

# Analysis of the Venture Investment Environment in the United States, Europe and Asia and the Problems of Uzbekistan in This Region

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## **Abstract:**

In the context of modernization of the economy, there is a need for additional financial resources for the development of high-tech industries and innovative projects. This article discusses both traditional and modern sources of financing risk investments. The purpose of the study is to assess the feasibility of alternative means of venture financing of innovative projects. This article analyzes the development of venture business in different regions. Innovative venture design is a new and fast-growing area of the economy that combines the mechanisms of innovation and commercialization. This paper discusses in detail the mechanisms and models of venture innovation design in different countries, the mechanisms for the implementation of venture capital and the introduction of innovations.

**Keywords:** *venture, innovation, investment, license, securities, stock market, institutional financing, strategy, market liquidity, financial risk, market risk, technical risk, price risk.*

## **INTRODUCTION**

In the modern economy, it is clear that all developed countries are achieving their high level of development as a result of achievements in science and technology and their widespread application in practice, especially in the effective implementation of production. Creating a modern innovative environment through the effective use of existing scientific opportunities is one of the primary tasks in the framework of ongoing scientific and economic reforms. At the same time, the participation of the state in creating conditions for the support and encouragement of innovative activities of small

businesses and entrepreneurship in the implementation of scientific results is of particular importance.

Today, in Uzbekistan, as in the rest of the world, the problem of transition to a new model of economic development, which will help our country to get rid of dependence on exports of raw materials and overcome the technological backwardness that remains today, remains relevant. Among the promising areas for the formation of a national financial and investment system capable of ensuring the flow of capital to the development of new industries are the formation of production and technological complexes of the new technological order, as well as institutions to finance projects for the creation and development of consumer

goods. One such institution is the venture business and financing model. However, the state plays an important role as a key figure in creating the attractiveness of venture financing, especially in the field of innovation.

### **The nature of the scientific problem**

The issues of organization and financing of innovative activities, improvement of innovative management methods are being studied by economists of our country, the Commonwealth of Independent States and foreign countries from a theoretical and scientific point of view.

Research aimed at increasing the role of human capital and other factors in the innovative development of the economy is devoted to the scientific work of CIS scientists A. Virolainen, E. Ignatushchenko, I. Melnikova, A. Nechaev, I. Rodionov, Yu. Ryumina, T. Tumina, R. Fatkhutdinov. . Some aspects of the innovative development of the national economy have also been considered in the research of economists of our country. These include Begalov B.A., Vakhobov AV, Pardaev M.Q., Voronin S.A., Gaibnazarova Z.T., Kadirov A.A., Mahkamova MA, Nazarova R.R., Khamidulin. M.B., Yuldashev Sh.G. and the scientific work of others can be included.

Venture capital as an alternative source of financing for private business originated in the United States in the 1950s in Silicon Valley, California, the cradle of modern informatics and telecommunications. The founders of this business, Tom Perkins, Eugene Kleiner, Frank Cofield, Brooke Bayers, and others, developed new founding ideas for the organization of financing.

The relationship between investment and innovation in human resource management in enterprises to the flexible employment situation in the British economy in the 1990s was analyzed in the work

of J. Mikey and M. Shikhan and specific experiences of providing investment funds to enterprises in an innovative economy were studied.

The scientific work of these economists highlights some aspects of improving the scientific, theoretical and methodological basis of innovative development of the national economy. However, there is currently no comprehensive research on improving the financing of innovative activities, which is a key factor in increasing the volume of innovative products produced. All this requires in-depth research to study the ways of development of the national economy on the basis of innovative factors and improve the scientific, theoretical and methodological basis of their financing, to accelerate the process of forming an innovative economy by applying them to the practice of our country.

### **Research methodology**

This article mainly analyzes the study and comparison of the experience of developed countries in financing the innovation sector, doctoral, PhD dissertations, scientific monographs, textbooks and articles of foreign and domestic scientists. The research used induction and deduction, analysis and synthesis, quantity and quality, scientific abstraction, grouping, comparison, graphical methods, historical and logical approaches, as well as correlation-regression analysis.

In particular, the data provided by the National Venture Capital Association compared the number of venture funds established in the United States in 2016-2017 with the number of venture companies established in Asian countries. Also, the activities of companies specializing in portfolio investment and development processes to date were analyzed, the specific functional aspects of the US venture system were analyzed by deduction method and compared with the venture system of Asian and European countries.

As a result, it became possible to synthesize the factors influencing the development of the system that creates a venture environment in each of the global regions, and became the basis for developing proposals for the application of successful methods of venture financing in developed countries.

### Analysis and results

The formation of an innovative environment is an important factor in the constant renewal of products, renewal of production assets on the basis of new techniques, the possibility of socio-economic development of the country.

Adapting the innovation process to the environment of small business, increasing its efficiency requires full use of existing socio-economic opportunities. The main focus will be on selecting the most reasonable options in the face of market competition, ensuring the level of profitability and accelerating the activities of small businesses.

One of the most important areas of public innovation policy in many industrialized countries is the support of small innovative businesses. Table 1 below lists the organizations involved in innovation policy in different countries around the world:

Table 1: Organizations engaged in innovative activities in different countries

Country name	Organizations engaged in innovation policy
United States	Small Business Administration, National Science Foundation, NASA, line ministries
Germany	Ministry of Economy, Ministry of Scientific Research and Technology, Federation of Industrial Research Associations
France	Ministry of Economy, National Agency for Implementation of Research Results, Scientific and Technical Fund
Japan	Small Business Finance Corporation, People's Finance Corporation, Center for Risk Entrepreneurship
Italy	Technological Innovation Fund

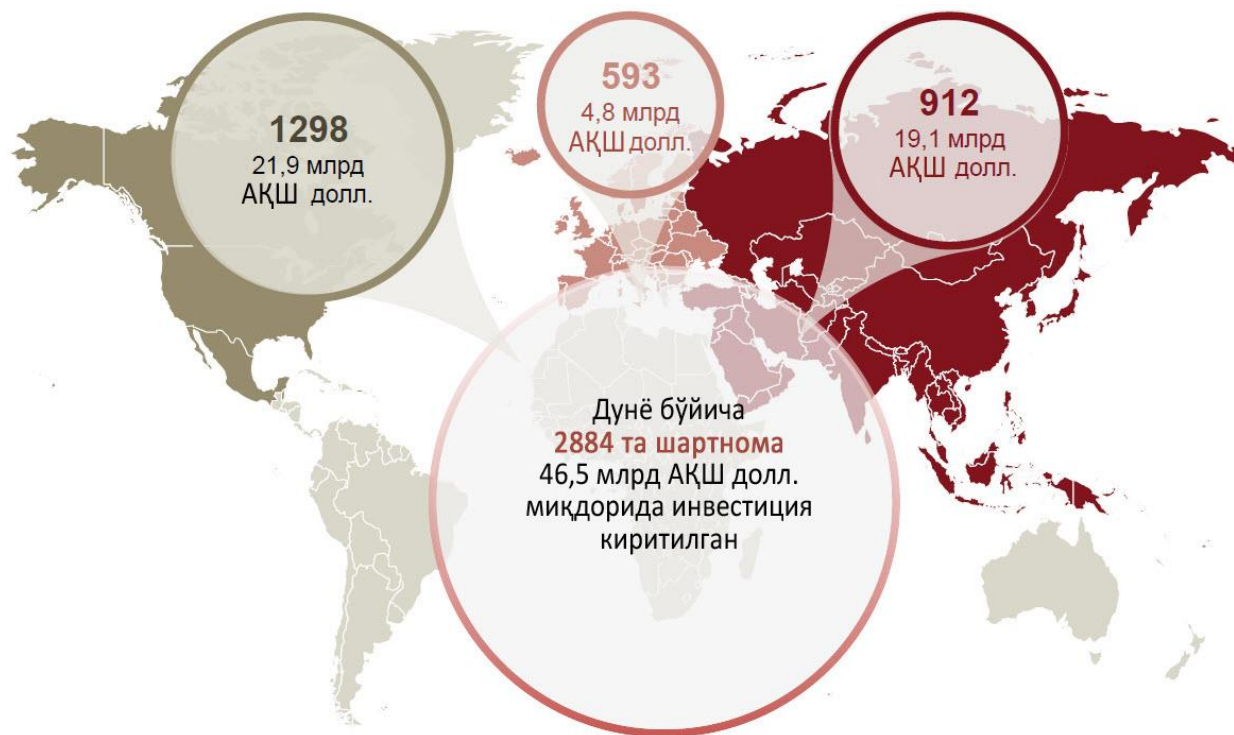
Special government agencies are usually involved in addressing issues related to innovation. Central to the system of state support for innovative entrepreneurship belongs to the ITTKI and TTI sectors, as well as the importance of venture capital for the introduction of the latest technologies.

Venture capital is a financial instrument that allows you to benefit from investments in high-risk projects. For businesses, such financing is almost the only way to enter the market, survive in a competitive environment, and realize their multi-million dollar potential.

The basic rule of venture capital is the same for everyone: an investor or a fund, realizing that most of its capital will fail, distributes the risk among dozens of promising projects. But successful projects not only cover the losses in excess, but can bring the investor a profit of ten times or more relative to the amount of investment he initially spent. However, the amount of investment, the valuation of companies and the preferred stages can vary greatly by region. To understand how to invest in different countries, it is necessary to look “outside” the local venture environment.

The United States is the world's hottest market. The United States and North America in general is the world's hottest technology market. The number of venture markets here is more than one and a half thousand: according to the National Venture Capital Association, in 2017, there were 1,562 venture funds operating here.

The main difference of the American venture industry is the high share of firms in its initial development among the recipients of investments (in 2000 this figure was 30%). At the same time, the average volume of venture investment by 2005 amounted to 5 mln. In 2018, it reached 21.9 billion US dollars. (Figure 1)



**Figure 1 Number and value of venture financing agreements concluded in large innovation areas  
(As of the 1st quarter of 2018)**

Favorable conditions for the strong development of the venture industry on the North American continent are created, first of all, by the development of stock markets, especially stock markets for small high-tech firms. In addition, the U.S. high-tech sector has the potential to grow rapidly due to the size of the solvent market, as well as the fact that capturing the U.S. market often means victory in international competition. It is also important that American research centers, primarily universities, receive large sums of money from the public and private sectors to conduct research, are highly flexible and competitive, and seek

to commercialize their inventions. In particular, only 4% of the fastest-growing firms, most of which are backed by venture capital, create about 70% of new jobs.

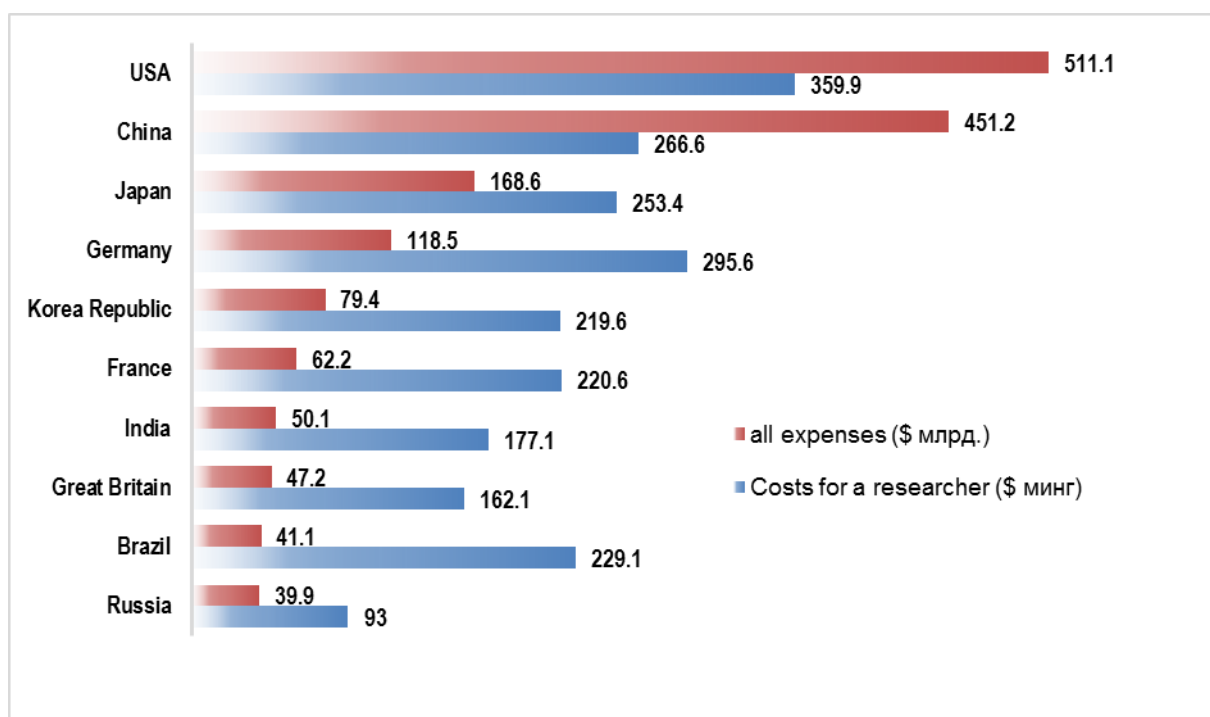
In general, venture funds can be classified according to the amount of investment and the stages of investment. In particular, in recent years, large venture funds have been investing in newly proposed projects (IPOs). For this stage, 100-500 mln. Projects worth US \$ are typical. In many cases, there are also larger transactions that are invested through the simultaneous participation of several funds. Among the

funds to be financed in the final stages are General Atlantic, Silver Lake Partners and others.

Venture funds are increasingly focusing on social issues in their ITTKI and TTI financing strategies. In particular, if in 1965 funding for research and development in the U.S. defense and space sector was 13.6 times higher than in the health sector, by 2000 the health sector was secondary and accounted for 56% of defense spending. Funding for socially oriented innovation programs in Western Europe increased from 44% of total expenditures on innovation activities in 1988 to 56% in 1995.

In recent years, large investments have been made in promising areas of ITR. In particular, the share of information technology expenditures in GDP in Western Europe in 2005 was about 7%. At the same time, Sweden and the United Kingdom became the leaders, with 9.85 and 8.62%, respectively.

1. At the end of 2016, the U.S. spent \$ 511 billion to fund R&D. doll. separated. China (\$ 451.2 billion) and Japan (\$ 168.6 billion) are ranked 2nd and 3rd, respectively.



**Diagram 1. Expenditures for innovative research in different countries (2016)**

A distinctive feature of modern innovation processes is the growing importance of the stock market as a tool (instrument) of innovative investment. The emergence of new technology-related stocks in the stock markets has broadened the scope of the search for investment efficiency criteria and, at the same time, changed the economic content of competition.

At the same time, technoparks also have great potential and opportunities, the main task of which is to master new high-tech industries, to mobilize material and labor resources for the establishment and development of new technically complex industrial firms. The first technopark in the United States appeared in 1949 at Stanford University in California. Today, Stanford Technopark is the largest technopark

in the United States. The technopark is located on university-owned land leased to high-tech companies in partnership with the university for 51 years, including electronics and aerospace industry giants such as IBM, Hewlett Packard, Lockheed, and chemical and biotechnology companies.

The U.S. venture business is the ecosystem itself - in any case the most active in the world. Capital in the American market is higher than in other regions. There are dozens or even hundreds of funds at each stage that compete with each other for promising deals. Because of this, the cost of projects is usually higher. Even the company, which does not yet have a finished product, will receive 15-20 million due to the "star" team and promising ideas. Can be valued in U.S. dollars. Due to its intensity, the market runs faster. In particular, an American fund spends less time per transaction than a European fund.

Conservative Europe. The main difference of the European market from the American market is that in this market 100-500 mln. Participants who invest U.S. dollars or more are almost non-existent. Many well-known foundations work with an average of \$ 10-20 million and focus on early-stage projects. There are also a number of funds that are financing the more successful initial stages.

There are regional funds in every country, but there are also funds that operate in a few countries or throughout Europe. For example, the Coparion Foundation operates only in Germany. Funds such as Global Founders Capital, DN Capital, Lakestar, Holtzbrinck Ventures and Point Nine Capital are among the international funds operating in Europe as well.

A distinctive feature of the European venture market is the prevalence of private clubs for investors, who typically operate on the basis of venture funds. There are more such clubs in Switzerland, Germany and Italy than anyone else.

The European venture market is less developed than the American market. In particular, according to the Money Tree Report, in the first three months of 2018, PwC and CB Insights reported \$ 21.9 billion in North America in the first quarter of 2018. While 1,298 deals (about half of the world's volume) were made in Europe, 4.8 billion deals were made in Europe. 593 transactions in the amount of USD were closed.

The European market is more conservative and fragmented than the American market. Companies grow more slowly, but spend less money on such growth. As a result, they make faster profits than American companies. Naturally, there are no exceptions to this rule, it only reflects the average situation in the market

The lack of large checks (\$ 50-100 million) limits the market. The company, which has focused on global expansion and already has a share of the market, is likely to attract U.S. funding. If the team decides to seek financing in the local European market, it may receive less funding from investors.

Due to the nature of the market, projects that could spread rapidly around the world are seeking funding in the United States. The situation is slowly changing, and funds are emerging in Europe that are ready to invest huge sums of money and can compete with the Americans in terms of scale.

Asia: The United States' new competitor. Asia is a relatively new market: Blue Future Partners estimates that 162 funds are active in the region. At the same time, the Internet population will increase from 260 million in 2016 to 480 million by 2020. The market size of the digital economy in 2016 was 30 billion. from 200 billion by 2025. It reaches USD. Given such active development and growth prospects, international funds are entering the region and local venture investors are emerging. Sequoia, WI Harper Group, IDG Capital, etc. can be included among the big participants who come from the big stage and work all over Asia.

A distinctive feature of the Asian venture market is the active participation of the state in it. For example, GIC Private Limited and Temasek Holdings, founded by the Singapore government, are Innovation Fund For Technology-Based Firms in China. Another feature is the active participation of corporate funds. For example, Alibaba, Tencent, Softbank. Corporate ventures are less active in Europe and the United States.

Although the number of funds operating in the Asian region is not a dozen, from time to time in the local market, even at the American level, very large transactions are made. In particular, since 2015, Grab has closed several multi-million round rounds, and in 2017 raised \$ 2.5 billion.

Asia's strata and venture market are growing rapidly. Earlier this year, the Financial Times reported that the local venture market was about the same size as the U.S. (\$ 70.8 billion and \$ 71.9 billion, respectively).

Factors slowing down the innovative development of the economy and enterprises of Uzbekistan

The main factor slowing down the innovative development of the economy and enterprises of our country is, first of all, the lack of funding.

Many of our local businesses simply do not have the capacity to finance innovation projects.

Inflation, on the other hand, further reduces these opportunities. This is why the main aspiration in most local businesses is to survive in the current environment.

The state plays a key and defining role in the formation of the venture financing system in all industrialized countries. It implements a targeted policy on the formation of innovative infrastructure and venture funds, the creation of legal norms governing venture investments and preferential taxes, information and legal support and the development of venture entrepreneurship.

Currently, the main problem of the venture business in Uzbekistan is the presence of many developments, but they do not turn into goods. The main reason for this is the lack of mechanisms in the country to attract extra-budgetary funding for the commercialization of projects. Simply put, there is no separate class of venture investors in the country.

The following obstacles to the formation of a full-fledged venture business in Uzbekistan have not been overcome:

- the unpreparedness of the regulatory framework, the fact that until recently the venture industry was based on private and public foreign capital, and the investment prospects were formed on the basis of appropriate "ways" aimed at strategic investors;
- Insufficient support of innovative activities by the state, underdevelopment of the stock market;
- Insufficient work on the "exit" of venture capital from the innovation business;
- Lack of integration between science, industry and business;
- high level of risk (even for the venture business);
- low business culture.

What is the development model of the venture industry so far.

There is no clear idea of the need for this, as evidenced by the following unresolved issues: the incompleteness of the investment cycle, investors prefer to work with reliable, viable projects, because only a small number of venture projects end with the sale of established companies;

The factors contributing to the development of venture investment in our country are as follows:

- optimization of the innovation management system through the coordination of innovation policy at the level of public authorities;
- Involvement of qualified specialists in this field;
- increase the interest of large international companies in domestic innovations and stimulate the export of innovations;
- Attracting private capital to the innovation system, removing administrative barriers to access to innovation markets.

The following main directions of state support of small business in the field of innovation, venture financing can be identified:

- creation of infrastructure in the form of regional venture funds;
- creation of an investment guarantee and insurance system in the process of venture financing;
- maintaining a state register of structures operating in the field of venture financing;
- organization of a system of training innovation managers for venture entrepreneurship;
- guaranteeing the rights of venture companies to intellectual property;
- creating conditions for the application of the mechanism of uniting investors with venture entrepreneurs;
- Development of a mechanism for the effectiveness of the formation and use of funds of the venture fund;
- creation of a regulatory framework governing legal relations in the field of venture investment;
- Development of a methodology for assessing market prospects for the commercialization of scientific and technical products in the implementation of venture projects;

## CONCLUSION

In conclusion, venture financing in Uzbekistan is a

promising development mechanism, as evidenced by the success of some businesses.

Thus, venture financing creates opportunities to increase the competitiveness of Uzbekistan in the world market in the context of the financial and economic crisis. However, the venture investment market will have the potential to develop only if there are well-thought-out and coordinated actions by both public and private structures.

In general, a market with a high chance of making a big profit is a market where the risks are also high. Finding a balance between potential profits and potential risks is the foundation of a venture investor's skill.

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