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VENTURE CAPITAL IN UZBEKISTAN: ECOSYSTEM ASSESSMENT, KEY CHALLENGES, POLICY IMPLICATIONS

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Abstract: The research investigates how the venture capital ecosystem has evolved in Uzbekistan by studying its present structure, operational problems, and possible policy solutions. The essential role of venture capital in driving innovation and business growth is widely accepted, but Uzbekistan experiences limited VC activity because it operates as an emerging market. The study examines Uzbekistan's venture capital development through international data and 2024 KPMG and RISE Research report findings to identify major institutional players and current investment patterns. The main obstacles consist of restricted investor exit possibilities, inadequate financial knowledge and venture understanding, insufficient market readiness for new products, and incomplete legal and tax systems. The research compares Israel, Singapore, and South Korea to identify effective co-investment schemes, fund-of-funds structures, and fiscal incentive programs. The paper proposes a phased reform strategy, recommending legal and tax reforms, public-private co-investment mechanisms, improved exit infrastructure, and enhanced ecosystem capacity building. The research shows that Uzbekistan can accelerate sustainable private-sector venture capital market development through specific initiatives. This will drive long-term innovation and economic diversification.

Key words: venture capital, Uzbekistan, innovation policy, startup financing, fund-of-funds, co-investment, emerging markets, entrepreneurship ecosystem.

Annotatsiya: Ushbu tadqiqot O'zbekistonda venchur kapital ekotizimining rivojlanish jarayonini, uning hozirgi tuzilmasi, faoliyatdagi muammolari hamda ularni bartaraf etish bo'yicha siyosiy yechimlarni tahlil qiladi. Venchur kapital innovatsiyalar va biznes o'sishining asosiy drayveri sifatida keng e'tirof etilgan, biroq O'zbekiston rivojlanayotgan bozor sharoitida faoliyat yuritgani sababli, venchur investitsiyalar hajmi cheklangan. Tadqiqot xalqaro ma'lumotlar, shuningdek, KPMG va RISE Research'ning 2024-yilgi hisobotlari asosida O'zbekistonning venchur kapital bozorini tahlil qiladi, asosiy institutsional ishtirokchilar va investitsiya yo'nalishlarini aniqlaydi. Asosiy to'siqlar sifatida investorlar uchun chiqish imkoniyatlarining cheklanganligi, moliyaviy va venchur savodxonlikning yetarli emasligi, yangi mahsulotlarga bozor tayyorgarligining pastligi hamda huquqiy va soliq tizimlarining to'liq shakllanmaganligi qayd etilgan. Tadqiqot Isroil, Singapur va Janubiy Koreya tajribalarini tahlil qilib, hamkorlikdagi investitsiya (co-investment) sxemalari, "fund-of-funds" tuzilmalari va fiskal rag'batlantirish dasturlarini o'rganadi. Maqolada bosqichma-bosqich islohotlar strategiyasi taklif qilinib, huquqiy va soliq islohotlari, davlat-xususiy sheriklik asosidagi investitsiya mexanizmlari, chiqish infratuzilmasini rivojlantirish hamda ekotizim salohiyatini oshirish bo'yicha chora-tadbirlar tavsiya etilgan. Tadqiqot natijalari shuni ko'rsatadiki, O'zbekiston aniq tashabbuslar orqali barqaror xususiy venchur kapital bozorini rivojlantirishni tezlashtirishi mumkin. Bu uzoq muddatli innovatsion o'sish va iqtisodiy diversifikatsiyani rag'batlantiradi.

Kalit so'zlar: venchur kapital, O'zbekiston, innovatsion siyosat, startaplarni moliyalashtirish, fund-of-funds, hamkorlikdagi investitsiya, rivojlanayotgan bozorlar, tadbirkorlik ekotizimi.

Аннотация: В исследовании анализируется развитие экосистемы венчурного капитала в Узбекистане, её современная структура, существующие проблемы функционирования и возможные направления государственной политики. Венчурный капитал признан ключевым инструментом стимулирования инноваций и экономического роста, однако в Узбекистане его активность остаётся ограниченной в силу особенностей развивающегося рынка. Исследование основано на международных данных, а также на отчётах KPMG и RISE Research за 2024 год, и

позволяет выявить основных институциональных участников и текущие инвестиционные тенденции. Основные барьеры включают ограниченные возможности выхода инвесторов, недостаточный уровень финансовой и венчурной грамотности, слабую готовность рынка к новым продуктам и несовершенство правовой и налоговой систем. В работе проведено сравнение с опытом Израиля, Сингапура и Южной Кореи с целью выявления эффективных схем соинвестирования, структур фондов фондов и программ фискального стимулирования. Предложена поэтапная стратегия реформ, предусматривающая совершенствование правовой и налоговой базы, развитие механизмов государственно-частного соинвестирования, улучшение инфраструктуры выхода и укрепление потенциала экосистемы. Результаты исследования показывают, что Узбекистан может ускорить развитие устойчивого рынка венчурного капитала частного сектора за счёт целевых инициатив, способствующих долгосрочным инновациям и экономической диверсификации.

Ключевые слова: венчурный капитал, Узбекистан, инновационная политика, финансирование стартапов, фонд фондов, соинвестирование, развивающиеся рынки, предпринимательская экосистема.

INTRODUCTION

Venture capital (VC) serves as a key catalyst for global innovation and dynamic business development. Empirical research demonstrates that venture capital investments significantly enhance innovation performance and accelerate enterprise growth, thereby contributing to job creation and sustainable economic expansion. In emerging markets, the implementation of venture capital acts as a strategic driver of economic diversification and facilitates the growth of technology-oriented enterprises.

Uzbekistan, as a rapidly developing Central Asian economy in transition, recognizes the strategic importance of venture capital in achieving sustainable and inclusive growth. The country is actively striving to build a knowledge-based economy and foster an innovative startup ecosystem. Despite notable progress in recent years, the national venture capital market is still evolving and faces a number of developmental challenges that moderate the pace of new business formation and investment inflows.

Current constraints primarily relate to the ongoing formation of the legal and institutional framework, limited mechanisms for investment exit strategies, and the need to deepen understanding of venture capital instruments among market participants. Furthermore, awareness of innovation commercialization processes remains at an early stage, and existing tax policies require further optimization to stimulate investment activities.

This study aims to comprehensively assess the current state and structure of Uzbekistan's venture capital ecosystem, identify the key funding sources and institutional stakeholders, and determine the main factors influencing venture capital growth. Based on the findings, the paper proposes a set of evidence-based policy recommendations designed to foster a robust, transparent, and sustainable venture capital ecosystem harmonized with international best practices.

LITERATURE REVIEW

Academic literature on venture capital (VC) consistently underscores its pivotal role in fostering innovation, entrepreneurial competitiveness, and sustainable economic growth. Venture capital institutions not only provide essential financial resources but also contribute managerial expertise, strategic guidance, business networks, and governance mechanisms that collectively enable entrepreneurs to achieve scalable and long-term success (Gompers & Lerner, 2001).

According to Innovation Finance Theory, venture capital serves as a critical enabler for innovative enterprises that require financial and intellectual support to develop breakthrough technologies. The theory emphasizes that VC is particularly indispensable for high-potential, innovation-driven ventures that face challenges accessing traditional bank financing due to informational asymmetries and the absence of tangible collateral. By assuming equity positions, venture capitalists take calculated risks in exchange for potential high returns, thereby addressing a structural financing gap and empowering early-stage technology companies to realize their growth potential.

Empirical studies in advanced economies demonstrate that VC-backed firms outperform their non-VC-backed counterparts in both patent quantity and innovation quality, confirming that venture financing accelerates technological advancement and knowledge diffusion (Kortum & Lerner, 2000). Moreover, numerous studies reveal that venture capital investment stimulates broad-based economic growth: each dollar invested in VC contributes multiple dollars to GDP expansion. For instance, every one million dollars of VC investment is estimated to generate one new enterprise and approximately forty-one new jobs within the local economy (Poelhekke & Wache, 2025). Collectively, these findings reaffirm that venture capital functions as a powerful catalyst for entrepreneurial ecosystems and regional economic transformation.

Entrepreneurship research highlights the importance of a systemic analytical framework for understanding the dynamics of startup and venture ecosystems. The entrepreneurial ecosystem comprises startups, their founders, venture capitalists, angel investors, incubators, accelerators, skilled professionals, market participants, and supportive government initiatives. These components operate through continuous interaction—where proactive investors, mentors, and institutional partners foster a cycle of innovation, leading to the emergence of high-quality startups that, in turn, attract further investment (Stam, 2015). Such ecosystems evolve uniquely across different national contexts, reflecting variations in institutional maturity, market depth, and innovation culture.

An institutional theory perspective further illustrates that both formal institutions and informal norms shape the operation and evolution of venture capital markets. Cumming and Johan (2016) contend that sustainable VC development requires two fundamental preconditions: a strong legal framework that safeguards property and shareholder rights through reliable contract enforcement, and well-developed financial markets offering effective exit mechanisms via stock exchanges. In emerging institutional contexts, governments can play a facilitative and enabling role in nurturing the VC industry, supporting innovation, and mobilizing private investment (Lerner, 2009).

Research on venture capital development across emerging and transition economies—particularly in Eastern Europe, Asia, and Africa—identifies common structural characteristics such as evolving financial systems, a growing base of institutional investors, and gradually expanding exit opportunities. The academic exploration of venture ecosystems in Central Asia is gaining increasing relevance as regional startup environments experience dynamic growth and integration into the global innovation landscape. This emerging context presents significant opportunities for advancing scholarly understanding of how post-Soviet transition economies can build resilient and competitive venture financing frameworks.

The early development of private venture capital markets in countries such as Kazakhstan and Russia benefited from proactive government initiatives, including public co-investment funds and targeted fiscal incentives designed to address early-stage capital constraints (Knockaert et al., 2014). Theoretical frameworks further emphasize the importance of network effects and diaspora engagement—as exemplified by Israel, where returning technologists and global diaspora networks played a transformative role in establishing robust venture linkages and nurturing innovation ecosystems.

These global insights offer valuable context for analyzing Uzbekistan, which is witnessing steady progress in the evolution of its venture capital market. By synthesizing international theories and empirical evidence, this study aims to determine how Uzbekistan's emerging VC ecosystem aligns with global best practices while identifying its distinctive developmental trajectory. Ultimately, the research contributes to expanding academic understanding of venture financing models within Central Asia and supports evidence-based policymaking for sustainable innovation-led growth.

RESEARCH METHODOLOGY

This study adopts a qualitative descriptive methodology that combines secondary data analysis with comparative case study methods to provide a comprehensive understanding of venture capital (VC) ecosystem development. The research begins with a detailed ecosystem mapping of Uzbekistan's venture capital landscape to identify the core stakeholders — including venture funds, accelerators, incubators, and government agencies — and to compile data on recent investment activities and startup financing trends.

The primary data source for this research is the Venture Capital in Central Asia 2024 report, jointly prepared by RISE Research and KPMG. This report provides a rich and reliable dataset covering the years 2022–2024, encompassing regional startup funding dynamics, investment patterns, and institutional developments across Central Asia.

Complementary quantitative and contextual information was gathered from globally recognized sources such as the UNDP Digital Economy Report, Startup Genome Assessments, and official national statistics, which together ensure analytical depth and accuracy. To reinforce the theoretical and conceptual foundation of the study, an extensive review of academic literature and policy analyses indexed in Scopus and Web of Science databases was conducted, enabling the integration of cutting-edge global insights into the research framework.

For the comparative analysis, three countries — Israel, Singapore, and South Korea — were selected, as they exemplify successful models of venture capital ecosystem formation and sustainable growth. The study systematically examines the policy instruments, institutional arrangements, and innovation-driven mechanisms employed in these economies during their developmental phases. Through a structured literature synthesis, the most effective practices and policy lessons were identified for potential adaptation to Uzbekistan's context.

This comparative framework provides an empirically grounded foundation for formulating evidence-based conclusions and targeted policy recommendations that can guide the strategic evolution of Uzbekistan's venture capital ecosystem. Ultimately, the approach strengthens the study's analytical validity while aligning its findings with international best practices and sustainable innovation principles.

ANALYSIS AND RESULTS

The analysis in this study is primarily qualitative in nature. Data from the aforementioned sources were systematically synthesized through content analysis, enabling the identification of recurring themes and structural patterns related to the key drivers, opportunities, and success factors influencing venture capital (VC) development. While the study does not employ primary surveys or interviews, it incorporates rich expert insights from Central Asian VC practitioners cited in secondary sources, particularly the KPMG/RISE Research (2024) report, thereby ensuring analytical depth and contextual relevance.

Present Situation of the Venture Capital Ecosystem in Uzbekistan

Within the broader national agenda aimed at fostering innovation and digital transformation, Uzbekistan's venture capital ecosystem has been undergoing rapid and dynamic development. As of 2024, the country hosts an estimated 400 or more active startups, along with a steadily expanding base of domestic VC funds, angel investor networks, and entrepreneurial support organizations. This marks a remarkable transformation compared to just a few years earlier, when structured venture financing activity had not yet been established within the national innovation economy (Saydullaeva, 2024).

One of the central pillars of Uzbekistan's innovation architecture is IT Park Uzbekistan, headquartered in Tashkent. Serving as a leading technology hub and startup incubator, it provides coworking facilities, mentorship programs, tax incentives, and access to digital infrastructure for resident firms. Moreover, the Agency for Innovative Development—now incorporated into the Ministry of Higher Education, Science, and Innovations—has created a nationwide network of regional innovation centers and technoparks to stimulate youth entrepreneurship and technological creativity. These initiatives have significantly strengthened both the physical infrastructure and the innovation network supporting startups across the country.

While many of these centers continue to evolve under public management, ongoing professional development and increased participation of private sector experts are expected to further enhance the quality of commercialization support, mentorship, and innovation management services in the coming years.

In parallel, private incubators and accelerators have begun to emerge, often in partnership with international organizations. For example, the globally renowned Silicon Valley accelerator Plug and Play launched its first program in Uzbekistan in 2022, investing in several promising local startups specializing in artificial intelligence and digital technologies. Similarly, the private sector has started to form angel investor networks, reflecting growing confidence in early-stage entrepreneurship. The C-Space coworking network, for instance, inaugurated its Angel Club in 2024, encouraging high-net-worth individuals to support emerging ventures. Although these networks are still in a formative stage, their rapid expansion indicates increasing private investor engagement and the gradual diversification of the financing ecosystem.

Venture Funds and Investment Activity

According to Zhanturina (2024), Uzbekistan has experienced a steady rise in the number of venture capital funds established over the past four years, demonstrating growing institutional capacity and investor interest in startup financing. As of early 2025, more than ten active VC funds—both public and private—were operational nationwide.

Prominent examples include:

UzVC, a government-backed fund established in 2019, which focuses on supporting technology-oriented startups and fostering innovation-driven growth;

AloqaVentures, the corporate venture division of a leading telecommunications company, specializing in fintech and enterprise software investments, with total commitments exceeding USD 2.4 million to date; and

Sturgeon Capital's Uzbekistan Fund, a newly launched private investment vehicle with a target capitalization of USD 50 million, aimed at scaling high-growth startups in the region.

In addition, five new venture funds were introduced during the first quarter of 2025, highlighting the accelerating momentum of investment activity in this rapidly developing sector. While total fund capitalization is still modest compared to global benchmarks, the increasing number of joint financing arrangements with foreign partners reflects Uzbekistan's growing integration into international investment networks and the continuous institutional maturation of its venture capital ecosystem.

According to the KPMG/RISE Research (2024) report, the total volume of venture capital transactions in Uzbekistan reached USD 17.5 million in 2024, representing a substantial growth from USD 6.3 million in 2023. This expansion signals strengthening investor confidence and improved access to risk capital for startups.

Furthermore, the landmark Uzum transaction—Uzbekistan’s first recognized “unicorn”—demonstrates the ecosystem’s evolving sophistication. In 2024, Uzum successfully raised USD 114 million in a Series A round led by international investors, including Tencent (China), setting a new benchmark for large-scale venture investment in the region and affirming Uzbekistan’s emergence as a promising destination for technology entrepreneurship.

Although Uzum’s record-breaking investment round was classified as an outlier—and therefore excluded from aggregate VC statistics due to its private equity scale—the overall surge in funding remains a remarkable indicator of investor dynamism and market confidence. Even without including Uzum’s transaction, the data clearly demonstrate a strong upward trajectory in venture capital activity, reflecting both the deepening maturity and growing institutional capacity of Uzbekistan’s venture investment landscape.

Between 2022 and 2024, the number of venture capital deals exhibited steady and sustained growth, rising from approximately 24 transactions in 2022 to 34 in 2023, and further to 38 in 2024. This progressive increase underscores not only the consistent expansion of the national venture market, but also the enhanced confidence of domestic and international investors in Uzbekistan’s innovation ecosystem.

Moreover, while the number of deals has grown at a stable pace, the average deal size has expanded at a considerably faster rate—more than doubling from approximately USD 200,000 in 2022 to USD 460,000 in 2024 (Figure 1).

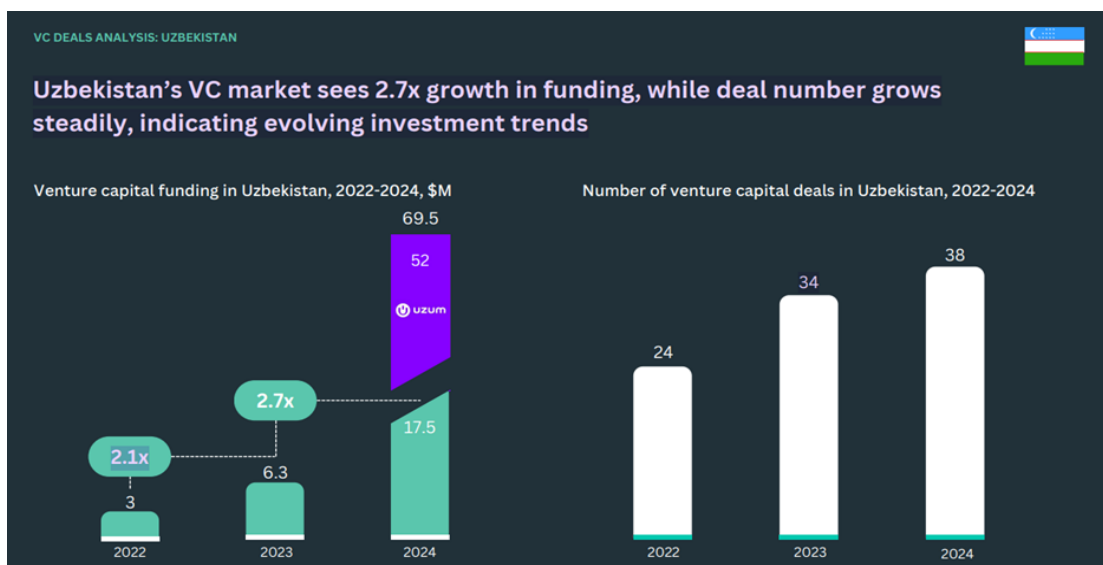


Figure 1. Venture capital funding and deals in Uzbekistan for 2022–2024

Source: KPMG & RISE Research. (2025). Venture Capital in Central Asia 2024. KPMG Uzbekistan and RISE Research Report.

Early-stage venture financing in Uzbekistan has been supported by a diverse mix of regional and domestic investors, reflecting the growing dynamism of the country’s innovation landscape. Numerous startups have successfully secured pre-seed and seed-stage investments through government-affiliated funds—notably UzVC and several ministerial grant programs—which have played a pivotal role in stimulating entrepreneurial activity and lowering entry barriers for early innovators. In parallel, a number of family-owned conglomerates and private investors have actively begun participating in venture financing, signaling a broadening investor base and increasing private-sector engagement in innovation-driven industries.

International collaboration is also gaining strong momentum. Kazakhstan’s mature venture capital ecosystem has become an important regional partner, channeling both capital and expertise into Uzbekistan’s startup sector. Notably, in 2023, Kaspi.kz acquired the fintech company Payme, while the Kazakh fund MOST Ventures invested in several high-potential Uzbek startups—illustrating the cross-border integration of Central Asia’s venture investment market.

Building on Uzbekistan’s favorable market potential, reform-oriented policies, and strategic geographic position, investor interest continues to expand globally. Reports indicate rising engagement from UAE- and Singapore-based venture funds, alongside growing attention from international investors across the Middle East and the United States, who are actively exploring partnership opportunities. A prominent example of this trend is the entry of the renowned Silicon Valley accelerator Plug and Play, whose investment and incubation programs have further strengthened Uzbekistan’s visibility within the global startup ecosystem.

While the scale of international participation remains in the formative stage, the investor landscape is clearly diversifying, with private, corporate, and foreign venture players increasingly complementing the initial wave of public funding (Figure 2).

Uzbekistan Venture Ecosystem

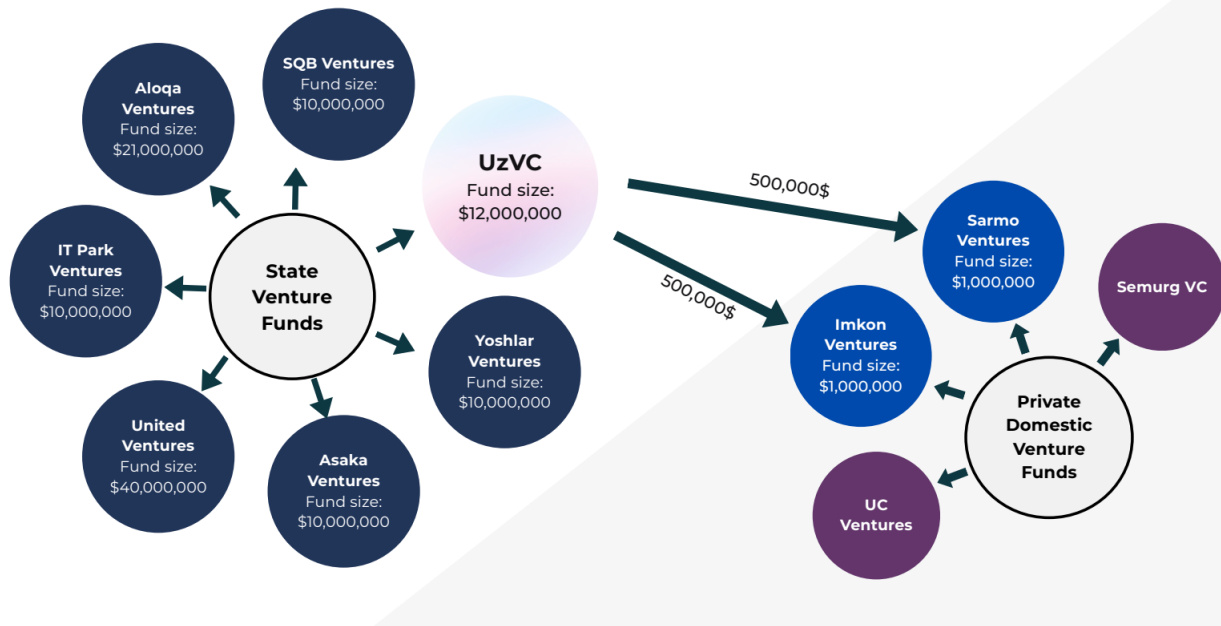


Figure 2. VCs operating in Uzbekistan¹.

Legal and Regulatory Framework

Uzbekistan's venture capital regulatory framework is currently undergoing a dynamic phase of modernization and institutional strengthening. Historically, venture funds and angel investment activities were not explicitly defined in national legislation and operated under the broader provisions of the Investment Law and the Civil Code, which offered only general guidance. However, this situation is now changing rapidly as the government develops a new Alternative Investments Law, which will formally recognize limited partnerships, venture funds, and a range of modern financial instruments.

In parallel, standard international venture capital mechanisms — including convertible notes, SAFE agreements, and stock options — are being introduced into the national legal framework. Amendments to the Civil Code are currently in preparation to formally incorporate globally recognized contractual instruments, such as Delaware-style shareholder agreements, thereby ensuring legal compatibility with international investment practices.

In 2022, Uzbekistan launched a regulatory sandbox permitting the experimental use of convertible loans, a significant step toward legal innovation in venture financing. To reinforce these early reforms, a permanent legal foundation is being established. Notably, the government has also introduced comprehensive tax incentives for IT Park residents and startup participants, including income and social tax holidays for technology firms operating within the Park's jurisdiction.

Although direct tax incentives for venture investors — such as personal tax deductions or capital gains exemptions — are not yet in place, planned fiscal reforms aim to create a more favorable investment environment and align Uzbekistan's framework with international best practices. Several presidential decrees issued in late 2022 and early 2023, including On Measures for the Further Development of the Startup Project and Venture Financing Ecosystem (2024), established strategic priorities to accelerate venture market growth. These initiatives, coupled with the designation of 2023 as the "Year of Support for Youth and Entrepreneurship," emphasize the state's strong commitment to fostering an innovative and inclusive venture ecosystem. Although the reforms are still in progress, their long-term potential for strengthening investor confidence and ecosystem sustainability is already evident.

¹ Created by the author.

Notable Accomplishments

Despite being in its emerging stage, Uzbekistan's startup and venture capital ecosystem has already demonstrated impressive achievements that highlight its rapid progress and potential. The most prominent example is Uzum, a fintech and e-commerce platform that successfully attracted major funding during 2022–2023, ultimately achieving unicorn status in 2024. This milestone not only elevated Uzbekistan's position in the regional innovation landscape but also significantly strengthened investor confidence in the scalability and global competitiveness of local startups.

Another landmark success was the first large-scale venture exit in the country's history: the acquisition of Payme, a digital payments platform, by Kazakhstan's Kaspi.kz in early 2023 for approximately USD 113.6 million. This transaction marked Uzbekistan's first major venture capital liquidity event, demonstrating the feasibility of successful exits and setting a positive precedent for future capital recycling and reinvestment.

Uzbek startups are also gaining increasing global visibility by participating in international accelerator programs and technology competitions. For instance, the AI startup Zypl.ai, founded in Uzbekistan, secured foreign venture capital funding and strategically expanded part of its operations abroad, reflecting the growing international integration and competitiveness of the country's technology enterprises.

To further strengthen cross-border engagement, IT Park Uzbekistan has opened representative offices in Silicon Valley, Singapore, and Saudi Arabia (2024) as part of the government's broader initiative to enhance global innovation partnerships. Moreover, Uzbekistan co-hosted the Central Asian Venture Forum (2023) in Tashkent, which for the first time brought together regional investors, policymakers, and startup founders. This event marked a significant milestone in regional cooperation and knowledge exchange within the venture ecosystem.

Collectively, these developments demonstrate that Uzbekistan's venture capital ecosystem, while still in its formative phase, is evolving rapidly, strategically, and sustainably. A few years ago, formal venture activity was almost nonexistent; today, dozens of investment deals are concluded annually, several local funds are actively operating, and a billion-dollar company has emerged. Although the public sector continues to play a key enabling role through policy and infrastructure support, private and foreign participation is expanding at an accelerating pace. Institutions, regulations, and market actors are being established, laying the foundation for a resilient, globally connected, and innovation-driven venture capital market in Uzbekistan.

Key Challenges in the Growth of Uzbekistan's Venture Capital Ecosystem

While Uzbekistan's venture capital ecosystem is expanding at an impressive pace, its continued advancement requires addressing several strategic development priorities. Based on data analysis and expert consultations, four interconnected factors are identified as the most influential:

- (1) the need to strengthen investor exit mechanisms;
- (2) the enhancement of financial and venture literacy;
- (3) the expansion of innovation commercialization capacity; and
- (4) the refinement of regulatory and taxation frameworks.

Effectively tackling these priorities will enable the formation of a robust, sustainable, and globally competitive venture capital environment.

The limited availability of investor exit mechanisms remains one of the ecosystem's central challenges. Until 2023, Uzbekistan had not witnessed a domestic initial public offering (IPO) or large-scale merger and acquisition (M&A) transaction in the startup sector, which constrained liquidity. However, positive precedents are now emerging. The acquisition of Payme in 2023 represents a milestone demonstrating that successful exits are both achievable and replicable. Continued efforts to develop streamlined IPO procedures, cross-border M&A channels, and secondary markets will enhance investor confidence and accelerate the maturation of capital recycling processes within the national innovation economy.

A deepening of venture and financial literacy among entrepreneurs, investors, and policymakers is essential for long-term ecosystem sustainability. Many early-stage founders still rely on traditional or informal funding mechanisms and have limited exposure to equity-based financing models. Likewise, potential investors may exercise caution due to limited experience in high-risk venture markets. Nonetheless, accelerators, incubators, and educational initiatives have made tangible progress in bridging this gap. Expanding professional development programs, certification courses, and international exchange initiatives for fund managers and startup teams will further enrich the human capital base of the ecosystem and strengthen its institutional capacity.

Uzbekistan possesses a strong scientific and technical foundation, including a rapidly expanding pool of IT specialists and research-oriented universities. The next stage of ecosystem evolution lies in enhancing the commercialization of innovation. While fintech and e-commerce continue to lead the startup landscape, opportunities are emerging in biotechnology, green energy, and advanced manufacturing. Strengthening university–industry partnerships, promoting intellectual property protection, and expanding seed-stage risk capital will enable a more effective translation of research outcomes into market-ready products. These

measures will also increase the number of high-growth, investable startups, diversifying the technological base of the economy (UNDP, 2025).

Significant progress has already been achieved through recent legal and fiscal reforms, including the introduction of tax incentives for technology firms and the establishment of a regulatory sandbox for convertible loans. Nevertheless, additional refinement is needed to create a more predictable and innovation-friendly environment. Developing targeted tax incentives for venture investors—such as capital gains exemptions or investment credits—would stimulate higher inflows of private capital. Similarly, ensuring consistent regulatory practices across institutions and expanding international legal alignment will enhance investor confidence and encourage foreign participation. The government's ongoing efforts to modernize financial regulation demonstrate a strong commitment to building a transparent and globally integrated venture ecosystem.

International Experience and Lessons

The experience of countries that have successfully developed robust venture capital ecosystems through proactive government intervention and private-sector collaboration provides Uzbekistan with valuable policy lessons and implementation models. Each case illustrates how targeted public support, institutional reforms, and international partnerships can accelerate the formation of sustainable innovation-driven markets.

Israel's Yozma Program, launched in 1993, established a USD 100 million fund-of-funds designed to co-invest with foreign venture capital firms under mutually beneficial terms, including buyout options for government-held stakes. This initiative laid the groundwork for the rapid expansion of Israel's venture capital industry, leading to the creation of multiple private funds and the transformation of the country into a global center of innovation and entrepreneurship (Bar-El, 2019).

The Yozma model demonstrated that sustainable private market growth can be achieved through strategic state participation focused on risk-sharing, knowledge transfer, and a phased government exit strategy. For Uzbekistan, adopting similar principles in designing a co-investment and fund-of-funds framework could effectively stimulate private investment while maintaining market discipline and transparency (Yin, 2017).

Singapore developed its venture capital ecosystem through comprehensive government-backed investment programs, progressive financial regulation, and fiscal incentives designed to reduce investment risk and attract global capital. The Startup SG Equity initiative, combined with tax exemptions for fund income and supportive fund management policies, positioned Singapore as one of Asia's premier venture capital destinations.

This experience highlights how predictable regulation, low transaction costs, and investor-friendly taxation frameworks can significantly increase private-sector participation in high-growth industries (Enterprise Singapore, 2025). Uzbekistan can draw on Singapore's example by further enhancing its investment climate, introducing tax neutrality for venture investors, and encouraging international fund registration under competitive legal regimes.

South Korea's success in building a mature venture capital system was anchored by the creation of the Korea Fund of Funds (KFoF), which acts as a limited partner in private venture funds, ensuring continuous capital flow into the innovation economy. This structure effectively bridged early-stage financing gaps while maintaining a strong commitment to market efficiency.

Additionally, the establishment of the KOSDAQ exchange and targeted regulatory incentives provided robust exit pathways for investors, reinforcing liquidity and long-term confidence. The Korean experience demonstrates that large-scale public investment, when paired with private-sector expertise and performance accountability, can catalyze both rapid expansion and sustainable maturity in the venture ecosystem (Lee, 2024).

Across all three cases, governments played an initial catalytic role, facilitating early-stage risk mitigation and ecosystem coordination, before gradually transferring leadership to private-sector actors. This evolution ensured that public involvement complemented — rather than replaced — market forces.

For Uzbekistan, adopting a hybrid approach that combines legal and fiscal modernization with targeted public co-investment mechanisms represents a pragmatic and effective pathway toward building a resilient, competitive, and globally integrated venture capital ecosystem. Such a model would not only mobilize domestic investment but also attract international venture funds, enhance technology transfer, and position Uzbekistan as a regional hub for innovation financing.

CONCLUSION AND RECOMMENDATIONS

Uzbekistan's venture capital (VC) ecosystem has entered a formative yet confidently progressive stage of development. Over the past few years, the country has made a remarkable transition from having almost no formal startup financing infrastructure to reaching an important milestone with the emergence of its first unicorn, Uzum. This evolution reflects the growing vitality of Uzbekistan's innovation landscape, supported by a continuous rise in both the number and value of venture capital transactions. The combination of strong entrepreneurial

activity, increasing international investor participation, and government commitment to innovation-led growth demonstrates that Uzbekistan is on a promising trajectory toward establishing a competitive and resilient VC market.

While the ecosystem is still consolidating its institutional foundations, this stage should be viewed as a period of strategic opportunity and capacity building rather than constraint. Continued progress requires the gradual institutionalization of best practices that enhance investor confidence, innovation commercialization, and ecosystem sustainability. The following recommendations outline key directions for policy and institutional advancement.

A decisive priority is to establish a comprehensive legal and fiscal framework that promotes transparency, protects investors, and supports innovative financing instruments. The adoption of a unified Venture Capital Law—recognizing mechanisms such as convertible notes, limited partnerships, and employee stock options—will create a stable legal foundation for venture transactions. Complementing these reforms, progressive tax policies should be introduced, including capital gains exemptions for startup investments, tax credits for angel investors, and simplified procedures for fund registration. Together, these measures will reduce transaction barriers and encourage broader participation in venture funding.

To stimulate early-stage financing, Uzbekistan can establish a state-supported matching fund that co-invests alongside accredited venture capital firms and angel investors. This model—drawing on the best practices of Israel's Yozma and Korea's KFoF—would provide an effective channel for risk-sharing and market activation. Over time, the initiative could evolve into a sovereign fund-of-funds, allocating resources to both domestic and international VC funds operating in Uzbekistan. Such a structure would strengthen the national investment base while encouraging technology transfer and foreign expertise inflow.

A mature VC ecosystem requires accessible and reliable exit mechanisms for investors. The Tashkent Stock Exchange can play a central role by launching a dedicated startup board with streamlined listing criteria for innovative and high-growth companies. Furthermore, cross-border listing agreements with major international exchanges would expand liquidity, enhance visibility, and integrate Uzbekistan into global capital markets. Strengthening the secondary market for venture shares—through corporate partnerships, investor education, and adaptive regulation—will reinforce investor trust and attract sustained inflows of private capital.

Human capital remains the cornerstone of a thriving innovation economy. Expanding entrepreneurship education, investor training, and university–industry partnerships will accelerate the professionalization of venture activities. Transforming IT Park innovation hubs into regional gateways for global accelerators, diaspora investments, and venture management programs will not only bridge existing expertise gaps but also position Uzbekistan as a hub for technology entrepreneurship in Central Asia. These initiatives will cultivate a new generation of globally connected entrepreneurs and investment professionals.

For cohesive and data-driven governance, it is advisable to create a National Venture Capital Coordination Agency. This body would oversee incentive management, monitor fund performance, maintain a national VC data repository, and ensure effective inter-ministerial collaboration (IFC & Civitta, 2023). Centralized coordination would help align financial, legal, and educational policies with the broader goals of economic modernization and digital transformation.

Uzbekistan's long-term vision rightly emphasizes a gradual transition toward a private-sector-driven venture capital system, firmly supported by the state's commitment to macroeconomic stability, sound governance, and innovation policy excellence. A resilient, inclusive, and globally integrated venture capital ecosystem will not only enhance national innovation capacity but also accelerate technology-driven diversification, job creation, and sustainable economic growth.

The current momentum—anchored in proactive reforms and rising entrepreneurial dynamism—offers Uzbekistan a unique opportunity to emerge as a regional leader in venture financing and innovation development in Central Asia.

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