

Problems of Concentration of Venture Capital Investments

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Abstract: This article examines the problems associated with the concentration of venture capital investment, focusing on the restrictions on new and small start-ups caused by the dominance of large investors and funds. The issue of one-sided development of industries and geographical uneven distribution of investments is highlighted, which leads to economic imbalances and increased regional differences. Also in the final part of the article, suggestions will be given to reduce the negative consequences of concentration.

Keywords: venture capital, concentration, limited access.

INTRODUCTION

Venture capital investments are the engine of innovation and economic development in the modern world. They provide financial support to young companies and start-ups that are working to develop new technologies, products and services that have the potential to change the existing business landscape. Based on this significant role of venture capital investments, their role and impact on innovation in various industries has become increasingly relevant and a subject of discussion.

Venture capital investment is an important driver of modern economies, supporting innovation and technological progress. They provide critical funding to startups and innovative companies developing cutting-edge technologies and products, facilitating technological development and the emergence of new industries. In addition, venture capital investments play a significant role in job creation as young and fast-growing companies become significant employers and thereby help reduce unemployment and stimulate economic growth.

Venture investors who are willing to risk capital finance risky but promising projects that usually do not attract the attention of traditional banks and financial institutions. This supports an entrepreneurial culture, allowing individual entrepreneurs to realize their ideas and create new companies. As a result, venture capital investment contributes not only to economic growth but also to the development of financial markets, including capital markets, where successful startups often become public companies through initial public offerings (IPOs).

Venture capital investment is not limited to one country or region, promoting the globalization of business and the spread of innovation internationally. They also aim to solve social and environmental problems, promoting sustainable development and improving the quality of life. Thus, venture investments are not only a catalyst for economic and technological growth, but also an important element in the structural development of economies and societies at the global level.

Relevance of the problem: There is a serious problem in the venture capital industry that can slow down innovation progress and limit the potential for creating new technologies and business

models. This problem lies in the concentration of venture capital investments in a limited number of industries, regions and companies. Instead of spreading investments widely, most funds are concentrated in a few key sectors, which can lead to uneven development and limit the diversity of innovation.

Understanding the problem of concentration of venture capital investments requires an analysis of its root causes and consequences. These reasons include factors such as risk, network effects and barriers to entry that can drive investors away from a variety of industries and companies. Geographic concentration of investment also plays an important role, with focused regions such as Silicon Valley attracting large numbers of investors and startups, increasing concentration. The impact of concentration on innovation can be negative, as limited diversity of ideas and technologies can slow down innovation progress and the creation of new products and services.

In 2023, venture capital investments are concentrated in industries such as sustainability, mobility, oil and gas, marketing and advertising, financial services, materials, energy, supply chain and real estate. The most significant investments were in sustainable development (\$294.73 billion) and mobility (\$171.79 billion). The information technology, healthcare, business and financial services sectors also remain significant, with an emphasis on artificial intelligence, especially generative AI.

It should be noted that the diversity of industries plays a key role in stimulating innovation and creating conditions for competition. When investment is distributed more evenly across different sectors and regions, it encourages the emergence of new ideas and approaches to solving complex problems. Diversity also reduces the risks associated with the concentration of venture capital investments and creates the conditions for more sustainable and long-term economic development.

This article will examine the causes and consequences of venture capital concentration and the role of industry diversity in supporting innovation. We will also look at solutions to this problem and prospects for the future development of the venture industry, taking into account the importance of ensuring diversity and an even distribution of investment in innovative projects.

International VC market overview: In 2023, venture capital investment was concentrated in a few key industries. The most significant investments were made in the following sectors:

Sustainable development	The sustainable development sector led the way in terms of capital raised, receiving \$294.73 billion in investments. This highlights the growing global need for environmental responsibility and the promising prospects for the adoption of green technologies
Mobility	The mobility sector has attracted \$171.79 billion in investment, reflecting its key role in transforming urban life and solving transportation challenges.
Oil and gas	Despite the global move towards renewable energy, the oil and gas sector continues to attract significant investment, amounting to \$140.84 billion. This indicates the continued relevance of the industry and market interest in technologies that promise more efficient and environmentally friendly methods of extraction and processing
Marketing and advertising	The marketing and advertising sector received \$127.88 billion of investment, reflecting its critical role in driving business growth and high potential for innovative strategies and tools.
Financial services	The financial services sector, including FinTech, attracted \$118.81 billion in investment, demonstrating confidence in the

	continued development and impact of financial technology on global markets and consumer behavior
Materials	Materials Science Industry Raises \$92.65 Billion, Highlighting Its Importance in Advancing Technology and Supporting Sustainable Solutions
Energy	The broader energy sector continues to attract attention, receiving \$87.53 billion, highlighting its key role in shaping a sustainable future and the diversity of opportunities presented
Supply chains	The supply chain sector raised \$86.52 billion, reflecting its critical role in supporting global trade, technological advancement and responsiveness to consumer needs
Real estate	The real estate sector has attracted significant investment of \$78.71 billion, highlighting its potential for innovation in how people live, work and interact with the environment.

Venture capital investments are also being actively directed towards sectors such as technology, biotech, healthcare, clean energy and other industries with significant growth opportunities. In particular, the information technology, healthcare and business and financial services sectors remain among the leading areas for investment. Artificial intelligence, especially generative AI, has emerged as one of the bright spots this year, attracting \$15.5 billion in funding

Overview of the VC market in the Republic of Uzbekistan: Venture capital is a type of investing capital in young, fast-growing or innovative companies with high growth potential, but also a high level of risk. Such investments are typically associated with early-stage companies, particularly in technology, internet, biotech, and other high-tech industries.

"In 2023, the venture capital market in Uzbekistan will demonstrate significant growth and development. This year was marked by investments in foreign startups such as Cerebra, Cargon and GoDays through a venture fund, which contributed not only to the growth of these startups, but also to enriching the AloqaBank ecosystem with new ideas."¹

According to a direct quote from an interview with Ilkhom Idiev, a venture investment expert: "Venture investors in Uzbekistan are actively financing promising projects, especially in the technology sector, which indicates a growing interest in the venture investment market in the country. It is expected that over the next two years the venture capital market in Uzbekistan will grow significantly."²

The development of venture investment in Uzbekistan is also influenced by economic reforms aimed at liberalizing the market and improving the business environment. Government efforts to modernize the financial sector and improve the legal framework have made Uzbekistan more attractive to foreign investors. The Uzbekistan Venture Investment Association (UZVCA) plays a significant role in forming the venture ecosystem and attracting international capital to Uzbek startups.

Uzbekistan took one of the three leading places in the Central Asia and South Caucasus region in attracting venture investments, accounting for 25% of all transactions in the region. However, the average investment per transaction in Uzbekistan is \$0.2 million, which is significantly lower than in Kazakhstan (\$0.7 million) and Armenia (\$3 million). The total volume of investments in Uzbekistan is

¹ [How AloqaVentures is transforming the startup ecosystem in Uzbekistan – Spot](#)

² [“Within two years, the venture capital market in Uzbekistan will grow significantly” - interview with Ilkhom Idiev, venture investment expert - News of Uzbekistan today: nuz.uz](#)

3% of the total volume of venture capital in the region.

Overall, the region's economic growth, especially the significant increase in GDP in the first quarter of 2023, has stimulated the development of startup ecosystems in these countries. This growth is supported by the active participation of regional venture capitalists and angel investors such as BigStory VC, BANA Angels, Big Sky Capital and Triple S VC, who contribute to the dynamic investment landscape.³

Main part: Concentration of venture capital investment, a phenomenon in which a significant portion of venture capital is concentrated in the hands of a small number of players, companies, industries or regions, is determined by a number of key factors.

Geographic concentration is one such factor, where regions known for their innovation activity, such as Silicon Valley, attract significant investment due to developed infrastructure and talent, but this can also lead to limited opportunities for development elsewhere.

Industry concentration also plays an important role, with venture capital investors often focusing on industries that are considered more promising, such as technology or biotech. This could lead to significant innovation in these sectors, but could also lead to underinvestment in other important areas. Concentration among investors, dominated by large venture capital funds and investors, also influences the market as their decisions and strategies determine the direction of industries and the types of projects financed.

Economic and regulatory conditions, including tax policy and legislation, can promote the concentration of venture capital investment, for example by providing tax incentives for investment in certain sectors or regions, resulting in a reallocation of investment. Current technology trends and changes in consumer behavior are also having a significant impact as investors seek to invest in technologies and business models that they believe will be in demand in the future.

Finally, network effects and the development of innovation ecosystems in certain regions and industries create positive feedback loops that increase their dominance and attractiveness for additional investment. These factors combine to create a unique venture investment landscape that highlights the importance of balancing resource concentration to drive innovation with the need to maintain diversity and access to funding to ensure equal opportunity and sustainable development across the economy.

Problems that VC concentration creates. Concentration of venture capital investment, while it may contribute to the development of certain industries and regions, entails a series of problems that have a significant impact on the economic landscape. One of the main problems is the limited access to financing for new and small players. When most capital is concentrated in the hands of a small number of investors, it can create a high barrier to entry for new entrepreneurs and startups that lack established connections or reputation. This limits diversity and innovation potential in the economy, as many promising ideas may not receive the necessary funding and support.

The next problem is the risk of creating monopolies and limiting innovation. The concentration of investment in certain sectors or companies can lead to the dominance of a few large players in the market, which reduces competition and can slow down the pace of innovative development. Without healthy competition and new ideas, the market can become stagnant, where established companies control most of the market and new entrants have little chance of success.

Another problem is the uneven distribution of resources and opportunities. The concentration of venture capital in certain geographic regions results in other regions that may have potential for growth and innovation being neglected and underinvested. This creates economic disparities and increases

³ [Uzbekistan secures top three spot for venture investments in Central Asia and South Caucasus – Daryo News](#)

regional differences in the level of development and availability of technology.

The concentration of venture capital investments can also lead to the unilateral development of certain industries at the expense of others. When investors focus on the most popular and promising sectors, such as technology or biotech, other important sectors that also need innovation and development may face a lack of attention and funding.

Finally, the concentration of venture capital investments can lead to increased economic risks. When the majority of investment is concentrated in certain sectors or regions, economic shocks or changes in market conditions in those areas can have a much larger impact on the overall economy. This creates vulnerability and increases risks for investors and entrepreneurs.

The concentration of venture capital investments, while promoting the development of certain economic sectors and regions, creates a number of problems that affect overall economic health and innovation potential. Addressing these challenges requires a balanced approach that supports the diversity and availability of venture capital funding while promoting broad innovation.

The concentration of capital in the hands of a few venture capital funds and investors can have a significant impact on startups and the innovation process. This influence can be both positive and negative, as is clearly demonstrated by examples of successful and unsuccessful startups.

Examples of successful and unsuccessful startups: **Successful Startups**, such as Airbnb, Uber and Slack, have flourished thanks to significant investments from major venture capitalists. These companies have attracted the attention of major funds due to their innovative ideas and rapid growth potential. Venture capital investment provided them with the resources to scale, research and develop, and attract talented employees. However, in the case of failed startups such as Theranos and WeWork, initial successes were undermined by ill-conceived growth strategies, lack of transparency and internal governance issues, which ultimately led to their collapse. These examples show that large investments can both contribute to the success and exacerbate the problems of startups.

Analysis of the influence of concentration on the innovation process: The concentration of venture capital can have different effects on the innovation process. On the one hand, large investments can accelerate the development and commercialization of innovations. Large funds often have the necessary resources, networks and expertise to support startups at all stages of their development. This allows startups to quickly overcome the “valley of death” - the period between initial funding and the break-even point. Also, large investors can help build partnerships, enter new markets and improve business models.

On the other hand, too much concentration of capital may lead to a decrease in the diversity of investments, since large investors may prefer to finance projects with lower risk and higher return potential. This may limit access to funding for riskier but potentially revolutionary ideas. In addition, the undue influence of large investors can cause startups to lose autonomy, which negatively impacts their ability to innovate and adapt to changing market conditions.

It is also important to note that in an environment of capital concentration, venture investors can have a strong influence on startups' strategic decisions, including the direction of research and development. This can lead to innovation efforts being focused on areas favored by investors rather than those that may be most important to society or scientific progress.

The concentration of capital in the venture capital market has both positive and negative implications for startups and innovation. It can provide startups with the resources they need to grow and develop, but it can also limit the diversity and originality of innovation. Understanding these dynamics is key for startups looking to raise funding and realize their innovative ideas.

Impact of legislation on investment concentration: Legislative initiatives can have a significant impact on the distribution of venture capital investments. For example, tax breaks and incentives for startup investors can stimulate the flow of capital into innovative projects. Measures such as income tax cuts for startups or tax credits for investors support the development of innovative entrepreneurship.

On the other hand, strict regulatory requirements can create barriers to entry for new players in the venture capital market, increasing the concentration of investments in the hands of established funds. For example, disclosure requirements or complex licensing processes may limit the opportunities of small and emerging investors, thereby reinforcing the dominance of large players.

The role of government support and regulation: Government support and regulation can play a key role in creating an enabling environment for growth and innovation. Government funding and startup grant programs aimed at supporting research and development in specific sectors can help diversify the venture capital market. This reduces the dependence of startups on private investors and reduces the risk of excessive concentration of capital.

However, government regulation can also have unintended consequences. For example, over-regulation can hamper innovation by creating unnecessary administrative barriers for startups. It is also important to consider the risk of “regulatory capture,” where large venture capital players can use their influence to shape the regulatory environment in their favor, thereby hampering competition and innovation.

Overall, political and regulatory aspects have a profound impact on the venture capital ecosystem. Government policies and legislation can either promote diversification and innovation or increase capital concentration and limit competition. The balance between stimulating innovation and ensuring a fair and competitive environment is key to the healthy development of the venture capital market.

The Future of Venture Investing: Forecasts and Development Trends

Venture capital investing, as a key driver of innovation and economic growth, will continue to undergo significant changes in the near future. Important trends are likely to be the diversification of funding sources, the increasing role of artificial intelligence in investment decision-making, and the growing influence of social responsibility and sustainable development. It is also expected that the globalization of venture capital will continue to expand into new markets, especially in developing countries.

The growth of the technology sector, especially in areas such as blockchain, artificial intelligence and biotechnology, will continue to attract significant investment. In parallel, we can expect increased regulatory attention on the venture sector, especially in light of increased interest in data protection and privacy.

Proposals for Reducing the Negative Consequences of Concentration.

I Strengthening the Role of Small and Medium Investors:

Development of Crowdfunding Platforms: Easier access to funding through crowdfunding can help startups raise capital outside of traditional venture capital funds.

Incentivizing Angel Investors: Creating tax breaks and incentives for private investors can increase their participation in venture capital financing.

II Regulatory Initiatives:

Transparency and Accountability: Introducing strict transparency and reporting requirements for large venture funds can reduce the risks of market monopolization.

Fund Size Limit: Setting limits on the size of venture capital funds can prevent individual players

from becoming too dominant.

III Focus on Social Responsibility:

Investments in Social Projects: Encouraging investment in projects with social and environmental goals can contribute to more balanced market development.

Strengthening the Role of Ethical Standards: Introducing ethical standards for venture investors can help mitigate the negative effects of concentration.

IV Development of Innovation Ecosystems:

Support for Innovation Clusters: Government support for regional innovation clusters can stimulate local entrepreneurship and investment diversification.

Incubators and Accelerators: The development of incubators and accelerators can provide startups not only with funding, but also with the necessary knowledge and contacts.

V Globalization and Development of International Cooperation:

International Partnerships: Fostering international collaboration among venture capital funds can facilitate knowledge sharing and risk sharing.

Support for Emerging Markets: Increased investment in startups from developing countries can promote global equality and reduce capital concentration.

VI Technological Innovation in Venture Capital:

Using Blockchain and Artificial Intelligence: The use of new technologies in the management and distribution of venture capital investments can improve transparency and efficiency.

Conclusion:

In conclusion, the future of venture investing requires adapting to changing conditions and finding a balance between supporting innovation and avoiding the negative effects of capital concentration. Using a variety of approaches and strategies can contribute to a healthier and more sustainable development of the venture capital market

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