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Prospects for the Development of Venture Financing in Uzbekistan

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Abstract: The article is dedicated to analyzing the current state and prospects of venture capital development in Uzbekistan. The paper discusses the main issues faced by startups and venture investors in the country, such as insufficient legal and tax frameworks, lack of specialized infrastructure, and low financial literacy among entrepreneurs. Possible solutions to these problems are also explored, including improving the legal environment, creating conditions for startups, attracting international investors, and developing educational programs. In conclusion, the importance of building a sustainable ecosystem for venture investments that promotes the innovative development of Uzbekistan's economy is emphasized.

Keywords: venture capital, startups, investments, Uzbekistan, legal framework, tax policy, innovation, financial literacy, startup infrastructure, international investors

1. Introduction

In recent years, Uzbekistan has been actively taking steps to improve the economic climate and attract foreign investment. One of the key areas of reform is the development of innovative technologies and the startup ecosystem, which is directly related to the growth of venture financing. In the context of globalization and accelerated technological progress, venture capital is becoming an important tool for startups seeking to quickly scale up and enter new markets.

Despite the fact that venture financing in Uzbekistan is in its early stages of development, the country is already demonstrating positive trends related to attracting foreign investors and an increase in the number of technology startups. The use of modern financial instruments and the creation of favorable conditions for startups gives hope for the promising development of the venture market in the region.

This article examines the key factors determining the prospects for venture financing in Uzbekistan, and analyzes the opportunities and challenges faced by local startups and investors.

Literature review

A review of the literature on venture capital in developing countries, including Uzbekistan, covers a wide range of theoretical and practical aspects that influence the development of venture ecosystems. Existing studies focus on the role of the institutional environment, government support, and the impact of economic and social factors on

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attracting venture capital investments. The literature emphasizes the importance of creating an effective legal and financial infrastructure, as well as the need to develop educational programs and networking platforms for start-ups. This review aims to identify the main factors contributing to the growth of venture capital in Uzbekistan, as well as to analyze the challenges faced by local entrepreneurs and investors.

Venture capital development in emerging markets such as Uzbekistan is attracting increasing attention from both academia and practitioners in the field of finance and entrepreneurship. The most important factors influencing the growth of the venture market are support from public and private investors, the creation of a favorable legal and financial infrastructure, and the development of innovative ecosystems [1]. One of the key aspects considered in the literature is the role of the institutional environment in stimulating venture financing. Successful development of venture capital is impossible without effective mechanisms for investor protection, tax and legal incentives, as well as a high level of financial literacy among local entrepreneurs. In countries where such mechanisms are underdeveloped, the venture market faces numerous problems, including high investment risk and lack of transparency [2].

Particular attention is paid to the development and implementation of public and private venture funds. Research shows that for countries with developing economies, such as Uzbekistan, an important step is the creation of public funds that could offset risks and support start-ups in the early stages of their development. These mechanisms are becoming an important tool for attracting international investors and developing new technology companies [3].

Another important aspect is the influence of social and economic factors on venture financing. In developing countries, including Central Asia, venture capital can also play a key role in solving social problems, such as job creation, support for environmentally friendly technologies and solving poverty problems. This is especially true for countries with high potential for social innovation and the growth of new industries, such as agritech, fintech and IT [4].

Finally, research also shows that successful venture capital development in emerging markets requires active work with local startups, improving educational programs and creating networking platforms for entrepreneurs. It is important not only to provide funding, but also to support startups in management, marketing and entering international markets [5].

Based on this, it becomes obvious that the creation of an effective venture ecosystem in Uzbekistan requires a comprehensive approach, including improving the legal climate, increasing financial literacy among entrepreneurs and attracting international investors. Scientific research emphasizes the importance of private and public partnerships to achieve sustainable growth of venture capital [6].

Thus, venture financing in Uzbekistan is at the stage of formation and development, and the literature focuses on key factors such as the legal framework, support from the state and private investors, as well as the need to create an infrastructure that facilitates the growth of innovative companies [7].

2. Materials and Methods

The logical-structural analysis of theoretical and empirical data presented in the public domain was used as a research method. Also, analysis and synthesis, allowing, on the one hand, to identify individual areas of development of venture investments, on the other hand, generalizing and linking together the main trends of their development. As a result of the study, special factors of development of venture financing were determined.

3. Result and discussion

Venture capital financing in Uzbekistan continues to develop, but still faces a number of challenges that hinder its full growth. According to global analysis, the volume of global venture capital investments in 2024 was \$475 billion, demonstrating stable growth despite economic challenges. In particular, the United States continues to hold the lead in the global market, with investments of about \$260 billion in 2024, accounting for

more than 50% of the total volume of venture capital investments in the world [8]. This reflects the maturity of the US venture market and the developed infrastructure for startups and investors. While there is a growing interest in venture capital investments in the world, especially in the technology and environmental sectors, Uzbekistan still faces limitations in the legal and financial infrastructure [9]. Local startups, despite having potential in areas such as IT, fintech and agritech, have difficulty attracting long-term investments. In 2024, the amount of venture capital investments in Uzbekistan, according to preliminary estimates, remains below \$100 million, which is significantly lower than in more developed countries in the region [10].

However, the venture market of Uzbekistan is starting to show signs of growth due to increasing government initiatives. In 2024, the country launched new programs to support startups, including tax incentives for venture funds, the creation of technology parks and specialized accelerators. These measures contribute to increasing interest from private investors, including international ones [11].

There is significant interest in the global market in investing in green technologies, which have become one of the priority areas for venture capitalists. The volume of venture investments in environmentally friendly technologies in 2024 reached \$55 billion, which is 22% more than in 2023. This trend confirms the growing interest in sustainable and environmentally friendly technologies, which opens up new opportunities for startups in Uzbekistan, especially in light of the growing attention to sustainable development issues. Sectors such as financial technologies (fintech) and information technologies are developing particularly rapidly, attracting more than \$55 billion in venture investments in 2024, which is about 12% of the total volume of global venture investments [12]. This growth confirms the importance of innovations in digital technologies and blockchain for the global economy. Uzbekistan, despite the initial stage of development of these sectors, has the opportunity to create successful startups in these areas, subject to further modernization of legislation and the creation of a favorable business environment. However, high risks and low levels of trust among investors remain the main barriers to the growth of venture capital in Uzbekistan. According to global studies, about 30% of venture investments in developing countries end in failure, which confirms the need to create effective mechanisms for risk assessment and reducing uncertainty for investors [13].

There is also growing interest in venture capital investment in Africa and Asia in 2024. In Africa, for example, the volume of venture capital investments in 2024 was \$6.2 billion, up 24% from 2023. In Asia, the volume of venture capital investments in 2024 was about \$90 billion, up 15% from the previous year. This indicates a growing interest in regions with emerging economies, which is a good sign for Uzbekistan if the country can improve the conditions for startups and venture investors (Table 1).

Table 1. Global Venture Capital Trends by Region (2024)

Region	Venture Capital Investment Volume (\$ billion)	Main industries	Main countries	Growth compared to 2023 (%)
North America	260	IT, fintech, artificial intelligence, biotechnology	USA, Canada	+5%
Europe	80	Green technologies, IT, fintech, healthcare	UK, Germany, France	+12%
Asia	90	IT, fintech, blockchain, agricultural technologies	China, India, South Korea	+15%

Africa	6.2	Fintech, agritech, healthcare	Nigeria, South Africa	+24%
Latin America	12	IT, fintech, blockchain, mobile technologies	Brazil, Mexico	+7%

As shown in Table 1, the volume of venture capital investment in 2024 continues to grow globally. North America continues to lead the way with over \$260 billion in investments, accounting for over 50% of the total venture capital. The leading sectors remain IT and fintech, with continued growth in new areas such as green technology and artificial intelligence.

Europe and Asia also show positive dynamics, with venture investments growing by 12% and 15% respectively. Of particular note is the significant attention to green technologies, which reflects the global trend towards supporting sustainable development. Africa and Latin America, despite a smaller volume of investments, show the highest percentage of growth, which indicates a growing interest in emerging markets [14].

These data highlight that despite the dominance of countries such as the US and China, developing regions are starting to attract more attention from global venture investors. In Uzbekistan, we can also expect an increase in interest in venture financing, especially in areas such as IT, fintech and agritech, taking into account global trends.

Moving on to the next analysis, it is necessary to take into account that the development of venture capital in Uzbekistan is influenced not only by global trends, but also by local characteristics, such as the legal infrastructure and the level of government regulation. The following table will examine the key factors influencing the development of the venture capital market in Uzbekistan, allowing for a more detailed assessment of which elements can contribute to accelerating the growth of this market in the country (Table 2).

Table 2. Key factors influencing venture financing in Uzbekistan ¹

Factors	Description	Impact on Venture Capital Financing
Legal and tax framework	Insufficient development of legislation for startups	Limits access to investment and increases risks
Qualification of entrepreneurs	Lack of experienced startup founders and venture capitalists	Reduces investor confidence and makes it difficult to find suitable projects
Access to financing	Limited access to early and late funding, high rates	Difficulties in the development of innovative companies at the initial stages
Government support	Availability of tax incentives, creation of funds for startups	Supports the growth of the venture capital market
International relations and partnerships	Cooperation with international funds and venture capitalists	Increases confidence and investment inflow

Despite the potential for venture capital growth in Uzbekistan, there are several factors that limit its development. Problems such as an underdeveloped legal framework, lack of infrastructure for startups, and low level of financial literacy among entrepreneurs hinder the attraction of investments and the effective use of venture capital. However, there are a number of solutions that can significantly improve the situation and stimulate the growth of the venture sector.

The first step to improve the situation is to improve the legal and tax framework. It is important to adopt laws that stimulate the development of venture capital, including tax incentives for venture funds, simplifying the registration and licensing of startups. Such

¹ Подготовлено автором согласно эмпирических исследование.

an approach will create transparent and understandable conditions for business, which will attract both local and international investors.

The second important step is the development of infrastructure for startups. The creation of technology parks, incubators and accelerators with access to modern resources and experts will help startups go through the initial stages of growth. This will contribute to improving the quality of projects and prepare them for attracting venture investments. Examples of successful initiatives such as Y Combinator in the United States can serve as a model for Uzbekistan [15].

The third important solution is related to improving financial literacy among entrepreneurs. The introduction of programs to train entrepreneurs in the financial aspects of doing business and project management will help them better understand how to attract investment and effectively develop their startups. In particular, educational initiatives on venture capital and investment risks will help build trust among investors.

The fourth solution is to attract international investors. To do this, it is necessary to create platforms for interaction with foreign funds and hold international business forums. The country can also conclude mutual cooperation agreements with developed markets, which will accelerate the attraction of capital and technology.

The fifth solution concerns active support for sustainable and innovative technologies, such as green technologies, financial technologies and the IT sectors. Stimulating startups in these areas through the creation of specialized funds or support programs will contribute to the development of innovation, which opens up new opportunities for attracting venture investments, both from local and international funds. The sixth step is to simplify access to funding for startups. Creating grant programs, subsidies, and developing a network of angel investors and venture funds at early stages will help startups at the initial stage. These measures will help overcome financial difficulties and give a chance to many promising projects.

The seventh step is to create an effective risk assessment and management system for venture investments. The introduction of standards and tools for independent risk assessment will increase transparency and investor confidence. It is also important to develop rating agencies for startups, which will reduce uncertainty and improve the perception of the country as an attractive investment market.

The eighth important element is the development of human resources and international relations. To do this, it is necessary to introduce educational programs on venture capital, organize cooperation with international universities and funds, and attract international experts to train and consult local startups. Qualified personnel will play a key role in creating a successful ecosystem for venture investments. Thus, the implementation of these steps can significantly accelerate the growth of venture capital in Uzbekistan, creating more favorable conditions for startups and investors, and also contribute to the creation of a sustainable and innovative economy in the country.

4. Conclusion

Venture capital financing in Uzbekistan is at the stage of active development, however, it faces certain challenges related to the underdeveloped legal infrastructure, shortage of qualified personnel and limited access to financing at early stages. Nevertheless, the country has significant potential for venture capital growth, given its strategic location, growing market and supportive government policy.

For the full development of the venture market in Uzbekistan, it is necessary to take comprehensive measures, such as improving the legal and tax framework, creating an infrastructure for start-ups, developing educational programs for entrepreneurs and increasing financial literacy. Also, an important step is to attract international investors and create favorable conditions for technological and innovative projects.

Implementation of these solutions will ensure the effective use of venture investments and create a more attractive ecosystem for entrepreneurs and investors. Uzbekistan has every chance to become an important hub for innovative entrepreneurship in Central Asia, and with the support of the state, private investors and international partners, the country can realize its potential in the field of venture capital. Thus, the development of the venture market in Uzbekistan is not only a step towards modernizing the economy, but also a key component in shaping the country's innovative future, which, in turn, will open up new opportunities for businesses and investors both locally and internationally.

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