European Journal of Business Startups and Open Society
Vol. 4 No. 12 (Dec - 2024): EJBSOS
http://innovatus.es/index.php/ejbsos

Problems in Attracting Investment for Startup Projects

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Abstract: This article discusses the challenges of attracting investments for startups and ways to solve them. We focus on the main difficulties, such as relations with investors, lack of necessary resources for companies, high risk and readiness for market changes. In doing so, we try to analyze the theoretical foundations of successful investment attraction for startups.

Key words: startup, investors, ideas, investment, crowdfunding.

Today, startups are making a significant contribution to the economy through innovative ideas, new technologies, and novel business models. They seek to create new opportunities in the market with their unique approaches and creative solutions. However, one of the key factors for success for new businesses and startups is attracting investors. Investments provide the capital necessary for a startup to grow, capture the market, and achieve long-term success.

But we know that the process of attracting investment for startups is not easy. Many new projects face problems such as high risks, limited resources and uncertain market conditions. For investors, startups that can bring high returns but have a high probability of failure pose a unique risk. Therefore, startups have to overcome many difficulties and obstacles.

At the same time, many studies analyze the relationship between startups and investments and the specific features of the investment process. Among them, the "Risk and Reward" theory deserves special attention. This theory emphasizes that when attracting investments, investors weigh their expected benefits against high risks. Startups are seen as businesses associated with high risk, so their success is often directly related to the expected benefits for investors, depending on the innovative idea and changing market conditions. In this regard, studies conducted in 1979 by H. Tversky and D. Kahneman studied the role of psychological factors in the decision-making process of investors. They analyzed how decisions to accept or avoid risk are made and showed what mistakes investors make in unstable and uncertain market conditions.[1]

There are a number of studies that analyze how startups operate in the financial market and where investments come from. M. D. Leach and A. W. Melicher, in their book "Principles of Corporate Finance", showed what sources of investment are available at different stages of startups and what difficulties and opportunities each of them creates. They noted that startups usually raise funds from individual investors or small-scale investors such as incubators and accelerators to meet their financial needs at the initial stage. At the same time, they consider the differences in investment sources at different stages and long-term investors for startups, such as venture capital (VC) funds, as an important factor in assessing risk.[2]

The problems of startups in attracting investment are not only related to financial risk and profit, but also affect legal and regulatory factors. The legal structure of startups, as well as their patent and copyright protection system, play an important role in attracting investment. Research by Y.

[1] **Tversky, A., & Kahneman, D.** (1979). Judgment under uncertainty: Heuristics and biases. *Science*, 185(4157), 1124-1131

[2] **Leach, M. D., & Melicher, A. W.** (2012). *Principles of Corporate Finance* (13th ed.). Pearson Education.

K. Hsu and B. M. Litan shows the legal problems that startups face in protecting their business plans and technological solutions. The study notes that startups usually face great difficulties in obtaining patents to protect their technologies and products, which creates additional obstacles to attracting investors.[3]

The social and psychological factors of successful investment in startups have also been studied in research. Research by B. R. Baird and M. S. Thomas has shown the psychological barriers investors face in making decisions for startups. According to them, investors often make decisions based on the startup team, its leaders, and its strategies. Also, the participation of investors in social networks and information exchange systems plays a major role in supporting startups and successfully investing. For startups, networking and creating relationships are especially important when exploring new markets.[4]

Modern approaches, in particular, the development of investment forms such as "crowdfunding" and "angel investors" (private investors), have created new opportunities for startups. T. H. Murray, in his book "Crowdfunding for Entrepreneurs", showed how startups have created new opportunities to introduce their ideas and products to a wide audience and thereby attract capital. This method can be especially effective for small and medium-sized startups, as it eliminates the hassle of working with traditional investors.[5]

Table 1. Main problems in attracting investment[6]

Problems	Description	Potential Solutions
High Risk And Uncertainty	Startups are high-risk businesses, which brings uncertainty for investors.	Provide a clear business plan and market research; guide the startup towards success in the short term.
Lack of Resources	Small startups often lack financial and human resources.	Providing resources through incubators and accelerators; attracting qualified professionals.
Not Understanding the Market	Startups often struggle to accurately assess market changes and demands.	In-depth market analysis; identifying customer needs and constantly monitoring the market.
Legal Issues	Startups often face problems protecting their technology and products.	Engage the right legal advisors and protect patent rights.
Gaining Investors' Trust	Investors are skeptical of the startup's management and team.	Defining an investment plan, as well as demonstrating successful management and experienced leadership.

One of the biggest challenges for startups is proving to investors that their projects are profitable and safe. Many investment firms and investors are not willing to allocate capital for startups associated with high risk. Since startups are usually businesses that promise long-term profits, but do not generate income in the short term, attracting investors becomes a very difficult task for these companies. Also, many new startups seem risky to investors due to the lack of a clear and thorough business plan, mistakes in market research, or lack of experience. In the process of

[3] **Hsu, Y. K., & Litan, B. M.** (2007). *The Venture Capital Cycle and the Optimal Structure of Corporate Venture Capital Investments.* Journal of Financial Economics, 84(3), 351-372.
[4] **Baird, B. R., & Thomas, M. S.** (2015). Entrepreneurial decision-making: The impact of risk and uncertainty. *Journal of Business Venturing*, 30(2), 140-160.
[5] **Murray, T. H.** (2018). *Crowdfunding for Entrepreneurs: The A to Z Guide to Raising Capital*. Wiley.
[6] Compiled by the author based on information

attracting investment, startups often lack the necessary resources. This is especially evident in such important areas as marketing, analysis, and financial management. Small companies and new startups are unable to attract experienced specialists to effectively use their resources. This situation leads to investors being reluctant to invest in projects, as they expect a competent team to make changes from startups to reduce risk. Unexpected mistakes and unexpected market changes in the development of startups often worry investors. Startups, offering innovative technologies, new products or services, may face a complete change in the market or a sharp change in the economic situation. This situation can lead to unexpected losses for investors, and they are wary of investing in startups. Also, the legal system governing the relationship between startups and investors is often complex and changing, and new companies often face legal issues that affect their legal status and create difficulties for investors. For example, for startups, issues related to patents, copyrights, protection of business plans, as well as issues related to shares and investments complicate the investment process. It is very important for new startups to get the right legal help and prepare all the necessary documents.

Company culture also plays an important role in the development of startups. Investors often consider the internal culture of the company, the effectiveness of management, team cooperation and the social responsibility of the company. Weak culture or instability of leadership can scare investors away. Thus, the development of startups and their success in attracting investment often depends on the social environment and management within the company.

If startups aim to enter the global market, they often face problems in exploring international markets and developing their business on a global scale. Competition in the international market is very strong, and startups often have difficulty competing with large international companies. Investors are careful in assessing the position of a startup in the global market and often prefer to choose startups that promise high returns.

Below is a table showing the main factors and approaches used to analyze investment models for startups through traditional and modern methods and study their solutions.

Table 2. Investment Models for Startups: Traditional and Modern[7]

Investment Model	Description	Advantages	Disadvantages
Venture Capital (VC)	Venture capital firms make long-term investments in startups.	High income potential; capital for expansion and growth.	High risk, influence management.
Angel Investors	Individual investors provide equity capital for startups, usually in the early stages.	Easier and faster investment; helps startups grow.	Small investments; investors can intervene in management according to their own requirements.
Crowdfunding	Through crowdfunding, startups raise funds from small investors.	Fast and large-scale financial support for new ideas.	The amount of capital is limited; there is no support from the team in case the startup fails.
User-Based Investment	Attracting investment from startup users or customers.	The effectiveness of an investment model based on customer trust	Middle-income, limited target audience.

[7] Compiled by the author based on information

Startups use a variety of strategies to raise capital, each with its own advantages and potential for success. By analyzing the strategies below, you can gain a better understanding of the advantages and effectiveness of each.

Table 3. Strategies for attracting investment[8]

Strategy	Description	Advantages
Business Plan Presentation	Show investors the potential of the startup by presenting a complete and clear business plan.	Clear and precise instructions for investors, ways to achieve success.
Networking	Establishing relationships with investors through good networks.	Building trust with new investors.
Email Marketing And PR	Presenting the startup's successes and innovations to the general public, as well as promoting them through the media.	Increase the opportunity to introduce and attract new investors to your ideas.

In accordance with the decree, a "Roadmap" for the development of the startup ecosystem for 2024-2026 has been adopted, including mechanisms to support and promote startup growth within the country, the establishment of a venture fund under IT Park Uzbekistan, the formation of a regulatory sandbox for startups, and the creation of a Coordination Council to oversee the development of the startup ecosystem. According to the decree, eligible participants in the program are legally registered startups that hold residency status in the Republic of Uzbekistan. Additionally, they must meet the following criteria:

- Operational period between 6 months and 7 years;
- Annual revenue not exceeding 10 billion UZS;
- Possession of documentation verifying the successful completion of an incubation or acceleration program;
- Availability of a business model based on digital technologies with high growth potential and prospects for international market expansion;
- Registration on the startup ecosystem platform.

The program also extends eligibility to venture capital funds dedicated to the development of the startup ecosystem, as well as business entities providing acceleration and incubation services for private investors and startup projects.

The program includes a series of comprehensive measures and support mechanisms aimed at accelerating the growth of digital startups, promoting innovation, and creating favorable conditions for technological entrepreneurship within Uzbekistan.

The support mechanisms include[9]:

- Allocation of investment funds equivalent to those invested by foreign venture capital firms managing assets exceeding $50 million. The allocated funds, however, must not surpass the equivalent of $100,000.
- Coverage of up to 50% of the expenses for participation in leading international acceleration programs that have attracted investments of at least $100 million, as per the list approved by the Ministry of Digital Technologies. These expenses, not exceeding the equivalent of

[8] Compiled by the author based on information

[9] ITPARK - Development of Startup Projects and the Venture Capital Ecosystem in Uzbekistan

$20,000, must be related to education and certification in entrepreneurship, business, and corporate sectors.

- Coverage of up to 50% of the costs associated with the engagement of mentors and trainers for entities implementing incubation and acceleration programs, provided the costs do not exceed the equivalent of $50,000.
- Coverage of expenses related to patenting and registering intellectual property and trademarks.
- Provision of financial loans for startup projects of up to 300 million UZS, with an interest rate 4 percentage points above the Central Bank's base rate, through the Venture Fund under the Directorate of IT Park, without the need for collateral.

Moreover, according to the President's decree, a venture fund will be established as a limited liability company under IT Park Uzbekistan. This fund will provide financial support for startup projects in the digital technology sector, with an authorized capital of $10 million sourced from the funds allocated to the Program.

In line with the decree, the State Assets Management Agency will, within one month, transfer all material and technical assets of the National Venture Fund "UzVC" and the state's share in its charter capital to the Ministry of Economy and Finance at nominal value.

The National Venture Fund "UzVC" is being restructured into a "Fund of Funds", which will finance venture capital funds. The following key objectives have been set for the "Fund of Funds":

- Formation of investment portfolios and attraction of domestic and foreign investors;
- Securing grants and co-financing mechanisms from international financial institutions and donor organizations;
- Entrusting its financial resources to foreign and local venture capital funds through a demand-driven mechanism, provided that the allocated resources exceed those provided by the fund.

The Reconstruction and Development Fund will provide an interest-free loan of $50 million to the Ministry of Digital Technologies for a period of five years. This loan is set to be disbursed on January 1, 2025, in accordance with the request from the Ministry of Digital Technologies, with the funds being allocated towards the implementation of the Program and the creation of a venture fund in the digital technology sector[10].

In conclusion, the process of attracting investment for startups always involves a high level of complexity and difficulties. Despite innovative ideas and new business models, startups often face problems in finding the necessary capital. Among the main problems analyzed in the dissertation, the lack of clarity of the business plan, difficulties in establishing effective relations with investors, shortcomings in financial forecasts and proper assessment of risks, as well as problems in creating an experienced team stand out. In addition, market analysis, investors' caution in assessing risks, as well as specific errors in the effective presentation of innovative products and services by startups can delay the success of startups. At the same time, the lack of effective implementation of networking and PR strategies can be one of the main factors in attracting investors. By eliminating problems in the process of attracting investment for startups and developing effective strategies, they can further increase their success. Startups with new ideas, innovative products, and services should follow the above suggestions to succeed in attracting investment. Building a network, properly assessing financial forecasts and risks, and strengthening the team are important elements in this process. Thus, by identifying and eliminating the problems that arise in attracting investment, startups can increase their success.

[10] ITPARK - Development of Startup Projects and the Venture Capital Ecosystem in Uzbekistan

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