

## FOREIGN EXPERIENCE OF INNOVATIVE FINANCING FOR EXAMPLE OF THE RUSSIAN FEDERATION

*Fayziyeva Nilufar Shukhrat qizi*

*PhD student at*

*Tashkent State Economic University*

**Abstract.** In this article we can see Foreign experience of innovative financing illustrated by the example of the Russian Federation. With the help of this article we can learn innovative financing techniques and apply them to our country practice. So you can see the types of innovative financing and its results are presented.

**Key words.** Innovation, equity financing, bank loans, venture financing, forfeiting, franchising.

### **Literature review**

Innovation is a result realized on the market, obtained from investing in a new product or operation (technology, process). Therefore, with all the variety of market innovations, an important condition for their practical implementation in any business is to attract sufficient investments (Vrublevskaya, 2012).

The innovative activity of the enterprise is primarily aimed at improving the competitiveness of products (services). Innovation is an activity that it is connected with the change and transformation of accumulated knowledge into a new improved product, a technological process used in the organization's activities, as well as a new approach to the services provided, introduced in the market of goods or services.

Maintaining long-term sustainability of high rates of economic growth is impossible without a direct increase in the share of competitive products and services on the market. World experience shows that the process of accelerating innovative development cannot be ensured only through single financing. Under the system of financing innovative activities (SFID) should be understood as a set of interconnected through financial relations and mechanisms of entities and institutions involved in financing innovative activities.

The innovation financing mechanism is a system of financial methods and tools aimed at financially supporting innovative projects and firms through the transformation

and redistribution of financial resources necessary for the creation and implementation of innovations.

Financing innovation involves finding sources of financing and their further use

The following forms of financing innovation are:

1. Own funds of the enterprise
2. Government funding.
3. Equity financing.
4. Bank loans.
5. Venture financing.
6. Leasing.
7. Forfeiting.
8. Franchising
9. Mixed financing.

Own funds of enterprises go to finance their own R&D, purchase of technologies, organization of production; A high share of own funds in financing of innovations indicates, firstly, that most innovations are not basic, but mainly modify existing technologies or improve existing ones on the market products and service; secondly, that there is significant potential for innovative development in the country due to the expansion of funding sources. The development of the latest innovative technologies that radically change the production process is not possible without access to financial support from various investors.

An important characteristic of financing innovation is the indicator of expenditures on research and development carried out in the enterprise sector of science at the expense of enterprises' own funds. Our value is rather modest (20.1% of all research and development costs), especially when compared with a similar indicator in developed countries. For example, in the USA, the share of industry in financing research and development is 66%, in Germany - 64.1%, Canada - 49.4%, France - 48.5%, Great Britain - 47.3% (Kovalev, 2012).

State funding. Innovative activities of priority importance are financed from state budget funds of various levels and specialized state funds. Budget funds are provided in the forms:

- a) financing of federal targeted innovation programs;
- b) financial support of promising innovative projects on a competitive basis.

The priorities of the state innovation policy of the Russian Federation include federal target programs: “National Technological Base”, “Development of Electronic Engineering in the Russian Federation”, “Development of Civil Aviation Engineering”, “Informatization of the Russian Federation”, “Dual-Use Technologies”, “Development of Industrial Biotechnology”, “Restructuring and conversion of the defense industry”, etc.

### **Analysis and results**

For innovative programs, the implementation of which is expected to receive state financial support, the following requirements are met:

- the right to participate in the competitive selection are innovative projects aimed at the development of promising (developing) sectors of the economy, subject to their partial financing (at least 20% of the amount necessary for the implementation of the project) from the company's own funds;
- the payback period should not exceed the established standards (usually 2 years);
- state financing of innovative programs that have passed competitive selection can be carried out at the expense of the federal budget allocated on a repayable basis, or on the basis of the provision of part of the shares of an economic entity in state ownership;
- innovative programs submitted for the competition must have positive conclusions from the state environmental review, state departmental or independent review.

According to various sources, the share of the state in the structure of external financing of innovations in the Russian Federation is 70-80%. However, Western experts believe that too intense and prolonged state support (in the form of free cash) is not good for the business, making it "unhealthy." Practice shows that enterprises with constant state financing often get stuck in the development and development (R&D) phase and this, as a rule, leads to catastrophic consequences - to "insurmountable laziness" (Market review, 2012.).

The inefficiency of state financing of innovation in Russia is associated with such reasons as the lack of transparency of innovation financing schemes, an unfair grant distribution system, the difficulty of obtaining investments at the initial stage of innovation development, restrictions on use (purpose), the danger of unconstructive political or administrative interference; lack of incentives to achieve high results; limited opportunities to attract and use the services of highly qualified managers of investment projects, including foreign ones, etc. As a result, mainly funded experiments that give formal results and reports, but are generally meaningless.

Equity financing. This form is available for enterprises organized in the form of a closed or open joint-stock company; allows you to accumulate large financial resources by placing shares among an unlimited circle of investors (borrowing money from buyers of shares for an indefinite time) for the implementation of promising innovative projects. By issuing securities, the investment loan is replaced by market debt obligations, which helps to optimize the structure of financial resources invested in an innovative project.

The following indicators are used to determine the nominal amount of the issue of securities :

- the amount of financial resources necessary for the implementation of the innovation project;
- expected capital gains and dividends on shares;
- the amount of cash receipts that the issuer expects to receive when placing shares.

Bank loans are one of the most important sources of financing innovative activities of a company at all stages of development. Banks have significant potential for lending to potential investors in the refinancing process, as well as to the subjects of innovative activity themselves. They are the main investors in Western venture capital funds, as they are able not only to provide financial resources to the needs of participants in innovation, but also to integrate the interests of a whole group of participants in the innovation and investment market. However, in the Russian Federation, the banking sector plays a barely noticeable role in financing innovation. The main reasons for the underdevelopment of bank financing of innovations are a short investment horizon and high risks of investing in innovative projects. An investor needs long-term bank loans, since he receives income from an innovation project only during the period when an innovation enters the market, and at the very beginning, before the innovation is introduced, he needs money resources to replenish working capital and form non-current assets. Crediting of innovative activities is usually carried out at the moment when the business is just starting and the borrower does not have sufficient cash flows to repay the loan. That is why the share of long-term loans provided by commercial banks is so small. In 2013, in the Russian economy, the share of long-term loans with a maturity of more than 3 years provided to legal entities amounted to about 45%, which is much less than the needs of enterprises in long-term liquidity (Trifilova, 2013). Bank loans finance no more than 3-4% of innovative projects. Moreover, when providing high - risk long-term loans, banks require certain conditions to be met. For example, in Western countries, a scheme is used as a collateral for bank loans of controlling blocks of shares of borrowing enterprises, while banks have the right to

participate in the management of the company by appointing representatives to the board of directors who monitor the company's activities

Since innovative activity includes a number of stages and various enterprises and organizations are engaged in it, it is important to ensure consistent financing of all its stages (R&D, development of a prototype, creation of a prototype, serial production of a new type of product) and all participants. The solution to this problem is facilitated by the development of a system and proper financing of innovative programs, project financing, the creation of special institutions that finance innovative activities: innovative funds, innovative banks, venture funds. Features of the system of financing innovation.

**Table 1**

**Foreign practice forms of organizing venture financing of innovation**

(Fedorovich, 2012)

Foreign practice shows that the most effective forms of organizing venture financing of innovation are:	
direct investments that increase both risk and profit if the outcome is successful;	joint investments of large innovative projects that minimize the risk of participants, but also reduce the personal profit of each investor;

Funds for venture funds come not only from large organizations, but also from pension insurance funds, insurance companies, state and private funds for support and development of small businesses, etc.

Venture capital is the most important source of the formation of innovative potential, increasing entrepreneurial activity and making a profit. The development of small businesses in the field of innovation is associated with a high risk of financing research and development and development and investments in the creation of new enterprises. The economic importance of private venture capital investors, in other words "business angels," is manifested in the support of venture companies in the early stages of their development, in the dynamics of financing aimed at investing equity capital, credit resources, or a combination thereof.

Analyzing the state of venture financing in the Russian economy, it can be argued that, despite the increase in venture capital investments in recent years, significant

scientific and technical potential in the field of technology and intellectual potential, there are factors limiting the development of venture entrepreneurship in Russia.

One of the most complex and topical problems in the development of venture capital business can be called the lack of a developed and systematic legal regulation of this type of activity. At the moment, the concept of “venture investment” is not even established in the legislation. For this reason, in the Russian Federation, the period of using venture financing is more than two years, of which it takes more than a year to register with the Central Bank, the Federal Securities Commission, as well as various approvals with a number of other state authorities. The final result of this activity is that investors refuse to invest, not having time to complete the entire registration process to the end.

In addition, Russian legislation does not contain regulations that are capable of regulating the activities of venture funds. This does not encourage the structures that are the main financial investors in the venture capital business (pension funds, insurance companies, industrial corporations) to invest in venture capital funds. Ultimately, the key expectations in the Russian venture business are assigned to foreign capital, and Russian capital flows into foreign venture companies, which ultimately becomes one of the acute problems of the country's economic development. While the passivity of Russian investors is alarming. It turns out a vicious circle (Samarskaya, 2016).

Forfeiting is the operation of transforming a commercial loan into a bank. The essence of the operation is as follows.

The buyer, who does not have at the time of the transaction the required amount of financial resources, writes out to the seller a set of bills of exchange equal to the value of the transaction object and interest for deferred payment, i.e. for providing a commercial loan.

The seller takes into account the bills received in the bank with the wording “without the right to self-circulation”, which exempts him from property liability in the event of insolvency of the drawer. For recorded payments, the seller receives money from the bank. As a result, the commercial loan is provided not by the seller, but by the bank, which agreed to take into account the bills and accepted the credit risk, that is, the commercial loan is transformed into a bank. The amount of credit risk, depending on the reliability of the drawer, affects the discount rate at which the bank takes into account bills.

Franchising is a form of indirect financing of innovation processes. Franchising is the provision by a company of an individual or legal entity a license (franchise) for the production or sale of goods or services under the trademark or service mark of this

company or its technology. Franchising can reduce costs for the development of production technologies, for conquering the market, the organization of personnel training, advertising, and also provides other types of financial technological and commercial assistance. This reduces the risk of losses associated with an attempt to independently create a new enterprise. The contract stipulates the period for which the license is issued, the territory where goods or services will be produced or sold, and the form of payment.

Due to the decrease in funding from the budget of innovation, it forces to seek extrabudgetary sources of financing, which leads to the commercial nature of the research results. A prerequisite for financing innovative activities is the search for both internal and external sources of financing. At the moment, we expect that the ratio of domestic and foreign investments in regional funds will be 1: 2, but the need to attract extrabudgetary methods of financing is a very difficult issue.

Mixed financing is carried out by attracting financial resources necessary for the implementation of innovative projects from various sources.

In developed countries, financing of innovation is carried out both from public and private sources. Most countries in Western Europe and the United States are characterized by an approximately equal distribution of financial resources for R&D between public and private capital.

The principles of the organization of financing should be oriented towards a plurality of sources of financing and require quick and effective implementation of innovations with their commercialization, which ensures the growth of financial returns from innovation.

Unfortunately, the current state of innovation and the investment climate in Russia is far from ideal. Today, reduced volumes of state financing, a lack of equity in enterprises and a lack of strategic thinking among their managers are not compensated by the influx of private capital.

The transition of the country's economy to an innovative development path is impossible without the formation of a globally competitive national innovation system. To create it, it is necessary to increase the demand for innovations from most sectors of the economy, increase the efficiency of the knowledge generation sector (fundamental and applied science), and overcome the fragmentation of the created innovative infrastructure.

### **Conclusion**

The existing system of financing innovation should not only be aimed at achieving the necessary level of financial support and internal costs, but also contribute to the

development of an innovative company from the sowing stage to the expansion stage. Therefore, the financing mechanisms operating within the framework of the financing system for innovative activities must comply with certain principles.

Thus, the consequence of many problems, including those related to financing activities in the field of innovation, is a decrease in the country's economic security. One of the most compelling reasons for increasing external threats is the excessive use of foreign investment, which leads to increased technological, raw materials and financial dependence on foreign partners, while domestic investment goes to finance foreign innovation.

### **References:**

1. Vrublevskaya O.V (2012). The budget system of the Russian Federation - M. Yurait.
2. Kovalev V.V (2012). Fundamentals of innovation management. - Unity- Dana.
3. Market review (2012). Direct and venture capital investments in Russia.
4. Trifilova A.A (2013). Management of innovative development of the enterprise Management of innovative development of the enterprise. — M .: Finance and credit.
5. Fedorovich V.O (2012). Fedorovich TV Financial management of large state corporations: sources of financing innovation // Finance and Credit. No. 40. S. 47-55.
6. Samarskaya I. M (2016) .“ Sources of financing innovation”: “Eurasian Scientific Journal.
7. 2015 - 2019 © Eurasian Scientific Journal (ISSN: 2410-7255)