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FINANCIAL RISKS OF INNOVATIVE PROJECTS IN UZBEKISTAN: CURRENT CHALLENGES AND MANAGEMENT MECHANISMS

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Abstract: The development of innovative projects has become an important component of Uzbekistan's economic transformation. In recent years, the country has expanded state support for startups, scientific research, technology commercialization, and venture financing. At the same time, innovative projects remain exposed to significant financial risks due to uncertain market demand, high initial investment requirements, limited financial history, technological uncertainty, and difficulties in commercialization. This article examines the current financial environment for innovative projects in Uzbekistan and identifies the main financial risks associated with their development. Particular attention is paid to the development of venture financing, state grants, commercialization programs, and startup support mechanisms. The analysis demonstrates that improving financial risk assessment and monitoring is becoming increasingly important as Uzbekistan expands its innovation and startup ecosystem.

Keywords: innovation, innovative projects, financial risks, startups, venture capital, investment, Uzbekistan, commercialization.

1. Introduction

Innovation is increasingly considered an important factor in economic development, productivity, and competitiveness. Uzbekistan has significantly strengthened its institutional framework for innovation during recent years. The Agency for Innovative Development under the Ministry of Higher Education, Science and Innovation is responsible, among other functions, for attracting investment, developing venture financing, conducting financial, economic and technical expertise of innovative projects, and supporting the commercialization of new developments.

The growing importance of innovation is also reflected in Uzbekistan's international innovation indicators. According to the World Intellectual Property Organization (WIPO), Uzbekistan ranked 79th in the Global Innovation Index 2025, improving from 83rd in 2024. However, the country ranked 69th in innovation inputs and only 92nd in innovation outputs, indicating a considerable gap between the resources invested in innovation and the resulting outputs.

This gap demonstrates the importance not only of increasing financing for innovative activities but also of improving the efficiency with which financial resources are allocated and managed.



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2. Financial Risks of Innovative Projects in Uzbekistan

Innovative projects differ from traditional investment projects because their financial results are often difficult to predict. At the early stages of development, projects may not have stable revenues, established customers, or sufficient historical financial data. At the same time, they may require substantial expenditure on research, product development, testing, intellectual property protection, marketing, and commercialization.

One of the major risks is therefore investment risk. An investor may provide financial resources without a guarantee that the project will achieve its technological or commercial objectives. This is particularly relevant for early-stage startups, where the probability of failure is generally higher, and the valuation of the project is more uncertain.

Another important risk is commercialization risk. A technologically successful project does not necessarily become a commercially successful product. Uzbekistan's Innovation Development Agency currently supports projects aimed at preparing scientific developments for commercialization, including experimental and pilot testing. The relevant 2026 program requires private-sector or initiator funding to participate on an equal-share basis, with priority given to projects where private funds exceed 50% of the project value. This mechanism demonstrates the importance of assessing not only the scientific or technological potential of a project but also its financial sustainability and commercialization prospects.

Liquidity risk is another significant issue. Innovative companies may experience a long period between the initial investment and the generation of stable revenue. Consequently, even potentially successful projects can face financial difficulties if available funds are insufficient to cover operating and development expenses.

Innovative projects can also face currency and financing risks. Projects that depend on imported equipment, foreign software, international services, or foreign investment may be affected by exchange-rate movements. In addition, dependence on a limited number of financing sources can increase financial vulnerability.

3. Development of Financing Mechanisms

Uzbekistan has recently expanded the range of financial instruments available to innovative projects. In particular, the country has been developing venture capital as an alternative source of financing for startups.

In 2025, the national venture fund UzVC was reorganized into a Fund of Funds. According to the Ministry of Economy and Finance, six new venture funds were established during the first half of 2025, bringing the number of local participants in the venture capital market to 11. These included the Fund of Funds and venture funds such as Aloqa Ventures, IT Park Ventures, United Ventures, SQB Ventures, Asaka Ventures and Yoshlar Ventures.

The development of venture financing is particularly important because conventional bank lending may not always be suitable for innovative startups. Early-stage companies often lack collateral, stable cash flows, and sufficient operating history. Venture financing can therefore provide an alternative mechanism in which investors accept a higher level of risk in exchange for potential future returns.



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The government has also introduced direct support mechanisms for startups. Under the 2026 Presidential Resolution on the comprehensive startup support ecosystem, Uzbekistan has established a target of increasing the number of startup projects to 5,000 and attracting \$2 billion in venture investment by 2030. The policy includes convertible loans for early-stage startups, grants for digital technology startups, and investments through state venture funds.

These measures indicate that the financial infrastructure supporting innovative projects is developing rapidly. However, the expansion of available funding also creates a need for more systematic approaches to evaluating the risks associated with the allocation of these resources.

4. Current Approach to Risk Management

Existing government mechanisms already include elements of financial and technical assessment. The Innovation Development Agency, for example, is responsible for financial, economic and technical expertise of innovative developments. In addition, current commercialization programs require detailed information about project expenditures, business plans, licensing arrangements, valuation of developments, and sources of co-financing.

Nevertheless, the increasing scale of the innovation ecosystem creates a need for more systematic risk assessment. One possible approach is to evaluate innovative projects according to several major financial dimensions: investment requirements, expected revenues, liquidity, cost deviations, dependence on external financing, commercialization potential, and sensitivity to changes in market conditions.

For example, scenario and sensitivity analysis can be used to determine how changes in sales, costs, exchange rates, or financing conditions affect the expected financial results of a project. Projects can then be classified according to their overall financial risk level.

Such an approach could help investors and public institutions distinguish between projects with different risk profiles and determine appropriate financing mechanisms. High-risk early-stage projects may require phased financing and closer monitoring, while projects with more predictable cash flows may be suitable for conventional financing instruments.

5. Conclusion

The development of innovative projects in Uzbekistan is accompanied by significant opportunities as well as financial risks. The country has made substantial progress in establishing institutional and financial mechanisms for supporting startups, research commercialization, and venture investment. The creation of new venture funds, the restructuring of UzVC, state grants, convertible loans, and commercialization programs demonstrate the increasing role of financial instruments in the national innovation ecosystem.

At the same time, the relatively high uncertainty associated with innovative projects makes financial risk assessment particularly important. The difference between Uzbekistan's innovation inputs and outputs identified by WIPO further emphasizes the



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importance of improving the efficiency of resource allocation rather than simply increasing the volume of financing.

Therefore, further development of standardized approaches to assessing investment, liquidity, market, financing, currency, and commercialization risks could contribute to more efficient allocation of financial resources. A systematic risk-management approach would allow investors, entrepreneurs, venture funds, and public institutions to identify potential financial problems at an earlier stage and select appropriate financing and monitoring mechanisms.

The development of such mechanisms can become an important element of Uzbekistan's broader efforts to create a sustainable innovation ecosystem and increase the commercial and economic impact of innovative projects.

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