



IMPROVING INNOVATIVE METHODS OF FINANCING SMALL BUSINESS AND PRIVATE ENTREPRENEURSHIP

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Article history:	Abstract:
Received: 4 th October 2022 Accepted: 4 th November 2022 Published: 6 th December 2022	This article covers the issues of improving innovative methods of financing small business and private entrepreneurship. Also, the opportunities for improving innovative methods of financing small business and private entrepreneurship were analyzed. In addition, Share of small business and private entrepreneurship and The volume of key indicators of small business and private entrepreneurship in sectors of the economy were analyzed. In addition, it is scientifically proven that the development of small business increases the share of the middle class in society, and at the same time, it is an important factor in ensuring economic, social and political stability in the country

Keywords: Investment, Business Startup, Capital, Innovation, Bank Loans, Resources, Export, Import.

INTRODUCTION

The relevance of scientifically grounded solutions to the problems of innovative development of small business requires the development of a specialized concept for financing innovative processes. In this regard, direct copying and implementation of a reform model successfully implemented in one or several countries for the economy of any country usually encounters certain difficulties. Financing the processes of innovative development - one of the important areas of cash flows in this area increases the international competitiveness of the country, satisfies the social and economic needs of society. At the same time, the mechanism for financing innovation processes serves as the basis for the distribution of investment resources, and regulation of the economy is the basis for the transition to innovative development. The process of developing an innovative financing mechanism can be carried out in two directions. In the first direction, traditional management functions are performed: investment, analytical, regulatory, consolidation and control; in the second, specialized knowledge that specifically reflects the requirements for the activation of intellectual capital. The process of financing innovative activities of small businesses is divided into three components, namely:

- 1) management of multiple and interrelated processes of searching and accumulating investment resources;
- 2) implementation of interaction between the parties to the process on an institutional basis on the basis of legislation;
- 3) the implementation of financing of innovative activities in two stages: stimulating an increase in

financial flow, improving institutional strategic reforms.

In the context of deep economic and social reforms in Uzbekistan, serious attention is paid to the development and implementation of policies in the field of science, technology and innovation, which is an important tool for the implementation of these reforms. This policy creates organizational conditions and economic and legal mechanisms for the development of scientific, creative and innovative activities, as well as the innovation market. In this regard, Uzbekistan is working on the development of innovation and transfer of innovations. In particular, the promotion of innovation in production and guarantees for the protection of intellectual property rights are a solid foundation for the development of innovation. However, the prospects for innovative development in Uzbekistan have not been sufficiently studied, and there are few studies in this area that do not fully and clearly consider the aspects of business and regional economy development in connection with the innovation factor. At the same time, the terminological apparatus, theoretical and methodological basis, as well as the practice of introducing innovations and the economic content of their transfer are constantly being improved under the influence of various factors.

According to world experience, the development of small business, especially small innovative business, not only ensures socio-economic efficiency, but is also reflected in the political programs implemented in the countries. The development of small business is an important factor in increasing the share of the middle class in society, as well as ensuring economic, social and political stability in the country. Small business is of great importance in stabilizing the



economy in developed countries such as USA, Germany, China, France, Japan, Italy. "According to the International Small Business Council (ICSB), small business entities make up more than 90% of all enterprises, 60-70% of the employed, and 50% of the gross domestic product". These enterprises form the basis of the economy of the developed countries of the world, they play an important role in stimulating economic development in the employment of women and young entrepreneurs and disadvantaged population groups. 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".

LITERATURE REVIEW

Small businesses are defined as businesses that employ up to 50 employees (European Commission 2003; Prime Minister's Office 2014). They are often characterized by limited regional activity, relatively small market share, operate in niche and highly specific markets and typically have a single or small group of owners, managed by the primary owner (Carland et al. 2007; Schollhammer and Kuriloff 1997; Matejun 2017). In the manufacturing sector particularly, many small businesses act as specialist suppliers of parts, components and subassemblies, and as subcontractors to large companies (Yew Wong and Aspinwall 2004). Nonetheless, the most important distinguishing characteristic of small businesses is their unique management style. Here, management is personal, since the managers know each individual employee, are involved in every aspect of managing the business, and often do not include others in decision-making processes (Carson 1990; Miller 1983; Schollhammer and Kuriloff 1997; Yew Wong and Aspinwall 2004). The manager typically performs multiple roles in the company and serves as a centralized junction for information transfer and decision-making (Cardoni et al. 2019; Yew Wong and Aspinwall 2004). Many economists have conducted scientific research on the role of venture entrepreneurship in increasing the innovative potential of small business entities.

Among them, the Russian economist V.G. In Basareva's scientific work, the issues of development of

the territorial policy of the state regarding the support of small entrepreneurship are mentioned, M.M. Abdurakhmanov[3] and U.V. In the works of Gafurov, issues such as state regulation, support, investment[5] of small business and private business entities, American economists J.U. Feni, N. Layang, S. Prause, P.D. The Johnsons explained that venture capital is the financing of equity capital of small business innovative enterprises, R.A. Sadikova stated that it is a source of financing for small business innovative projects and gave her thoughts on the development of venture business in Uzbekistan, Z. Tojjeva described venture funds and their innovation his views on financing, N.I. Lapin said that venture entrepreneurship is a demanding and risky activity, he said that it is a link with a great risk for innovative activity, L.Z. Shibzukhova said that venture entrepreneurship is an instrument for applying innovative activity. In addition, a number of economists have conducted scientific research in this regard.

RESEARCH METHODOLOGY

The methodological basis of the research was the use of legal and regulatory documents, presidential decrees and decisions in the field of small business and private entrepreneurship development. Also, the methods of induction and deduction were widely used in the analysis of views and opinions related to the research work. Statistical data grouping, comparative analysis, sample observation methods were used in the analysis of the data of the Statistical Committee of the Republic of Uzbekistan. Scientific abstraction and other methods were used to enrich the content of the work and give it concluding thoughts.

ANALYSIS AND RESULTS

The UN Economic Commission has determined that the number of jobs for small business representatives in Latin American countries is 5-50, regardless of their activity and direction. In the EU countries, the situation is somewhat different. The number of employees in the region is 1-9, the annual turnover and balance of the enterprise is 2 million. If the economic entities up to EUR are considered micro-businesses, the annual capital turnover and balance sheet volume of 10-49 employees are 10 mln. Employers up to EUR are considered small business entities. The share of small business and private entrepreneurship is increasing year by year. In 2016 alone, it was 66.8% of the GDP, in 2019 it was 56%, and in the third quarter of 2022 it was 52.8% (Table 1)



Table 1
Share of small business and private entrepreneurship (in% to the total volume)

Indicators	2016	2017	2018	2019	2020	2021	2022Q2	2022Q3
GDP	66,8	65,3	62,4	56,0	55,7	54,9	50,5	52,8
Industry	45,3	41,2	37,4	25,8	27,9	27,0	23,2	24,2
Construction	66,9	64,8	73,2	75,8	72,5	72,4	74,9	73,8
Employment	78,2	78,0	76,3	76,2	74,5	74,4	74,8	-
Export	26,0	22,0	27,2	27,0	20,5	22,3	17,6	27,4
Import	46,8	53,6	56,2	61,6	51,7	48,7	44,7	48,8

In recent years, systematic measures aimed at increasing the level of use of the economic potential of small businesses are bearing fruit. "Small business provides about 60% of the gross domestic product of our country, one third of the volume of industrial products, 98% of agricultural products, and half of investments. In many regions, 70-90 percent of exports go to small businesses". In particular, to evaluate and encourage the activities of local government leaders based on the number of newly established or revived small businesses in the region and the number of jobs created in them, to develop proposals on the directions of small business development based on the potential of each district, based on these proposals, to entrepreneurs the introduction of a new system for assistance in all matters such as their implementation, credit, allocation of land and building, connection to infrastructure, has a positive effect on the rapid development of the industry.

For each of the four types of innovation in the business: product, process, marketing and organizational, the level of innovation was measured according to four degrees of innovation. First-degree innovation indicates a significant improvement of an existing product, process, or method. Second-degree innovation indicates products, processes, or methods that are new to the business, but exist in the local market. Third-degree innovation indicates products, processes, or methods that are new both to the business and to the local market. Fourth-degree innovation indicates products, processes, or methods that are new to both the business and the global market (Oke et al. 2007). In the field of industry alone, it generated 61,367.8 billion soums in 2017, and by the third quarter of 2022, it will reach 94,852.9 billion soums (Table 2).

Table 2
The volume of key indicators of small business and private entrepreneurship in sectors of the economy

Indicators	2017	2018	2019	2020	2021	2022Q2	2022Q3
Industry (billion soums)	61367,8	87962,0	83344,2	103020,8	121719,2	58201,3	94852,9
Construction (billion soums)	22469,4	37451,7	53960,9	63866,6	77762,0	45203,8	69460,4
Employment (thousand people)	10541,5	10128,8	10318,9	9865,7	10070,7	10299,2	-
Export (million dollars)	US 2759,3	3810,8	4714,8	3100,9	3711,2	1748,6	3852,8
Import (million dollars)	US 7511,9	10916,2	14972,2	10943,3	12389,0	6505,0	10717,2
Trade (billion soums)	92973,0	114896,4	138920,7	164106,1	204787,4	103729,1	167747,6



Agriculture, forestry and fisheries (billion soums)	152010,5	191759,2	219466,9	253238,2	307280,2	128068,4	240469,9
Services (billion soums)	69212,7	84433,4	103106,6	114052,7	144812,7	79313,8	124598,8
Freight transportation (million tons)	548,8	611,7	641,0	638,9	678,9	272,4	414,4
Freight turnover (million ton-km)	10444,4	11657,7	12152,3	12304,6	13108,1	6693,7	10391,8
Passenger transportation (million people)	5037,5	5242,6	5345,0	4904,8	5237,6	2621,3	4082,6
Passenger turnover (million people km)	111435,0	115335,2	117412,7	107766,7	114681,5	58128,2	90420,7

By the end of 2020, the support and development of small businesses and business entities affected by the pandemic in Uzbekistan was assessed as the most important "growth point" for the economy, and priority was given to the following measures: support business entities by ensuring timely repayment; - expansion of credit allocation to working capital of the retail trade and services sector at acceptable interest rates for business; - revision of the legislation and other regulatory documents adopted in order to determine the norms limiting the freedom of business activity and competitive environment.

Even during the coronavirus pandemic that started in 2020, programs aimed at the development of small business and private entrepreneurship in our country, and their specific and targeted support from the state, were consistently continued. In particular, a total of 70,251 new small enterprises and micro-firms were established in the country this year. In particular, the largest number of newly established small enterprises and micro-firms in the region was in the city of Tashkent, their number was 10,786 or 15.4 percent of the total. This indicator was equal to 6,558 or 9.3% in Samarkand region, and 6,395 or 9.1% in Surkhandarya region. If analyzed by types of economic activity, 37.0% of small enterprises and micro-enterprises established this year corresponded to trade, 20.7% to industry, 16.9% to agriculture, forestry and fisheries, and 6.7% to construction.

Also, according to the information of the Central Bank of the Republic of Uzbekistan, in 2020, the total

value of the state's active social programs aimed at the development of family entrepreneurship is 6.1 trillion. Commercial banks allocated loans to more than 214,000 business projects, amounting to soums 41 percent of the allocated credit funds (2 trillion 479 billion soums) were allocated to legal entities and sole proprietorships, and 59 percent (3 trillion 599 billion soums) were allocated to self-employed individuals. According to the analysis, 78 percent (4.8 trillion soums) of the allocated loan funds in the context of the coronavirus pandemic were implemented within the active social protection program of the state "Every family is an entrepreneur". 1.6 trillion of these funds. more than 1.8 trillion soums for the development of women's entrepreneurship in the country and part of more than soums was directed to support youth entrepreneurship.

President of the Republic of Uzbekistan Sh.M. As a result of targeted reforms carried out by Mirziyoyev, the business environment in our country has been radically improved in recent years. In particular:

- from January 1, 2017, all types of unscheduled inspections of the activities of business entities, as well as counter-inspections, including in criminal cases, restrictions on the legal rights and interests of entrepreneurs were canceled;

- Since January 2018, due to the crisis of the coronavirus pandemic, a two-year moratorium on the examination of the financial and economic activities of business entities has been announced, which was extended in 2020;



- Starting from June 1, 2018, 6 types of licenses and permits in the field of business activity were canceled, including 17 out of 38 licenses and permits were combined, and the term of issuing 15 licenses and 10 permits was shortened;

- the mechanism of allocating microloans to newly registered individual entrepreneurs and family entrepreneurs without establishing a legal entity has been simplified;

- the state fund for supporting the development of entrepreneurship, which provides financial support to business entities, was established;

- the application of criminal punishment in the form of deprivation of the right to engage in business activity against business entities is prohibited.

Also, an independent institute was established under the President of the Republic of Uzbekistan, which is a representative for the protection of the rights and legal interests of business entities. The primary objective of venture capitalists is to maximise rates of return on their investments. A viable exit mechanism where venture capitalists can turn illiquid stakes in private firms into realised return is extremely important for the development of the venture capital industry. Essentially, there are two common exit mechanisms available: an initial public offering (IPO) where the young company issues shares to the public; and a trade sale where the young company is sold to a larger one. Whatever the exit mechanism, a successful exit mechanism is critical to the existence of a vibrant venture capital market. Exit serves two key functions. First, financial and non-financial services provided to young companies lose their efficiency as companies mature. Thus, recycling venture capitalists' financial and non-financial assets through an exit and reinvestment is mutually beneficial to capital providers and investee companies. Second, the exit price serves as a monitoring device for capital providers to determine the ability of venture capitalists. That is, the exit and reinvestment cycle allows capital providers to weed out less successful venture capital managers whose industry-specific expertise may not match the needs of young firms (Black and Gilson, 1998).

CONCLUSION

The analysis of the data presented above shows that in the next years it is desirable to develop a new system aimed at encouraging the introduction of innovations to small enterprises, to fully use their opportunities in the development of small businesses in our country. The focus of priority on this type of reform programs creates the basis for achieving macroeconomic stability through the development of

small innovative businesses in our country. In 2022, the following can be said as the priority directions of reforms aimed at supporting small business and private entrepreneurship in our country:

- clearly defining criteria for small business entities, giving benefits depending on the grouping of enterprises according to the relevant business category;

- development of cooperation between private sector enterprises regardless of their size, business start-up and technological innovations;

- reforming the judicial system aimed at protecting private property rights.

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