



Article

# Ways to Improve the Financing of Innovative Activities of Entrepreneurial Entities

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**Abstract:** The article presents a scientific-theoretical and practical analysis of the issue of financing the innovation activities of business entities. Based on the results of the analysis, scientific and practical recommendations have been developed to improve financing the innovation activities of business entities.

**Keywords:** Entrepreneurship, Business Entities, Innovation Activity, Financing, Loan, Grant, Subsidy, State Support

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## 1. Introduction

The role of business entities in the economy of Uzbekistan is steadily increasing, and in 2024, their share in the gross domestic product (GDP) amounted to 54.3 percent, in the volume of industrial production - 32.4 percent, in the volume of investments in fixed assets - 51.8 percent, in trade turnover - 84.0 percent, in the volume of services rendered - 57.0 percent, and in the volume of exports of products (works and services) - 33.3 percent [1]. Creating more favorable conditions for the development of business entities, which is important for the country's economy, is one of the priority tasks of the state, and financing the innovative activities of business entities, in particular, is one of the most important areas [2], [3], [4].

The country's transition to an innovative and digital economy requires business entities to implement and develop innovative activities. Implementation of such activities requires financing, and in this article we will discuss the problem of financing the innovative activities of business entities.

## Literature Review

Financing the innovative activity of business entities is one of the problems actively studied by foreign and domestic scientists and researchers, and in this part of the article, we will briefly analyze their opinions and conclusions on this issue [5], [6].

Scientists such as Anabela M. Santos from Spain, Michel Sinsera from Belgium, and Giovanni Cherulli from Italy studied eight sources of financing the innovative activities of business entities, including internal funds, bank loans, credit lines, trade credit, equity, grants or subsidies, leasing, and factoring. According to foreign scientists, not all sources of financing have an equal impact on the development of innovative activity. If they are

used comprehensively, this will allow not only the development of innovative activity of business entities, but also their comprehensive growth.

Table 1 reflects these sources of financing and the degree of their influence on the development of innovative activity of business entities.

Local researcher Atamuradov Sh. A. studied the financing of innovative activities of business entities through venture capital, and according to him, in the experience of world countries, venture capital greatly contributes to the financing of practical and real innovative ideas. The experience of such countries as the USA, Japan, Singapore, Finland, and India in this area shows that financing through venture capital can radically change the quality of the innovative economy model, provide it with investment, lead to economic growth, and eliminate investment shortages.

Atamuradov Sh. A. noted that the innovative activity of business entities is financed through private investments. The purpose of investing is to obtain profit in the future if the innovative activity of business entities is successful. Venture financing is unique, characterized by a high level of risk and a long-term nature (from three to seven years) [7].

In general, a scientific and theoretical analysis of the opinions and conclusions of foreign and domestic scientists and researchers on the financing of innovative activities of business entities shows that the role of the state in this area is paramount, and its support of business entities, mainly through grants, subsidies, and other similar sources of financing, provides an important impetus for the development of innovative activity [8].

**Table 1.** Sources of financing for innovative activity of business entities [9] No Sources.  
Brief description. Degree of influence on innovation activity.

No.	Sources	Brief Description	Degree of influence on innovation activity
1.	In the case of finance	Cash or cash equivalents arising from savings, retained earnings, or the sale of assets	Middle
2.	Bank loans	Value of long-term repayable loan and financing (interest rate)	Low
3.	Credit lines	Short-term loans that can be fully or partially used at their discretion within a predetermined limit	Low
4.	Trade credit	Payment to suppliers of goods, services, or equipment at a later, mutually agreed time	Low
5.	Equity	Funds arising from the sale of a business entity's share	Middle
6.	Grants or subsidies	Non-refundable funds, low-interest or interest-free loans provided by the state	High
7.	Leasing	Making regular payments for the use of a fixed asset without directly owning it	Low
8.	Factoring	Selling customers' debts to a factoring company for immediate cash, but below their value	Middle

## 2. Materials and Methods

This article was written in accordance with the requirements of IMRAD, and research methods such as scientific-theoretical, theoretical-practical, economic-statistical, online, and comparative analysis were mainly used. The method of scientific-theoretical analysis was mainly used to cover the "Literature Review" section of the article, while the method of economic-statistical analysis was used to discuss the "Analysis and Results" section. Theoretical-practical, online, and comparative analysis methods were used in both parts of the article [10], [11], [12].

The data for the "Literature Review" were mainly obtained from the search engines Google, Google Scholar, and Yandex, as well as from the Elsevier international scientific journals database. In this case, the main attention was paid to the study of online and published literature over the past 6-7 years, and when analyzing the scientific and theoretical views of foreign scientists on the topic, English-language literature was used, as well as Uzbek and Russian-language literature when studying the opinions and conclusions of local researchers.

When collecting data for "analysis and results," primary and secondary research sources were mainly used. When using primary sources, interviews were organized with scientists, researchers, and specialists related to the financing of business entities, while when using secondary sources, references were made to Google and Yandex search engines, official websites, as well as reports and statistical bulletins of relevant organizations.

When writing the article, an attempt was made to use information at a high level of efficiency, to observe logical sequence, consistency, and continuity, and not to use the "copy-paste" method, which does not comply with anti-plagiarism rules, which contributed to the development of scientific and practical recommendations for financing the innovative activities of business entities.

## 3. Results and Discussion

Today, in Uzbekistan, attention is paid to the issues of financing the innovative activities of business entities, the goal of which is to increase the production of import-substituting and export-oriented products, increase employment and sources of income for the population, develop globally competitive national brands, and achieve the formation of an innovative, digital, green, low-carbon, sustainable, and circular economy. In achieving this goal, business entities can act as a "driver," for which the development of their innovative activities through financing is of great importance. In this part of the article, we will analyze the current state of financing the innovative activities of business entities.

We would like to draw your attention to Table 2. It analyzes the amount of innovations introduced by small and private business entities in Uzbekistan over the past three years, that is, in 2022-2024. Before discussing the data analysis presented in Table 2, we would like to briefly outline the types of innovations - technological innovations, marketing innovations, and organizational innovations:

**Table 2.** Analysis of the volume of innovations implemented by small and private businesses in Uzbekistan in 2022-2024 [13].

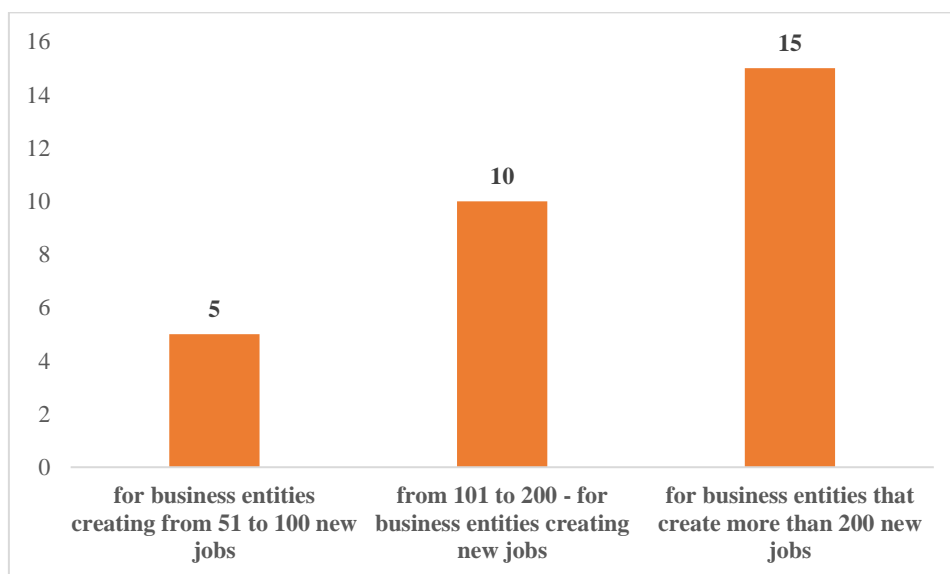
№	Types of innovation	2022	2023	2024
1.	Technological innovations	2778	1541	1815
2.	Marketing innovations	129	40	45
3.	Organizational innovations	33	54	278
	<b>Total:</b>	<b>2940</b>	<b>1635</b>	<b>2138</b>

- Technological innovations: innovations aimed at the development and implementation of technically and technologically new or improved products (works and services);
- Marketing innovations: innovations aimed at introducing new or improved methods, including changes in the design and packaging of products, using new methods of selling and presenting products (works and services), and forming new pricing strategies;
- Organizational innovations: innovations aimed at introducing new or improved methods of organizing and conducting business, creating jobs, and establishing external relations.

Now, returning to the data in Table 2, the number of innovations introduced by small and private businesses in 2023, especially technological innovations and marketing innovations, sharply decreased compared to 2022, and continued to grow in 2024. However, the number of organizational innovations continues to grow steadily, even showing extremely high results by 2024. If we focus on the above description of organizational innovations, we get an idea of the following two main reasons for such growth:

Firstly, by the Decree of the President of the Republic of Uzbekistan dated June 12, 2023 No. UP-93 "On Measures Aimed at Establishing Mutually Beneficial Cooperation with Business Entities in Poverty Reduction," the provision of benefits and preferences to business entities that create from 51 to 200 or more new jobs in such areas as "financing," "taxation," "provision of necessary funds and infrastructure for the activities of business entities," "simplification of tax and customs administration," and "strengthening the legal protection of business entities" [14]. Further accelerated the pace of implementation of organizational innovations. Indeed, in the description of the above-mentioned organizational innovations, there is a phrase "innovations aimed at introducing new or improved methods of job creation," and the tasks defined in this Presidential Decree correspond to the description of organizational innovation.

According to the decree, such business entities will be included in the "20 thousand entrepreneurs - 500 thousand qualified specialists" program, and they will be provided with differentiated benefits and preferences in the above-mentioned areas. Since the problem under consideration is related to financing, in Figure 1 below, we present information on the benefits and preferences provided in the direction of financing.



**Figure 1.** Maximum amounts of loans allocated for the implementation of projects of business entities at a rate of 14 percent for a period of up to 7 years, billion soums [14].

As can be seen from Figure 1, by Presidential Decree No. UP-93 dated June 12, 2023, the allocation of loans in the amount of 5 billion soums for business entities creating from 51 to 100 new jobs, 10 billion soums for business entities creating from 101 to 200 new jobs, and 15 billion soums for business entities creating more than 200 new jobs at a rate of 14 percent for a period of up to 7 years has been established. This undoubtedly contributed to a sharp increase in the number of organizational innovations introduced by small businesses and private entrepreneurship in 2023.

Secondly, by the Decree of the President of the Republic of Uzbekistan dated September 30, 2022 No. UP-228 "On Measures for Further Expanding the Export Potential of Business Entities," the allocation of financial resources to business entities for financing pre-export and export-related trade operations at the expense of the Export Support Fund, based on the volume of exports carried out during the last 12 months [15], also became an important impetus for increasing the volume of organizational innovations.

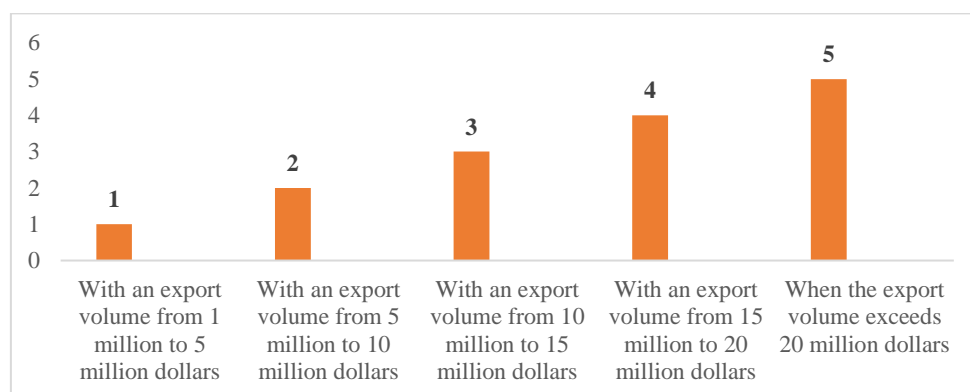
If we pay attention to the above description of organizational innovations, then there is a phrase "innovations aimed at introducing new or improved methods of establishing external relations," which reflects the financing of export activities of business entities, that is, the financing of organizational innovations.

Figure 2 presents data on the financing of export activities of business entities, defined by Presidential Decree No. UP-228 dated September 30, 2022.

As can be seen from Figure 2, if the export volume of a business entity for the last 12 months is from 1 million to 5 million dollars - up to 1 million dollars, from 5 million to 10 million dollars - up to 2 million dollars, from 10 million to 15 million dollars - up to 3 million dollars, from 15 million to 20 million dollars - up to 4 million dollars, and over 20 million dollars - up to 5 million dollars, financial resources are allocated from the Export Support Fund. In addition, if business entities that meet these requirements implement a single international standard and obtain a certificate, they will be provided with financial assistance in the amount of no more than 30 thousand US dollars.

From this, we can conclude that the support of export activities of business entities by Presidential Decree No. UP-228 made it possible to observe a regular, even sharp growth trend by 2024 in the number of organizational innovations introduced by them.

In general, as mentioned above, in addition to organizational innovations of small and private business entities, there are also technological and marketing innovations, which we will try to dwell on in our further research. However, we can confidently say that the main reason for the observed trend of further growth in these types of innovations in 2024 can be attributed to reforms (such as organizational innovations) carried out by the state in order to finance them. Because in our country, the role of the state in financing the innovative activities of business entities is extremely important.



**Figure 2.** Financial resources allocated from the Export Support Fund based on the volume of exports of business entities, million dollars [15].

#### 4. Conclusion

In conclusion, in our country, great attention is paid to financing the innovative activities of business entities, which can be seen from the above analytical data and the regulatory legal acts considered. At this point, we would like to reiterate that the state is the main force in financing the innovative activities of business entities. Based on this, we would like to present our scientific and practical recommendations below:

- It is necessary to further increase the sources of financing for the innovative activities of business entities: as can be seen from the above analysis, such sources of financing in our country mainly consist of loans allocated by commercial banks (mostly banks with state ownership) and subsidies allocated by various state funds, in addition, it would be advisable to fully utilize leasing, factoring, credit lines, trade credit, private capital, internal funds, grants, and other similar sources. The more sources of financing are used, the more business entities will have the opportunity to implement and develop innovative activities;
- It is necessary to increase the number of reviews and competitions providing for the allocation of grants for financing the innovative activities of business entities: such competitions in our country are insufficient, which can also lead to a weak interest of entrepreneurs in the implementation of innovations. During the study, we only learned about the competition for startup projects implemented jointly with the Agency for Innovative Development under the Ministry of Higher Education, Science and Innovation of the Republic of Uzbekistan and the Russian Federation. We believe that holding more and more such reviews and competitions will lead to the further development of innovative activity of business entities;
- Statistics on startups, which occupy an important place in the topic "Innovative Activity of Business Entities," need to be improved: due to the inaccuracy of such statistics during the study, we decided to leave our research on it for further research. It is precisely the poor statistics that can hinder the attraction of international venture investors who want to invest in startups. In our country, we believe the time has come to create a website that will contain all the perfect statistics about startups.

In general, much positive work is being carried out in our country to finance the innovative activities of business entities, which in the future will lead to the formation of a class of successful entrepreneurs not only at the national level, but also at the international level. We hope that the scientific and practical recommendations developed as a result of our research will make a worthy contribution to this.

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