

MECHANISMS, PROBLEMS, AND PROSPECTS OF VENTURE FINANCING FOR STARTUP PROJECTS IN THE ERA OF THE DIGITAL ECONOMY

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Abstract: In the context of globalization, venture funds and other types of investment funds play a crucial role. This article, using the IMRaD method, analyzes the role of funds financing innovative and technological projects within the startup ecosystem, the specific features of startup valuation, and the primary mechanisms of venture investment. It identifies inherent challenges such as information asymmetry and resource scarcity, while also examining the current state of Uzbekistan's venture market and defining the prospects for its development under the conditions of forming digital sovereignty. The research explores the "Smart Capital" concept, investment stages, and systemic barriers within Uzbekistan's ecosystem.

Keywords: Venture capital, startup, Smart Capital, creative destruction, DCF, Berkus method, Scorecard method, Venture Capital method, Term Sheet, Cap Table, Dilution, Vesting, Unicorn, IT Park, UzVC, stock market, World Bank.

INTRODUCTION

In the rapid development of the digital economy, traditional mechanisms of global economic capital distribution are facing numerous systemic challenges. This, in turn, casts doubt on the financing and promotion of innovative projects. Conventional banking and credit systems, which rely on conservative risk assessments and rigid collateral requirements, appear institutionally incapable of meeting the needs of high-tech startups—whose assets are primarily intangible, embodied in intellectual property, software code, and user data—or supporting them until they establish a market presence. In such a situation, there is a growing demand for centralized funds and monetary instruments that finance innovative ideas while assuming the high uncertainty and risks of information disruption inherent in the digital economy.

A venture fund is not merely a source of financing for startups; rather, it emerges as a vital element of an institutional support system aimed at helping innovative ideas find their place in the global market and shaping the demand for their products. Studying the role of

venture capital within the startup ecosystem allows for the identification of specific characteristics in evaluating digital projects, where standard financial analysis methods, such as Discounted Cash Flow (DCF), often prove irrelevant due to a lack of historical profitability and the high volatility of future projections.

Given the high uncertainty of startups, the financing problem is further exacerbated by a frequent lack of reliable information regarding the quality of innovative products during the early stages of development. Due to a lack of experience, young entrepreneurs face difficulties in conveying this information to investors, which creates barriers to the efficient allocation of resources. In the context of the digital economy—where innovation cycles are shortening and the competition for talent and markets is becoming global—understanding venture financing and its mechanisms is becoming a guarantee for ensuring sustainable economic growth and technological leadership.

LITERATURE REVIEW

In their work **"The Venture Capital Cycle" (2004)**¹, **Paul Gompers and Josh Lerner** dispel misconceptions regarding the nature of the venture capitalist and their role in the venture industry. By synthesizing 15 years of innovative research on the venture capital cycle, its stages, and the form and function of venture capital firms, they examine how venture capitalists raise funds, invest them, and manage the "exit" stages of a project. **William A. Sahlman**, in his scientific work **"The structure and governance of venture-capital organizations" (2022)**², describes and analyzes the structure of venture capital organizations, focusing on the alignments between venture capitalists and investors, as well as between venture capitalists and the enterprises in which they invest. The study emphasizes agency problems arising within these organizations and the contracts and operational procedures aimed at mitigating them; venture capital organizations are compared with leveraged buyout organizations and large, publicly traded corporations. **Joseph Schumpeter**, in his book **"Capitalism, Socialism and Democracy" (1942)**³, describes "creative destruction" and its underlying processes. **N. A. Komilov, A. Z. Ganiyeva, and A. N. Khamzaev**, in their article **"Mechanisms for attracting foreign investment to the digital economy of Uzbekistan"**

¹ Gompers, P. A., & Lerner, J. (2004). [The venture capital cycle](#) (2nd ed.). MIT Press.

² Sahlman, W. A. (2022). [The structure and governance of venture-capital organizations](#). *Venture Capital*, 3-51.

³ Schumpeter, J. (1942). [Capitalism, Socialism and Democracy](#). (Electronic edition published in the Taylor & Francis e-Library, 2003).

(2026)⁴, study the role of technology and foreign capital in building "Unicorn" companies and increasing the volume of export-oriented IT services for Uzbekistan during a period of intense competition for venture funds and IT companies among developing countries. **S. R. Chulliyev**, in the article "Scientific theoretical basis of formation of venture capital" (2024)⁵, theoretically researches the scientific-theoretical foundations of venture capital formation based on the results of several foreign and domestic scientists' research; by summarizing the characteristics, functions, and sources of venture capital, a definition of the concept of "venture capital" as an economic category is formed. Furthermore, in the article "Venture capital as a factor in the innovative development of the economy" (2021)⁶, **S. R. Chulliyev** explores the advantages, characteristics, and role of venture capital in financing innovations within the economy.

RESEARCH METHODOLOGY

In the course of the research, the economic nature of venture capital was studied based on Joseph Schumpeter's theory of "Creative Destruction"; the progression of an idea from its initial form to its transformation into a business project and its market entry was analyzed, along with the role of venture capital throughout these development stages. Traditional **DCF** (Discounted Cash Flow) and alternative valuation methods for startups (such as the **Berkus**, **Scorecard**, and **Venture Capital methods**) were examined and compared. Furthermore, the legal elements of investment deals, including the "Term Sheet" and "Cap Table", were analyzed. A dynamic analysis of Uzbekistan's venture market indicators for the period of 2023–2025 was conducted.

In addition, the analysis was based on and utilized presidential decrees of the Republic of Uzbekistan, World Bank data, and information from various official websites as primary sources.

RESULTS

Theoretical Foundations of Venture Financing in the Digital Economy

⁴ Komilov, N. A., Ganiyeva, A. Z., & Khamzaev, A. N. — [O'zbekiston raqamli iqtisodiyotiga xorijiy investitsiyalarni jalb qilish mexanizmlari](#)
[Vol. 1 No. 1 \(2026\): SHOKH LIBRARY](#) 20.01.2026

⁵ Chulliyev, S. R. (2024) [Scientific theoretical basis of formation of venture capital](#)
[Vol. 12 No. 5 \(2024\): "Economics and Innovative Technologies"](#) 11.01.2024

⁶ Chulliyev, S. R. (2021). [Venchur kapitali iqtisodiyotni innovatsion rivojlantirish omili sifatida](#)

Creative Destruction – This theory, pioneered by Joseph Schumpeter (*Capitalism, Socialism and Democracy*, 1942), posits that new innovative technologies and projects displace outdated production methods, products, and business models, replacing them with more efficient new mechanisms. This is viewed as the primary driver of economic growth and the continuous renewal of capitalism. However, it is noted that because it dismantles old systems and mechanisms, it can lead to certain crises and a reduction in existing jobs.

Examples:

- The impact of Netflix on traditional television.
- The replacement of landline phones, cameras, and alarm clocks by smartphones.
- The impact of electric vehicles on traditional automotive manufacturing.

Consequences: While creative destruction modernizes the existing system, it is highlighted that it may cause industrial job losses and subsequent economic crises ⁷.

Evolution of the Venture Chain: From Idea to Exit

The venture financing process consists of a systemic sequence of stages, each characterized by a specific level of risk, required investment volume, and strategic objectives for company development.

A Startup's Path from Idea to Market

Stage	Description	Investment Round	Key Investors
1. Pre-Seed (Idea)	Working on the idea, market analysis, and team formation.	Pre-Seed	Founders (Bootstrapping), FFF (Friends, Family, Fools).
2. Seed (Seed Stage)	Creating an MVP (Minimum Viable Product) and acquiring first customers.	Seed	Business Angels, Accelerators.

⁷ Caballero, R. J. (2008). Creative destruction. In S. N. Durlauf & L. E. Blume (Eds.), *The New Palgrave Dictionary of Economics* (2nd ed.). Palgrave Macmillan.

<https://economics.mit.edu/sites/default/files/publications/creative%20destruction.pdf>

Stage	Description	Investment Round	Key Investors
3. Startup (Early Stage)	Product launch in the market; seeking "Product-Market Fit."	Series A	Venture Capital (VC) funds.
4. Expansion	Business model is validated; time for rapid growth and capturing new markets.	Series B & C	Large VC funds, Late-stage funds.
5. Maturity	The company reaches stable revenue and secures its market position.	Series D+ / Mezzanine	Investment banks, Private Equity.
6. Exit	Founders and investors sell their shares.	IPO or M&A	Public market (Stock exchange) or large corporations (e.g., acquisition by Google).

It is worth noting that in 2024–2025, the boundaries between these stages became increasingly blurred. Investors focused more on business model readiness and the quality of execution than on the specific stage. For instance, investment volumes at the pre-seed stage varied from \$150,000 to \$1 million, a range previously typical for seed rounds. This indicates a concentration of capital in the hands of the most advanced teams and an increase in startup valuations at the earliest stages⁸.

The Phenomenon of Smart Capital: Mentorship and Social Capital

In the digital economy, the role of a venture investor extends far beyond providing financial resources. The concept of "**Smart Capital**" implies that an investor supports a project not only with funds but also with their experience, knowledge (mentoring), strategic advice, business connections (networking), and contact networks. Under conditions of high uncertainty, mentorship provided by venture fund partners allows a startup to avoid critical mistakes in

⁸ PitchBook.com (Venture Monitor reports); [Crunchbase.com/blog](https://www.crunchbase.com/blog) (Seed and Pre-seed trends); Andreessen Horowitz (a16z) blog.

human resource management, legal registration of intellectual property, and establishing relationships with regulators⁹.

Institutional failures—such as excessive bureaucracy or lack of protection for investors' rights—can slow down the processes of creative destruction. Conversely, the existence of a developed venture culture, as seen in the US or China, creates an environment where failure is accepted as part of the learning process. This is crucial for entrepreneurs to correctly analyze risks and find effective ways to overcome them. Thus, the venture fund acts as both a filter and an accelerator, selecting the most advanced ideas and providing them with the necessary resources for global expansion.

Evaluating Digital Startups and the Investment Process

Valuating a company characterized by high uncertainty and a lack of stable profit is one of the most complex tasks in financial management. In the era of the digital economy, startup assets consist of software code, algorithms, user bases, and brand perception. When applying the traditional **Discounted Cash Flow** (DCF) method to startups, errors frequently occur because it relies on long-term forecasting (from 5 to 10 years), which is nearly impossible given the turbulence of the IT market.

Critique of Traditional Methods and Alternative Approaches

The DCF method involves calculating the present value of future free cash flows according to the following formula:

Full Formula with Terminal Value

In practice, since companies are assumed to operate indefinitely, the Terminal Value (TV) is calculated for the period beyond the forecast years:

$$\text{Enterprise value} = \sum_{t=1}^n \frac{CF_t}{(1+r)^t} + \frac{TV}{(1+r)^n}$$

Where CF_t — the cash flow, r — the discount rate reflecting risk, n — the number of years, t — is the time period, and TV — the terminal value. For early-stage startups, cash flows in the initial years are typically negative, and the discount rate can reach 40%–70%, making the final valuation extremely sensitive to even the smallest changes in projections. Consequently, investors turn to qualitative and comparative valuation methods¹⁰.

Alternative Effective Methods

⁹ Medysif.com: [Smart Capital: What is it and how to take advantage of it?](#)

¹⁰ Valutico.com: [Valuation Methods for Startups - The Easy Guide to Value a Startup - Valutico](#)

Valuation Methodology	Key Factors	Application
Berkus Method	Evaluates five risk factors: the idea, prototype, management team, strategic relationships, and product rollout. Each factor adds up to \$500,000 to the valuation.	Pre-revenue startups.
Scorecard Method	Uses comparisons with industry benchmarks and evaluates startups based on key performance factors.	Angel investments and seed stages.
Venture Capital Method	Calculated based on the investor's expected return. It primarily relies on the anticipated Exit value.	Startups with traction and revenue.

Digital assets require specific attention: for instance, in the **Berkus method**, the existence of a functional prototype (**MVP**) is viewed as a factor that significantly reduces technological risk, while the presence of a strong team is seen as a factor that mitigates management risk (**execution risk**).

The Berkus valuation method is a technique applied during the early stages of a startup, specifically designed to determine initial value without relying on the founder's financial projections. The Berkus method examines five critical areas of a startup and assigns a value ranging from \$0\$ to \$500,000 for each area. The sum of all assigned values constitutes the startup's **pre-money valuation**. In the core Berkus method, there are five categories with a maximum of \$500,000 each, which theoretically brings the maximum pre-money valuation to \$2.5 million ¹¹.

No	Criteria (Risk Reduction)	Added Value (Maximum)
1	Sound Idea	\$500,000
2	Prototype (MVP)	\$500,000
3	Quality Management Team	\$500,000
4	Strategic Relationships	\$500,000

¹¹ Eqvista.com: [Berkus Valuation Method for Startups - Eqvista](#)

№	Criteria (Risk Reduction)	Added Value (Maximum)
5	Product Rollout (Sales or Manufacturing)	\$500,000

The advantage of this method over **DCF** is that investors evaluate the startup project and its founders directly based on their current results within defined limits. This relatively reduces the level of uncertainty.

The Scorecard Valuation Method is one of the most widely used techniques for valuing pre-revenue startups that possess an MVP (Minimum Viable Product) or a solid idea. This method operates by comparing the startup to the average market value of similar companies in the same region.

Principles of the Method

The valuation process consists of three main stages:

1. Determining the Average Value: The average pre-money valuation of similar startups in the region is identified (e.g., \$1–2 million).
2. Criteria Weighting: The startup is analyzed based on 7 key indicators.
3. Comparison: A final factor is calculated for each criterion to determine the adjusted valuation ¹².

Evaluation Criteria	Weight Range (%)	Target Company (%)	Final Factor
Management Team	25%	130%	0.325
Market Size	20%	140%	0.28
Product/Technology	20%	100%	0.2
Competitive Environment	11.5%	80%	0.092
Sales and Marketing Channels	11.5%	90%	0.1035
Need for Additional Investment	6%	100%	0.06
Other Factors	6%	100%	0.06
TOTAL:			1.1205

¹² Eqvista.com: [Scorecard Valuation Method Explained - Eqvista](#)

If the average valuation of startups in a specific region is \$1.5 million, the valuation is calculated as follows:

$$\text{Baho} = \$1,500,000 \times 1.1205 = \$1,687,500$$

The advantage of the Scorecard method over DCF is that investors evaluate the startup based on the actual capabilities and efforts of the team and the idea. Comparing it with the valuations of competitive or local startups helps to significantly reduce the level of uncertainty.

Venture Capital Method: This is the most common method, based on the "Exit" value.

$$\text{Post-money Valuation} = \frac{\text{TV}}{\text{ROI}}$$

- **Post-money Valuation**: The value of the company after the investment.
- **Terminal Value (TV)**: The estimated price at which the company could be sold in the future.
- **ROI (Return on Investment)**: The expected rate of return for the investor.

The advantage of this method over DCF is that the investor focuses on the final value from an exit perspective, rather than annual cash flows or the current turnover of the startup. This is a more realistic approach, as the investor is more interested in who receives how much money when liquidity is achieved, rather than the profits in the intervening years.¹³

Legal Structure of the Deal: Term Sheet and Cap Table

The investment process is formalized through key legal documents, among which the **Term Sheet** (the summary of key terms) holds a central position. This document defines the balance of power between the project founders and investors. The core concepts here are **Vesting** and **Dilution**.

Key Clauses:

- **Valuation**: The determination of the startup's value (Pre-money and Post-money).
- **Option Pool**: The percentage of shares set aside for future employees.
- **Liquidation Preference**: The order of priority determining who gets paid first when the company is sold.
- **Voting Rights**: Provisions defining who makes critical decisions for the company.

¹³ Eqvista.com: [Eqvista - Venture Capital Valuation Method](#)

Vesting: A mechanism where project founders and key employees do not gain ownership rights to their shares immediately, but rather over a period of time—typically 4 years with a 1-year "cliff". This ensures their long-term commitment to the project. Vesting generally relies on two important concepts: Cliff and Vesting Period.

- **Vesting Period:** The total timeframe over which the full portion of shares transitions to the individuals, usually 4 years. The person joining the business accumulates their target equity in equal installments throughout this period.

- **Cliff:** A "probationary period" or a waiting period before vesting begins. Usually set at 1 year, the vesting clock effectively starts after the cliff is completed.

Dilution: With each new round of financing, the ownership percentage of existing shareholders decreases because the company issues new shares for incoming investors. Managing the **Cap Table** (Capitalization Table) through precise calculations allows founders to maintain control over strategic decisions even after several rounds of capital raising. Through the Cap Table, founders can track their remaining control, calculate how shares change and redistribute when new investors join, and determine the exact payouts at the time of an exit.

Formation and Analysis of the Venture Ecosystem in Uzbekistan

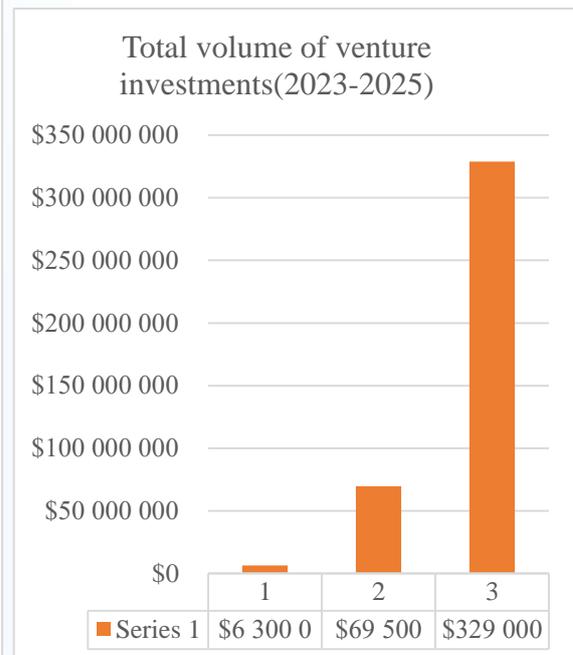
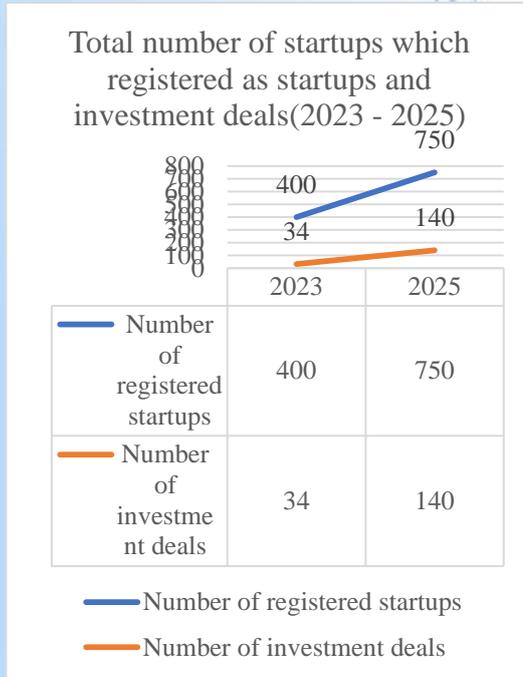
The Republic of Uzbekistan has demonstrated impressive dynamics in the development of innovative entrepreneurship in recent years. The transition from a resource-based economy to a digital economy requires creating conditions for the inflow of private and foreign capital into the technological sector. Within the framework of the "Digital Uzbekistan — 2030" strategy, the government has taken several steps to establish the institutional foundation of the venture market.

Institutional Pillars: IT Park and UzVC

The key participants shaping the venture financing environment in the country are IT Park Uzbekistan and the UzVC National Venture Fund. IT Park serves as a global hub, providing residents not only with tax incentives but also with access to acceleration and incubation programs.

Development Indicators of Uzbekistan's Ecosystem	2023	2025	Growth
Total volume of venture investments	\$6.3M	\$329M	522%
Number of registered startups	400	750	87%

Development Indicators of Uzbekistan's Ecosystem	2023	2025	Growth
Number of investment deals	34	140	411%
Total ecosystem valuation (2020–2025)	—	\$3.9B	—



In 2024–2025, the Uzbekistan ecosystem produced its first "Unicorns"—companies with valuations exceeding \$1 billion—namely Uzum and TBC Bank.

It is noteworthy that Uzum, Uzbekistan's leading IT holding, raised \$70 million in investment with the participation of Tencent (China), VR Capital (USA), and FinSight Ventures. This funding round increased the company's valuation from \$1.1 billion to \$1.5 billion, further solidifying Uzum's position as the country's first unicorn startup¹⁴.

This served as a strong signal to international investors regarding the maturity of the local market. In turn, the UzVC Fund is actively developing a "fund of funds" mechanism by investing in international venture structures (such as Domino Ventures and Big Sky Capital), provided they participate in projects within Uzbekistan.

Furthermore, Presidential Decree No. PQ-357, adopted on October 14, 2024, emphasizes the following:

¹⁴ Pivot.uz: [Uzbekistan's first unicorn startup: Uzum's value reached \\$1.16 billion](#)

In order to create conditions for attracting foreign venture investments by forming a stable ecosystem of startup projects and expanding the venture capital market, the proposal of the Ministry of Digital Technologies and the Ministry of Economy and Finance to implement the "Digital Startups Program" was approved. According to the established procedures, the Program is open to legal entities that are residents of the Republic of Uzbekistan with an operational history of 6 months to 7 years, an annual income not exceeding 10 billion UZS, and possession of documents confirming the successful completion of incubation or acceleration programs. These entities must possess a business model based on digital technologies with high growth potential and the capacity to enter foreign markets, while being registered on the startup project ecosystem platform.

Moreover, the Program provides the following support mechanisms:

- **Matching Investment:** Startup projects that attract investment from foreign venture funds with assets under management (AUM) exceeding \$50 million are eligible for additional investment equal to the amount raised, up to a maximum of \$100,000.
- **Cost Reimbursement:** Reimbursement of up to 50% (capped at \$20,000) for costs associated with participating in leading international acceleration programs and obtaining certifications in entrepreneurship and corporate governance.
- **Infrastructure Support:** Coverage of up to 50% (capped at \$50,000) of expenses related to attracting mentors and trainers for entities implementing incubation and acceleration programs.
- **Intellectual Property:** Full coverage of costs for patenting and the registration of trademarks and intellectual activity results.

These opportunities represent only specific parts of Decree PQ-357; additionally, several other decrees have been adopted to support young entrepreneurs and establish special funds ¹⁵.

In accordance with Presidential Decree No. PQ-59 dated February 11, 2026, the following strategic targets for the development of the startup ecosystem by 2030 were established:

- Increasing the number of startup projects to 5,000 and the volume of attracted venture investments to \$2 billion.
- Developing 500 startups with a valuation exceeding \$1 million, 100 startups exceeding \$10 million, and 25 startups exceeding \$100 million.

¹⁵ Decree of the President of the Republic of Uzbekistan Sh.M. Mirziyoyev, [No. PQ-357 dated October 14, 2024](#) (As of July 21, 2025)

- Creating more than 20,000 new jobs through the launch of startup projects.
- Commercializing 2,000 startup ideas from youth and bringing at least 400 startup projects to international markets ¹⁶.

These opportunities provided by the President create a highly favorable foundation for us, the youth, to not only transform our ideas into private businesses but also to find our place in the global market, enhance the prosperity of the nation through our results, and further stimulate the country's economy.

Barriers to Development and Challenges

Despite rapid growth, the venture market in Uzbekistan faces several systemic constraints:

1. **Exit Scarcity:** Low liquidity on the "Tashkent" Republican Stock Exchange complicates the implementation of IPO strategies for startups. The majority of exchange transactions (over 94% of trading volume) still involve state-owned enterprises. Furthermore, according to Central Bank requirements, banks must reserve 100% of investments that do not yield profit within 3 years, whereas "exits" in venture projects typically take 7–10 years ¹⁷.
2. **Information Asymmetry:** The lack of a unified, transparent database regarding startups makes it difficult for foreign investors to conduct comprehensive Due Diligence.
3. **Private Sector Passivity:** The bulk of investments still stems from foreign capital (89%) and funds with state participation. Local private investors (Business Angels) remain insufficiently active ¹⁸.
4. **Late-Stage Financing Gap:** Approximately 92% of deals are concentrated in the Pre-Seed and Seed stages. The share of large-scale investments in Series A and beyond accounts for only 8%.
5. **Shortage of Angel Investors:** There is a noticeable deficit of private investors willing to risk their own capital during the earliest stages of the ecosystem before institutional funds enter.

Global Context and 2025 Trends

In 2025, global investment flows demonstrated an unprecedented concentration in the Artificial Intelligence (AI) sector. According to OECD data, investments in AI reached \$258.7

¹⁶ Decree of the President of the Republic of Uzbekistan Sh.M. Mirziyoyev, [No. PQ-59 dated February 11, 2026 \(As of February 13, 2026\)](#)

¹⁷ LawPower.uz: [Legal-institutional analysis of the startup ecosystem in Uzbekistan](#)

¹⁸ Kapital.uz: [Volume and structure of investments in the Uzbekistan startup ecosystem \(2025\)](#)

billion, accounting for more than 60% of the total global venture capital volume. This confirms that the digital economy is entering an "AI-centric" phase, where computing infrastructure and data processing become the primary strategic resources.

For developing countries like Uzbekistan, the development of the "4Cs" identified by the World Bank—Connectivity, Compute, Context (Data), and Competency—is becoming vital. Without investment in computing power and the training of Data Science personnel, local startups risk remaining on the periphery of global technological competition ¹⁹.

CONCLUSION

Theoretical analysis and practical market assessment allow us to conclude that venture capital serves not only as a financial provider but also as an institutional mentor that mitigates risks through the "Smart Capital" mechanism. However, to transition to a stage of sustainable maturity, it is essential to resolve the issue of information asymmetry and establish transparent mechanisms for investment exits.

Policy Recommendations

The following measures are proposed to further strengthen the venture ecosystem and enhance its attractiveness to international capital:

1. **Enhancing Stock Market (IPO) Attractiveness:** Implementing simplified listing procedures, facilitating Pre-IPO financing, and reducing or temporarily waiving the Capital Gains Tax on the sale of shares through the stock exchange.
2. **Developing a Unified Analytical Platform:** Launching a national portal based on the Dealroom model to track and analyze data regarding startups, deals, and investors. This would lower transaction costs and increase market transparency.
3. **Tax Incentives for Local Angel Investors:** Following global best practices, introducing tax deductions for individual residents of Uzbekistan who invest in startups at the Pre-seed and Seed stages.
4. **Investment in Human Capital:** Integrating courses on technological entrepreneurship and venture analysis into the curricula of the country's leading universities to address the shortage of qualified personnel.
5. **University-Led Initiatives:** Establishing strong, centralized venture funds, along with incubation and acceleration centers, at top-tier national universities to encourage innovative student ideas and bring them to both local and global markets.

¹⁹ [OECD - AI firms capture 61% of global venture capital in 2025](#)
[World Bank - Digital Progress and Trends Report 2025](#)

The implementation of these measures will enable Uzbekistan to solidify its status as a regional technological hub. Within the framework of the 2030 Strategy, this approach will ensure that innovative ideas are transformed into sustainable economic outcomes, positively impacting broader economic indicators such as employment rates and national income.

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