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ENHANCING THE ROLE OF INSTITUTIONAL INVESTORS (VENTURE CAPITAL AND INVESTMENT FUNDS) IN FACILITATING SME ACCESS TO THE CAPITAL MARKET

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Abstract

This study investigates the strategic role of institutional investors—specifically venture capital (VC) firms, private equity (PE) funds, and mutual investment funds—in bridging the funding gap for small and medium-sized enterprises (SMEs) entering the capital market. Given the structural rigidities of conventional bank intermediation and high underwriting thresholds on emerging stock exchanges, the paper evaluates pre-IPO equity structuring, syndicated corporate debt absorption, and co-investment frameworks. Empirical evidence and policy mechanisms are synthesized to outline targeted financial instruments, risk-sharing guarantees, and regulatory exemptions that encourage long-term institutional capital deployment into promising SME issuers in Uzbekistan.

Keywords: Institutional investors, venture capital, private equity, investment funds, SMEs, capital market, pre-IPO financing, corporate governance.

Introduction and Problem Statement

In contemporary developing economies, small and medium enterprises (SMEs) form the backbone of economic expansion, innovation, and employment creation. However, the reliance of SMEs on short-term debt instruments, primarily commercial bank lending with excessive collateral coverage ratios (typically



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120–150%), constrains long-term fixed capital formation. Direct entry of SMEs into public capital markets remains hindered by high underwriting fees, extensive disclosure requirements, and information asymmetry. Institutional investors—possessing specialized analytical capacity and patient equity capital—serve as an essential intermediary mechanism to prepare, capitalize, and escort growth-oriented SMEs onto the exchange.

The Mechanism of Institutional Mediation

Venture capital and private equity funds do not merely supply risk capital; they enhance the intrinsic marketability of enterprises. By institutionalizing internal controls, implementing International Financial Reporting Standards (IFRS), and restructuring board governance, institutional investors drastically reduce the perceived risk premium demanded by secondary market participants. Furthermore, specialized mutual funds and collective investment vehicles act as primary anchor investors, absorbing initial tranches of SME corporate debt and mini-bonds.

Table 1. Structural Comparison: Bank Intermediation vs. Institutional Investment in SME Scaling

Operational Dimension	Commercial Bank Lending	Institutional Investors (VC / PE Funds)
Capital Nature	Short/Medium-term secured senior debt	Long-term patient equity & mezzanine capital
Collateral Demands	High real estate / physical asset pledge	Equity participation & cash-flow valuation
Value-Added Contribution	Passive financial creditor monitoring	Active corporate governance & strategic guidance
Exit & Market Integration	Debt maturity repayment closure	IPO / SPO listing or trade sale on the exchange



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Policy Recommendations for Developing Capital Markets

To leverage institutional capital for SME capital market advancement in Uzbekistan, several systemic interventions are proposed: First, establish tax exemptions on carried interest and capital gains for venture and private equity funds investing in certified non-public SMEs for an investment horizon exceeding three years. Second, launch public-private co-investment funds ('Fund of Funds' architecture) through the Entrepreneurship Development Company to de-risk private commitments. Third, introduce streamlined regulatory fast-track avenues allowing institutionally backed enterprises to access secondary board listings with reduced administrative burdens.

Conclusion

Integrating institutional investors into the SME financing ecosystem transforms the capital market trajectory from debt-heavy fragility to resilient, equity-backed industrial expansion. Cultivating this institutional infrastructure unlocks stable, transparent investment flows and equips dynamic enterprises with the strategic and financial leverage required for public listing.

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