

# The Significance of Venture Capital on the Digital Economy

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**Abstract:** This article highlights the role and importance of venture capital in the digital economy. In addition, the rapid growth of new industries such as personal computers, nanotechnology, hi-tech and biotechnology has been largely driven by venture capital.

**Key words:** venture, venture capital, digital economy, venture firm, venture business.



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## INTRODUCTION

Today, the role of the digital economy in the world and its development trends are growing. For example, the change in the volume of data flow was 100 gigabytes per day of global traffic based on the Internet Protocol (IP) in 1992, while in 2019 this figure exceeded 89,000 Gb per second.

Given that these data relate to the initial stage of development of the digital economy, it is not difficult to imagine the pace of its development. According to forecasts, by 2022 the volume of global IP-traffic will reach 150,700 Gb per second, which will be due to the increase in the number of new users on the Internet and the further expansion of the Internet. By 2025, the share of the global digital economy in GDP could reach 24.3% to \$ 23 trillion. In Uzbekistan, this figure should reach 30% by 2030.

Globally, the two countries are leaders in the geography of digital economy development. These are the United States and China. These countries account for 75 percent of all patents related to blockchain technology, 50 percent of the Internet of Things cost, and more than 75 percent of the global market for cloud computing open technologies. Most notably, they control 90% of the market capitalization of the world's 70 largest digital platforms, driven by the pursuit of global dominance in technology. Given that the United States and China rank first and second in the world in terms of GDP, and the next three years the digitalization of the world economy and Internet employment will increase by 22% (remote job creation will fall sharply) and programmers' salaries will increase 3-5 times in the US and Europe. the high one can be convinced once again that digital technologies are of strategic importance in the development of the country's economy.

## LITERATURE REVIEW

In their work, foreign scholars P. Gompers and J. Lerner [1] analyzed the importance of venture capital, its role in the financial market, and the many mechanisms developed by venture capitalists to address the challenges that arise at each stage of innovation processes.

In his book, the Russian scientist Yu.P.Ammosov [4] examined the history of the emergence and development of venture capitalism, its role in the development of high technology and the creation of new fast-growing technology companies. His work analyzes the economic, legal, political, technological and cultural aspects of venture capital.

In his work, M.A. Fedotov [5] described venture financing as a key factor in innovative development.

Uzbek scientists OM Abdullayev, AA Fattakhov, K. Akhmedov [6] in their work considered venture capital as one of the sources of commercial financing of the firm's innovative activities.

## RESEARCH METHODOLOGY

This paper uses the methods of analysis, comparison, induction and deduction of the concept of venture capital and innovation processes.

## ANALYSIS AND RESULTS

Today, in the age of computerization and high technology, the digital economy is affecting every aspect of our lives: health, education, internet banking, government. According to the Resolution of the President of the Republic of Uzbekistan "On measures for the widespread introduction of digital economy and e-government" dated April 28, 2020, PP-4699, it is planned to double the share of digital economy in GDP by 2023.

President of the Republic of Uzbekistan Sh.M. As Mirziyoyev stated in his Address to the Oliy Majlis on January 24, 2020: ... we know very well that the formation of a digital economy requires the necessary infrastructure, a lot of money and manpower. But no matter how difficult it is, if we do not start this work today, when will we start?! It will be too late tomorrow. Therefore, the active transition to the digital economy will be one of our top priorities for the next 5 years. Digital technologies increase the quality of products and services and reduce unnecessary costs. Most importantly, raising digital literacy in rural areas will increase employment (without excessive costs) and drastically reduce poverty.

The current giants of the information technology business, which is an integral part of the digital economy, DEC, Apple Computers, Compaq, Sun Microsystems, Microsoft, Lotus, Intel, Facebook (Meta), Amazon have achieved their current position in many respects due to venture capital investment. In addition, the rapid growth of new industries such as personal computers, nanotechnology, hi-tech and biotechnology has been largely driven by venture capital. [2, 8]

According to academician of Uzbekistan Gulyamov S.S. the digital economy is the collection of large amounts of data (BIG DATA) over the Internet and mobile technologies and their processing using digital technologies to increase the efficiency of business models based on the creation of new laws and knowledge and meet the needs of consumers. [7]

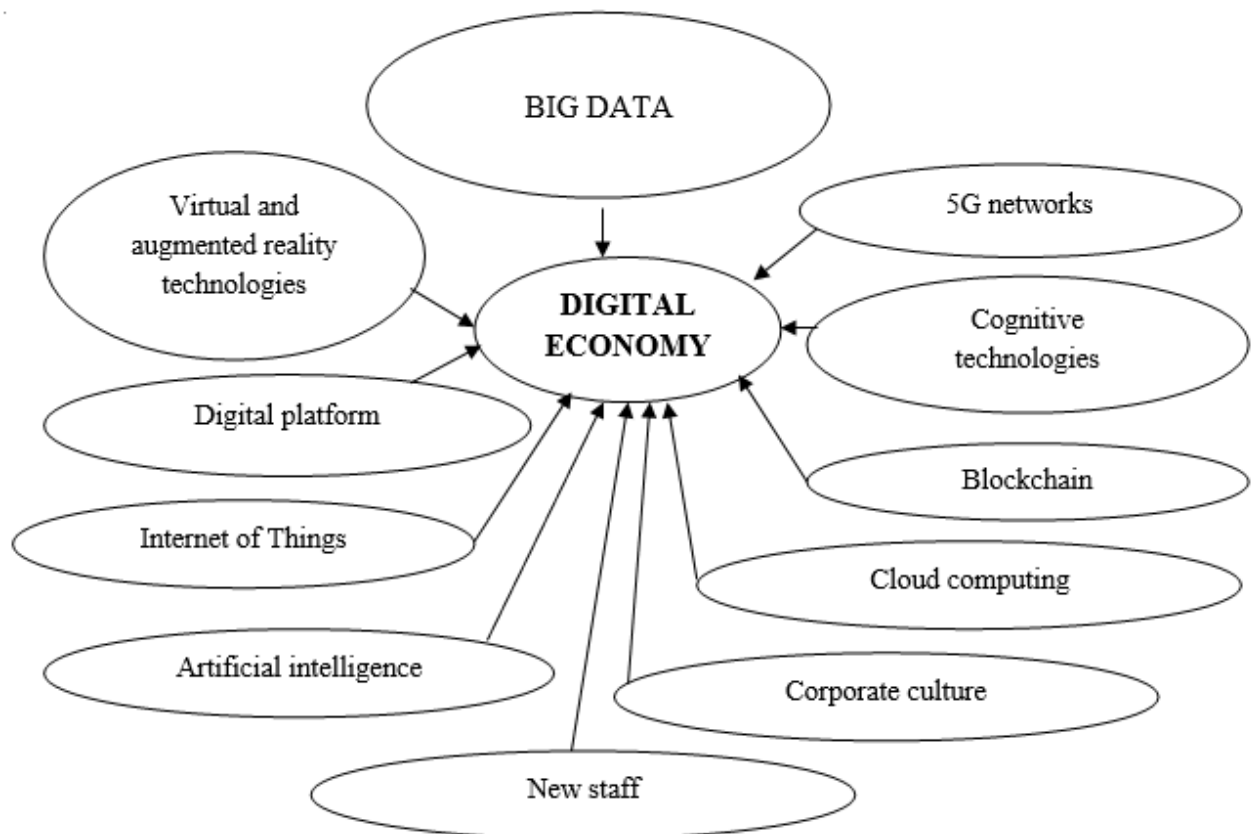


Figure 1. Structure of digital economy. [7]

An integral component of the concept of venture capital is risk. The risk is directly related to the expected return on venture capital. The more risk a venture capitalist takes on financing an innovative project, the more he expects to make a profit as a result of its successful implementation. A distinctive feature of venture capital in the implementation of an investment project is the principle of "high risk - high return." This distinguishes it from bank financing and strategic financing.[9]

By the UzVCA (Uzbekistan venture capital association) venture capital firms are professional, institutional managers of risk capital that enable and support the most innovative and promising companies. Venture capital supports new ideas that:

- Could not be financed with traditional bank financing;
- Threaten established products and services in a corporation or industry;
- Typically require five to eight years to reach maturity. [11]

The use of venture capital to finance innovation is beneficial for innovative firms, but the technical innovation and technological efficiency of the products produced does not always guarantee the success of small innovative firms financed by risk capital. Only 20 percent of such firms benefit the risky capitalists, 40 percent make losses, and the rest barely cover the money spent on them.

Venture business originated in the United States in the 1950s and later spread to other countries. The venture business is a part of the direct investment network that focuses on equity. [3]

A 2015 study, *The Economic Impact of Venture Capital: Evidence from Public Companies*, analyzed the impact venture-backed companies, as a subset of all U.S. public companies founded after 1974, have had on the economy. The study found that of the 1,339 U.S. companies that went public between 1974 and 2015, 556 (or 42%) are venture-backed. These 556 companies represent

63% of the market capitalization and 85% of total research and development of those 1,339 companies.

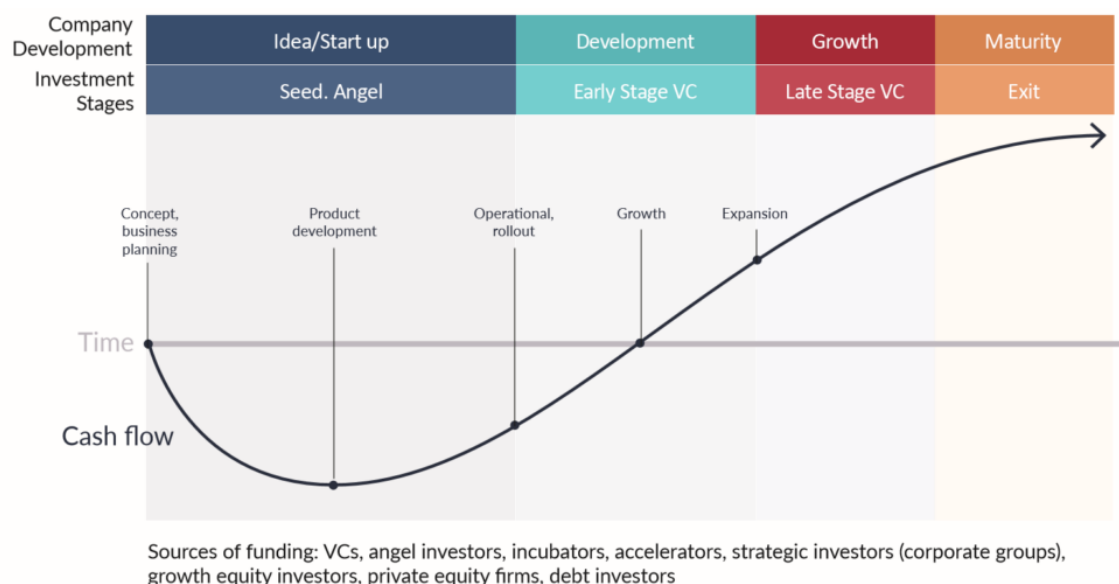
At the end of 2018, venture-backed companies accounted for five of the six largest publicly traded companies by market capitalization: Microsoft (\$780B), Apple (\$746B), Amazon (\$737B), Alphabet (\$727B), and Facebook (\$374B). [10]

Venture business is a specific form of investment process in which financial resources are financed in the form of investment in the securities of enterprises with the potential for rapid development. This type of business is more suitable for funding research in science and high technology. However, the fact that the results of this study are not guaranteed to be positive suggests a high risk. Experience has shown that venture capitalists try to invest their capital mainly in the securities of joint-stock companies. Investment funds are provided in the form of commercial loans for up to 7 years.

The following are some of the most common types of investment applications available today: [4]

1. Seed is a business idea that needs to be funded for further research.
2. Start up is a new, young company with a short history in the market. It is necessary to invest in such enterprises to carry out research work.
3. Early stage - an enterprise in which the first samples of the finished product are available, and funds are required for the stage of commercialization of these products.
4. Expansion is an enterprise that needs additional funding to expand its operations. These companies can use the investment funds to expand their activities, including production, sales or services, additional marketing research, expansion of charter capital or working capital.

### *Venture Capital Plays a Vital Role in a Startup's Growth*



**Figure 1.** Venture Capital Plays a Vital Role in a Startup's Growth in the US. [10]

Venture firms in the digital economy are formed on the basis of agreements between a number of legal entities and individuals, or on the basis of bank loans, or on the basis of funds of banks and large companies. The following conditions must be met in order to establish a venture firm:

- The basic idea of creating an innovative innovation - a new technology, invention, production process, service, programming, creation of Internet resources, 3D, 4D technology, intelligent systems, etc .;
- the desire of society at the global, national, regional or enterprise level for the realization of this idea;
- there is a demand for products or services in the domestic and foreign markets as a result of the implementation of this idea;
- the existence of a real entrepreneur who can create and manage a new company at risk based on this idea;
- the possibility of finding the necessary amount of "risky" capital to finance this venture firm. [8]

Venture capital firms can operate in two different organizational forms. One is an independent venture capital firm and the other is a venture capital firm. When choosing a project to create a new product or service, two things must be taken into account: first, the goals and objectives of the project do not coincide with the traditional activities of the parent company - that is, the main goal of the internal venture - new profits is to find and apply it to the company's activities. Second, when selecting new ideas, the economic benefits that can be derived from them must be large enough to not only justify the costs but also the benefits.

## CONCLUSION

The importance of venture business in the digital economy is as follows:

- Venture business leads to the formation of enterprises adapted to a new innovative lifestyle, influences the traditional system of scientific research and leads to modern positive changes in the production process of the country;
- Increases the demand for highly qualified specialists, engineers and scientists;
- allows the economy to achieve technical and technological re-equipment of traditional industries;
- serves as a model for large enterprises, organizations and corporations to change their structure, activities and goals in line with modern requirements;
- Many years of experience of venture business in different countries show that in order to achieve the long-term goals of our country, it is necessary to create a special financial and credit system based on venture capital.

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