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ADVANCED INTERNATIONAL PRACTICES IN VENTURE FINANCING OF INNOVATION PROJECTS

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Abstract
This article analyzes the established mechanisms and practical models of financing innovative venture projects in foreign countries, assessing their applicability within the context of Uzbekistan. Venture financing plays a crucial role in commercializing innovative ideas and integrating them into the market economy. The study explores the effective utilization of venture capital within the innovation ecosystems of developed countries such as the United States, European nations, and Japan. These international experiences can serve as a foundation for developing new mechanisms for financing scientific and practical innovation projects in Uzbekistan. Moreover, the paper highlights the significance of venture financing in improving national innovation policy, expanding private sector involvement, and fostering startup development.

Keywords: Venture financing, innovation ecosystems, venture capital funds, startup development, public-private partnerships, risk investment, intellectual property protection, financial infrastructure, international practices, economic modernization.

INTRODUCTION

In today’s era of globalization, innovation plays a pivotal role in further advancing the national economy of Uzbekistan, elevating it to the ranks of developed countries, and strengthening its position on the international stage. Currently, Uzbekistan is pursuing a path of comprehensive modernization across all spheres of society, driven by advanced technologies and progressive approaches. This is because innovation is a key factor that shapes the future.

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In this context, the country's leadership has outlined a number of strategic priorities aimed at encouraging scientific research and innovation, introducing venture business mechanisms, mobilizing necessary financial resources, and providing comprehensive support for innovative ideas.

However, Uzbekistan still lacks sufficient practical experience in planning and financing venture businesses. Therefore, an in-depth study of international best practices and their adaptation to the local context is both relevant and necessary. In particular, Presidential Decree No. PQ-3698 dated May 7, 2018, marked an important step toward improving mechanisms for integrating innovations into economic sectors and positioning innovation-driven development and technological modernization as integral components of state policy. Based on this decree, the Ministry of Innovative Development was established, along with a Fund for Supporting Innovative and Creative Ideas under its jurisdiction, thereby contributing to the strengthening of institutional foundations in the innovation sector.

At the same time, challenges related to enhancing collaboration between research institutions and industrial sectors, as well as establishing practical linkages, remain pressing.

The "Action Strategy" outlined in Presidential Decree No. PF-4947 dated February 7, 2017, also emphasizes the liberalization of the economic governance system, expansion of public-private partnerships, and strengthening the role of civil society institutions and local self-governance bodies. Within this framework, venture financing is increasingly viewed as an effective tool for funding projects based on the innovative ideas of small business entities, startups, and entrepreneurs.

Venture innovation financing, which is relatively new to Uzbekistan's economy, refers to the high-risk investment into newly established enterprises that possess innovative technologies, with the goal of generating high returns by successfully introducing new products or services into the market. Such investments are typically expected to be repaid from the project's future income streams.

As Uzbekistan's economy continues to grow rapidly and strives for greater competitiveness in the global market, the role of innovative projects is becoming

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increasingly significant. In particular, financing youth-led innovation initiatives and translating them into practice through venture capital mechanisms is gaining critical importance. Therefore, exploring the potential of venture financing and developing it as one of the key priorities of national economic policy remains a timely issue.

Venture capital refers to investment directed toward startups and new projects that possess high innovation potential but limited financial resources. Venture investors (such as venture capital funds, business angels, etc.) assume the risks based on the likelihood of the project's success and invest capital in exchange for the potential of high returns (Gompers & Lerner, 2001).

BASIC PART

Venture-based innovation project development is one of the most pressing areas today. It first emerged in the late 1950s and early 1960s and witnessed significant development, particularly throughout the 1980s and 1990s. This model is considered one of the most important financial mechanisms for channeling investments into high-potential sectors and integrating innovations effectively into the economy. In many regions and countries around the world, the advancement of this model has had a positive impact on economic growth rates. Below is an overview of the United States — a country that has successfully accelerated its economic development through the introduction of venture business practices.

The roots of venture investment in the United States date back to the post-World War II period. One of the key milestones in the formation of this sector was the establishment of the American Research and Development Corporation (ARD) in 1946 — the first company to engage in portfolio-based investment.

In 1958, the U.S. Congress introduced the Small Business Investment Companies (SBIC) program to stimulate investments directed at small businesses. This initiative was overseen by the U.S. Small Business Administration (SBA) and allowed investment companies to leverage not only their own capital but also access additional government-backed funds. As a result, private investment volumes increased two to threefold.

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Further improvements were introduced through the Small Business Equity Enhancement Act of 1992, which refined both the legal and financial aspects of the SBIC program. The reform, which came into effect in 1994, enabled SBICs to defer costs accumulated via debt instruments until the point of profitability. This reform incentivized the licensing of new SBICs. Between 1994 and 1998, 138 new SBICs were established, collectively managing $1.8 billion USD in start-up capital.

The success of the U.S. venture capital ecosystem can be attributed to several core factors:

- Well-developed institutional financial infrastructure ready to support venture financing;
- A flexible labor market, allowing companies to hire and release employees with relative ease;
- Entrepreneur-friendly bankruptcy legislation, enabling individuals to start new ventures even after failure;
- A favorable tax system that allows entrepreneurs and investors to retain a significant portion of profits;
- Strong intellectual property (IP) protection ensuring legal security for innovation;
- An innovation-driven environment that prioritizes the quality of ideas and managerial capabilities over personal background or origin.

In recent years, the U.S. venture capital market has shown dynamic growth influenced by changing market forces. Notably, the increasing demand for cutting-edge fields such as artificial intelligence, biotechnology, and advanced digital solutions has attracted a surge of investor interest into these sectors. As of 2024, 15,260 venture capital deals were executed in the United States, reflecting a positive trend compared to 2023, although still below the peak activity observed in 2021.

A substantial portion of venture capital continues to be directed toward high-tech industries. The breakdown is as follows: information technology (IT) – 35%, biotechnology – 25%, financial technology (FinTech) – 10%. The growing volume of investments in startups indicates an increasingly active venture

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market, which in turn significantly influences both investor strategies and broader economic development within the country.

In 2024, a total of $76.1 billion was raised through 508 venture capital funds in the United States. This represents a 31.3% decline compared to 2022, attributed primarily to market liquidity constraints and a more cautious investor stance. During the fundraising process, venture capital funds—particularly larger ones—have been observed to dominate the market.

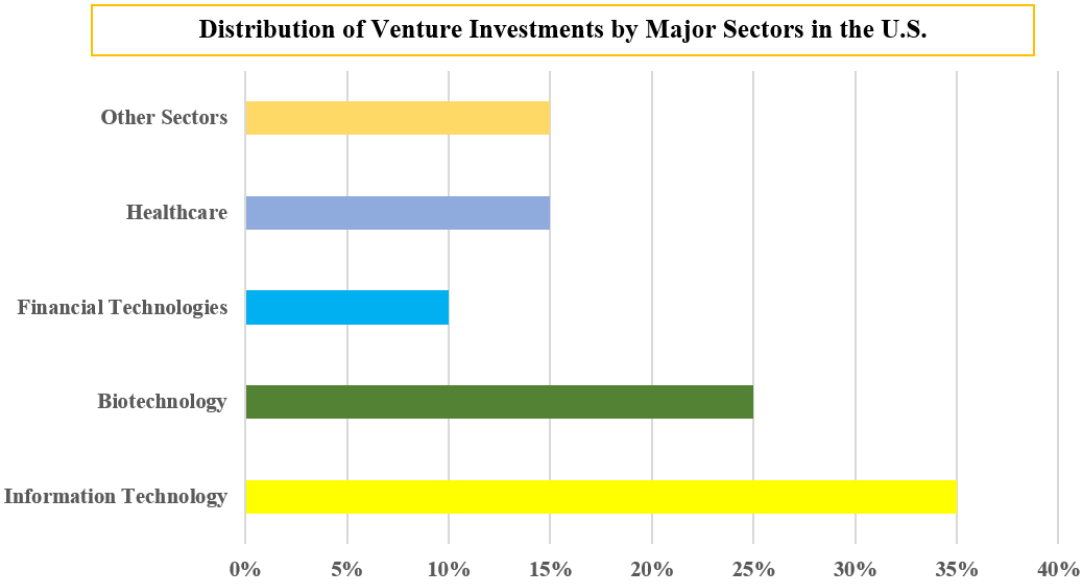

Figure 1. Distribution of Venture Capital by Key Sectors in the United States

Moreover, the effective collaboration system between universities, research institutes, and the private sector in the U.S. serves as a critical foundation supporting venture innovations. High-level information exchange and technology transfer processes are well-established among these institutions.

In contrast, until the late 1980s, venture investments in Europe were not considered a leading source for financing innovations. Unlike the United States, European countries lacked a well-structured system for traditional venture funds and direct investment allocation. However, today, the European venture capital system has developed a distinct orientation, focusing particularly on supporting

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small and medium-sized enterprises (SMEs) and providing financial resources during their growth phases.

The formation of the European venture ecosystem has largely been modeled on U.S. experience. Founded in 1983, the European Private Equity & Venture Capital Association (EVCA) was a collaborative initiative between the European Commission and industry stakeholders. Initially consisting of 43 members, EVCA has grown into a prestigious organization representing over 500 venture investment entities from more than 30 countries.

EVCA's activities are aimed at creating a favorable venture environment in Europe, strengthening financial infrastructure, and enhancing cooperation with regulatory institutions. Its key objectives include:

- Attracting institutional investors to the venture sector,
- Protecting the interests of its members,
- Developing successful investment exit mechanisms.

Among the significant structures supporting economic growth and innovation in Europe is the European Association of Securities Dealers (EASD), established on EVCA's initiative. EASD developed an automated quotation system to support small and rapidly growing companies, modeled after the U.S. NASDAQ stock exchange.

The composition of European venture investors closely mirrors the U.S. model: major financial sources include pension funds, banks, insurance companies, and large industrial corporations. However, the share of private investors ("business angels") remains below 2%.

European venture funds tend to be more broadly diversified, channeling investments across various economic sectors. Nevertheless, in many European countries, market exit opportunities for venture investments remain limited, complicating profit realization for investors despite the large investment volumes.

The main factors underlying this situation in Europe are:

- Capital Market Management: Unlike the systems in the U.S. or Japan, Europe's capital market governance primarily supports primary markets for small enterprises, while secondary markets remain underdeveloped.
- Listing Strategy: Many large European firms prioritize quick access to

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primary stock markets over maintaining listings on NASDAQ, unlike major U.S. companies such as Cisco, Intel, Dell, and Microsoft.

- Investment Approach: European institutional investors are generally more cautious about investing in low-liquidity assets like small enterprises. Even when some European companies list on NASDAQ, such cases represent a minor share of the overall statistics.

In summary, while European venture capital is evolving, it faces distinctive constraints relative to the U.S. experience. Consequently, European countries favor a long-term, stable, safe, and cautious approach to financing innovative projects.

Asian venture investors, particularly Japanese ones, tend to focus investments on companies in later development stages, differing from their U.S. counterparts. In Japan, the primary sources of venture capital are large corporations (46%), banking institutions (30%), and insurance companies (10%).

Most Japanese venture funds are closely linked to large industrial corporations, often operating as internal corporate divisions. For example, in 1996, Toyota Motor Corporation established one of Japan's largest venture funds, managing both internal and external investments, with a capital of $400 million. Although Japan currently hosts the largest venture capital market in Asia, its venture capital sector lags behind the U.S. This gap is explained by several factors:

1. **High Government Regulation:** The Ministry of Finance in Japan has long strictly regulated financial markets, limiting venture capital activities. Large pension funds have been prohibited from investing in startups and new businesses.
2. **Bank Lending Practices:** Japanese banks are cautious about lending to newly established businesses, preferring credit backed by tangible assets like real estate, which hinders many young entrepreneurs from securing needed financing.
3. **Heavy Tax Burden:** High tax rates—sometimes up to 50% on net income—pose challenges to private sector incentives.
4. **Cultural Factors:** Traditional societal values have impeded the broad development of innovation and high-risk entrepreneurship.

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Despite recent government measures to stimulate venture activities, Japan's venture capital market remains relatively inactive. Financial crises and economic instability have forced many startups to cease operations or file for bankruptcy. Hence, Japan's venture market continues to face systemic limitations and risks. Nonetheless, modernization opportunities exist through resources and funds involving major corporations.

Conclusion

In modern economic systems, venture financing is a crucial driver for accelerating innovative development. When properly implemented, this financial model not only enables high returns but also facilitates the creation of technology-driven jobs. It is especially effective in supporting innovative ideas and startups.

In our country, entrepreneurship has expanded in recent years, with simplified registration procedures increasing the number of entrepreneurs. However, most prefer traditional, secure sectors where market presence is already established and tend to avoid untested, innovative products or services.

Entrepreneurs undertaking innovative projects typically face financial difficulties, as banks often reject funding due to high risk. Recent trends indicate most startups encounter crises within 2-3 years, often due to poorly developed projects, lack of market research, and insufficient viability analysis.

Key challenges in innovation include:

- Inadequate protection of intellectual property rights,
- Lack of business schools with international experience supporting startups and idea authors,
- Complex and lengthy intellectual property registration and patenting processes,
- Extended timeframes for practical implementation of new ideas, with bank loans often failing to cover these due to high interest rates.

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Considering these factors, establishing innovation and startup support centers under state service agencies is advisable. These centers should offer:

- Assistance in copyright registration,
- Legal and technical patent consultation,
- Brand, logo, and trademark development recommendations,
- Analysis of potential investors, sponsors, and customers,
- Identification of financing sources and alternative options,
- Business plan development including cost estimates,
- Support for licensing activities,
- Entrepreneurial and business skills training,
- Guidance on forming new enterprises or integrating into existing organizations.

This support period, called the "incubation" or "screening" phase, typically lasts from 15 days to 1 month, during which startup founders are exempt from fees. Costs are covered by venture funds or investors. Though one month may seem lengthy, this period allows for thorough market analysis, scientific and practical validation, improved sustainability, and reduced risks. Additionally, regional chambers of commerce should organize training, seminars, and masterclasses involving experienced professionals and successful entrepreneurs, along with schools fostering innovative entrepreneurial skills.

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