

# The Importance of Innovative Activity in Developing the Activity of Small Business Subjects

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**Abstract:** This article talks about the problems of introducing innovations into production and increasing activity in the activities of small businesses and their solutions, government support and foreign experience. Problems and solutions to mechanisms for financing promising projects aimed at increasing the innovative activity of small businesses are also presented.

**Keywords:** Small business, entrepreneurship, innovation, financial innovation, innovation potential, idea, developments, financing, innovative ideas, high technology, venture, venture fund, venture entrepreneurship, venture investment, venture companies, risk, investment centers, research institutions.

## 1. INTRODUCTION

Today, deep structural changes are being implemented in the country's economy, and special attention should be paid to the creation of conditions that ensure development, economic independence, its stability, strength, ability to constantly renew and self-improve in various branches and sectors of the economy. In this regard, the role of the spheres of activity of small business entities is incomparable.

Especially, by increasing innovative activity in the activities of small business entities, there will be an opportunity to solve a number of problems related to achieving stability in the country's economy and forming an efficient economy.

As the President of the Republic of Uzbekistan, Shavkat Mirziyoyev, stated in his address to the Oliy Majlis: "By an active entrepreneur, we mean business people who are able to produce competitive products, and most importantly, create new jobs and support not only themselves and their families, but also benefit the entire society. Our first task is to expand the ranks of such entrepreneurs, including bringing and introducing high technologies, techniques and equipment based on the latest achievements of science to our country. [1].

As we know, one of the main reforms of 2017-2022 is the elimination of bureaucracy to liberalize business activities. During these years, business entities increased by 2.2 times, from 232 thousand units to 516 thousand units.

In the priorities of the development strategy of New Uzbekistan for 2022-2026, the broad implementation of innovations in the economy, the development of cooperative relations of industrial enterprises and scientific institutions, improving the position of the Republic of Uzbekistan in the global innovation index and entering the ranks of the top 50 countries by 2030, and "INNO" The implementation of a number of works, such as the establishment of an innovative educational and production technology park in 4 regions, assimilation of production technologies of innovative products that create high added value in the districts that are being transformed into innovative regions, solves a number of problems related to increasing innovative activity in the activities of small business entities in the country's economy.

According to the Decree of the President of the Republic of Uzbekistan dated September 11, 2023 "On the Strategy of Uzbekistan-2030" No. PF-158 in the direction of "Ensuring the well-being of the population through sustainable economic growth", consistent transfer of monopolistic industries to market principles, increasing the share of the private sector in the economy, allowing entrepreneurs to operate freely at the point aimed at creating the most favorable conditions, to expand the opportunities for local business entities to use natural resources (increase the number of permits by 4 times), to simplify the tax system for entrepreneurs, to transition from simple "manual labor" to the industrialized production stage in ensuring employment on the basis of family business, to purchase equipment One of the most urgent tasks today is to find a solution to the existing problems of increasing the amount of preferential credit up to 100 million soums, providing all services to business entities through an online portal based on the "one-stop" principle, and reducing the service time by an average of 3 times. [2].

## **2. LITERATURE REVIEW**

Many economists have conducted scientific research on the improvement of the innovative potential of small business entities. Among them, the Russian economist V.G. In the scientific work of Basareva [3], issues of development of the territorial policy of the state regarding the support of small entrepreneurship are mentioned.

M.M. Abdurakhmanov[4] and U.V. In the works of Gafurov[5], issues such as state regulation, support, investment[6] of small business and private business entities, American economists J.U. Feni, N. Layang, S. Prause, P.D. The Johnsons defined venture capital as equity financing of small business innovation ventures[7].

R.A. Sadikova showed the sources of financing of small business innovation projects, the stages of creation and operation of a venture company[12].

Z. Tojjeva distinguishes the use of sources of venture funds and venture capital into formal and informal sectors in financing the activities of small business entities [10].

N.I. Lapin said that venture entrepreneurship is a searchable and risky activity, he said that it is a link with a great risk for innovative activity [13], L.Z. Shibzukhova said that venture entrepreneurship is an instrument for applying innovative activity [7].

## **3. RESEARCH METHODOLOGY**

Methods such as analysis, synthesis, induction and deduction were used in the implementation of the scientific research, and the Web of Science scientific database was used in the literature analysis. At the same time, the sources of foreign economists were used in the analysis of the role and importance of increasing the innovative activity of small business entities in foreign countries, and the analytical parts of the opinions of Uzbek economists were used in the study of its place in the country's economy.

In addition, the official statistical database of the Republic of Uzbekistan was used to study the elements aimed at increasing the innovative activity of small business entities, and to analyze their role and effects in ensuring macroeconomic stability.

## **4. ANALYSIS AND DISCUSSION OF RESULTS**

In the activities of small business entities, every small business entity faces organizational problems when introducing innovations into production and increasing their activity. For this, it is necessary to ensure the coherence of the development of scientific research and innovative activities with the activities of business entities.

In particular, one of the measures taken on the basis of the priority direction of innovative development of the economy and support of entrepreneurship is focused on the issue of financing innovations.

Increasing the innovation potential in the country is related to the activities of small businesses and private enterprises and their development, which results in an increase in the innovative activity of the sector and ensuring their competitiveness. Therefore, the innovative activity of small business entities in developed countries is supported by the state. If we look at this situation on the example of foreign countries, Germany has a state program aimed at implementing innovative projects of small business entities and stimulating their scientific and technical development. Within the framework of this program, small business entities are granted a preferential loan of up to 1 million euros for a period of up to 10 years, in which the amount of the subsidy is from 3% to 10% of the loan amount [9]. In addition, as in a number of developed countries, in Germany, small business entities are using programs that support the development of their activities. In this regard, it is mainly envisaged to provide priority support to the branches of production with scientific capacity.

In the development of small and medium-sized businesses in Germany, programs such as "Concept for the development of scientific and technical policy for small and medium-sized enterprises" and "Encouragement of funds for starting their own business" directly stimulate this sector and provide practical support for its further development.

In China, it is more responsive to the rule of "Reorientation of resource-intensive industries towards high-tech industries" and actively participates in the adoption of innovative technologies, creating new jobs.

In Singapore, a favorable investment environment has been created for the active development of the activities of small business entities in the country, the development of services in this field at the level of the demand of the times, and the employment of 70-80% of the country's population, and the legal basis for the development of the sector have been strengthened. Therefore, today Singapore ranks 5th in terms of business development and so on.

World experience shows that small enterprises create 4 times more innovation, ideas than large enterprises, or for every dollar spent on scientific research, small innovative enterprises create 2.5 times more products than large

enterprises.

In the conditions of modernization of the economy, the expansion of the possibilities of effective use of loans, raw materials, and state preferential systems by small business entities is an important factor in increasing their innovative potential.

As we know, small business entities must take into account aspects such as material and technical, financial resources, organizational resources and personnel resources, tangible and intangible assets, and socio-spiritual factors in the development of their innovative potential [11]. (See Figure 1).

In order for business entities to organize innovative processes in their activities, they have at their disposal sufficient funds for financing ideas and developments, appropriate material and technical infrastructure for the creation and mass production of new products, capable employees who meet the requirements of the times for the implementation of innovations and their introduction. together with being, they should have the ability to develop innovative ideas at the level of the requirements of the innovative development of today's economy.

The increase in innovative potential of entrepreneurship is of great importance in the growth of the country's industry and economy. That is, if practical work is carried out on the introduction of technologies for the creation of innovations by active entrepreneurs and their own improvement, innovative and investment development will accelerate. It is necessary to further improve the mechanisms of allocating long-term loans for investment purposes and to increase their volume, to continue practical activities related to the formation of initial capital and the expansion of the scope of microcredits.

Factors for the development of innovative activities of KB subjects

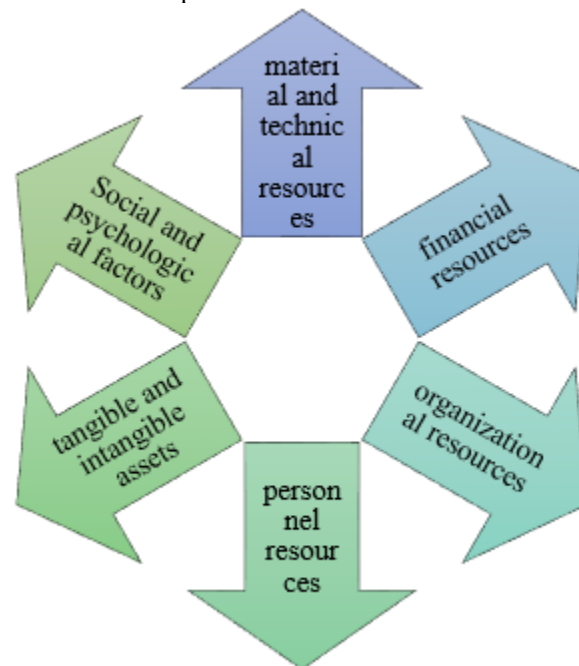


Figure 1: Factors for the development of innovative activities of KB subjects [11]

At the moment, the main directions for comprehensive support of the activities of small business entities, elimination of obstacles that have a negative impact on the rapid and stable development of business entities are being developed.

In addition, in the conditions of world integration and globalization, it is necessary to develop the activities of business entities in the country, to organize the small business sector on the basis of innovative and modern approaches, advanced technology and management methods.

In other words, it is established to develop the relevant regulatory legal documents in order to develop the financing mechanisms of promising projects in the field of entrepreneurship and innovation. This includes the legal status of venture funds and the procedure for their organization, regulation of activities of venture companies and funds, companies engaged in the management of venture funds and innovative enterprises, training of qualified management and expert personnel for venture companies and funds, insurance of venture projects, etc. planned to catch.

At this point, it should be noted that the modern economy has a set of mechanisms that ensure the efficiency of innovative activity, one of which is venture entrepreneurship. Venture entrepreneurship and venture investment are both a financial mechanism and a source of high income.

The word venture means risk. For example, it is no secret that there are financial, market, technical, and price related risks in the implementation of any new, innovative production. When launching new, untested and unpopular products or services in a venture, there is a relatively high probability of risks such as lack of financial resources, insufficient market demand for the product or service, inconsistencies in technical support, and the inability of the set prices to cover their costs. As a result, not all entrepreneurs want to engage in such activities.

However, the peculiarity of venture entrepreneurship is that, although it involves a lot of risk, when it is successfully implemented, it can bring a lot of profit compared to other business activities. This allows the emergence of venture entrepreneurs who are ready to take risks and venture funds that finance them.

Venture investment is a source of financing innovative activity of entrepreneurship, and it appears as an alternative form of it. It first appeared in the United States in the mid-50s of the 20th century and spread throughout Europe.

Venture investment as a financial instrument is risky, but usually brings high returns. The results of the last 20 years of the USA show that these investments are the most effective. Its average yield is 19%.

In the historical period from 1996 to 2004, 35,531 innovative projects with a total investment of 307.24 billion dollars were implemented in the USA, and the average investment reached 8.65 million dollars. Today, the share of countries in the venture capital market is presented in the diagram below.

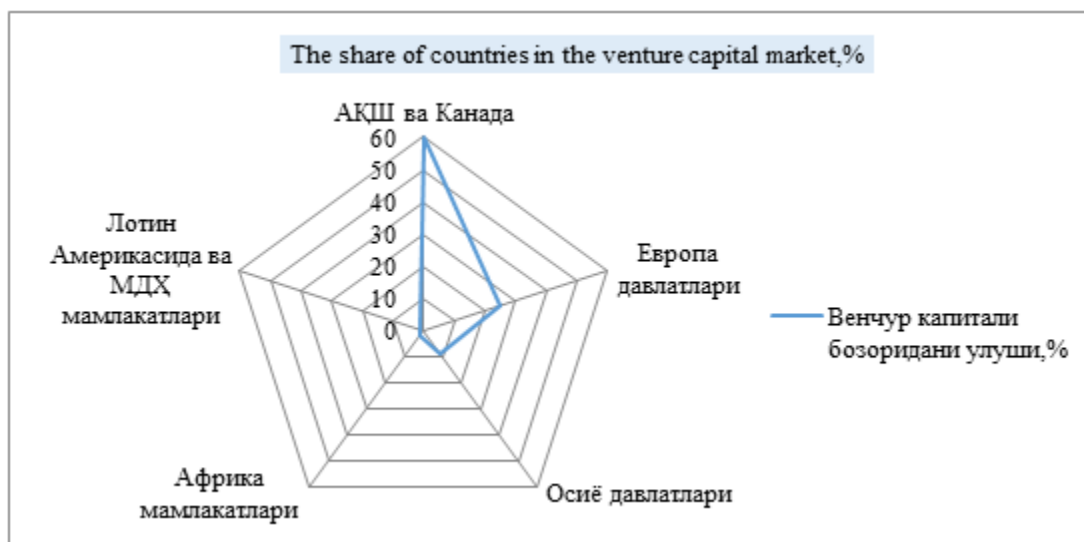


Figure 2. Share of countries in the venture capital market [7]

The results of studies of venture business activities in a number of countries such as the USA, Japan, Finland, and India showed that this type of activity can fundamentally change the quality of the innovative model of economic development, provide it with investment, ultimately lead to economic growth and eliminate the investment deficit.

In addition, small firms engaged in venture entrepreneurship are one of the organizational forms of innovative activity, which occupy a special place among small business entities. They contribute to the establishment and development of high-tech enterprises.

Economist N.I. Lapin said that "venture entrepreneurship is a high-risk link for innovative activity because it involves exploratory and risky activities."

Venture entrepreneurship is also characteristic for the commercialization of scientific research carried out in high technology, and it can be seen that the results obtained from the high-tech industry are not guaranteed and the risk of risk is very high.

Therefore, venture entrepreneurship means not only investing in the activities of small business entities, but also based on direct scientific and technical commercialization, spending one's own capital fund on the basis of risk to obtain new products and new technologies.

In the international experience, there is a high risk in venture business from the initial stages, and if the final results of the invested processes are not achieved, it is possible to separate from the financed funds.

Funding of the results of scientific research in the field of science is more suitable for this type of business.

Entrepreneurs, researchers, and inventors who have just started a new business need funds to independently implement their ideas and promising developments. In this case, the venture fund appears as the only investor ready to invest in new developments.

As we know, when investing in small business entities, commercial banks are approached with business plans and clearly expected profitability or results for their specific implementation within the framework of their activities.

The end is uncertain, it is difficult to get credit and debt funds from commercial banks for the project, of course. In such a case, venture capital investors come to the entrepreneur as assistants and sponsors. From an economic point of view, the main goal of investors is not to help the entrepreneur, but to get a high profit. However, there are also cases where the invention did not justify itself. In this regard, a number of activities are being carried out in the economy of the Republic of Uzbekistan.

According to the decree of the President of the Republic of Uzbekistan No. PF-5308 of January 22, 2018, in order to implement financing mechanisms for promising projects in the field of entrepreneurship and innovation, until April 1, 2018, the legal status of venture funds and the procedure for their organization, venture companies and funds, companies engaged in the management of venture funds and a number of works were carried out in the field of regulation of the activities of innovative enterprises, training of qualified management and expert personnel for venture companies and funds, insurance of venture projects.

In addition, until January 1, 2023, venture funds established for joint financing of high-tech entrepreneurial projects-startups, high-tech projects-startups jointly financed from venture funds, scientific research institutions, innovation centers, project-design bureaus will be prohibited from selling their new technologies to entrepreneurs ( organizations that transfer new technologies to local entrepreneurship are exempted from paying all types of taxes and mandatory payments on the income received from this activity [10].

In addition, in accordance with the Decree No. PF-5583 of November 24, 2019 of the President of the Republic of Uzbekistan "On measures to fundamentally improve the mechanisms of financing projects in the field of entrepreneurship and innovation", a draft Regulation "On Investment and Management Companies" was developed in order to develop venture financing and Resolution No. 414 of the Cabinet of Ministers was adopted on May 17, 2019.

Today, 3 Uzbek-Emirati investment companies, "Venchur Kapital Invest" investment company and "Vadiy Investments" investment company, 1 venture fund "Astron" venture fund and 1 "Vadiy Investments Management" management company were established.

At the same time, in the following years, funds for the support of innovative development and innovative ideas were established in about 20 organizations in our country, and 45.46 billion were allocated to it. Some funds were directed. In our country, a completely new system of financing innovative activities was introduced in the decree adopted for the purpose of introducing venture-based financing and attracting financial resources of business entities to innovative projects. At the same time, the Youth Academy is being established in order to realize the scientific and creative potential of scientists, entrepreneurs and enterprising young people and to support and encourage the platforms of idea generators, startups, business representatives and future academics.

## **5. CONCLUSIONS AND SUGGESTIONS**

Based on the above information, it can be said that there are a number of problems in the effective development of financing mechanisms for promising projects of increasing the innovative activity of small business entities in our country. To these:

- the mechanism of regulating the activities of innovative enterprises is not sufficiently organized as required by the time;
- its legal status is not sufficiently organized for the establishment of venture funds and the effective operation of venture entrepreneurship in the country;
- further increase the efficiency of personnel potential in terms of innovative organization of activities of small business entities;
- a methodology aimed at mastering the production technologies of innovative products that create high added value in the activities of small business entities has not been created;
- the fact that there are some complicated procedures in the operation of small business entities in our country, and the possibility of increasing innovative activity is limited;
- there is a high risk in venture business, and the system of guaranteeing it by the state or funds is not sufficiently formed;

- formation of the security and protection system for attracting credit funds for investing in innovations in the activities of small business entities;
- selection of legally and legally reliable methods of protection of the rights of private and foreign investors who have invested in innovations;
- to achieve an increase in the duration of investment-innovation activity by forming a reliable insurance system;
- to find effective ways of taxing the activities of small business entities at the stages of innovative economic development.

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