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THE WAYS OF FINANCING THE INNOVATIVE PROJECTS

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Abstract. This paper learns to what extent sources of financing of innovative projects are different from those of other projects in terms of theoretical approaches and evidence based on data. We explain that innovative projects are based on significant component of research and development expenditures. These are of particularly useful for government policy in assessment of specific policies to spur innovation and reduce capital cost according to its level in the absence of market failures. We try to give some information about investment in research and its aspects.

Key words: innovation, financial structure, financing gap, innovative project

INTRODUCTION

Innovation is an aspect of increasing significance in contemporary companies, institutions and society. Innovation as R&D is associated to be an important input in industrial companies and on competitiveness, employment and long-term economic performance. Nowadays, changing the scale and structure of production, the technological and scientific process has an important impact on the state of the entire world economy. As other projects, innovative ones require financial resources. According to the theory of investment, innovative projects have several characteristics that distinguish it from other investments. First, a significant number of resources is required to scientists, engineers and staff salaries. Their attempts to create intangible assets lead to the knowledge base creation as a source of future profits for the company as a result of development of new products, processes, design and marketing. Study expenses and staff salaries are increasing over time, implying significant adjustment costs for firms. Secondly, innovative projects are activity that have abstract output. Investment takes place over a long period of time, while new information decreases uncertainty and it requires an analysis of projects throughout the lifetime. Another character of innovative projects corresponds to the creation of intangible capital partly incorporated in human capital, with a low salvage value, presenting implications on funding innovative projects. Innovation decreases the size of the company's fixed assets while increasing the level of investment in research.

IMPLICATIONS ON SOURCES OF FINANCING

In general, most of companies can use internal and external resources (bank loans and similar, equity etc) to finance innovation projects. Apparently, the firm will choose an investment level to finance so that the financial structure to be established at the lowest cost of capital. Moreover, the aspects of financing innovation result from the composition of needs to finance and its implications in terms of achievable performance. So, some innovative projects are allocated under-investment. Actually, under-investment is based

on two reasons. First, the private R&D rate of return is less than the social rate of return because of knowledge externalities. Secondly, financial market imperfections manifested mainly as information asymmetry between participants in the investment process involves the company's innovative financial constraint. Moreover, some companies' own resources are insufficient to provide their investments in innovation. Therefore, they need other external financing sources to make new projects feasible, and the entrepreneurs needs credit to make new solutions in the means of production (Schumpeter, 1982).

During the time of economic and fiscal crisis, the available resources are getting scarcer, refundable credit from development banks, under specific conditions for the needs of innovative firms, is an alternative for stimulating innovation in companies and an instrument of anti-cyclical economic policy. Although the federal government provides specific reimbursable financing programs for innovation investments, micro, small and medium-sized enterprises face serious difficulties to access these resources. Moreover, by other reasons, the lack of guarantees asked by financial organisation to fund small business operations is very relevant because investment in fixed assets tends to be relatively smaller. Although technology is one of the most determinant assets of companies' success, usually it is not accepted as collateral due to the difficulty in estimating the monetary value of intangible assets (Jang & Chang, 2008).

THEORETICAL BACKGROUND

In order to learn the optimal ways of financing innovative projects, this paper explains relevant literature. And also, it gives some information about the theoretical relationship between financing structure and R&D activities and the theoretical relationship between government subsidies and R&D activities.

Financing the innovative projects has been the focus of attention for scientists all of time. Most of scientists have been trying to find out optimal ways of financing the innovative projects. One of such kind of scientists is Alfred Spielkamp and he shared his own views on this topic in 2009. He stated that the specific economic characteristics of innovative projects (risk and uncertainty, information asymmetries, moral hazard, lack of collateral) discourage institutional investors from investing in innovative projects. Also, Richard Cunha Schmidt explained his knowledge on this topic that, innovative projects are usually invested with some specific programs for refundable financing. However, small companies and organisations still come across difficulties to access these resources. The lack of required guarantees is one of the main challenges. How important this field is for the development of Uzbekistan was often mentioned by the first president I, Karimov. As the President of the republic of Uzbekistan I. Karimov mentioned "... it is necessary to develop the export program of our production, goals of foreign trade should be reached, profit of foreign currency should be increased, products based on high technologies should be created, and information about our high goals which we set before ourselves shouldn't be spread". The investments character of an enterprise is limited by the cost of internal financing and external financing, therefore, internal financing is the main source of investments for R&D investments. Hall (2002) stated that small companies experience high costs of R&D capital, and there is a positive relationship between internal

cash flow and R&D investments. Moreover, owners of companies need government organisations to give redress and remedy by financial subsidies and government subsidies have a significant stimulating effect on corporate R&D investments (Weimin Jie,, 2009). However, there are also some literatures that, government subsidies for specific businesses or organisation may create some problems and raise the price of relative factors, then crowding out parts of the private innovative investments (Shrieves, 1978; Lichtenberg, 1984).

SOLUTIONS

Federal government tax credits

While applying for an R&D tax credit can require a fair amount of paperwork to demonstrate you satisfy the funding requirements, the size of the credit available to entrepreneurs means applying can really be worth your time.

To be eligible, your business has to show evidence of "experimental development." For example, it might be an advance in a process on your shop floor or one generated by key people on your team. Working with external consultants allows you invest your time in other areas of the business and ensures that day-to-day operations will not be disrupted.

Grants for innovative projects: Depending on your business sector, you could have access to federal government grants and financial assistance for your innovative projects.

Business incubators: Business incubators (or accelerators) commonly provide young companies with free or cheap office space, as well as administrative, logistical and technical support. Incubators generally focus on high-tech start-ups. Local economic development incubators will often accept a wider range of business types and industrie

Bank financing: You can also to finance your innovation projects with a business loan. Most of banks offer long-term financing to companies that want to innovate and can show that their investment will have a positive effect on their bottom line. You need a clear business plan that demonstrates the viability of your project.

CONCLUSION

In general, the financing of innovative activities can create a foundation for the economic development of any country. True, it must be admitted that the results of innovative projects are not always as good as we expect. Nevertheless, any company should find internal and external financial resources to finance its innovative projects.

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