

MODERN ORGANIZATIONAL FORMS OF FINANCING INNOVATION

Rakhmankulov Sobir Baxtiyorovich

Assistant, Banking department, Tashkent state university of economics, Republic of Uzbekistan

Abstract. *In this paper were studied modern organizational forms of financing innovation. Author considers that innovation as a key factor in the development of enterprises and given organizing innovative activities. Besides this, analyzed concept as the financing of innovative activities, as well as sources, methods and tools of financing. In the end of the article were presented costs of organizations engaged in innovative activities.*

Keywords. *innovative activity, costs, innovation, sources, methods, financing technology, mechanism.*

Introduction

Modern scientific and technological progress is inconceivable without an intellectual product obtained as a result of innovation. Innovation is a materialized result obtained from investing in new equipment or technology, in new forms of organization of labor production, services, management, etc. The process of creating, mastering and disseminating innovations is called an innovation activity or an innovation process.

Innovation management is one of the areas of strategic management carried out at the highest level of the organization. Innovation management is of great importance for the development of innovative activities of firms and their normal functioning in a market economy. Currently, the weak link in the organizational - economic mechanism of managing the national economy is the mechanism of innovation management. In a market economy, innovation should contribute to the intensive development of the economy, to accelerate the implementation of the latest achievements of science and technology in production, to more fully satisfy consumers in a variety of high-quality products and services.

A feature of the modern stage of innovation is the formation of scientific and technical complexes in the largest organizations, combining theoretical developments and the production process. The creation of integrated scientific-production-marketing systems is objectively logical, due to scientific and technological progress and the needs of the organization's market orientation. The success of innovation is largely determined by the forms of its organization and ways of financial support.

Sources and forms of financing innovation

Sources of financing innovative activities can be enterprises, financial and industrial groups, small innovative businesses, investment and innovation funds, local governments, private individuals, etc. All of them participate in the economic process and in one way or another contribute to the development of innovation. 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.

Theoretical frames of innovation management was researched by Balabanov I. [1], L. N. Ogoleva [2], Medynsky V. G. [3], Morozov, Yu. P. [4], Fathutdinov, R. A. [5]. The problem of financing innovative activities in Russia were studied by Sklyarova E. E. [6], venture financing management issues were researched by Aleshina, D.V.[7], Gabdullin, N.M.[8], Kalashnikov, A.A.[9], Kulebyakin, K.A.[10], Madatova, O.V.[11] and others. Principles and functions of management of production capacity were investigated by Tursunov B. and others [12-14].

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. 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. By type of property, sources of financing are divided into:

- state investment resources (budget funds, extrabudgetary funds, government borrowing, blocks of shares, state property);

- investment, including financial, resources of economic entities, as well as public organizations, individuals, etc.

These are investment resources of collective investors, including insurance companies, investment funds and companies, non-state pension funds. This also includes own funds of enterprises, as well as credit resources of commercial banks, other credit organizations and investment banks specially authorized by the government. At the level of the state and constituent entities of the Federation, the sources of financing are:

- own funds of budgets and extra-budgetary funds;

- attracted funds from the state credit-banking and insurance systems;

- borrowed funds in the form of external (international borrowing) and internal debt of the state (government bonds and other loans).

At the enterprise level, the sources of financing are:

- own funds (profit, depreciation, insurance compensation, intangible assets, temporarily free fixed and current assets);

- attracted funds received from the sale of shares, as well as contributions, earmarked income;

- borrowed funds in the form of budget, bank and commercial loans.

An important financial source of various forms of innovation is the budget allocation, through which targeted comprehensive programs and priority government projects are implemented. Budget appropriations form the Russian Fund for Fundamental Research, and also fund the federal fund for industrial innovations, etc.

Table 1

Organizational Forms of Financing

The form	Possible investors	Recipients of borrowed funds	Benefits of using a form	Difficulties using the form in our country
Deficit financing	Foreign governments. International financial institutions. Enterprises and organizations of the Russian Federation	Government of the Russian Federation	Possibility of state regulation and investment control	Inappropriate funding. The growth of external and internal public debt. Budget Expenditures
Joint Stock (Corporate) Financing	Commercial banks. Institutional Investors	Corporations. Enterprises	Variability in the use of investments in a corporation (enterprise)	The inappropriate nature of the investment. Work only in the securities market, and not in the market of real projects. High risk investor
Project finance	Government. International financial institutions. Commercial banks. Domestic enterprises. Foreign investors. Institutional Investors	Investment project. Innovation project	Targeted nature of financing. Risk sharing. Guarantees of the member states of financial institutions. High level of control	Dependence on the investment climate. High level of credit risks. Unsustainable legislation and tax regime

As can be seen from the table above, the available forms of financing innovative activities for individual enterprises are equity financing and project financing. In the vast majority of cases, projects that provide high-quality, competitive products are financed. For the success of the project, it is recommended to use an established, well-established technology, to produce products oriented to a sufficiently capacious and tested market.

Innovations - imitations, including improving, supplementing, replacing and replacing the basic model, are also highly likely to receive financing.

Thus, the success of innovation is largely determined by the forms of its organization and methods of financial support.

Innovation as an object of investment

When deciding on the implementation of innovations, the investor is faced with the problem of determining the lower boundary of the return on investment, which, as a rule, is the rate of return.

If the initiator of the innovation acts as an investor, then when making a decision on investing, he proceeds from internal restrictions, which primarily include the price of capital, internal production needs (the amount of necessary own funds for the implementation of production, technical, and social programs), as well as external factors, which include the rate of bank deposits, the price of capital raised, the conditions of industry and intersectoral competition.

The management of the innovator company faces at least one investment alternative - to invest temporarily available funds in bank deposits or government securities, receiving a guaranteed income without additional high-risk activities.

Therefore, the profitability of innovative projects should exceed the rate on bank deposits and the yield of government securities presented for redemption. Thus, the price of capital is defined as the net return on alternative investment projects.

The main organizational forms of financing innovation, adopted in world practice, are presented in Figure 1. [4]

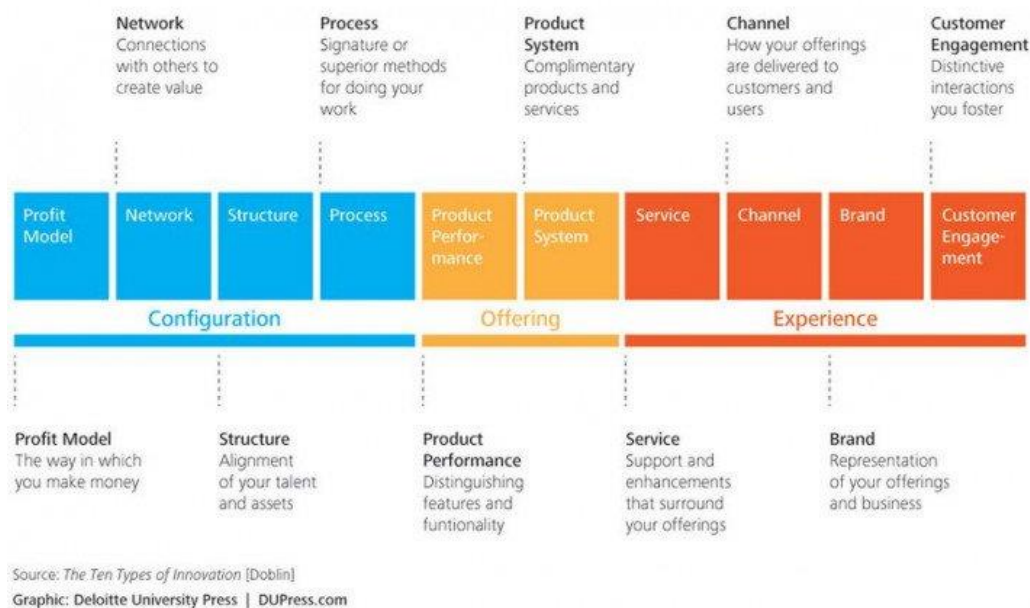


Fig.1. The Ten Types of Innovation Framework

Source: <https://blog.hypeinnovation.com/using-the-ten-types-of-innovation-framework>

As for the impact of competition on the definition of the internal rate of return, then, setting the rate of return on average values of profitability, it must be commensurate with the scale of production. This is due to the fact that the average industry profitability may be higher than the innovator's production profitability. Sometimes large companies deliberately lower prices, providing sufficient profit with significant sales.

The external investor, determining the rate of return of an innovative project, is guided by alternative investments. At the same time, the risk of investments and their profitability are measured: as a rule, investments with less risk bring the investor less income. Therefore, the investor agrees with the financial strategy (risk appetite, risk aversion) to decide on financing innovation. The risk of investing in financial instruments is assessed by financial managers. Investors making decisions on financing innovative projects take risk level into account as an addition to the expected rate of return.

The value of this allowance can vary within a very wide range and to a large extent depends both on the nature of the project and on the personality characteristics of the decision-makers on investment.

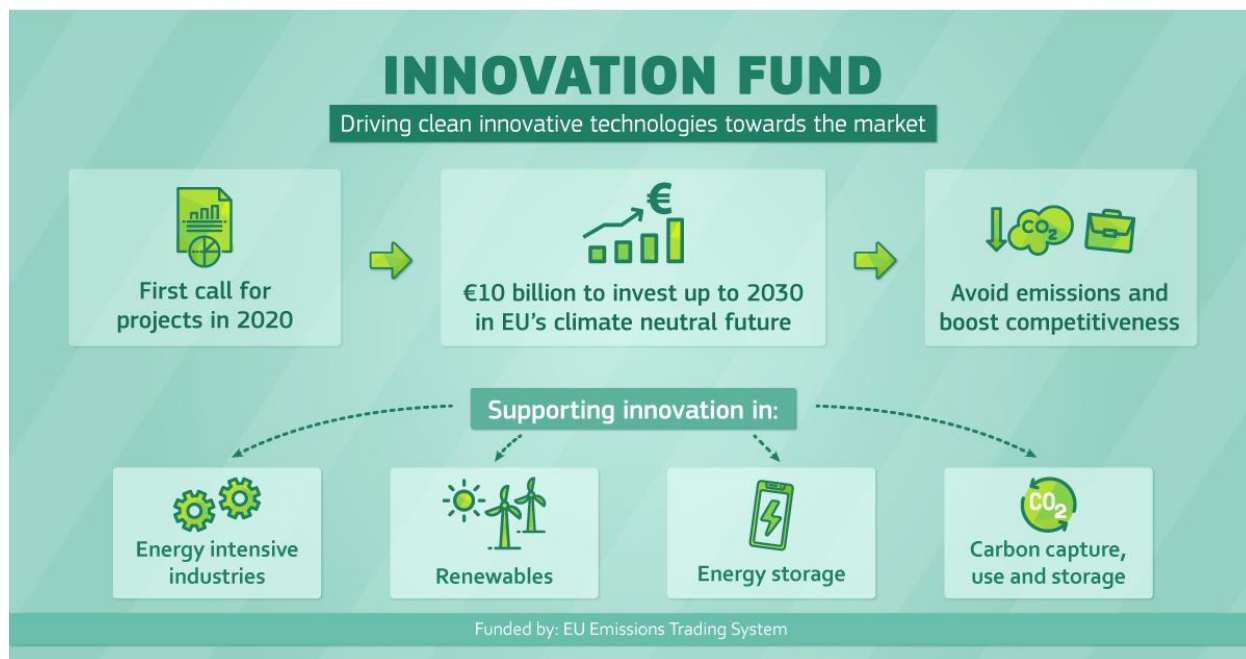


Fig.2. Innovation fund process

Source: <https://ec.europa.eu/clima/policies/innovation-fund>

Innovation risks (risks of innovation projects) are associated with innovation, the main purpose of which is to ensure competitiveness through the implementation of innovations. Innovative risk is the result of the combined action of all factors determining various types of risks: scientific, technical, economic, political, entrepreneurial, social, environmental, etc.

In the process of implementing an innovative project, operational activities, investment activities and financial activities are carried out. All types of activities are associated with typical risks of any investment project. Specific risks of innovative projects include: scientific and technical risks; risks of legal support of the project; risks of a commercial offer.

When making decisions on financing an innovation project, the investor takes into account a whole range of factors, among which the leading role is given to the expected level of return on invested capital. The expected rate of return consists of three main components: the price of capital (corresponds to the level of net profit of alternative investment projects), the level of risk premium and the expected level of inflation.

An empirically established relationship is: the more success an entrepreneur expects in the future, the greater the cost he must be prepared in the present.

3 Opportunities for attracting donor financing of innovative projects

There are so-called donor organizations for organizing and managing the financing of innovative activities, which can be either a fund, a private individual, or a government agency or company and which donate funds for a specific innovative project.

One of the possibilities of attracting donor funding for innovation is the budget allocation. The government provides for the allocation of federal budget funds to finance highly effective investment projects, subject to the placement of these funds on a competitive basis. Moreover, depending on the direction of the innovation project, the forms and sizes of budget investments have significant differences.

The right to participate in the competition is held by commercial highly effective innovative projects related primarily to the development of the economy, according to which the innovator invests at least 20% of his own funds and whose payback period does not exceed two years. Projects for the competition are submitted to the Ministry of Economy of the Russian Federation and should contain: a business plan and conclusions of the state environmental review, state non-departmental or independent review.

Another alternative for financing an innovative project is a grant. Grant (grant) - funds donated by the sponsor of the organization or to a private person for the implementation of a specific innovative project.

Both Russian and international donor organizations exist and work in Russia. Each donor works according to its own rules, which must be reckoned with and respected, since it is a matter of providing money and the investor takes care that they are not wasted.

Each donor organization has its own priorities, which may include certain areas of activity, preferred types of grant applicants, as well as regional preferences.

Another difficulty is that competition is increasing for gaining access to donor sources of financing, since often the funds of grant-granting funds are the only source of new financial resources for many innovative projects.

None of the organizations receives funds from grant-granting funds for the implementation of their programs automatically, just because it is a good organization that does an important job. To get a grant, a lot of work needs to be done.

Begin the process of finding grant funds in the following sequence:

- 1 The goals, objectives and expected results of the activity are determined, as well as the amount of necessary resources and the allocation of those that are already available.
- 2 Search for possible sources of donor funding.
- 3 Pre-selected donors who may be interested in the project.
- 4 Establishing contact with representatives of the selected donor.
- 5 Preparation of a preliminary application for funding and its submission to a donor organization.
- 6 Waiting for confirmation of donor interest in the project.
- 7 Submission of the final application package to the donor.

In practice, there are cases when an application that has been prepared for several months and has already been recommended for financing by a branch of a donor organization in Russia, for unknown reasons, as a result was never funded. So the potential interest of the donor does not mean that it will be possible to receive a grant. Gathering information about donor organizations is a very important part of the grant process. It is necessary to collect as much information as possible about potential grantors.

When choosing a donor organization, you need to consider the following points:

1. Most grantors limit their activities to certain regions, countries. But due to the fact that foreign funds started their activity relatively recently in Russia and the number of such organizations is constantly growing, we should not completely exclude those that have never before issued grants to Russia.
2. Funds mainly finance strictly defined projects or at least limit the types of activities that they are ready to finance.
3. As a rule, sponsors also restrict the type of grant recipient, such as, for example: an individual researcher, student, non-governmental environmental organization, etc.
4. Some large grantors with representative offices in Russia (Soros funds, Eurasia, etc.), as a rule, accept applications written in Russian. Other grantors (for example, the Know-How Fund, TACIS, etc.) may require applications in Russian and English.

Such general plan information is usually contained in any description of the activities of the fund and is available. It may not be enough to determine whether this or that fund is right for you, but it will be enough to highlight those where the project will not work.

Each donor organization usually indicates the most acceptable form of appeal. Some funds require a full application; others prefer to meet or phone with potential applicants. But most donors, as a rule, offer to send a request with a brief summary of the project and a description of the applicant.

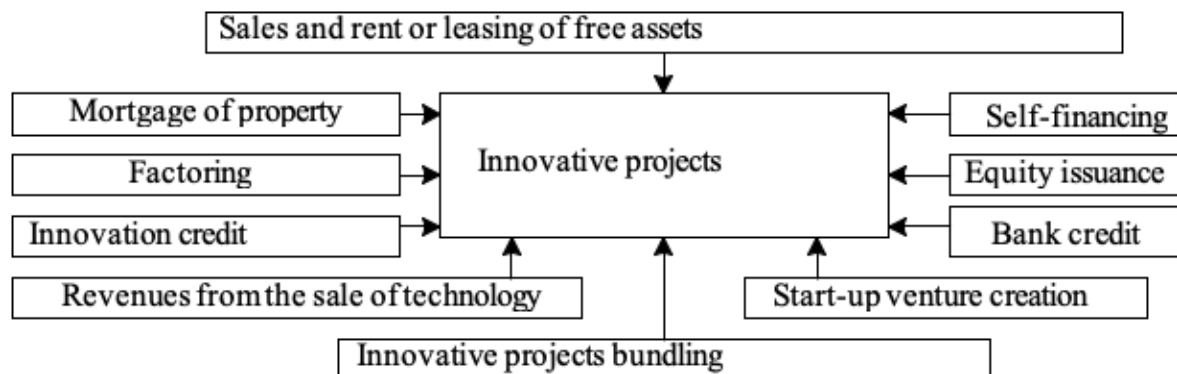


Fig.3. Innovative projects investment system

Source: <https://revistaespacios.com/a19v40n06/19400615.html>

Each fund operates according to its own rules and provides financing after consideration by the competition committee of applications of a certain type. In practice, many attempts have been made to create unified application forms. All of them allow you to collect most of the information required to apply to most funds. But we note that all unified or typical application forms relate to applications for financing public activities. Applications for financing scientific activities, as a rule, are more specific.

All sources of financing an innovation project can be divided into two groups: internal and external. The first group includes: - authorized capital; - undistributed profits; - depreciation savings; - additional capital generated by the revaluation of fixed assets; - short-term payables. However, the volumes of all internal sources are not able to compensate for the entire volume of financial resources required for investing in innovation, therefore, attention should be paid to a group of external sources of financing, among which the following can be highlighted: - investment credit and credit lines; - targeted bond loans; - shared project financing in the form of an additional issue of shares or the establishment of a separate subject of activity for an innovative project; - innovative loan; - additional issue of convertible shares; - issue of convertible bonds. The classification of forms of financing of innovative projects can be represented in the form of Figure 1. Figure 1 - Classification of forms of financing of innovative projects [6] Each of these sources has certain limitations in use. Thus, budgetary appropriations are presented to finance targeted state programs and projects in the form of competitive orders, grants, subsidies and subsidies. These funds are received mainly by large strategically significant projects. According to industry statistics, private equity and venture capital funds prefer to invest in telecommunications and consumer companies — about 30% of industry preferences, while only about 5% to support enterprises creating industrial equipment. Bank lending could be more widespread in financing innovative projects, but there are certain problems in this area. Thus, the problem of high interest rates is relevant not only in production and innovation, but consumers (both individuals and legal entities) of innovative products and technologies also do not have access to financial resources for their purchase, which, in turn, holds back the process of diffusion of innovations, their transfer and commercialization. All this makes it necessary to search for alternative forms of organizing the financing of innovative activity, which allows the efficient use of investment funds. An analysis of the experience of other countries that we conducted in [7] showed that guaranteeing borrowed funds is an effective tool for influencing the innovative development of the economy. Moreover, guarantees can be provided in full or in part, which will allow banks to compensate in whole or in part for losses arising from lending to innovative enterprises. One of the tools of the considered state mechanism for introducing innovations may be the creation of the Federal Innovation Fund (FIF), which is a system of accumulating targeted innovative capital and operating on the basis of endowment funds (for the state and business structures) and the principle of mutual funds for individuals.

Conclusions

The success of innovation is largely determined by the forms of its organization and ways of financial support. Sources of financing innovative activities can be enterprises, financial and industrial groups, small innovative businesses, investment and innovation funds, local governments, private individuals, etc. All of them participate in the economic process and in one way or another contribute to the development of innovation.

The main organizational forms of financing innovation: scarce, joint-stock and project. Available forms of financing innovative activities for individual enterprises are equity financing and project financing.

In the vast majority of cases, projects that provide high-quality, competitive products are financed.

When deciding on the implementation of innovations, the investor is faced with the problem of determining the lower boundary of the return on investment, which, as a rule, is the rate of return. The profitability of innovative

projects should exceed the rate on bank deposits and the yield on government securities presented for redemption. The price of capital is defined as the net return on alternative investment projects.

Innovation risks (risks of innovation projects) are associated with innovation, the main purpose of which is to ensure competitiveness through the implementation of innovations. Innovative risk is the result of the combined action of all factors determining various types of risks: scientific, technical, economic, political, entrepreneurial, social, environmental, etc.

There are so-called donor organizations for organizing and managing the financing of innovative activities, which can be either a fund, a private individual, or a government agency or company and which donate funds for a specific innovative project.

References:

1. Balabanov, I. T. Innovation management [Text]: textbook for universities / I. T. Balabanov. - PETER, 2001. - p. 304.- ISBN 5-31800054-1.
2. Innovation management [Text]: textbook / ed. L. N. Ogoleva. - M.: INFRA-M, 2001. -- p.238. - ISBN5-16-000546-3.
3. Medynsky, V. G. Reengineering of innovative entrepreneurship [Text] / V. G. Medynsky. - M.: UNITI, 1999.- p. 414.- ISBN 5-238-00021-0.
4. Morozov, Yu. P. Innovation Management [Text] / Yu.P. Morozov.- M.: UNITI, 2000.- p. 466.- ISBN 5-238-00197-5.
5. Fathutdinov, R. A. Innovation management [Text] / R. A. Fathutdinov.- M.: Intel-Synthesis Business School, 2010.- p.615.- ISBN 5-87-057-151-01.
6. Sklyarova E. E. The problem of financing innovative activities in Russia at the present stage // Scientific and methodological electronic journal "Concept". - 2017. - T. 2. - S. 296–298. - URL: <http://e-koncept.ru/2017/570062.htm>.
7. Aleshina, D.V. (2017). Venture financing – the way to develop an innovative economy, in *Topical Issues of Finance and Insurance in Modern Russia. Materials of the IV Regional Scientific and Practical Conference* (pp. 164–167). Minin University.
8. Gabdullin, N.M. and Mironova, M.D. (2017). Venture financing management as a factor of innovation growth in the Russian economy, *Science Review*, 3, pp. 66–70.
9. Kalashnikov, A.A. (2013). Features of the venture financing as a form of providing the investment process and the directions of its support, *Science Journal of Volgograd State University. Global Economic System*, 1, pp. 210–215.
10. Kulebyakin, K.A. (2011). Private mutual funds of venture investments in the system of investment of innovation activity in Russia, *Bulletin of P.G. Demidov Yaroslavl State University. Humanities*, 2, pp. 198–201.
11. Madatova, O.V. (2012). Key directions of the venture capital development in the modern society, *Bulletin of International Nobel Economic Forum*, 1-2(5), pp. 196–201.
12. SJ Ergashodjaeva, KS Krivyakin, BO Tursunov, HZ Ahmadovich. Evaluation of Textile and Clothing Industry Clustering Capabilities in Uzbekistan: Based on Model of M. Porter. *Int J Econ Manag Sci* 7 (493), 2, 2018
13. Principles and functions of management of production capacity. TB Ortikmirzaevich. *Journal of Process Management. New Technologies* 5 (4), 61-68, 2017
14. BO Tursunov. METHODOLOGY FOR ASSESSMENT THE EFFICIENCY OF PRODUCTION CAPACITIES MANAGEMENT AT TEXTILE ENTERPRISES. safeiqro sawarmoebaSi gamoyenebuli simZlavreebis efeqtianobis amaRleba sawarmoo maragebis marTvis safuZvelze. B TURSUNOV. ინოვაციური ეკონომიკა და მართვა, 85
15. Topsokhalov, A.I. (2016). Venture investment as a form of financing the innovation process, in *From Theory to Practice. Collection of Articles of the All-Russian Student Scientific-Practical Conference*, pp. 339–344.