratio	Measure of financial leverage used to finance the investment	0.5–1.5 common in private capital structures

The application of these indicators allows investors to evaluate the balance between expected profitability and potential financial risks more accurately. Private capital investments, particularly those directed toward innovative or high-growth

sectors, are generally associated with higher levels of uncertainty. As a result, investors require higher expected returns to compensate for these risks. The use of structured evaluation tools such as IRR, NPV, and risk premium analysis

enables investment funds and private equity firms to make informed decisions and allocate capital to projects that demonstrate the most favorable risk–return profiles.

For Uzbekistan, improving the evaluation system of risk and return indicators requires the strengthening of financial institutions and analytical infrastructure. Investment funds, venture capital firms, and private equity organizations play a crucial role in financing innovative enterprises and high-growth industries. These institutions conduct detailed financial analysis, due diligence, and risk assessment before allocating capital to investment projects. The development of professional investment management institutions can significantly enhance the efficiency of capital allocation and promote the growth of competitive industries within the national economy [10]. Furthermore, the introduction of modern financial technologies and digital analytical tools can significantly improve the accuracy and transparency of investment analysis.

Another important factor in improving investment evaluation systems is the integration of international best practices in financial management and risk analysis. Global investment institutions widely employ advanced financial modeling techniques, predictive analytics, and scenario-based risk assessment tools. The adoption of such practices in Uzbekistan would contribute to the modernization of investment analysis and enhance the country's ability to attract private capital. In addition, the continued development of regulatory frameworks governing venture capital, private equity funds, and alternative investment vehicles will create new opportunities for investors seeking high-growth investment opportunities.

CONCLUSION

In conclusion, the improvement of risk management and return evaluation systems for private capital investments represents an essential priority for Uzbekistan's long-term economic development. The effective assessment of risk and profitability indicators enables investors to allocate capital more efficiently, supports the development of innovative sectors, and strengthens the country's overall investment attractiveness. The ongoing economic reforms and legislative initiatives aimed at developing alternative investment funds demonstrate Uzbekistan's commitment to creating a modern investment ecosystem capable of attracting domestic and international capital. By strengthening financial institutions, adopting international investment evaluation methodologies,

and expanding analytical capacity within the financial sector, Uzbekistan can significantly enhance the efficiency of private capital allocation and ensure sustainable economic growth in the future.

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