



## The Role of Venture Investments in Financing Innovative Activities and the Digital Sector

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### ABSTRACT

Venture financing, which is a multi-faceted financing of research results in the field of science, is of particular importance in the concentration of financial resources and their orientation to priority areas of innovation by creating a rational system for financing innovation activities. This article analyzes the theoretical aspects and a number of advantages of venture financing of innovative processes.

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In Uzbekistan, there are a number of problems on the way to the development of innovation, within which the lack of a definitive system of mechanisms for financing innovation is one of the challenges

that should be addressed in this regard. The fact that the state budget funds are limited, there are few special innovative developments in the republic and there is practically no participation in the financing of innovative activities of the private sector requires the use of venture financing technology. Therefore, in our country, at a new round of reforms, attention is paid to the financing of innovations, and the implementation of appropriate measures serves to develop an innovative economy, and ultimately increase the gross domestic product.

It is necessary to create equal opportunities in entrepreneurial activities and prevent monopolization of the domestic market, improve public-private partnerships, develop small innovative companies, venture enterprises and communities, identify the activities of "business angels" (private investors who spend financial and primary resources on innovative projects) and create conditions for start-ups. After all, only on the basis of an improved system of financing will innovation activity develop.

The Development Strategy of New Uzbekistan for 2022-2026 pays attention to improving the venture financing mechanism, and also determines the development of financing mechanisms for promising projects in the field of entrepreneurship and innovation. In addition, it is planned to create current requirements for venture funds and the procedure for their organization, regulate the activities of innovative enterprises, train qualified management and expert personnel for venture funds, and develop regulatory documents for insurance of venture funds.<sup>1</sup> In the context of the implementation of the action strategy, the factors in the formation of the digital economy are increasing the competitiveness of the country, increasing its economic potential, the widespread introduction of innovations and the rational use of resources based on them.

The main features and a number of advantages of venture financing of innovative research are explained by the following:

- a high level of uncertainty and risk from the initial stage of an innovative project;
- venture capital owners do not burn interest and collateral conditions, but invest directly in equity for the long term;
- investments in science-intensive scientific and technical projects and their distribution by industry depending on profitability;
- venture investors are not limited to the allocation of funds, they actively participate in the management of the enterprise, help with their experience, skills, business partners, create the necessary opportunities, create all conditions for a small venture capital enterprise in the process of mastering knowledge.

In order to increase the efficiency of venture business in recent years in industrialized countries, there has been a comprehensive development of risky investments, the organizational structure of venture companies is changing and becoming more complicated. Along with traditional forms, new ones appear. Along with traditional forms, new ones appear. The share of the digital sector in innovative development is increasing.

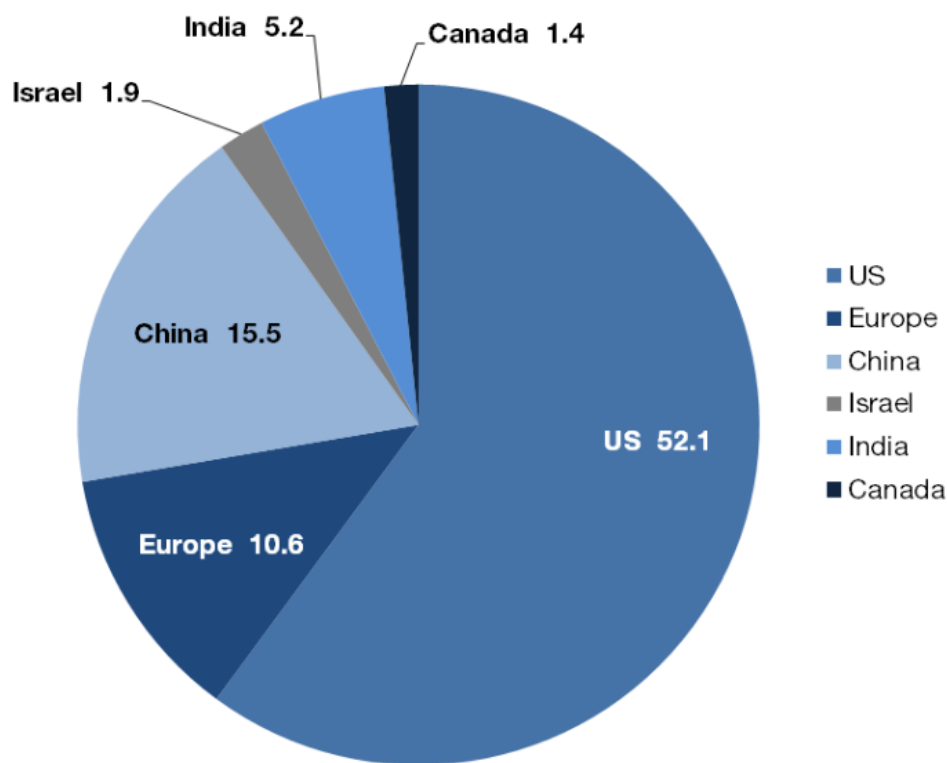
It is especially important to study China's experience in this area. Three Chinese digital giants Baidu, Alibaba, Tanset and Xiaomi are world leaders in digital innovation. They are world leaders in the export of digital goods and services.

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<sup>1</sup> Ўзбекистон Республикаси Президентининг 2018 йил 5 майдаги «Фаол тадбиркорлик ва инновацион фаолиятни ривожлантириш учун шарт-шароитлар яратиш бўйича кушимча чора-тадбирлар тугрисида»ги ПК-3697-сонли қарори.

The G-20 countries defined the digital economy in the Economic Development and Cooperation Initiative: “The digital economy is a multifaceted activity in which digital information and knowledge are used as the main factor of production, the modern information network is used as a necessary field of activity, the optimization of the economic structure and the improvement of ICT productivity effectively used as a leading factor.”<sup>2</sup>

The Government of the People's Republic of China has created a framework for the rapid development of the digital economy through a favorable investment climate and the encouragement of venture capital. In 2011-2013, the share of Chinese venture capital in global venture capital was 6%, and in 2014-2016 it reached \$77 billion and amounted to 19%. Most of the venture capital is focused on digital technologies, big numbers, artificial intelligence, fintech, virtual reality, learning technologies and robotics.



**Fig.1 Share of invested venture capital in 2014, billion US dollars<sup>3</sup>**

Three factors have played an important role in the rapid development of the digital economy in China:

1. Having fans of a large e-commerce market and having fans of a young digital economy;
2. The existence of a competitive environment for e-commerce, increased competition among the giants of the three-digit ecosystem (VATX);
3. Rational policy of the state in the field of digital economy, its support, creation of a favorable environment for venture capital.

<sup>2</sup> How big is China's Digital economy? Bruegel, Working Paper. Issue 04, 17 May, 2018

<sup>3</sup> **China's Digital Economy a Leading Global Force. MGI Discussion Paper, August, 2017**

Venture activities include activities in the direction of state policy to attract investment:

- creation of an innovative environment;
- development of a system of concessional lending;
- state debt insurance;
- tax policy.

To deepen the reforms, it is advisable to open venture funds with the participation of foreign investors or create joint investment funds, as well as the widespread involvement of large industrial enterprises in innovation activities, and increasing the innovation orientation of local manufacturers. In this regard, public leadership is considered a key element in the success of the venture financing mechanism, in which the responsibility for decision-making should be delegated to public institutions, and responsibility to the private sector.

In our opinion, the mechanism of venture financing can help increase the competitiveness and sustainability of the crisis period, as it supports the development of newly created enterprises based on high innovative technologies and provides critical support to the development of the economy. The development of venture financing mechanisms in the economy of our republic increases the efficiency of using the intellectual wealth we have and creates the basis for the development of our economy.

It is necessary to effectively use the possibilities of venture financing of innovative activities, introduce scientific and technological achievements, strengthen cooperation between the main subjects of economic and innovative relations (the state, scientific institutions, enterprises), accelerate the use of innovative technologies, improve mechanisms for increasing the attractiveness of venture capital investments in financing innovative activities and digital sector.

The mechanism of venture financing makes it possible to strengthen the economic resources and intellectual capabilities of an entrepreneur with the help of the real sector. Therefore, to create a national innovation system in any country, it is necessary to develop and improve the necessary venture capital mechanisms. The main direction at the level of state policy in this area is the creation of an innovative environment for the emergence and development of new enterprises involved in the production, development and implementation of scientific and technical innovations. Also, in a wide range of venture capital funding, public and private sector funds must innovatively solve their problems. If each participant in this process strictly adheres to his role and performs the functions assigned to him, the mechanism begins to work effectively.

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