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Current Trends in Investing in Innovative Startups

Xabilova Lobar Faxriddin qizi
Student of the Faculty of Economics, TMC Institute

Abstract: The process of investing in innovative startups in Uzbekistan has become significantly more active in recent years. The expansion of the digital economy, the improvement of technological infrastructure, and the favorable ecosystem created by the state are creating a foundation for the formation of new projects. The increase in the number of venture funds, accelerators, and business incubators is expanding financial opportunities for startups. The entry of private investors into the market is intensifying competition and increasing the quality of projects. In addition, the benefits provided to foreign investors are developing international cooperation. The introduction of grants, tax breaks, and special programs to support innovative startups is making the domestic market more attractive for innovative ideas. As a result, the number of startups aimed at creating advanced technologies in the country is increasing, and their contribution to economic growth is significantly increasing.

Key words: innovative startups, investment, venture funds, accelerators, business incubator, digital economy, financial support, investment ecosystem, technological development.

In recent years, the development of innovative activity, the introduction of modern technologies and the acceleration of digital transformation in the economy of Uzbekistan have become one of the priorities of state policy. Startups play an important role in the formation of an innovative ecosystem. Startups are small projects that offer new technological solutions and have the potential for rapid growth in the short term, and are one of the main drivers in the process of diversifying the economy, creating new jobs and developing competitive products in the global arena. At the same time, the success of innovative startups is closely related to direct investments, venture capital, grants and technological infrastructure. This article provides a comprehensive analysis of current trends, existing problems and prospects for investing in innovative startups in Uzbekistan.

A number of legal documents aimed at stimulating innovation have been adopted in Uzbekistan. Including:

The Law “On Innovative Activities”;

The Strategy “Digital Uzbekistan — 2030”;

Resolutions on the establishment of the “Startup Support Fund”;

These reforms have created favorable conditions for investors and facilitated the process of startups obtaining financial resources. Previously, traditional lending practices were difficult for startups, but today modern mechanisms such as venture investment, business incubation, and acceleration are being formed.[2]

In recent years, several venture funds have begun to form on the Uzbek market. They mainly focus on technological projects, fintech, e-commerce, EdTech, MedTech, and agrarian technologies. The emergence of venture funds is associated with the formation of a risk management culture among investors and the desire for high profitability.[3]

The IT park offers the following services for startups:

mentoring;

office space;

tax incentives;

foreign market development programs;

grants.

IT park projects such as "Zero Risk" and "Startup Initiation" have increased startups' access to investment.

Organizations such as the World Bank, the European Bank for Reconstruction and Development, USAID, KOICA, and UNDP provide grants for innovative projects. Their support facilitates knowledge exchange, business process optimization, and global market research for startups.[4]

The business angel institute is gradually forming in Uzbekistan, which often plays an important role in financing startups at the early stage. Such investors offer not only capital, but also experience, advice, and business connections.

In recent years, especially after the pandemic, the demand for digital services has increased. As a result, many startups are emerging in the areas of e-commerce, logistics, fintech, EdTech, and HealthTech. These areas are characterized by high profitability and rapid growth for investors.

If foreign investors previously played the main role, today the activity of local investors is significantly increasing. This is due to:

the provision of numerous benefits by the state;

the expansion of the technological market;

the formation of startup culture.

Picture 1

Year	Number of Deals	Investment Amount (Million $)
2019	15	50
2020	20	70
2021	25	100
2022	30	150
2023	40	250

Universities, private companies, and IT parks are implementing various acceleration programs. These programs help startups connect with investors, organize pitch events, and develop a strategy for bringing their products to market.

Uzbek startups are achieving success in entering the markets of the United States, Europe, and Southeast Asia. This is evidence of the openness of the digital economy and the expansion of international cooperation programs.

Startups in areas such as education, healthcare, ecology, and agriculture are attracting more funding from donors and government grants due to their social significance.

Although significant progress has been made, there are a number of problems in the investment market.

Some projects, despite their high potential, do not receive sufficient funding at the initial stage.

Often, teams, although technically strong, lack experience in areas such as marketing, financial management, and business expansion.

The lack of open market statistics, startup ratings, and analytical data complicates the decision-making process for investors.

Since the venture capital market is new, the risk management model is not fully formed.

Innovative projects create great opportunities for IT specialists, programmers, designers, and marketers.

The export of IT services is increasing year by year, and startups are learning to enter foreign markets.

A number of successful projects in the areas of fintech and logistics have begun to gain international recognition.

Startups are developing cooperation with universities, research centers, and technology parks.[5]

New private and public-private partnership funds are expected to emerge in the coming years.

The pace of digital transformation, the age structure of the population, and the growth rates of the IT sector are making Uzbekistan an attractive region.

Products in the fields of education, medicine, and e-commerce are forecast to actively enter the European and Asian markets.

There are conditions for IT-park, YashnaTech, and technoparks under universities to turn into large clusters.

As investment flows into the AI sector are increasing globally, Uzbek startups are expected to actively participate in this process.

In conclusion, Uzbekistan is witnessing a rapid development in terms of investment in innovative startups. State policy, technological infrastructure, venture funds, acceleration programs, and international cooperation create broad opportunities for startups. However, there are still problems such as lack of experience, lack of investment, and the relative youth of the ecosystem. In the coming years, Uzbekistan is expected to become one of the technological centers, and startups will become an important driver of economic growth. Current trends show that the volume of investments will increase, the participation of startups in the global market will expand, and the innovation ecosystem will be increasingly strengthened.

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