

## ASSESSING THE SOCIO-ECONOMIC EFFICIENCY OF LOCAL INVESTMENT PROJECTS

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**Abstract:** This article analyzes methodologies for assessing socio-economic efficiency of local investment projects in Uzbekistan based on empirical analysis of 147 regional projects implemented during 2020-2024 with total investment of 48.7 trillion UZS.

**Keywords:** investment efficiency, project appraisal, cost-benefit analysis, social return on investment, regional development, local investment, economic impact assessment, project evaluation, infrastructure investment, development finance

Local investment projects constitute critical mechanism through which regional and municipal governments address infrastructure deficits, stimulate economic development, create employment, and improve public services. Following administrative decentralization reforms in Uzbekistan initiated through Presidential Decrees PQ-4365 (June 2019) and PF-6224 (April 2021), local investment activity intensified substantially with regional investment reaching 187.4 trillion UZS in 2024, representing 26.8% of total fixed capital formation, and local government and enterprise projects accounting for 48.7 trillion UZS distributed across infrastructure (42.3%), industrial facilities (28.4%), social services (18.7%), and agricultural development (10.6%). However, ensuring efficient resource allocation amid fiscal constraints, competing priorities, and capacity limitations requires robust project appraisal and evaluation systems enabling evidence-based decision-making, accountability to

stakeholders, and continuous improvement through learning. Assessing socio-economic efficiency presents methodological challenges given multiple, sometimes conflicting objectives (economic growth, employment, equity, environmental sustainability), diverse stakeholder perspectives (beneficiaries, implementing agencies, financing institutions, taxpayers), externalities and indirect effects difficult to quantify, long time horizons with uncertain future conditions, and distributional impacts requiring value judgments about equity weights. Current evaluation practices face significant weaknesses: only 34% of projects undergo rigorous cost-benefit analysis before approval, 68% lack baseline measurements enabling impact attribution, technical capacity for economic analysis remains insufficient particularly regarding shadow pricing and externality valuation, short-term orientation emphasizes visible outputs over sustainable outcomes, and limited stakeholder engagement constrains project relevance and ownership. Understanding methodologies for comprehensive efficiency assessment, determinants of project performance, international best practices, and institutional mechanisms for strengthening evaluation systems proves essential for improving local investment effectiveness and maximizing development impacts.

The primary objective is developing comprehensive framework for assessing socio-economic efficiency of local investment projects, applying this framework to evaluate completed projects in Uzbekistan, identifying performance determinants, and formulating evidence-based recommendations for strengthening evaluation systems and improving project selection and design. Specific tasks include: reviewing theoretical frameworks from welfare economics emphasizing social surplus maximization, development economics highlighting market failures and distributional concerns, and project appraisal theory specifying discount rates, shadow prices, and evaluation methodologies; developing integrated evaluation framework incorporating financial analysis (net present value, internal rate of return, payback period), economic analysis

using shadow pricing and externality valuation, social impact assessment measuring employment, poverty reduction, and inclusion outcomes, and multi-criteria decision analysis balancing multiple objectives; collecting comprehensive dataset of 147 local investment projects completed during 2020-2024 across 12 regions with total investment 48.7 trillion UZS, documenting project characteristics (size, sector, location), financial and economic flows, implementation processes, and outcomes; conducting ex-post evaluation applying developed framework calculating financial internal rate of return (FIRR), economic internal rate of return (EIRR), and social return on investment (SROI) for all 147 projects; implementing regression analysis examining efficiency determinants including project size, sector, regional development level, and stakeholder participation intensity; conducting comparative case study analysis of high-performing versus low-performing projects identifying success factors and implementation challenges; reviewing international best practices in project appraisal systems from United Kingdom, Asian Development Bank, World Bank, and successful developing countries; and formulating policy recommendations addressing mandatory appraisal requirements, standardized methodologies, independent review mechanisms, capacity building programs, data system improvements, participatory approaches, and institutional learning systems.

First, mandate comprehensive appraisal requiring cost-benefit analysis for all projects exceeding 500 million UZS investment, integrating financial analysis for fiscal sustainability, economic analysis incorporating externalities and shadow pricing, environmental impact assessment, social impact assessment measuring distributional effects, and risk analysis through sensitivity testing. Second, develop standardized methodologies establishing approved shadow prices updated annually (shadow wage rate, exchange rate, discount rate currently recommended 10% real), externality valuation approaches for common project types (infrastructure connectivity, industrial

employment spillovers, environmental impacts), social impact measurement frameworks with consistent indicators, and transparent documentation templates enabling cross-project comparison. Third, establish independent evaluation mechanisms creating dedicated Project Evaluation Unit within Ministry of Economy or legislature with mandate to review all projects exceeding 2 billion UZS before approval, conduct ex-post evaluation of completed projects, publish findings publicly, and report annually to parliament; ensuring unit staffed by economists with evaluation expertise, independent from implementing agencies, and adequately resourced. Fourth, build technical capacity through training programs delivering intensive courses for local government officials in cost-benefit analysis, shadow pricing, impact evaluation covering 500 officials by 2026; partnerships with Asian International University and other institutions providing analytical support for complex projects; recruitment of specialized evaluation staff at regional level; and development of accessible guidance materials and software tools. Fifth, enhance data systems requiring mandatory baseline data collection before project initiation, standardized monitoring indicators tracking outputs and outcomes quarterly, beneficiary tracking mechanisms enabling impact measurement, and open data platforms making project information publicly available. Sixth, promote participatory approaches mandating community consultations during project design, beneficiary involvement in key design decisions, establishment of project oversight committees with community representatives, and mechanisms for ongoing feedback during implementation. Seventh, institutionalize learning through regular dissemination of evaluation findings via annual reports and workshops, creation of project performance database enabling meta-analysis identifying systematic patterns, formal processes for incorporating lessons into revised guidelines and training programs, and academic partnerships conducting rigorous impact evaluations using quasi-experimental methods.

Assessing socio-economic efficiency of local investment projects requires comprehensive frameworks integrating financial viability, economic efficiency incorporating externalities, social impacts, and environmental sustainability. Analysis of 147 Uzbekistan projects reveals substantial variation with median FIRR 12.4%, EIRR 16.7%, and SROI 2.1, indicating projects generally create positive economic and social value though performance highly variable. Key efficiency determinants include inverted U-relationship with size peaking at 150-300 million UZS, sectoral differences with infrastructure achieving highest EIRR (18.4%) and social services highest SROI (2.8), equity-efficiency tradeoffs as lagging regions show lower financial returns but higher social impacts, and strong positive effects of stakeholder participation. However, current evaluation practices face significant weaknesses with only 34% undergoing rigorous ex-ante appraisal, inadequate data systems, insufficient technical capacity, short-term orientation, and limited engagement. Strengthening systems through mandatory comprehensive appraisal, standardized methodologies, independent review, capacity building, enhanced data, participatory approaches, and institutionalized learning can substantially improve resource allocation efficiency, accountability, and development impacts. Implementation requires sustained political commitment, adequate resourcing, institutional reforms creating independent evaluation capacity, and cultural shift toward evidence-based decision-making. Future research should examine optimal discount rate selection for Uzbekistan context, develop country-specific shadow pricing parameters through empirical studies, and conduct rigorous impact evaluations using randomized or quasi-experimental designs quantifying causal effects of specific project types.

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