



THE ROLE OF VENTURE CAPITAL IN FINANCING INNOVATION AND ACCELERATING ECONOMIC DEVELOPMENT

Abduraxmanov Kamoliddin Batirovich,

*Senior Lecturer, Department of Accounting and Business, Tashkent State Transport
University, Tashkent, Republic of Uzbekistan,*

Email: abduraxmanovkamoliddin89@gmail.com

<https://orcid.org/0009-0000-7096-484X>,

Abstract: *The article examines the theoretical and methodological foundations of venture capital, its role in financing innovative activities, and its impact on accelerating technological and economic development. Particular attention is paid to the formation of venture funds, the venture investment process, partnership mechanisms in venture capital, and the stages of venture financing. Based on the analysis of international and national scientific research, various approaches to defining the essence of venture capital are identified and critically evaluated. The study also highlights the evolution of venture capital research in Uzbekistan, identifying three main stages of its development. The findings emphasize the importance of venture capital as a key instrument for supporting technological startups, fostering innovation, and enhancing national competitiveness in the context of the transition to an innovation-driven economy.*

Key words: *Venture capital, venture investment, innovation financing, startups, technological development, innovation economy, Uzbekistan.*

Introduction

The formation of venture funds, analysis of the venture investment process, features of partnerships in venture capital, stages of venture financing, and their impact on accelerating innovation activity were examined in detail in the works of Massachusetts Institute of Technology scholars P. Gompers and J. Lerner [1].

The American economist and professor William Baumol considers innovative entrepreneurship to be one of the key drivers of economic growth. He views venture investment as a crucial instrument for creating new products and supporting entrepreneurship. According to his perspective, venture capitalists, taking into account the high level of risk, provide financial support to startups, thereby contributing to their rapid development [2].

In the Russian Federation, theoretical and methodological problems of venture investment, taking into account the specific features of the national economy, have been developed by a number of Russian economists, including I.R. Agamirzyan, Yu.P. Ammosov, S.V. Valdaytsev, A.T. Karzhauvin, M.V. Kudina, A.N. Folomyov, R.S. Dzarasov, V.A. Barinova, A.S. Vorozhevich, B.Z. Milner, E.S. Akelyeva, E.R. Valeev, T.I.



Volkova, V.I. Vagizova, I.P. Dovbiy, V.G. Zinov, S.D. Ilyenkova, O.I. Lavrushin, and others.

These scholars conducted scientific research focused on the development of venture investments in Russia, analysis of their specific features, and the formation of appropriate mechanisms for financing innovative activities.

Venture capital is a multifaceted concept, as noted in the mid-2000s in the work “*The National System of Venture Investments*” by A.T. Karzhauvin and A.N. Folomyov [8]. This issue has also been studied at the legislative level.

An analysis of studies devoted to revealing the essence of venture capital has made it possible to identify different approaches to this economic category. A.N. Folomyov considers venture capital as a form of investment characterized by high business activity and the potential for generating high profits, contributing to the creation of small and medium-sized innovative enterprises [3]. Another viewpoint exists as well. For example, according to the conclusions of R.S. Dzarasov, venture capital represents fictitious capital circulating in securities markets and stock exchanges, performing the functions of capital concentration and centralization, distribution and redistribution of profits, insurance, and speculation [4]. However, these characteristics are not inherent to venture capital, which makes such an identification controversial.

In Uzbekistan, certain elements of various venture capital development models applied in developed countries have been introduced. However, a national venture financing model based on a strategic program of industrial, scientific, and technological development has not yet been fully formed.

Theoretical and methodological problems of venture investment, as well as certain aspects of innovation development strategy and organizational and economic mechanisms for their implementation, are reflected in the research of domestic economists. The development of these studies can be considered within the framework of three stages.

The first stage covers research conducted during Uzbekistan’s transition to a socially oriented market economy. During this period, investments were considered as an instrument of technical and technological modernization of the economy and ensuring sustainable economic growth. Significant contributions were made by H.P. Abulkasimov, B.A. Begalov, A.V. Vakhobov, S.A. Voronin, M.Q. Pardayev, D.G. Gozibekov, I.Zh. Jakhongirov, A.A. Kadirov, M.A. Makhkamov, N.M. Makhmudov, N.K. Mukhitdinova, R.R. Nazarova, T.S. Rasulov, Sh.G. Yuldashev, and others.

The second stage corresponds to Uzbekistan’s transition to an innovation-driven economy, when special attention was paid to improving the efficiency of state innovation and investment activities and analyzing the impact of innovation investments on economic growth. Researchers in this stage include Z.T. Gaibnazarova, S.A. Giyasov, M.A. Mamatov, F.B. Shakirova, G.Kh. Razikova, and others.

The third stage is associated with the development of scientific, theoretical, and methodological problems of venture capital in Uzbekistan and represents a relatively new



research direction. Currently, studies on this topic are mainly presented in the form of scientific articles and monographs. In the works of such scholars as Zh.I. Botaeva, U.K. Yakubova, F.I. Dostova, S.R. Chullieva, N.B. Ashurova, Sh.A. Atamuradova, I.I. Ergasheva, and others, the advantages, functions, and features of venture capital are theoretically substantiated, and its role in financing innovation in the economy is revealed.

One of the earliest scientific studies on venture capital in Uzbekistan defined its primary goal as follows: “The purpose of venture capital is to obtain sufficiently high profits as a result of investment. In this case, the investor derives profit by selling their share in the assets of an enterprise that has managed to ensure positive development through previously invested capital to a large company operating in the given industry” [5].

According to the researchers N.B. Ashurova and Sh.A. Atamuradova, “Today, attracting venture capital for technological startups is a critically important factor in ensuring innovation-driven development and economic growth worldwide.”

Venture investments enable startups to introduce new technologies, products, and services, ensuring rapid development and increased competitiveness in the market. In particular, significant progress due to venture financing is observed in such areas as artificial intelligence, biotechnology, cybersecurity, blockchain, and environmental innovations [6].

Discussion

During the research, venture capital as an economic category was examined on the basis of various scientific approaches that reveal its essence. The study systematizes scientific approaches of different schools, including concepts presented by the National Venture Capital Associations of the United States, the United Kingdom, and Europe, as well as approaches developed by scholars of the Russian Federation and Uzbekistan.

At present, in the Republic of Uzbekistan, the regulatory and legal framework governing venture capital has not yet been fully formed. Currently, venture capital in Uzbekistan is regarded as an instrument for implementing priority tasks defined by the President of the Republic of Uzbekistan. In addition, it is aimed at creating a sustainable ecosystem of startup projects and expanding the venture capital market, which contributes to attracting foreign venture investments into the country. The main regulatory document governing these processes is the Resolution of the President of the Republic of Uzbekistan dated October 14, 2024, No. PK-357 “On Measures for the Further Development of the Ecosystem of Startup Projects and Venture Financing” [7].

In accordance with the Innovation Development Strategy of the Republic of Uzbekistan, by 2030 the country plans to enter the top 50 leading countries in the world according to the Global Innovation Index. To achieve this goal, a significant increase in public and private investments in innovation, research and development, experimental design, and technological development is envisaged, along with the introduction of modern and efficient financing mechanisms for these areas.



Based on the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated November 3, 2020, No. 684 “On Measures to Organize the Activities of the National Venture Fund ‘UzVC” [8], the first national venture fund, “UzVC,” was established in the country.

Key parameters of the fund include:

Authorized capital: UZS 15 billion, formed from funds allocated from the State Budget to the Ministry of Innovative Development in 2020.

Ownership structure: 100% of the authorized capital was transferred to the Agency for State Asset Management.

Functions: Financing venture projects in partnership with legal entities and individuals, including foreign investors.

In recent years, scholars have devoted considerable attention to studying the nature of venture capital in theory and practice, primarily from a financial perspective. Venture capital is viewed as long-term high-risk investments in equity of developing high-technology companies with high growth potential, or as a special form of financial capital supporting small innovative businesses.

The functional purpose of venture capital lies in facilitating the formation, development, and increase in the value of innovative businesses. It serves as the foundation of entrepreneurial activity, being oriented toward innovation, inventiveness, and a willingness to take risks.

These features impose specific requirements on the valuation of venture capital and the assessment of the effectiveness of venture investments. In this sense, venture capital represents a type of financial capital that is not limited in terms of attracting funds from various sources and sectors of the economy.

In general, economic theory identifies the following fundamental characteristics of venture capital:

Risk-based nature: Venture capital operates in the innovation sphere and is characterized by long-term financing without the possibility of early withdrawal at the discretion of the venture capitalist.

Complex investment process: Financial capital: The investment process involves the allocation of funds, while the investor actively participates in management. Human capital: Investor involvement in strategic and supervisory management of the company. Intellectual capital: Commercialization of innovations for the purpose of generating profit. Financing structure: At the entry stage: Funds are provided without repayment obligations and without interest accrual. At the exit stage: High returns are expected relative to the initially invested capital. Thus, the financial approach considers venture capital primarily as a source of cost coverage. However, this approach does not fully reveal its essence as a unique form of capital governed by general laws of development and functioning.



In conclusion, it can be noted that the life cycle of venture capital is long-term and is carried out in conjunction with specialized organization, control, management, and information support.

Venture capital is closely integrated with human capital, which distinguishes it from other forms of capital. It is characterized by a high level of aggregate risk inherent in innovation and investment processes, as well as the necessity of combining risk with high profitability. At the same time, the pursuit of increased risk is an objective and conscious choice.

Risk acceptance is implemented through venture funds, where risk is distributed among partners. This, in turn, determines external control by the fund over the activities of the innovative company and presupposes the existence of information, organizational, and managerial support aimed at reducing overall risk.

In conclusion, venture capital serves as a vital mechanism for financing innovation and accelerating economic development, especially in countries transitioning toward an innovation-driven economy. The analysis of international and national research demonstrates that venture investments play a decisive role in supporting high-risk technological startups, fostering entrepreneurial activity, and facilitating the commercialization of scientific knowledge. For Uzbekistan, the formation of a comprehensive national venture capital model aligned with strategic industrial and technological development priorities remains an important task. Strengthening institutional frameworks, improving financing mechanisms, and expanding venture capital infrastructure will enhance innovation capacity, promote sustainable economic growth, and improve the country's competitiveness in the global economy.

References

1. Baumol, William J. (1993). *Entrepreneurship, Management, and the Structure of Payoffs*. MIT Press, 311 p. (Academic Director, Berkeley Center for Entrepreneurial Studies).
2. Karzhauvin, A. T., & Folomyov, A. N. (2005). *The National System of Venture Investment*. Moscow: Economics Publishing House, 239 p.
3. Folomyov, A. N., & Neubert, M. (1999). *Venture Capital*. Russian Academy of Public Administration under the President of the Russian Federation. Saint Petersburg: Nauka Publishing House, 140 p.
4. Dzarasov, R. S. (2014). *How to Assess National Wealth*. Problems of Forecasting, No. 4, pp. 115–122.
5. Ergashev, I. I. (2017). *Venture Capital as a Source of Investment in Innovative Activity in the Service Sector*. Scientific Electronic Journal “Economy and Innovative Technologies,” No. 1, January–February.



6. Ashurova, N. B., & Atamuradov, Sh. A. (2024). *Strategies for Attracting Venture Capital for Technological Startups*. Economic Development and Analysis, October 2024, pp. 318–325.

7. Based on the author’s research.

8. Resolution of the President of the Republic of Uzbekistan No. PK-357 dated October 14, 2024, “*On Measures for the Further Development of the Ecosystem of Startup Projects and Venture Financing.*”

9. Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 684 dated November 3, 2020, “*On Measures to Organize the Activities of the National Venture Fund ‘UzVC.’*”