

## Improving the Financial Mechanism for Investment and Innovation Activities

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### ABSTRACT

*The way out of any country's economic crisis and the realization of economic development, as well as the construction of a modern innovative economy, depends primarily on effectively directed investments. Improving the financial mechanism for ensuring investment and innovation activity in the national economy is one of the most urgent problems, especially in the current global economic pandemic. The article is devoted to some aspects of improving the financial mechanism of investment and innovation activities.*

**KEYWORDS:** *innovation, novation, financial regulation; financial mechanisms; innovation; innovation processes; budget financing; municipal economy; local issues.*

### Introduction

Along with the rapid development of science and technology, the world is witnessing an increasing intellectualisation of the basic factors of production. Innovation is becoming an important factor in the economic growth and market competitiveness of any country. This, in turn, requires the effective use of advanced scientific and technical developments in innovation in all fields, as well as the strengthening of the competitiveness of the existing economic potential. As a result, many countries today are investing heavily in research and innovation.

According to President Mirziyoyev, "World experience shows that a country that pursues an active investment policy has achieved sustainable growth of its economy. That is why investment is the engine of the economy, in Uzbek, the heart of the economy[1]. That said, "... science and innovation are undoubtedly at the heart of a country's development" [2].

Therefore, in ensuring the innovative and investment activity of the national economy, we must increase the effectiveness of the existing system of financial and credit mechanisms for "critical analysis of the implementation of the most important socio-economic tasks, targeted programs by sectors and regions, priority investment projects and other urgent tasks." [3].

It is known that the world economy is focused on activating innovative processes in the context of creating an effective market environment in overcoming crises. Typically, market mechanisms are often recognised as "failures" and fail to allocate resources efficiently only when business interests conflict with those of the state. The reallocation of resources belonging to the market system from low-profit sectors of economic activity to high-profit sectors will halt the activity of emerging innovation economies. According to experts, the market mechanism does not have the capacity to solve strategic tasks in science and technology on its own, nor does it have the capacity to carry out a profound structural reorganisation of the national economy [4].

At the same time, the question of the need for state intervention in the economy, contrary to economic theory and international practice, remains unclear. In defining the role of the state in economic, including financial, regulation, three main principles can be identified in existing

conceptual approaches. Historically, the concept of non-intervention by the state in economic processes was first based on the principles of economic liberalism, rooted in classical political economy theory and still relevant today. In the 1930s Keynesian theory, based on the active role of the state in pursuing economic policy in various ways in a crisis situation, became widespread in response to the deep recession of the US economy. Finally, the modern trend of the concept of "limited government intervention" in the economy, which emerged in the 1950s, was manifested in monetarism, among other doctrines. Monetarism prioritised the financial regulation of money and advocated the rejection of large-scale state intervention in the economy.

The reforms undertaken in our country to modernise production require not only updating the equipment and technological processes used in enterprises, but also improving their financing mechanisms. In this context, it is important to improve the financial and credit mechanism for increasing investment and innovation activity in the national economy, and to examine some aspects of its application in practice.

### LITERATURE ANALYSIS

The issue of improving the financial and credit mechanism to ensure investment and innovation activity in our country is becoming one of the most pressing issues. Some theoretical, methodological and practical aspects of investment, investment policy and investment climate have been implemented by a number of Uzbek economists. [5].

The issue of ensuring innovative economic growth, increasing innovative activity in the economy has made a worthy contribution from many foreign economists, including D.Bell, Y.Shumpeter, F.Makhlup, E.Toftler, K.Errow. Also, among the economists of the CIS V.Danilova, V.I.Verandsky, A.Kozireva, V. Logacheva, V.M.Geytsa, L.I.Fedulova and others studied in their scientific research. These economists explain innovative economic growth mainly by linking it to human capital and the factor [6].

The researches of economists of our country S.S.Gulomov, F.B.Shakirova, N. Rakhmatov, A. Mirzaev, M. Amonbaev and others focus on the development of innovative activities in the economy of Uzbekistan, directions and innovative management of enterprises. However, the issues of financial and credit mechanisms have been left out of achieving investment and innovation activity. [7].

### ANALYSIS AND RESULTS

In economic theory of innovative development, two conflicting notions have emerged about the role of state participation in the innovative development of the economy. One very important point is that government intervention in the commercialisation of innovation is ineffective because engineering success and commercial success are not always free [8].

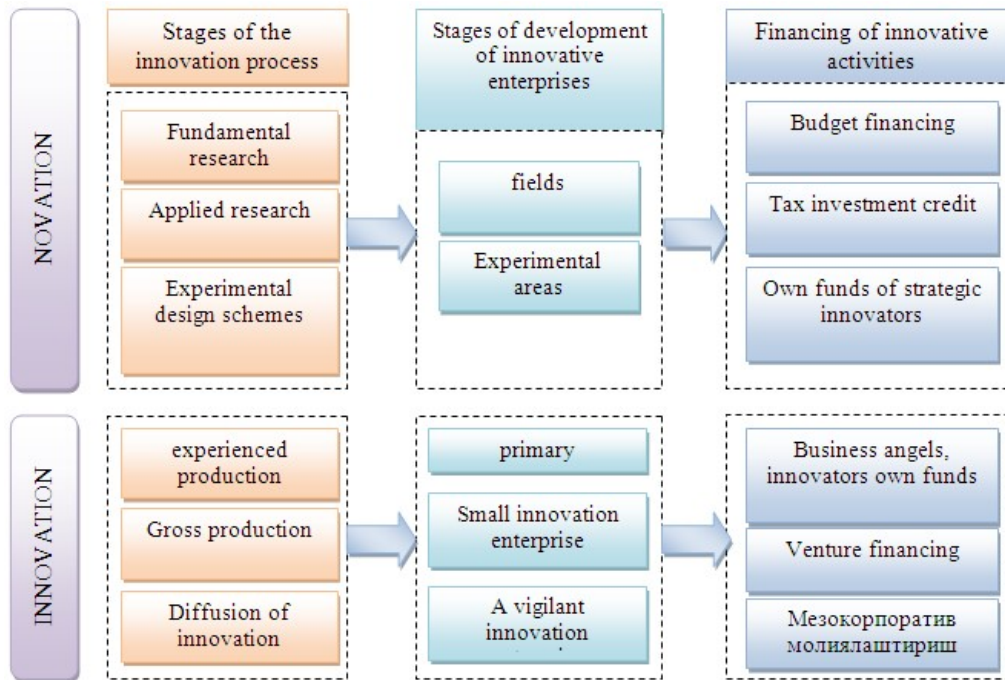


Figure 1. Financing of innovative activity at different stages of the innovation process. [9]

Figure 1 shows the sources of funding for the innovation process at different stages, showing the stages of innovation and the implementation of innovation. Innovative investments usually represent an innovative project, either in manufacturing entities or in entities engaged in special innovative activities. In order to achieve a certain quality and economic result, any production entity develops its own goal-oriented business plan, ie measures to ensure scientific and technological development. In general, they constitute innovative projects of an enterprise that is an object of entrepreneurship or a venture enterprise engaged in special innovative activities.

Commonly accepted concepts of the relationship between the state and the participants in the innovation process: three (ATM-enterprise-state) and its evolving modification, as well as the model of science-education and production (science-education-business-state-civil society institutions).

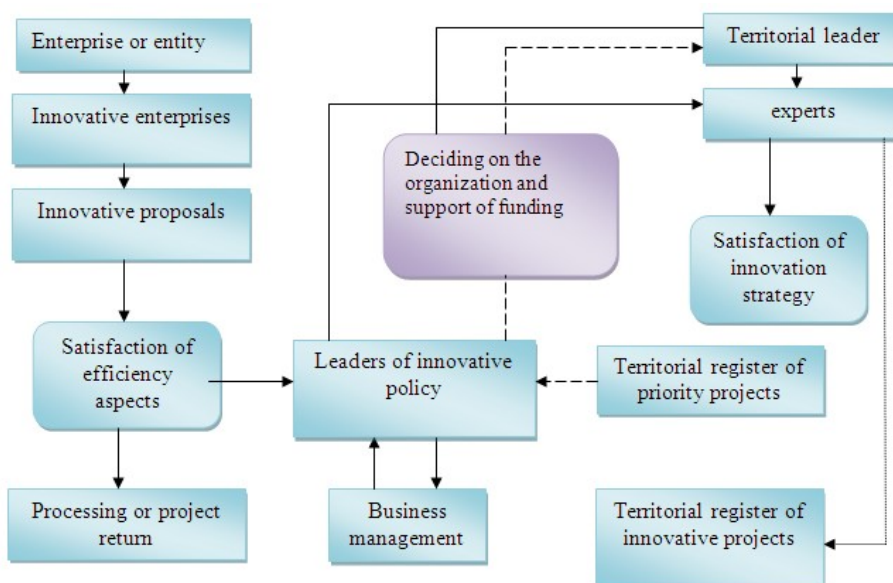


Figure 2. Innovative process of regional development and its impact on business [10]

In figure 2, when making decisions on the innovative process of economic development and organizing and supporting financing under the influence of business, enterprises will have to make their innovative proposals, and managers will have to pay special attention to its effectiveness and take them into account in the register of priority projects.

At the end of the year, the volume of foreign direct investment in Uzbekistan is expected to increase compared to the previous year to \$ 6.6 billion and exports to \$ 15.1 billion. Despite a 40 percent decline in foreign direct investment in the world and a 25 percent decline in world trade by 2020, the country has launched major investment projects [11].

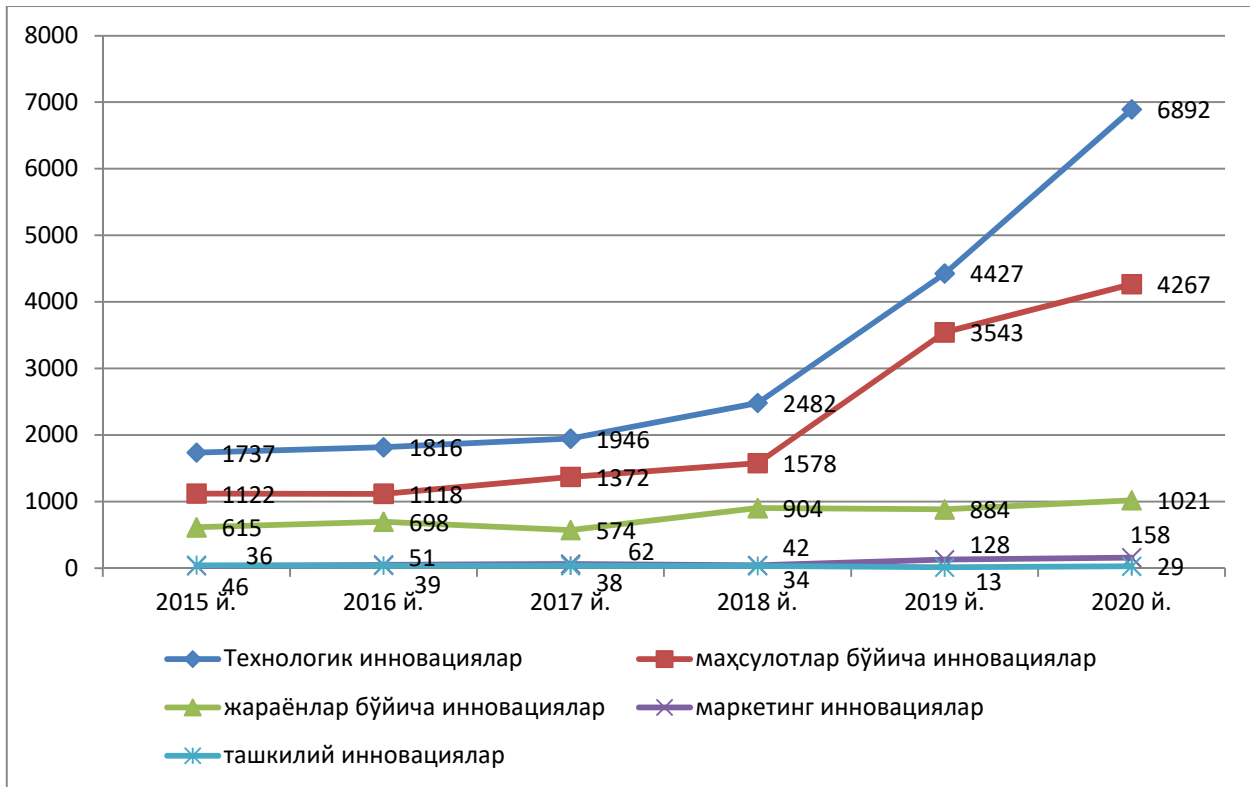


Figure 1. Growth trends of innovation activity in the Republic of Uzbekistan in 2015-2020 (in units). [12]

As can be seen from Figure 1, the level of innovation activity in the Republic of Uzbekistan in 2015-2020 was on an upward trend. In particular, in 2015, technological innovations amounted to 1737, and by 2020 this figure increased to almost 4 times, reaching 6892. The number of product innovations to further improve the quality of products in 2015 amounted to 1122, and by 2020 this figure was 4267. Marketing innovations had a downward trend in 2015-2020. In 2015, the number of marketing innovations was 46, and by 2020 it had dropped to 29. Process innovation decreased from 615 in 2015 to 574 in 2017, and a growth trend was observed from 2018 to 2020. Organizational innovations, on the other hand, had a growth trend between 2015 and 2020.

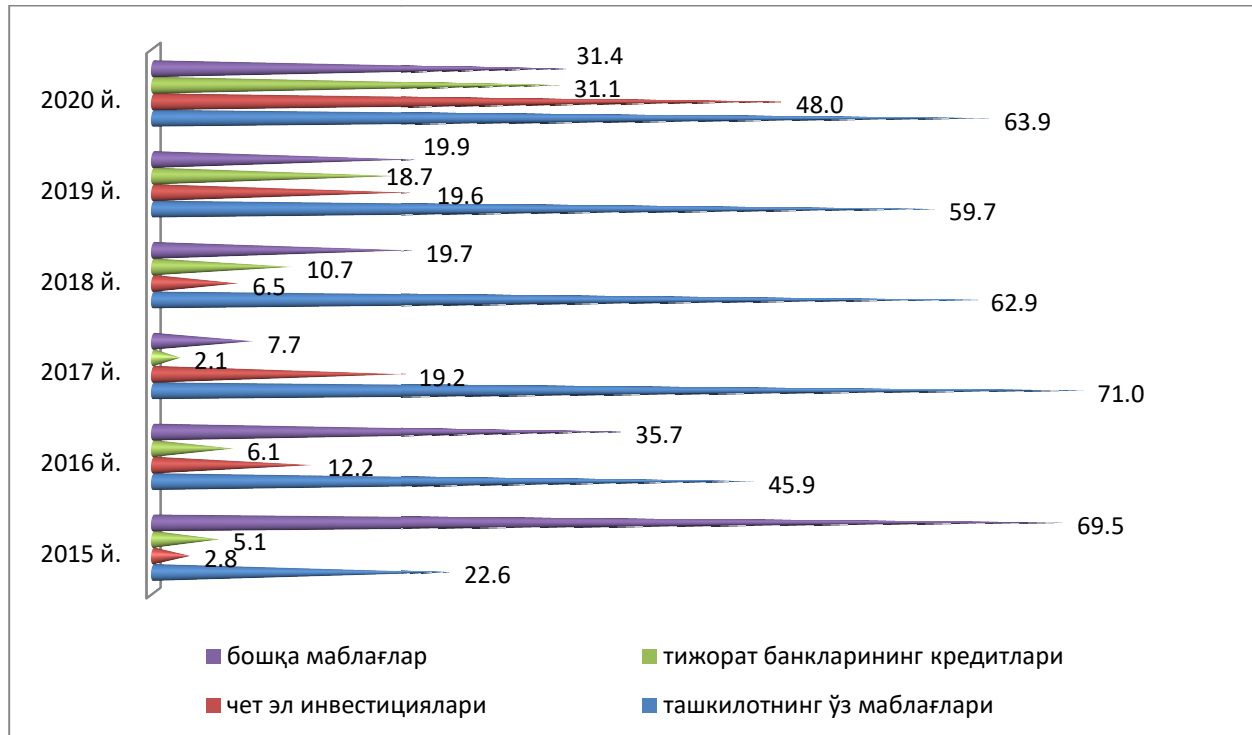


Figure 2. Expenditures on technological, marketing and organizational innovations in the Republic of Uzbekistan in 2015-2020 by sources of funding. (percent)[13]

In figure 2, drawing attention to the costs of technological, marketing and organizational innovations by sources of financing in 2015-2020, the funds allocated from the own funds of enterprises operating in the republic amounted to 22.6 percent in general sources of financing in 2015, 31.4 percent in 2020 or 3849492.2 million sum in 2015 from 1251792 million sum in 2020. Loans of commercial banks in 2015 amounted to 5.1% of the total, in 2020 - 31.1%, or in 2015 increased from 280139.3 million soums in 2020 to 1872137 million soums. Similarly, foreign investment increased from 2.8% of total funding sources in 2015 to 48% by 2020.

In our country, great attention is paid to the production of export-oriented and import-substituting products with the involvement of modern technologies. In particular, it is planned to finance investment projects worth 120 trillion soums by commercial banks in 2021.

In addition, 14 major investment projects worth about \$ 1 billion have been developed in the construction materials, light industry, agriculture, petrochemical, machinery and other sectors. [14].

## CONCLUSIONS AND RECOMMENDATIONS

In conclusion, it is necessary to establish and develop the following measures to improve the financial mechanism for ensuring investment and innovation activity in the country:

- training of qualified personnel to carry out innovative processes at enterprises and the establishment of enterprises producing modern equipment;
- creation and security of information systems for innovative activities in the field of information and communication technologies for the implementation of innovative processes.;
- professional development and capacity building of personnel implementing innovative processes;
- establishment of innovative project management process and involvement of specialists in innovative project management;

- development of measures to implement the generation of innovative ideas;
- serious renovation of existing production facilities and infrastructure and improvement of the investment climate in the regions;
- renovation of existing production facilities and infrastructure;
- it is necessary to improve the investment climate to localize the production of international companies

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