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The Role and Development Trends of Venture Funds in the Innovative Development of the Economy: Uzbekistan and International Experience

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Abstract: In order to drive economic innovation, this study examines the crucial function and evolutionary trajectory of venture capital, concentrating on Uzbekistan and making comparisons with international patterns. While industrialized countries successfully use venture capital to support high-tech companies and entrepreneurship, Uzbekistan faces obstacles like restrictive private investment and lax legal frameworks. By means of statistical and comparative studies, the report pinpoints a noteworthy surge in venture capital investments in Uzbekistan in recent times, with noteworthy contributions to technological startups and innovative firms. Further advancement is hampered, therefore, by inadequate finance systems and unpredictable investment. The results demonstrate the transformative potential of removing these obstacles through incentives for private participation and legislative changes. In order to maintain innovation-driven growth and improve economic competitiveness, it is imperative that venture capital strategies be optimized, as this study highlights.

Keywords: venture capital, innovations, startups, technological development, investments, Uzbekistan's economy, global experience, innovation ecosystem, financing, competitiveness, economic growth, international experience, startup ecosystem, digital economy, biotechnology, Uzbekistan's venture capital, local business, global market, small and medium-sized businesses, innovative businesses

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1. Introduction

The economy of Uzbekistan is in a stage of rapid development, and the transition to an innovative economy has become one of the important tasks. In recent years, the formation of venture capital has been considered an important step in order to diversify the economy and support innovative development. The table below presents some statistical indicators on venture capital and innovative development in Uzbekistan.

Analyzing the existing conditions and opportunities for the development of venture capital in Uzbekistan will allow the introduction of new technologies into the economy, support the production of innovative products and services. At the same time, the experience of developed countries will help determine useful directions and strategies for Uzbekistan.

Table 1. Indicator the volume of venture capital investments

Indicator	2019	2020	2021	2022	2023
Venture capital investments (USD million)	10	25	40	55	70
Number of innovative businesses	100	150	200	250	300
Volume of international investments (million US dollars))	100	150	200	270	350

As can be seen from the above indicators, the volume of venture capital investments has increased significantly in recent years. In 2023, more than 70 million US dollars were invested in this area. This opens up great opportunities for the innovative economy.

Literature Review

Venture capital is recognized as one of the main factors of innovation and entrepreneurship development in many developed countries of the world. For example, in the USA, venture capital has made a significant contribution to the innovative development of the economy. According to the study of Kortum and Lerner (2000), venture capital is one of the main financial mechanisms that contribute to the development of innovation. In Japan, cooperation between the public and private sectors is considered an effective model for creating high-tech products. Lerner (2010) showed the contribution of venture capital to economic development and the importance of state support.

Providing resources: Venture capital helps with start-up costs by investing

Development strategy: During the investment process, venture funds monitor the activities of companies and formulate a development strategy.

Development of entrepreneurial culture: With the help of venture capital, new companies are created and an entrepreneurial culture is formed in the economic environment.

This experience is important for Uzbekistan, because introducing new innovative projects into the economy, developing an entrepreneurial culture, and providing financial support to startups are essential to making the economy competitive.

2. Methodology

This article was conducted to study the development process of the venture capital market in Uzbekistan using the following methods:

Statistical analysis: Economic and innovation development indicators in Uzbekistan were analyzed.

Comparative method: This article also used the comparison method. Countries with different levels of growth in the world were selected and Venture was used in practice. The United States of America, South Korea, Japan and Uzbekistan were selected and compared for the study.

3. Results and Discussion

Geopolitical tensions and conflicts among member nations can impede productive cooperation and decision-making. These organizations have difficulties in guaranteeing equitable representation and meeting the various demands of all members as a result of the changing global economy, which is characterized by the emergence of developing markets. In conclusion, working with International Financial Institutions (IFIs) has several benefits, such as increased worldwide recognition, financial resources, access to a multitude of knowledge, and broad networks. It does, however, have a number of drawbacks, including problems with administration, a reliance on outside assistance, and occasionally stringent policy requirements. There are clear chances for development and innovation, especially when it comes to utilizing technology and taking on fresh international problems. However, there are serious risks from altering power balances, geopolitical conflicts, and economic volatility.

The influence of these global financial bodies on a country's economic advancement is subject to intense discussion. Although there's evidence pointing to their positive impact on growth and development, concerns linger, especially in states with frail institutions and governance.

The following are the primary areas of analysis for the results:

1. Challenges to the growth of venture capital

The weak legal structure and a lack of private investment are two factors impeding the growth of the venture capital business in Uzbekistan. The primary barriers to venture capital's growth are displayed in the table below.

Table 2. The primary barriers to venture capital's growth

Obstacle	Impact
Lack of legislation	Uncertainty is created for investors
Lack of private investors	Lack of financial resources
Underdeveloped financing mechanisms.	The difficulty of financing innovative projects

2. International experience

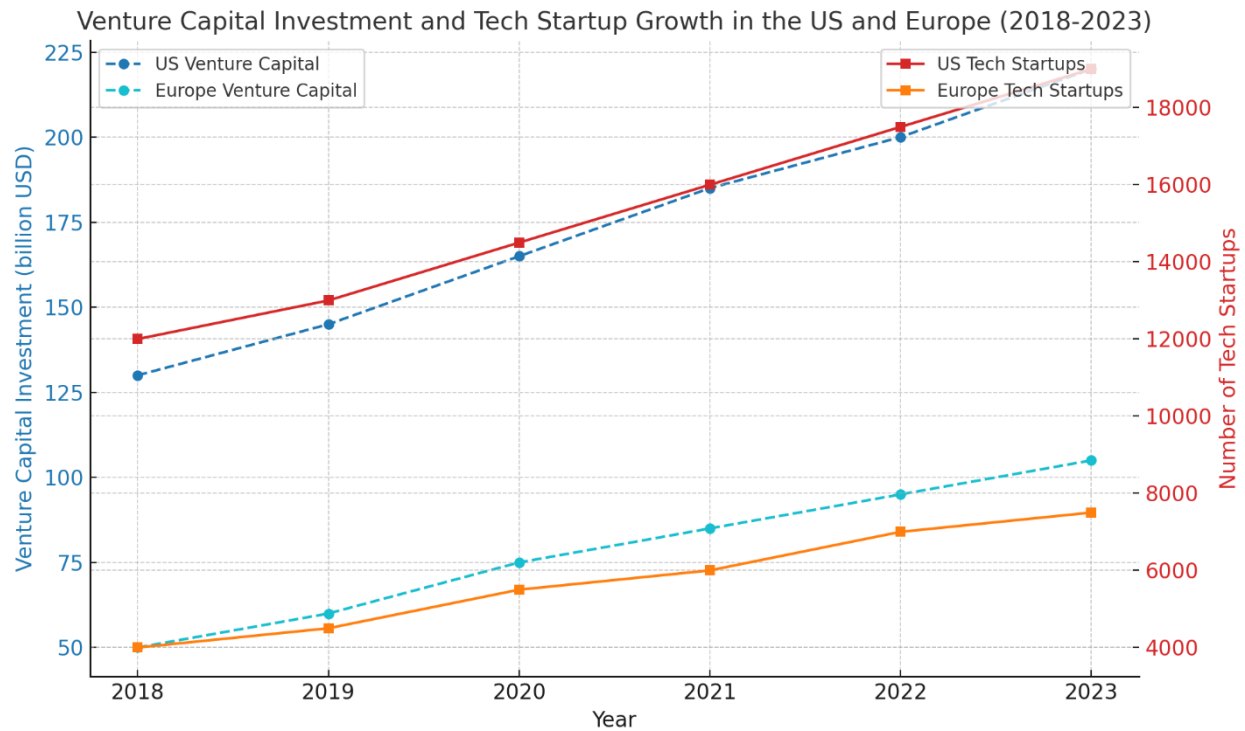


Figure 1. Venture capital investment and tech startup growth in the US and Europe

The aforementioned figure illustrates the correlation between the quantity of technology companies and venture capital investment in the US and Europe.

- Venture capital investment (USD billion) on the left axis.
- Number of technological startups on the right axis.

The graph indicates that between 2018 and 2023, venture capital investment in the US and Europe increased steadily. The number of startups is rising as a result of this expansion, with a notable surge in technology startups in the US.

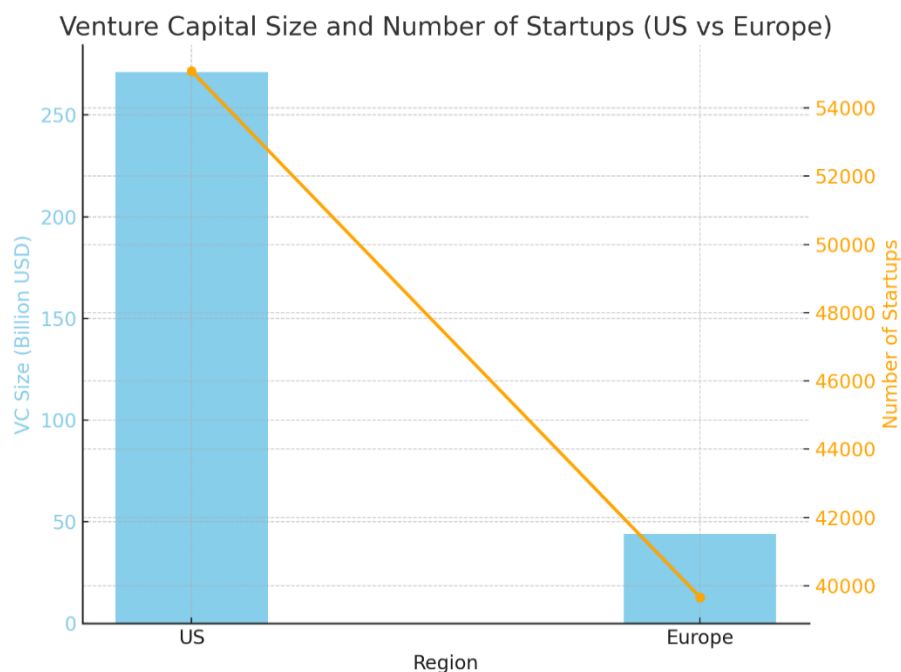


Figure 2. Venture capital size and number of startups (US vs Europe)

This graphic illustrates the use of Venture in Europe and the United States and shows how much investment has been made

The expansion of new businesses has been greatly aided by the \$300 billion venture capital industry in the United States in 2022. Venture capital is being used in Japan to develop high-tech goods in partnership with the public and private sectors.

4. Conclusion

The study underscores the pivotal role of venture capital in fostering innovation and economic growth in Uzbekistan, drawing on international experiences to highlight its transformative potential. Key findings indicate a significant increase in venture capital investments in recent years, contributing to the rise of innovative businesses and technological startups. However, challenges such as weak legal frameworks, limited private investment, and underdeveloped financing mechanisms hinder further development. These findings imply that addressing these barriers through policy reforms and incentivizing private investment could amplify the impact of venture capital on the innovation ecosystem. Future research should focus on optimizing venture capital strategies, exploring sector-specific applications, and assessing long-term economic outcomes to further strengthen Uzbekistan's innovative economy.

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