

THE STARTUP ECOSYSTEM OF UZBEKISTAN

APRIL 2021 REPORT



TUZ
VENTURES


IT PARK
START LOCAL. GO GLOBAL.

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Foreword

TUZ Ventures FOREWORD

Uzbekistan is a regional powerhouse in the making. Reviewing its ecosystem and producing a tailor-made analysis, alongside ITP, confirmed TUZ' view that this is a high potential market, uniquely positioned to lead the region. We attempted to understand the dynamics, connections and relationship of the current state of the community. We were able to reveal the latest formation of critical players.

Uzbekistan's young population, diversified economy and centuries-old entrepreneur mentality play an instrumental role in the next stage of its startup community. We are excited to witness the strengthening connections between founders, investors and government (3 primary actors of a startup ecosystem). Through this report, we trust the reader will be thrilled by the emerging verticals as we reveal them. Based on leading ecosystem signals, I can state that with the right collaboration and approach, the Uzbekistan ecosystem can be a regional driving force.

Oko Davaasuren,
TUZ Venture Partner & Techstars director

IT Park FOREWORD

Hello friends,

We are glad to present you the very first report carried out by IT Park and TUZ Ventures . Due to the current epidemiological situation, as well as as a result of hard work in the past year of 2020, we were able to launch a study of the startup market, where 223 local entrepreneurs were interviewed. The result of this great joint work was a full-fledged report, which presents the results of the study.

This study will give a powerful impetus to the development of a startup ecosystem in Uzbekistan and will attract new creative, ambitious and promising entrepreneurs. They will serve as a solid foundation for further development.

In the end, I would like to add that our priority tasks for the future include the acceleration and implementation of an innovative strategy for the development of the startup ecosystem in Uzbekistan.

Farhod Ibragimov,
CEO of ITP

Executive Summary



Uzbekistan is a regional powerhouse in the making. It combines a diversified economy with an abundance of natural resources and is also a turning point in the massive New Silk Road corridor linking Asia, Europe, the Middle East, and Africa. Over the past few years, the country has made the choice to welcome with open arms the tech sector.

This report details the tech startup ecosystem in Uzbekistan and benefits four separate groups: founders can gain insights into their local startup community; Government officials can learn about their country's startup ecosystem; investors will gain perspective to inform viability decisions; and internationals will discover the inner market dynamics to inform investment, development, and journalism decisions.

To gain these insights TUZ Ventures, an early-stage tech VC fund focused on central Asia and the Caucasus, collaborated with IT Park, a government department with the mandate to develop the startup ecosystem of Uzbekistan. Primary research was undertaken on Uzbek's startups: 223 founders were interviewed either through online questionnaires or phone calls. All responses were provided between June and July 2020 during the height of the COVID-19 peak. Deep insights were gained into four areas, the market, founders & talent, startup support, and capital.

Digitization of Uzbek's industries has enabled an explosion of startup activity, which is centered in Tashkent. Founders in Uzbekistan tend to be young and hungry for success. Growth is hampered by a lack of adequate funding, with founders relying on friends and family to finance their operations. But despite such common obstacles, the country's tech perspectives are solid, bright, and attract the interest of a growing number of international investors.

1 | Foundations

WHAT - THE OBJECTIVE

To obtain a **unique and analytical snapshot of the Uzbek tech ecosystem**

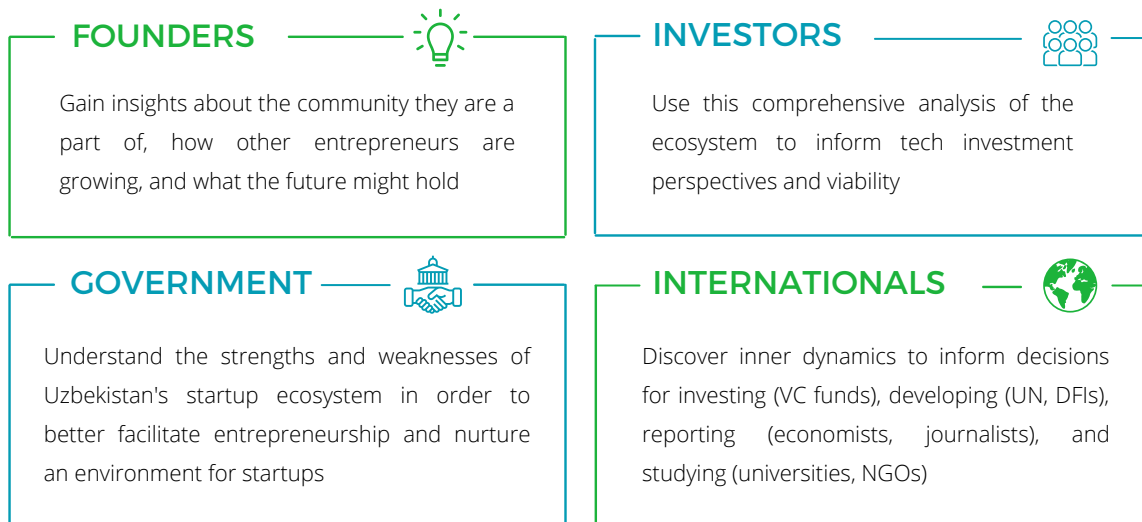
This report stands out in that it:

1. Is highly analytical and data-driven, using statistical expertise to derive facts
2. Uses tailor-made methods & approaches to tackle the local reality
3. Intends to go beyond usual ratios, by addressing deep societal, geographical, gender, educational and migration factors to derive facts and lessons

This study focuses on startups. Subsequent analysis in coming years will focus on investors and the Government.

FOR WHOM – LOCAL & INTERNATIONAL AUDIENCE

Four main groups will benefit from this report.



WHEN - STUDY PERIOD AND SCOPE

It was conducted between **March and November 2020**. The data collection took place between **June 10th, 2020 and July, 23rd, 2020** – in the midst of the multiple-wave COVID-19 Pandemic. Although this certainly impacted responses to the questionnaire, we believe it means the information will be more relevant than ever before.

WHERE - THE SCOPE

This is a countrywide study, though most respondents came from the main urban centers. It was conducted online and respondents were called or emailed in person. **A total of 223 respondents** took part in the process and filled in the questionnaire. This was an all-inclusive report - with the minimum condition that each startup had to be operational in some capacity.

BY WHOM - TWO AUTHORS

TUZ Ventures and IT Park conducted the study.

Description of TUZ Ventures and team (See Index)

TUZ Ventures is an early stage tech VC fund focused in Central Asia, Mongolia, and Caucasus, considered one of the last tech frontiers. The fund aims to capture the massive transformation coming to the region, boosted by the Chinese Belt & Road Initiative. With a world-class and diverse team of seasoned VCs and local experts, TUZ works closely with founders to unleash their potential and leverage this massive tailwind to create truly global companies.

Description of IT Park and team (See Index)

IT Park is a governmental organization with a mandate to develop the startup ecosystem of Uzbekistan. It is a complex of facilities, buildings and structures designed to ensure the launch and rollout of promising start-up projects on the market, an extraterritorial free economic zone for IT companies, including those via integration with scientific and educational organizations. A place where active and gifted people in the IT sector will have a best chance to transform their ideas into real business projects through accounting, legal, marketing and educational support. IT Park Uzbekistan provides an organizational platform with a set of innovative tools and new approaches to accelerate economic transformation, accelerate the growth of the IT industry, create new jobs and attract local and foreign investments.

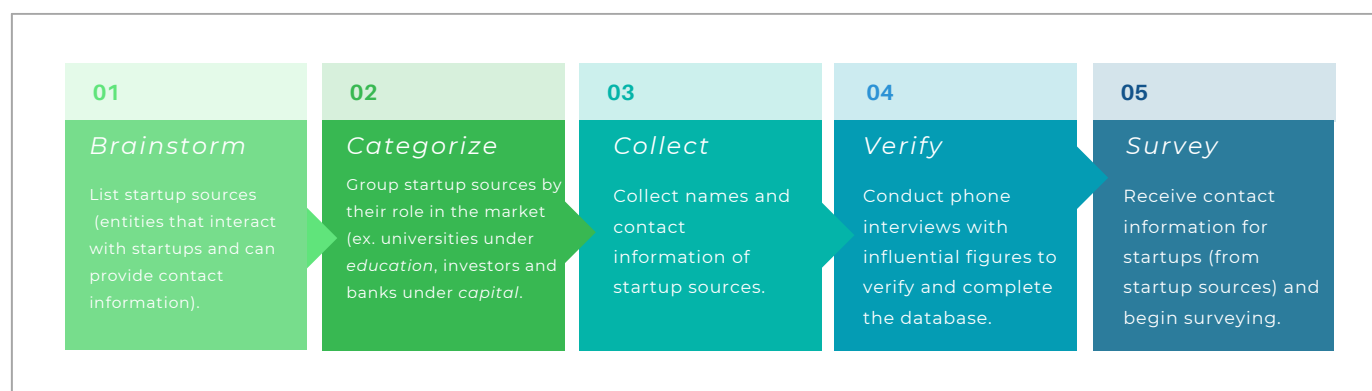
2 | Methodology & Issues

Three steps represent the backbone of the study: **research & cluster selection, questionnaire formulation, and its analysis**. Several issues should be kept in mind.

RESEARCH & SELECTION OF PILLARS

The first step was to research and identify all **relevant sources/clusters of startups**. We narrowed down the finding to 8 sources by interviewing local tech experts who have been operating in the country.

Figure 1: Startup Sources Collection Method



The next step was identifying the main pillars of the startup ecosystem. To that effect, we focused on the ground reality versus applying pre-conceived (Western) concepts. We used a mix of inductive and deductive approaches. The initial step was to take an inductive approach by observing the concrete reality (the data we have collected) and deriving broad generalizations. Then we made use of the deductive approach: applying a pre-conceived concept/idea to a given reality to test its validity.

We used deductive logics to ensure our initial inductive fact-finding approach remained close to the generally and internationally accepted norms of analysis. Deviating too much from or identically mimicking frontier markets' typical pillars would have resulted in an inaccurate and incomplete analysis.

Figure 2: Pillars that are typically observed in similar analyses

TYPICAL PILLARS

Media • Capital • Education • Co-working • Community
Corporate • Incubators & Accelerators • Entrepreneur

Figure 3: Our selected pillars based on our unique approach

OUR PILLARS

- 

1

MARKET

Verticals within the ecosystem, target customers, geography, business segmentation, stage, opportunity to scale
- 

2

FOUNDERS AND TALENT

Demographic information about founders, issues pertaining to company HR
- 

3

CAPITAL

Sources of financing, amount of investments startups raise, issues relating to attracting investments
- 

4

STARTUP SUPPORT

Role of the government and corporations in facilitating a startup ecosystem
- 

5

FUTURE GOALS AND PERSPECTIVE

Startups' goals for the future and what is to come

UZBEKISTAN AND ITS TECH SECTOR

Key Facts

Figure 4: Key Facts about Uzbekistan



Note: The values used here do not yet reflect the impact of the crisis caused by COVID-19

Tech Context

Although Uzbekistan has a comparatively low number of social media users, the number of users has increased by 44% (April 2019-January 2020). Nearly all (99%) access social media through their mobile phone. Over 70% of startups reported that smartphone broadband penetration is sufficient for their purposes (2). With technology on the rise and an impressive 100% literacy rate for all genders, **Uzbekistan is primed for further technological development.**

There is an abundance of opportunities for technology to revolutionize daily life in Uzbekistan. Current rates of credit card ownership indicate a tough market for e-commerce startups; people are unable to spend money readily online. This leaves a large uncaptured market for fintech companies to bring about a solution to the literate, tech savvy and largely urban population. Startups will undoubtedly play a substantial role in bringing these solutions to life.

(1) World Bank, "UZBEKISTAN. Toward A New Economy. Country Economic Update Summer 2019", <http://documents1.worldbank.org/curated/en/866501562572675697/pdf/Uzbekistan-Toward-a-New-Economy-Country-Economic-Update.pdf>, accessed date - December 16, 2020

(2) DIGITAL 2020: UZBEKISTAN (<https://datareportal.com/reports/digital-2020-uzbekistan>)

3 | Analysis

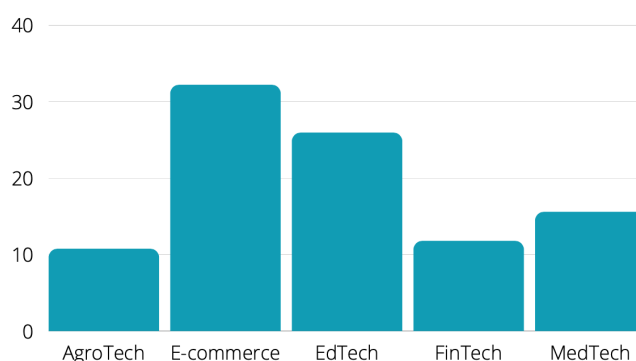
As we collected a large amount of data, we have filtered our findings to show the most pertinent pieces of information for the three primary reader groups: **entrepreneurs**, **investors**, and the **local government**.

PILLAR 1 - MARKET

In this pillar, we analyzed verticals within the ecosystem, target customers, geography, business segmentation, stage, opportunity to scale.

The market at large is quite segmented, with many respondents unable to identify with the primary tech sectors. This indicates a lot of alternative sectors are being explored for viable business models which is very encouraging. The top startup industry is **E-commerce**, followed by **EdTech**.

Figure 6: Top Startup Verticals



Although many respondents were born in Bukhara, Namangan, and Samarkand regions, the majority of experienced founders are based in Tashkent city. Interestingly, most of the respondents from these aforementioned regions moved to Tashkent in order to grow their business. This migration is unsurprising due to the developed infrastructure and the abundance of opportunities for startups in Tashkent.

The 18-38 age group was chosen as a sample for observing the mobility of the startup community. The data shows that at least 50% of founders move to the capital from the regions or (rarely) to other cities within the country. Those who were born in Tashkent are very likely to continue living there.

Figure 7: Map of Founders Locations



The majority of Uzbekistani startups (62%) develop their product or service for the **Uzbekistan market**, whereas only 21% of the founders plan to scale up to CIS countries. These startups offer their innovative services/products in the ratio 1.4: 1.1: 1 (B2B : B2B2C: B2C) markets.

While there is substantial potential in the market, most Uzbekistani startups are at the pre-seed stage. About 39% of startups reported they are at the **“Idea/concept generation”** phase. Additionally, 27% are currently working to **develop their MVP/prototype**. While the startup ecosystem is in its early development, results demonstrate the ability of Uzbekistani startups to scale-up very quickly: 64% of startups began their operations within a year and for most of them, it took less than 6 months to move from the idea/concept stage to fully operational.

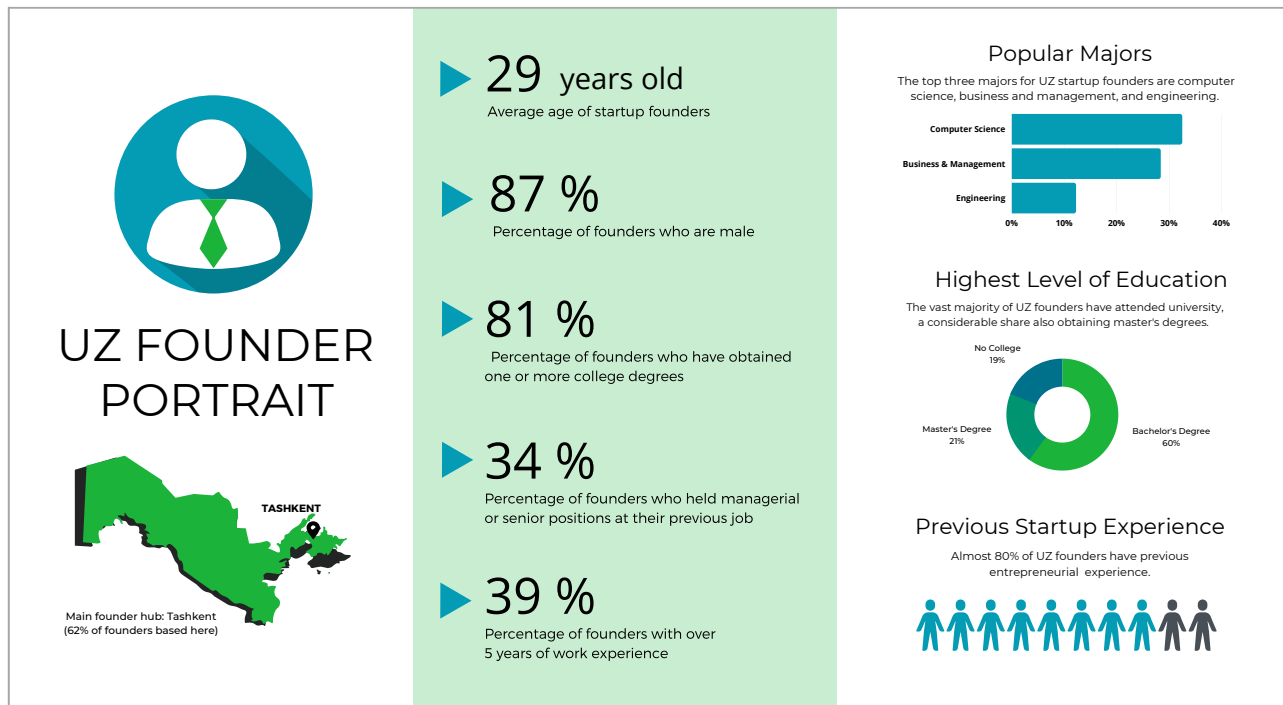
The **effects of the COVID 19 on Uzbekistan's market** are still poorly understood. 39% of startups were affected negatively by COVID-19: their work was stopped, business processes pushed back, profits fell. Although 59% of founders expected a temporary slump in Uzbekistan economics, founders remain generally optimistic with over 60% of startup founders believing the effects of the pandemic will not significantly damage the Uzbek way of life. Respondents believe more in short-term economic threat from COVID pandemic rather than existential/long-lasting. Furthermore, only 11% of the respondents mentioned that COVID-19 is currently their most pressing problem.

PILLAR 2 - FOUNDERS AND TALENT

This pillar focuses on questions relating to the socio-economic background, education and family history of founders as well as issues pertaining to company HR.

2.1 Founders

Figure 8: Uzbekistani Founder Portrait



From our respondents, half of the startup founders are **20-29 years old** demonstrating a young and hungry talent pool in Uzbekistan. Around 36% of founders were born in Tashkent and predominantly stayed in this main startup Uzbekistan hub, whereas the other founders (born in Samarkand, Tashkent, Bukhara regions) moved to Tashkent. The majority of founders are **university-educated**; many earned degrees are in **STEM fields**, demonstrating the strong presence of tech/science skilled workers among Uzbekistan startup founders.

Regarding the previous experience of Uzbekistan startup founders, almost 40% of the founders are professionals with **more than five years** of working history. Furthermore, 34% of founders previously occupied **senior-level positions**, a testament to the expertise and promise of Uzbekistan startup founders.

The majority of the founders already had experience with founding a startup (79%). Unfortunately, half of these previous projects failed due to a lack of funding (49%), a significant roadblock for many along with lack of knowledge & experience (28%).

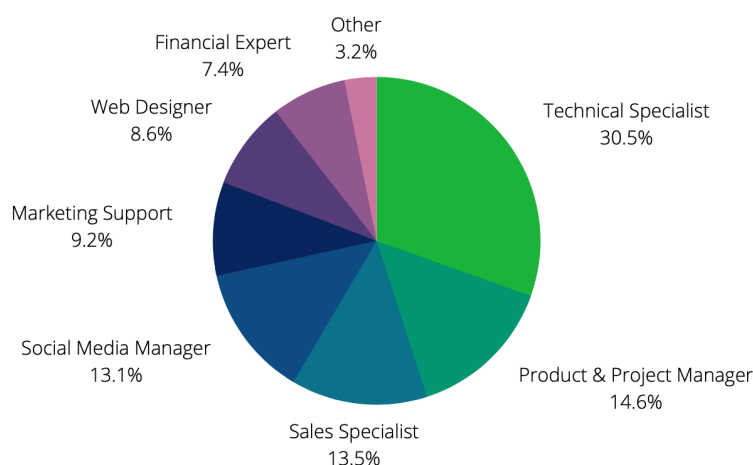
2.2 Talent

Uzbek startups are generally made up of small teams (80% have teams of 1-5 people). These small teams can leave startups missing necessary talent.

Our survey indicated a tendency towards **gender inequality** within the Uzbekistan ecosystem. Only 12.7% of startup founders are women and 34.8% of startups do not employ any women. Lack of gender balance is prevalent in startups founded by men, with over 38% of male-led startups lacking female employees. Such gender inequality in a team could be explained by a dominant patriarchal culture in Uzbekistan, where people prefer to hire male candidates instead of women for managerial positions.

The top HR problem among startups (stated by 46% of startups) was the **limited pool of qualified individuals** to hire from. As we can see from figure 11, about 31% of startups are currently looking for technical specialists. Governments investments into education and training of tech specialists can help to alleviate the demand for highly skilled experienced workers, and is thus key to improving the rate of startup success.

Figure 9: Talent in Demand



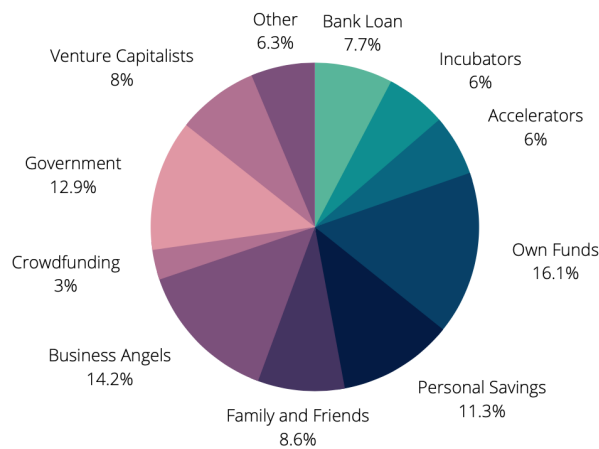
To acquire new talent, 28% of Uzbekistani startups prefer to hire people from their personal connections. A possible cause for this hiring trend could be Uzbekistani cultural features such as a strong family institution. Moreover, job posting (19%) and social media (16%) are common hiring methods.

As the 58% of startups do not have enough financial resources to hire people, most founders are looking for people for **temporary and outsourced positions**. These hiring decisions can be explained by a startup's inability to pay their employees consistently, as they also find human capital costs either expensive or increasingly high. The majority of founders who struggle with HR costs are solo entrepreneurs with projects in the idea/concept stage.

PILLAR 3 - CAPITAL

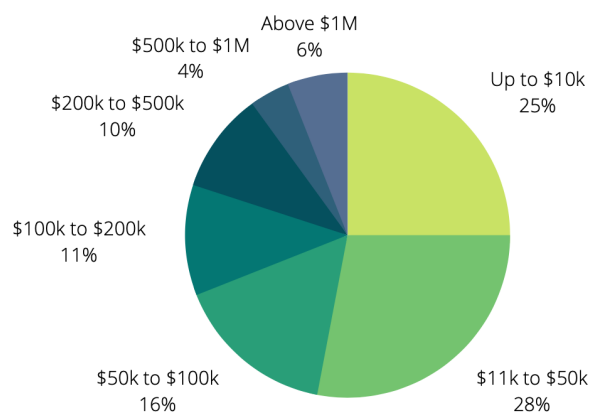
Many founders rely on their **personal access to finance** (i.e. savings & funds) and hence a large share (44%) of founders lack experience in attracting investors. Although this can be expected at the seed stage of a startup where costs can more easily be covered by such means, later stages require funding from a variety of sources hence more educational material should be created to help founders with funding streams to ensure the success of their startup after the seed stage.

Figure 10: Sources of Financing



As seen in figure 15, startups are raising different amounts of investment. While the early stage startups seek \$11,000-50,000 investments, startups established between 3-4 years, MVP development and growth stages, are mostly raising \$100,000-200,000. Therefore, the older the startup and the higher its stage, the more money they request for funding.

Figure 11: Investment Targets for Startups

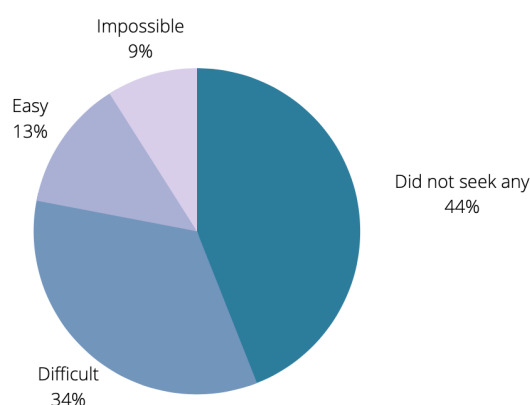


Around 53% of startups seek up to \$50k of funding; for this amount they are ready to give up between 10% to 30% stake of their business, depending on the startup stage and number of people in the team. For example, at the seed stage, startup founders can give up 30% of their business, whereas on the development stage they prefer to share with investors only 10% - 20% of their business for \$11k - \$50k investments.

Startup founders require **more than just financing** from their investors. About 40% of startup founders expect investors to bring experience to the table, 24% reported that they would look for investors with connections, and 23% desire operational support.

As the majority of startups were relying on personal investments as a source of funding, 44% of startups didn't seek any investments.

Figure 12: Access to Financing



Founders finding it difficult to attract investments are usually young people under 30. Young startup founders mentioned that they cannot find proper support from the government when they look for government grants, marketing, operations, funding and exemption opportunities. Therefore, the Uzbekistan government may want to improve existing grant programs for young entrepreneurs and help them with fundraising and promotion events.

The most common obstacle to scalability faced by startups is **lack of funding**. Among founders with previous startup experience, failed ventures were also attributed to insufficient funds. It can be seen that finance is the main obstacle for startup ecosystem developments, therefore there is a need for ecosystem players - business angels, governments, corporations - to provide startups founders with investments.

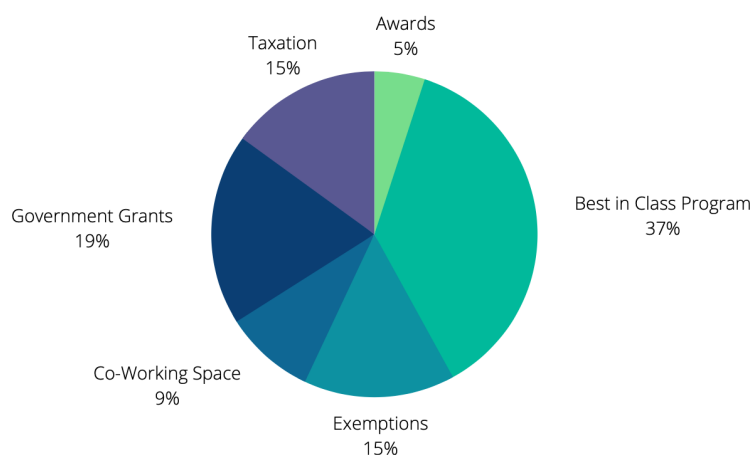
PILLAR 4 - STARTUP SUPPORT: GOVERNMENT & REGULATORY FRAMEWORK AND THE ROLE OF CORPORATIONS

This pillar discusses policies, taxation, legal framework, business registration cost & time; and also the role of the corporations in the startup ecosystem.

In January 2020, the Uzbekistani government launched an e-gov system that significantly simplified the process of business registration for entrepreneurs. This initiative allows founders to register from any location, cutting the cost and time the process took initially. Almost 90% of founders reporting the cost of the procedure being reasonable and affordable, and 65% found the process easy to navigate.

However, despite this, a significant minority of founders seem to struggle with the legal framework and legal matters. This may be due to general government bureaucracy, mistrust of the legal system or time-consuming procedures. Many startups only address regulatory matters with professional legal advisors (39%) or even refrain from engaging with the government until they are forced to (25%).

Figure 13: Desired Government Incentives



The majority (53%) believe the government's support with investment/finance matters is severely lacking. Many Uzbekistan founders believe the government should organise more **'best in class programs' and government grants** (37% and 19% respectively) to help businesses prosper. The rest believe a more favourable taxation system and tax exemptions for founders and startups should be in place. This is notwithstanding exemptions that IT park residents (specifically legal entities) receive: they are exempt from all types of taxes.

Half of the responded startups are satisfied with mentoring. Mentoring sessions usually take place in main hub Tashkent, some events regularly held with the participation of foreign specialists. However, there is still the other half of startups who are not satisfied with mentoring. As the most pressing problems seem to be human capital and the lack of experienced/knowledgeable people, there is a need for ecosystem players to provide sufficient mentoring for startup founders which can help them with knowledge.

More than a half of respondents highlighted that there are not enough industry gathering events where start-up founders could find new opportunities for their business development. Even in the largest IT Hub Tashkent, startups were unsatisfied with networking and events.

Figure 14: Ecosystem Infrastructure and Networking Events

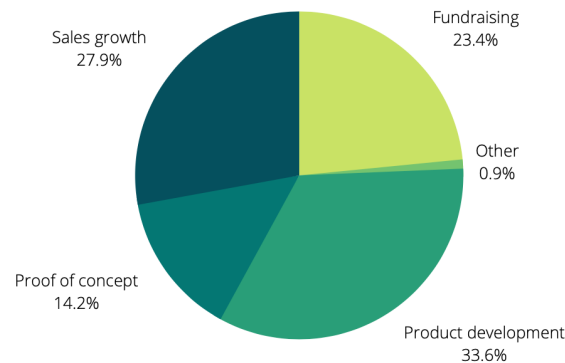


Many respondents (62%) stated that they were unsatisfied with the quality of corporate sponsorship. Although the issue is less prevalent within Tashkent (39% were unsatisfied), 52% of all respondents stated that they do not receive enough help from corporations. It is evident that there is much room for improvement when it comes to the role of corporate partners within the Tashkent and greater Uzbekistani ecosystem. Corporations can contribute to the ecosystem through organizing **more fundraising and networking events** in Tashkent and beyond. Alternatively, they can serve as pilot/first customer partners or provide corporate venture capital or funding activity.

PILLAR 5 - FUTURE GOALS & PERSPECTIVES

As we can see from figure 21, while asking about priorities for the next year, founders planned to focus on a mixture of **product and sales growth** (34% and 28%, respectively) as well as **raising funds** (23%).

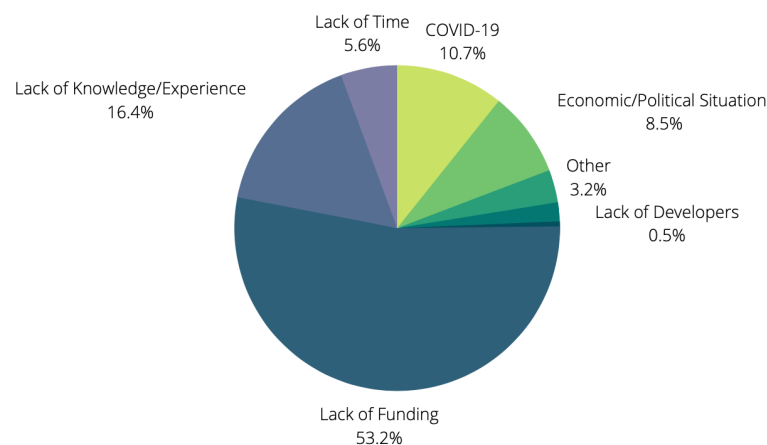
Figure 15: Priorities over the Next 12 Months



When founders were asked about the most immediate issue their business is facing, lack of funding (53%) was the most common problem. The consistency with which lack of financing appears across answers as the primary impediment to growth, as well as the most immediate problem, demonstrates the value VCs can bring to this emerging market.

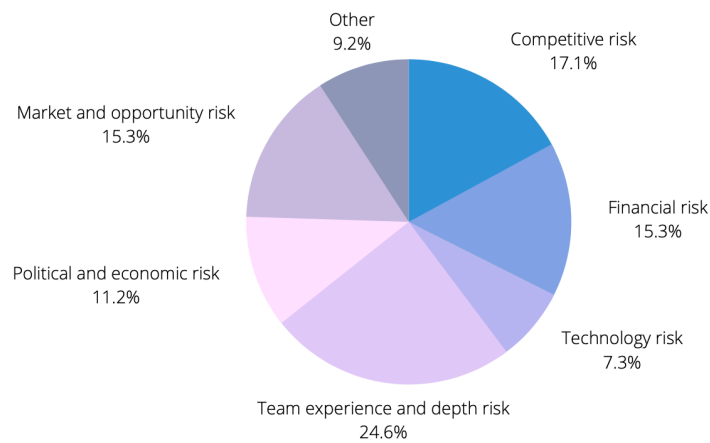
It is clear that lack of funding is not only an anxiety shared by many startup founders, but a clear stumbling block to their future growth. Any member of the ecosystem looking to improve the likelihood of successful startup ventures should address this issue to increase the share of startups reaching their true potential.

Figure 16: Most Pressing Problem



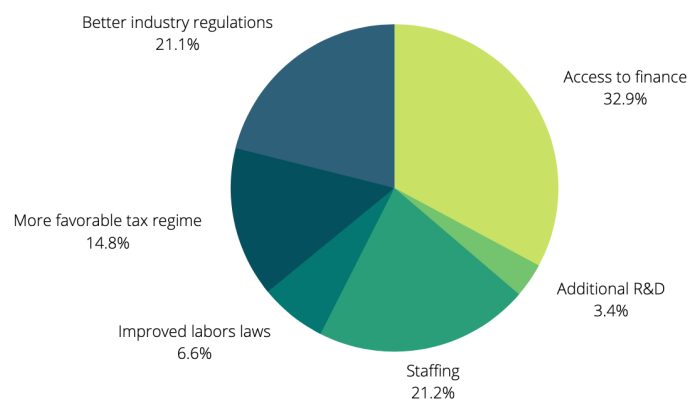
Startups are concerned about a variety of different risks when it comes to their ventures (shown in Figure 17). the most common was **team experience and depth risk**, indicating that founders are worried about the expertise of their team. Other common risks include competitive risk, financial risk, and market opportunity risk.

Figure 17: Perceived Future Risks



To counteract the aforementioned risks and encourage future growth, a large share of startups (33%) stated that **access to finance** would be vital. This is unsurprising as throughout this analysis, we have seen financing to be a substantial challenge for Uzbekistani startups. Other drivers for future growth that were commonly cited by startups were better industry regulations (21%), staffing (21%), and a more favorable tax regime (15%). These drivers are all structural factors; creating these changes will require the full cooperation of ecosystem participants.

Figure 18: Drivers for Future Growth



4 | Takeaways

Market

When looking at Uzbekistan as an emerging market, it is clear that Tashkent stands as the country's startup hub. A shift towards digitizing existing industries has allowed the IT-sphere to explode as evident by the prevalence of tech startups in the area. More specifically, our report found that the largest industry was E-commerce, followed by Ed-tech. While the startup ecosystem is promising and the founders are hungry for success it is important to note that most are in a pre-seed stage (early) - MVP/prototype, but demonstrate the potential to scale-up within a year. Once operational it seems these businesses target mostly the Uzbekistan market with many planning to scale up to the CIS market once they've gained traction.

Founders and Talent

Uzbekistan is filled with young and talented entrepreneurs equipped with a myriad of practical tech skills. What the typical Uzbekistan founder lacks in professional experience they make up for with a hunger for success with many having founded a startup before their current venture (given many failed due to a lack of funding). That being said, startup founders are unsatisfied with Uzbekistan's talent pool. They express the need for more qualified programmers and marketing/sales specialists. While this study and other talent development programs have helped build a basis for skilled tech workers, more should be done to support these equally important industries. This dissatisfaction with the talent pool could also be due to a lack of professional networks. Unfortunately, as it may limit business development, the majority of founders like to hire from personal connections. As a first step, a system should be implemented to connect potential employers to new graduates. Lastly, a note should be made as to how the traditional patriarchal values may bleed into hiring trends. As it stands now there is a massive gender deficit of men to women in business. The introduction of diversity programs could help to amend this issue.

Startup Support

The startup landscape in Uzbekistan is primed for external investors. As noted in our study, a lack of adequate external funding has resulted in many startups relying on personal/family wealth to continue operations. Many reported it being "difficult" or even "impossible" for them to find investments. As we look to support these businesses, more must be done by both the government and corporations. For the government, this includes networking events, mentoring, or funding programs. As for corporations, they should look to organize more fundraising and networking events in Tashkent hubs.

While startups are scaling up in the country, it is also important to improve the legal framework. Introducing more business-friendly policies for taxation would alleviate some of the ever-present financial stressors for a new business. For further inspiration on how to assist founders, it may be helpful to view “the most pressing problems” responses such as funding, startup support, and human capital, which are also not allowing the startup to scale. There has been a call from the founders for more co-working spaces. While this is easily accomplished in a pre-pandemic world, COVID-19 certainly makes sharing a workspace rather difficult.

Capital

Ecosystem participants should take special effort to improve and increase funding and investment opportunities for startup founders. Currently, founders choose to raise money mainly through the use of personal savings, business angels, and the government. While these sources of funding are sufficient at the seed stage (when a startup’s costs can be easily covered by these means), at later stages startups require a more diverse range of sources. Educational material pertaining to finding streams of funding, as well as corporate support through more fundraising and networking events, will allow startups to succeed past the initial seed stage. Furthermore, younger startup founders may face obstacles in fundraising particularly in the case of borrowing money from the bank, an act that requires high creditworthiness. Therefore, the government may find it necessary to improve existing grant programs for young entrepreneurs and assist through fundraising and promotion events.

Future Perspective

Finally, we would like to acknowledge any possible limitations of our study. Some that are apparent to us include the language barrier as questions or key terms might not have been fully understood. Additionally, we are still curious as to the extent to which COVID-19 may have impacted the accuracy of the survey. It is recommended to complete such analysis at regular intervals to ensure issues are addressed as soon as they become prevalent.

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ECOSYSTEM EXPERT

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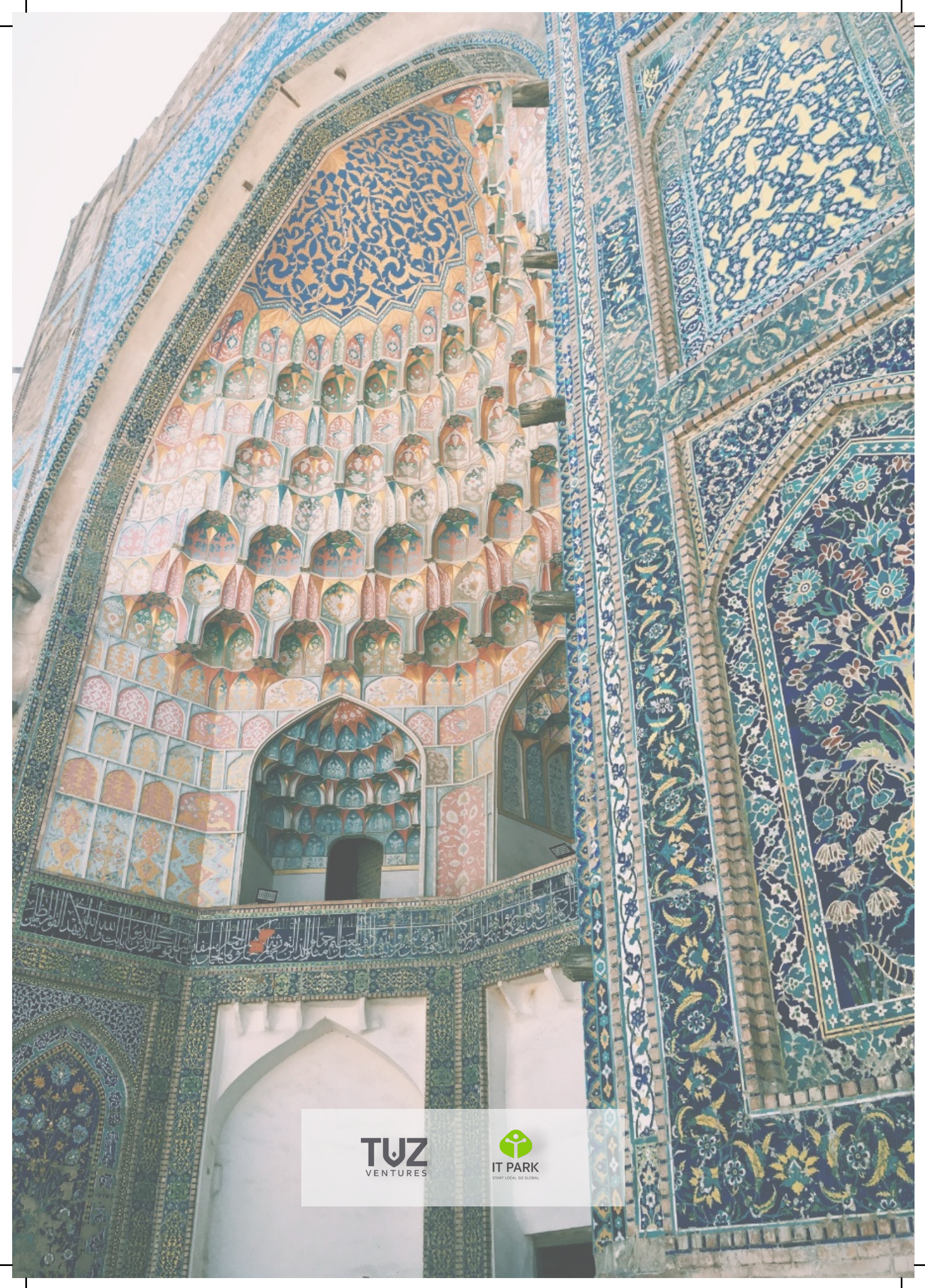
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