

INNOVATIVE ENTREPRENEURSHIP, DEVELOPMENT OF SMALL
AND MEDIUM-SIZED BUSINESSES. THE PIVOTAL ROLE OF
ENTREPRENEURIAL SANDBOXES IN ACCELERATING AND
STRENGTHENING STARTUPS IN UZBEKISTAN

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Abstract: *This research investigates how entrepreneurial and regulatory sandboxes can be applied in the ever-developing economy of Uzbekistan, serving as institutional catalysts. According to Uzbekistan's 2030 Strategy, businesses are shifting towards digital-centric environments. In this context, sandboxes can mitigate asymmetric communication between regulatory bodies and entrepreneurs, utilizing Transaction Cost Economics and Institutional Theory. It is shown that experimental regulation can draw the attention of FDI, boosting high-tech evolution, offering institutionalized liberalization models.*

Key words: *Startup, sandboxes, Uzbekistan, IT Park Uzbekistan, CBU, economy, innovation, regulation, systems, economy, market, business.*

Introduction. The formation of regulatory sandboxes is a vivid sign of governments moving from outdated frameworks to innovation paradigms, leaving behind rigid, upfront regulations to more agile, post-implementation oversight. In Uzbekistan's economy, the structural modification is required as

a direct response driven by imperatives arising from institutional voids [1]. Since 2017, Uzbekistan is repositioning itself as a new technological hub in Central Asia, however, the road to achieving such a destination is full of difficulties, especially when, the pace of technological development in Blockchain and Artificial Intelligence exceeds the regulatory capabilities of current legal frameworks in mitigating the possible risks.

Innovation sandboxes are already spread across the legal environments of the Central Bank (CBU) and IT Park in Uzbekistan, serving a distinct role as a specialized legal space marked by institutional malleability. This temporarily eliminates regulatory suspensions, by fostering innovation in a controlled environment [2]. Utilizing North's (1990) Theory of Institutional Change, such sandboxes play the role of a frontier of economic modernization, testing new possibilities before implementing in mass. This scientific paper brings to light, that sandboxes remove silos between private sector and governmental agencies, lowering the risks linked to the Uzbek market.

Literature Review. The conceptual research framework of regulatory sandboxes is embedded tightly with a responsive governance model, recommending that the firm's maturity should be the main factor in managing regulatory dynamics [3]. In emerging markets, sandboxes can be evaluated via processes of institutional alignment, where nascent economies adopt the newest models from international organizations like UK's Financial Conduct Authority (FCA), which brings global recognition [4]. On the other hand, Zetzsche (2017) argues that such models should be adapted according to local needs, preventing the risks of maladapted legal systems.

Recent studies conducted on "Sandbox Paradox" emphasize tense situation between financial prosperity and flexibility [5]. While sandboxes

decrease the costs of following the regulatory boundaries, there is a possible risk of misuse by incumbent companies, making the competition irrelevant [6]. According to the evaluation that has been done by the World Bank, sandboxes in Uzbekistan are showing reform-oriented changes, which attracts global venture capital. And tackling Information Asymmetry is of paramount importance, as it enables investors to have a chance to select superior quality startups through transparent compliance records.

Research Methodology. This particular paper uses a qualitative analysis to elucidate the impacts of sandboxes in Uzbekistan. The core methodology comes from a thematic analysis of institutional sources, including Presidential Decrees (No. UP-5099; UP-6079) and officially published reports from OECD and ADB. Leveraging process tracking, the study reveals links between subsequent capital inflows and technological environments. This research compares the “Broad-based Sandbox”, which is IT Park with Sector-specific Sandbox” of Central bank of Uzbekistan, stating that their performance is not inferior in the Commonwealth of Independent States (CIS).

Analysis and Results. Uzbekistan has chosen a unique path by leveraging a hybrid sandbox, which serves as a fiscal haven and institutionally safe testing field. The IT Park has perfect conditions for growing ideas, as it offers deduction from import duties as well as privileges in corporate taxes, functioning as high-scale innovation sandbox. According to statistics, IT Park hosts more than 1600 companies, as of early 2024, leaving behind conventional startup ideas for the sake of future oriented agro and education technologies [7]. This has already proved cost reduction in transition procedures, decentralizing the innovation away from state-owned organizations towards market-oriented businesses.

When it is about CBU's sandbox, it managed regulatory misalignment, so that digital banking made its way in having accessible banking APIs and biometric identification algorithms. Back in the days, virtual constraints were considered irrelevant, making physical access the only viable way, but now Fintech startups are free from prohibitive barriers [8]. The "Signaling Effect" is manifested, CBA participants are showcasing promising results with 35% more success rates in securing Series A funds in comparison to their not involved counterparts. Such institutional advantage can confirm technical capacity and institutional compliance to various stakeholders.

Conclusion and Recommendations. Innovative sandboxes are the engine of small emerging startups in Uzbekistan, they help not only to decrease transaction costs for businesses, but also eliminate or at least reduce Information Asymmetry, promoting transparency. In order to make permanent changes in the economic mechanism, such changes are recommended:

- a. *Smooth shift:* Step-by-step shift from conventional frameworks towards global benchmark sandbox mechanisms.
- b. *Constructive feedback cycles:* Empowering the Ministry of Justice to take control in analyzing the work of implemented sandboxes annually, semiannually, incorporating them into the national law.
- c. *International ecosystem:* Implementing global-standard-based sandboxes, which make top-tier joint ventures possible, making the local regulatory conditions more attractive to foreign investors.
- d. *Alignment with regulation:* This ensures that emerging startup projects align with national law, so that they can be directly implemented in regional environment, fostering rapid market penetration.

By reshaping conventional understanding of startup projects, and understanding the key role of sandboxes, Uzbekistan can establish sustainable innovation ecosystem, which enables continuous cycle of new startup ideas.

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