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CONTENTS

EMPIRICAL ASSESSMENT OF INTERNAL AND EXTERNAL FACTORS AFFECTING THE COMPETITIVENESS OF THE FOOD INDUSTRY IN UZBEKISTAN	10
Urolova Sevara Bekhzod qizi	
INTEGRAL MANAGEMENT MODELS FOR IMPROVING THE CIRCULAR ECONOMY SYSTEM IN AGRICULTURE	16
Nazirova Zulfina Salimovna	
IMPROVING THE FINANCING MECHANISM OF LOCALIZATION IN THE METRO INDUSTRY AND ITS SCENARIO-BASED ASSESSMENT	21
Mansurov Khamrokul Ilkhomovich	
THEORETICAL FOUNDATIONS OF TEACHING METHODS IN HIGHER EDUCATION INSTITUTIONS.....	28
Berdiyeva Nilufar Axatovna	
INTERNATIONAL EXPERIENCE IN ROAD SECTOR FINANCING AND ROAD ASSET MANAGEMENT: IMPLICATIONS FOR SUSTAINABLE INFRASTRUCTURE DEVELOPMENT IN UZBEKISTAN.....	34
Feruz Shokirov	
ECONOMIC OPPORTUNITIES FOR POVERTY REDUCTION THROUGH SERVICE SECTOR DEVELOPMENT.....	42
Saparov Murod Irgashovich	
DIGITAL-INTEGRATION MODEL OF GREEN LENDING: INSTITUTIONAL GROUNDING IN COMMERCIAL BANK PRACTICE	46
Melikuzieva Dilrabo Mukhitdinovna	
CURRENT STATE OF ECONOMIC COOPERATION IN THE NAMANGAN REGION: LESSONS FROM INTERNATIONAL EXPERIENCE.....	52
Sattarov Ravshan Alimovich	
MODERN LEVELS OF INNOVATIVE DIGITAL BANKING SERVICES IN COMMERCIAL BANKS.....	60
D. M. Kallibekov	
EFFECTIVENESS OF USING AUTOMATED MANAGEMENT SYSTEMS IN RESOURCE CAPACITY MANAGEMENT IN TEXTILE INDUSTRY ENTERPRISES.....	64
Makhammadiyeva Izhobat Abdiganievna	
TEXTILE INDUSTRY PRODUCTION CAPACITY GROWTH FORECAST	75
Joraqulov Javakhir Asomiddin's Son	
FORECASTING THE MECHANISM FOR ASSESSING INVESTMENTS ATTRACTED TO SMALL BUSINESS ENTITIES IN THE ANDIJAN REGION THROUGH 2030	80
Jo'rayeva Moxinur Axmadjon qizi	
IMPROVEMENT OF PERSONAL MANAGEMENT IN TEXTILE INDUSTRY ENTERPRISES BASED ON CHOICE OF ORGANIZATION MODELS.....	88
Djumaniyazova Jamila Davronovna	
THE ROLE OF THE INTERNAL CONTROL SYSTEM IN RISK MANAGEMENT OF SMALL BUSINESS ENTERPRISES.....	93
Umarov Azizjon	

SPATIAL ECONOMETRIC MODELING IN THE MASS APPRAISAL OF REAL ESTATE: A GEOGRAPHICALLY WEIGHTED REGRESSION APPROACH (THE CASE OF TERMEZ CITY)	102
Khushvaktov Jasur Shukhrat ugli	
НАПРАВЛЕНИЯ РАЗВИТИЯ РЫНКА ЭЛЕКТРОТЕХНИЧЕСКОГО ОБОРУДОВАНИЯ В УЗБЕКИСТАНЕ	110
Джураев Муротжон Сотиволдиевич	
SCIENTIFIC AND PRACTICAL FOUNDATIONS FOR ASSESSING AND IMPROVING THE EFFECTIVENESS OF INTERNAL AUDIT IN COMMERCIAL BANKS	120
Yuldashev Xurshidbek Mamirjonovich	
ECONOMIC EFFICIENCY OF IMPLEMENTING ARTIFICIAL INTELLIGENCE TECHNOLOGIES IN BEEKEEPING AND FORECAST INDICATORS FOR 2026–2030	130
Farmanov Jonibek Ziyadullaevich	
ENSURING SUSTAINABLE ECONOMIC DEVELOPMENT THROUGH THE DIVERSIFICATION OF THE SECTORAL STRUCTURE OF FIXED CAPITAL INVESTMENTS IN A REGION (THE CASE OF KHOREZM REGION)	137
Sultanova Aziza Bahtiyor qizi	
PROSPECTS FOR THE DEVELOPMENT OF ENTREPRENEURIAL ENTITIES PRODUCING FOOD PRODUCTS IN TASHKENT REGION	146
Abdulxamidova Nodira Abdura	
DYNAMIC PERFORMANCE OPTIMIZATION AND WEAR REDUCTION OF THE CAM SYSTEM IN CARDAN COUPLINGS FOR METRO ROLLING STOCK TRACTION DRIVES	153
Asamitdin Fayzullaev	
Ziyevutdin Fayzullaev	
RECOGNISED BUT NOT MEASURED: THE SUSTAINABLE DEVELOPMENT GOALS AND THE PERFORMANCE FRAMEWORK OF UZBEKISTAN'S STRATEGY-2030 (PRESIDENTIAL DECREE UP-21 OF 2026)	160
Salakhutdinova Yulduz Golibovna	
ANALYSIS OF PRODUCTION EFFICIENCY IN CONSTRUCTION MATERIALS MANUFACTURING ENTERPRISES: EVIDENCE FROM ANDIJAN REGION	168
Toshpulatov Asronbek Mutalibovich	
THE IMPACT OF FREE TRADE AGREEMENTS ON UZBEKISTAN'S TEXTILE INDUSTRY: A PANEL DATA ANALYSIS, 2017–2023	176
Jurabek Toshbekov	
Navik Istikomah	
A.B. Bobojonov	
HUMAN-AI SYNERGY IN STRATEGIC DECISIONMAKING OF ENTERPRISES IN UZBEKISTAN	182
Abdullaeva Odinakhon	
ANALYSIS OF THE CURRENT STATE OF ENTREPRENEURIAL ACTIVITY IN UZBEKISTAN'S TOURISM SECTOR	186
Yuldashev Bekzodjon Sherzodjon ugli	
A COMPREHENSIVE SYSTEM OF CRITERIA FOR ASSESSING THE FACTORS AFFECTING THE EFFECTIVENESS OF INTERNAL AUDIT IN PRIVATE HIGHER EDUCATION INSTITUTIONS	190
Turmanqulov Norpo'lat Sa'dullayevich	
DESIGNING A THREE-LEVEL KPI FRAMEWORK FOR RANKING-ORIENTED UNIVERSITY GOVERNANCE: INTEGRATING DIGITAL MONITORING AND RESOURCE OPTIMIZATION	197
Mukhlisa Mamajonova	
ВЛИЯНИЕ IFRS 18 НА ПРЕДСТАВЛЕНИЕ КОНСОЛИДИРОВАННОЙ ФИНАНСОВОЙ ОТЧЁТНОСТИ: СРАВНИТЕЛЬНЫЙ АНАЛИЗ С IAS 1	208
Шамсиева Нозима Шермат кизи	

INNOVATIVE MECHANISMS FOR IMPROVING THE ENVIRONMENTAL MANAGEMENT SYSTEM AT ENTERPRISES.....	218
Uralova Sojida Anvar qizi	
IMPROVEMENT OF ECONOMIC MECHANISMS IN THE ORGANIZATION OF INFORMATION AND COMMUNICATION TECHNOLOGY SERVICES.....	225
Rajaboyev Shahboz Shodi o'g'li	
IMPROVEMENT OF INTERNAL CONTROL ASSESSMENT QUESTIONNAIRE IN COMMUNICATION ENTERPRISES INVENTORY AUDIT BASED ON HAS 240 AND HAS 315 REQUIREMENTS.....	233
Jamilov Jushqin Jonon ugli	
IMPROVING DIGITAL TRANSFORMATION MECHANISMS IN THE STRATEGIC MANAGEMENT OF MODERN PAYMENT SYSTEMS.....	239
Iskandarov Xurshid Iskandarovich	
INNOVATIVE DETERMINANTS OF POVERTY: AN ECONOMETRIC ANALYSIS BASED ON REGIONAL PANEL DATA	246
Amrullayev Dadaxon	
ECONOMIC MECHANISMS FOR STIMULATING ENTERPRISES' DEMAND FOR TECHNOLOGY UNDER INDUSTRY 4.0 CONDITIONS.....	251
Erkayev Akrom Normukhammadovich	
IMPROVING THE ORGANIZATIONAL AND ECONOMIC MECHANISM OF FAMILY BUSINESS MANAGEMENT THROUGH INNOVATIVE APPROACHES: THE CASE OF ANDIJAN REGION.....	258
Sultonov Bobirmirzo Mavlonjon o'g'li	
THE EFFICIENCY OF MARKETING COMMUNICATIONS IN LIGHT INDUSTRY ENTERPRISES IN 2023–2025: EVIDENCE FROM THE TEXTILE SECTOR OF THE BUKHARA REGION.....	266
Mukhsinov Bekzod Tokhirovich	
ENSURING TRANSPARENCY IN FOREIGN TRADE: ADVANTAGES OF PUBLICLY DISCLOSING THE PRICES OF FOREIGN TRADE-RELATED SERVICES IN THE “SINGLE WINDOW” CUSTOMS INFORMATION SYSTEM.....	279
Muzafarov Azimjon Ashraf ugli	
THE SELF-EMPLOYMENT SYSTEM IN UZBEKISTAN AND ITS ROLE IN POVERTY REDUCTION	282
Zakirov Mir Timur Zokir ugli	
PERFORMANCE IMPROVEMENT MECHANISMS FOR ACADEMIC STAFF IN HIGHER EDUCATION.....	289
Sultonboyeva Munira Bahodirovna	
Sultanova Kamila Mukhtorali kizi	
ECONOMETRIC ASSESSMENT OF THE SOCIO-ECONOMIC DETERMINANTS OF GROSS REGIONAL PRODUCT PER CAPITA IN UZBEKISTAN	298
Fayziyeva Nargiza Rabimovna	
IMPROVING THE METHODOLOGY OF FINANCIAL ANALYSIS BASED ON THE INDICATORS OF THE STATEMENT OF FINANCIAL POSITION OF BUSINESS ENTITIES	305
Berdieva Marjona Shavkat kizi	
BUDGETING IN SANATORIUM AND HEALTH RESORT ORGANIZATIONS: FINANCIAL PLANNING AND COST MANAGEMENT	312
Tilabov Shohrukh Bahriddin o'g'li	
PRINCIPLES AND ORGANIZATIONAL AND ECONOMIC MECHANISMS FOR THE DEVELOPMENT OF GREEN SERVICES IN UZBEKISTAN	318
Y.M.Khalikov	
ANALYSIS OF SECTOR EFFICIENCY BASED ON THE DEVELOPMENT OF VEGETABLE CROP SEED PRODUCTION	325
Faxriddinov Abdulhakim Ziyaiddinovich	

USING THE OPPORTUNITIES OF THE PLATFORM ECONOMY TO DEVELOP THE ACTIVITIES OF SMALL BUSINESS ENTITIES ON DIGITAL PLATFORMS.....	332
Tursunxoʻjayeva Gulnoza Jamoliddin qizi	
METHODOLOGICAL APPROACHES TO IMPROVING THE EFFICIENCY OF DIGITAL SERVICES FOR BUSINESS ENTITIES.....	340
Yusupova Dilbar Mirabidovna	
DIGITALIZATION IN THE RETAIL BANKING SYSTEM: CUSTOMER ENGAGEMENT AND THE LEVEL OF FINANCIAL PRODUCT USAGE IN THE ASIAN REGION.....	345
Maxsadaliyeva Maftuna Toxir qizi	
DEVELOPMENT TRENDS AND ECONOMIC CHARACTERISTICS OF THE MEDICAL SERVICES MARKET.....	350
Urokov Firdavs Ortikniyoz ugli	
THE U.S. PRIVATE EQUITY MARKET MODEL: KEY DRIVERS AND IMPLICATIONS FOR UZBEKISTAN.....	356
Fayziyev Umurqul Shuxratovich	
Tulaganova Rukhshona Farrukh qizi	

THE U.S. PRIVATE EQUITY MARKET MODEL: KEY DRIVERS AND IMPLICATIONS FOR UZBEKISTAN

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Abstract. The article examines private equity as a tool for corporate value creation that combines financial resources, concentrated ownership, and active investor involvement in portfolio companies. Scholarly approaches to private equity are reviewed, with particular attention paid to the role of concentrated ownership in facilitating subsequent corporate transformation. The study focuses on key value-creation mechanisms, including operational improvements, revenue growth, margin expansion, enhanced corporate governance, and the implementation of international standards. It also considers the growing importance of environmental, social, and governance (ESG) factors in the value-creation process. The analysis demonstrates that value creation in private equity is not limited to the financial structuring of acquisitions but is closely associated with fundamental improvements in the underlying business. The article concludes that active ownership and strategic management during the holding period constitute the principal mechanisms through which private equity can generate sustainable long-term corporate value.

Keywords: private equity, corporate value, concentrated ownership, operational improvement, corporate governance, ESG, value creation.

INTRODUCTION

Private equity (PE) has emerged as an important mechanism for financing and transforming companies by combining investment capital with active ownership. Unlike passive forms of investment, private equity enables investors to participate directly in the development of portfolio companies and to influence their strategic, operational, and governance decisions. Consequently, PE serves not only as a source of financing but also as an instrument for improving operational efficiency, strengthening corporate governance, and enhancing long-term corporate value.

The value-creation process becomes particularly significant during the post-acquisition period, when investors seek to improve portfolio-company performance through operational restructuring, managerial improvements, more efficient resource allocation, strategic repositioning, and stronger governance mechanisms. In addition, the growing importance of environmental, social, and governance (ESG) considerations and internationally recognized business standards has broadened the scope of private equity value creation by integrating sustainability and responsible management practices into corporate transformation.

Against this background, this article examines private equity as a mechanism of corporate value creation, with particular emphasis on the relationship between concentrated ownership, operational improvements, corporate governance, ESG practices, and the resulting enhancement of corporate value.

LITERATURE REVIEW

There is no single universally accepted definition of private equity in the academic literature. Existing approaches vary depending on whether the emphasis is placed on transaction structure, financial intermediation, operational transformation, ownership structure, or corporate governance [1].

Kaplan and Strömberg conceptualize private equity primarily through the characteristics of PE transactions, particularly the extensive use of debt financing and the concentration of ownership and control [1]. Gompers, Kaplan, and Mukharlyamov emphasize buyout and growth-equity investments, concentrated ownership, and the alignment of managerial incentives with investors' interests as important characteristics of the private equity model [2]. Metrick and Yasuda, by contrast, approach private equity from the perspective of financial intermediation, highlighting the role of PE funds in channeling capital from institutional investors to privately held companies [3].

Lerner, Strömberg, and Sørensen draw attention to the long-term nature of private equity investment and its capacity to facilitate operational and organizational transformation within portfolio companies [4]. Similarly, Ljungqvist emphasizes the distinctive ownership and investment structure of private equity [5], whereas Gilligan and Wright place greater emphasis on active ownership, corporate governance, and investor involvement in strategic decision-making [6].

Taken together, these perspectives indicate that private equity should not be understood merely as a financing mechanism. Rather, it represents an integrated investment and governance model in which concentrated ownership, financial restructuring, managerial incentives, operational intervention, and active governance interact to enhance the performance and value of portfolio companies. The principal approaches identified in the literature are summarized in (Table 1.).

Table 1
Scholarly Approaches to Defining Private Equity: A Comparative Analysis

Author(s)	Core Definitional Position
Kaplan, S.N., Strömberg, P. (USA)	Private equity refers to specialized investment firms that acquire companies using relatively small equity investment and a significant amount of debt financing, intending to restructure the companies for better governance and efficiency before selling them for a profit [1]
Gompers, P., Kaplan, S.N., Mukharlyamov, V. (USA)	PE encompasses buyout and growth equity investments in mature companies, distinct from venture capital, and is characterized by the close linkage of managerial incentives to the investor's interest as a result of ownership concentration [2]
Metrick, A., Yasuda, A. (USA)	Private equity is a form of financial intermediation where a fund manager raises money from institutional investors and invests in private company positions that are not publicly traded and subsequently returns the funds through exits over a structured fund life [3]
Lerner, J., Strömberg, P. (USA/Sweden)	PE is a long-term investment in patient capital invested in operational transformation, and its economic value is not just about financial leverage, but also governance structures that allow for ongoing improvements at the firm level [4]
Ljungqvist, A. (Sweden/USA)	Private equity firms that acquire mature companies operate as active shareholders whose value-add is based on financial engineering, operational improvement and governance restructuring, each of which carries distinct risk implications [5]
Gilligan, J., Wright, M. (UK)	PE is a governance mechanism, not just a mere financing instrument — its central contribution is the alignment of ownership, control, and management incentives in ways public market structures cannot replicate [6]

As Table 1 demonstrates, these definitions are complementary rather than mutually exclusive. Private equity should not be regarded merely as an alternative source of financing. Its distinctive feature lies in the combination of investment capital with concentrated ownership, corporate governance, managerial incentives, and active involvement in portfolio companies. This combination also explains why the institutional structure of private equity differs substantially from conventional bank lending and passive investment models.

RESEARCH METHODOLOGY

The study employs a qualitative research approach based on the analysis and synthesis of academic literature, secondary data, and relevant regulatory and institutional documents. The methodology is designed to identify and systematize the principal mechanisms through which private equity contributes to corporate value creation. Particular attention is paid to ownership structure, financial incentives, operational improvements, corporate governance, ESG practices, and the institutional conditions supporting private equity activity. The study also applies a comparative and descriptive approach to examine the evolution of the private equity industry and the characteristics of the U.S. market as a mature private equity ecosystem.

ANALYSIS AND RESULTS

Private equity funds generally operate through a limited partnership structure in which general partners (GPs) are responsible for managing the fund, identifying investment opportunities, conducting due diligence, executing transactions, supervising portfolio companies, and ultimately realizing investments through appropriate exit strategies. Limited partners (LPs), which typically include institutional investors and other capital providers, commit the majority of the fund's capital but generally do not participate directly in day-to-day investment management.

The compensation structure of general partners commonly consists of management fees and carried interest. This arrangement is intended to align the financial incentives of fund managers with investment performance and the interests of limited partners. Private equity funds typically have a finite lifespan, often approximately ten years, although extensions may be permitted. Committed capital is generally drawn down progressively as investment opportunities are identified, while proceeds are distributed to investors following portfolio-company exits.

The broader evolution of the private equity industry has accompanied the development and institutionalization of this organizational structure. The origins of modern private equity are commonly associated with the establishment of the American Research and Development Corporation (ARDC) in 1946. The 1970s and 1980s witnessed the rapid expansion of leveraged buyouts, supported by the growing availability of high-yield debt, increased participation by pension funds, and wider adoption of the limited partnership structure.

During the 1990s, private equity expanded internationally and diversified into areas such as growth equity and distressed investments. This development was followed by the emergence of large-scale or “mega-buyout” transactions in the early 2000s. Following the 2008 global financial crisis, greater emphasis was placed on operational improvements and the fundamental performance of portfolio companies as sources of investment returns. More recently, the industry has increasingly incorporated ESG considerations, sustainability principles, digital transformation, and opportunities in emerging markets into investment and value-creation strategies (Figure 1).

Period	Key development	Dominant strategy	Geographic focus
1946–1969	Founding of ARDC; institutionalization of venture financing	Early-stage venture capital	United States
1970–1989	High-yield debt markets; LP structure formalized; LBO emergence	Leveraged buyouts	United States
1990–2000	Geographic expansion; fund specialization; pension fund allocations	Buyouts, growth equity	USA, Western Europe
2001–2008	Record fundraising; large-cap buyout boom; credit-driven expansion	Mega-buyouts	USA, Europe, Asia
2009–2015	Post-crisis reorientation; operational focus; ESG emergence	Mid-market buyouts, operational PE	Global
2016–2025	Emerging market expansion; ESG mainstreaming; technology integration; democratization	Growth equity, sector funds, secondaries	Global, including Asia and Central Asia

Figure 1. Historical evolution of private equity [8]

As illustrated in **Figure 1**, private equity has evolved from an investment model primarily associated with leveraged acquisitions and financial engineering into a broader approach that combines financial

restructuring with active ownership, corporate governance, operational transformation, and long-term value creation. This evolution has been particularly pronounced in the United States, where private equity has developed into a mature investment ecosystem supported by substantial capital availability, a broad range of potential investment targets, specialized operational expertise, developed capital markets, and multiple exit mechanisms.

The development and scale of the U.S. private equity market therefore provide an appropriate basis for examining how these components interact within a mature institutional environment. The United States represents the world's largest private equity market, and its significance reflects not only the scale and diversification of the U.S. economy but also the institutional conditions that enable private equity to operate as a systematic and repeatable investment process. These conditions include access to substantial pools of capital, a continuous pipeline of investment opportunities, specialized managerial and operational capabilities, well-developed exit channels, and a comparatively predictable legal and regulatory environment [7].

Accordingly, the scale of the U.S. private equity market should be interpreted not merely as an indicator of investment volume but also as evidence of an established ecosystem in which capital formation, acquisition, active ownership, value creation, and exit mechanisms are closely interconnected. The principal indicators characterizing the scale and recent development of the U.S. and global private equity markets are presented in (Table 2).

Table 2

U.S. and Global Private Equity: Key Market Indicators, 2019–2025 [9]

Indicator	2019	2020	2021	2022	2023	2024	2025
PE as % of GDP — USA (model data)	3.30%	3.04%	5.44%	3.74%	2.70%	2.89%	3.76%
Global PE AUM (\$tn)	4.5	4.8	6.3	7.6	8.2	8.6	~9.0 est.
U.S. PE AUM (\$tn)	~1.9	~2.2	~2.7	~3.0	~3.0	3.13	est. ~3.4
Global buyout deal value (\$bn)	~600	~500	~1,100	~700	438	602	904
Global buyout exit value (\$bn)	~480	~420	~700	~615	345	468	717
Global buyout fundraising (\$bn)	~600	~500	~800	~520	448	401	395
U.S. LBO EV/EBITDA multiple (x)	11.5	11.4	11.4	11.9	10.8	11.0	11.8 (H1)
Blackstone total AUM (\$bn)	—	619	881	975	1,040	1,130	1,210
KKR total AUM (\$bn)	—	252	471	504	553	638	723
Apollo total AUM (\$bn)	—	—	—	—	—	696	840
Carlyle PE AUM (\$bn)	—	—	—	163	161	—	~175 est.

As shown in **Table 2**, the U.S. private equity market has expanded considerably in recent years. U.S. private equity assets under management (AUM) increased from approximately **\$1.9 trillion in 2019 to \$3.4 trillion in 2025**, representing an increase of approximately **79%** over the period. At the global level, private equity AUM increased from approximately **\$4.5 trillion to around \$9 trillion**, effectively doubling within the same period. These trends indicate sustained growth in the amount of capital allocated to private equity and the increasing importance of the asset class within global financial markets.

Global buyout activity also demonstrated a substantial recovery following the decline observed in 2022–2023. Global buyout deal value reached approximately **\$904 billion in 2025**, compared with approximately **\$438 billion in 2023**, indicating an increase of more than twofold. This recovery suggests renewed transaction activity following a period characterized by tighter financial conditions, higher borrowing costs, valuation uncertainty, and reduced deal-making activity. Taken together, these indicators demonstrate both the considerable scale of the U.S. private equity market and the broader expansion and resilience of private equity activity globally.

However, market size and growth alone do not fully explain the development of private equity. Changes in deal volumes, valuations, fundraising, and assets under management demonstrate that the industry remains sensitive to macroeconomic conditions, interest rates, credit availability, investor sentiment, and capital-market dynamics. Consequently, the institutional foundations that support private equity activity are particularly important for understanding the long-term development of the market.

In the United States, these foundations have developed around several mutually reinforcing factors. They include deep and diversified sources of institutional capital, a continuous supply of potential portfolio companies, access to debt and equity financing, specialized operational and managerial expertise, developed exit channels, and a sophisticated legal, advisory, and professional-services infrastructure. Together, these factors create an environment in which private equity firms can repeatedly implement the investment cycle of **capital raising → acquisition → active ownership and value creation → exit → capital redistribution**.

From the perspective of corporate value creation, the importance of this ecosystem extends beyond its ability to facilitate transactions. Its principal advantage lies in providing the institutional conditions necessary for private equity investors to transform portfolio companies during the holding period. Therefore, the subsequent analysis focuses on the mechanisms through which active ownership, operational improvement, corporate governance, and strategic transformation contribute to increases in corporate value.

The first of these factors is the depth and diversity of the U.S. private equity capital base. Private equity funds in the United States attract capital from a broad range of institutional investors, including pension funds, university endowments, insurance companies, sovereign wealth funds, foundations, and other long-term asset owners. The expansion of pension-fund participation became particularly significant following the 1979 clarification of the *prudent man rule* under the Employee Retirement Income Security Act (ERISA), which contributed to greater institutional allocation to alternative investments. At the same time, the highly developed U.S. leveraged-loan and high-yield bond markets provide private equity firms with extensive sources of debt financing for leveraged transactions.

By 2025, U.S. private equity funds held approximately **\$1.1 trillion in dry powder**, representing committed but not yet invested capital [10]. This substantial pool of available capital provides private equity firms with the financial capacity to pursue acquisitions across different sectors, company sizes, and transaction types. The depth of the capital base therefore represents an important structural advantage of the U.S. private equity ecosystem. Nevertheless, capital availability alone cannot sustain investment activity without a sufficiently large and continuous supply of suitable investment opportunities.

The second factor is therefore the availability and diversity of companies suitable for private equity investment. The U.S. market generates deal flow from multiple sources, including small and medium-sized privately held companies, family-owned businesses, corporate divestitures and carve-outs, as well as public-to-private transactions. This diversity enables private equity firms to pursue different investment strategies depending on company size, sector, growth potential, operational characteristics, and expected value-creation opportunities.

Corporate carve-outs have become an increasingly important component of this investment pipeline. By late 2024, more than **10% of U.S. buyout transactions** involved corporate carve-outs, while the value of global public-to-private transactions increased substantially in 2025 [11]. Such transactions can provide private equity investors with opportunities to acquire businesses that may have received limited strategic attention within larger corporate structures and subsequently develop them as independent companies.

The interaction between substantial capital availability and continuous deal flow creates the foundation for sustained private equity investment activity. However, the acquisition of a company represents only the

initial stage of the investment cycle. The ultimate investment outcome depends substantially on the ability of private equity owners to increase the underlying value of the acquired business during the holding period. This capability becomes particularly important when entry valuations are high, leverage is more expensive, or opportunities to generate returns through multiple expansion are limited.

Post-acquisition value creation therefore constitutes the third major element of the U.S. private equity model. Private equity firms have increasingly developed dedicated operating teams and sector-specific expertise to support portfolio companies in implementing organizational and operational improvements. These interventions may include strengthening management teams, optimizing procurement and supply chains, introducing digital technologies and information systems, improving pricing strategies, reducing inefficient costs, enhancing sales capabilities, and reallocating resources toward higher-return activities.

In parallel, **buy-and-build strategies** have become an important mechanism for accelerating corporate growth and achieving economies of scale. Under this approach, a private equity firm typically acquires a platform company and subsequently expands it through a series of smaller add-on acquisitions. These transactions may enable portfolio companies to enter new geographic markets, acquire complementary capabilities, broaden their customer base, consolidate fragmented industries, and generate operational synergies.

The growing importance of this strategy is reflected in U.S. transaction data. Add-on acquisitions accounted for approximately **40% of the total value of U.S. buyout transactions in 2024** [12]. This indicates that private equity value creation increasingly depends not only on the initial acquisition and its financing structure but also on strategic and operational transformation during the ownership period. The relative contribution of the principal mechanisms through which private equity investors generate corporate value is presented in (Figure 2).

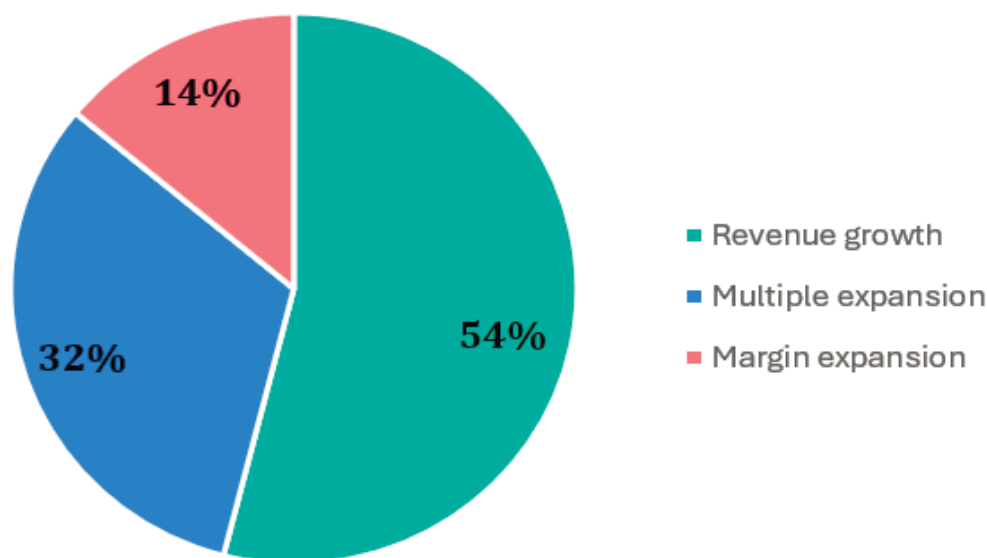


Figure 2. Sources of Value Creation in U.S./Global Private Equity Deals (% of value generated) [13]

As Figure 2 demonstrates, revenue growth accounts for 54% of the value generated in U.S. buyouts, while margin expansion contributes 32% and multiple expansion 14%. The predominance of revenue growth and margin expansion indicates that operational improvements represent a major source of private equity value creation. Consequently, the economic contribution of PE extends beyond the initial provision of capital and includes the transformation of portfolio companies.

The value created through these improvements must ultimately be realized through an effective exit. The third important component of the U.S. private equity model is therefore the availability of exit mechanisms. Improvements in a portfolio company must ultimately be converted into realized returns, and the U.S. market provides several exit routes, including IPOs, strategic sales, and sales to other private equity firms.

Capital, deal flow, value creation, and exits are therefore closely connected rather than independent elements of the market. Their interaction can be seen in the U.S. private equity value cycle presented in (Figure 3).

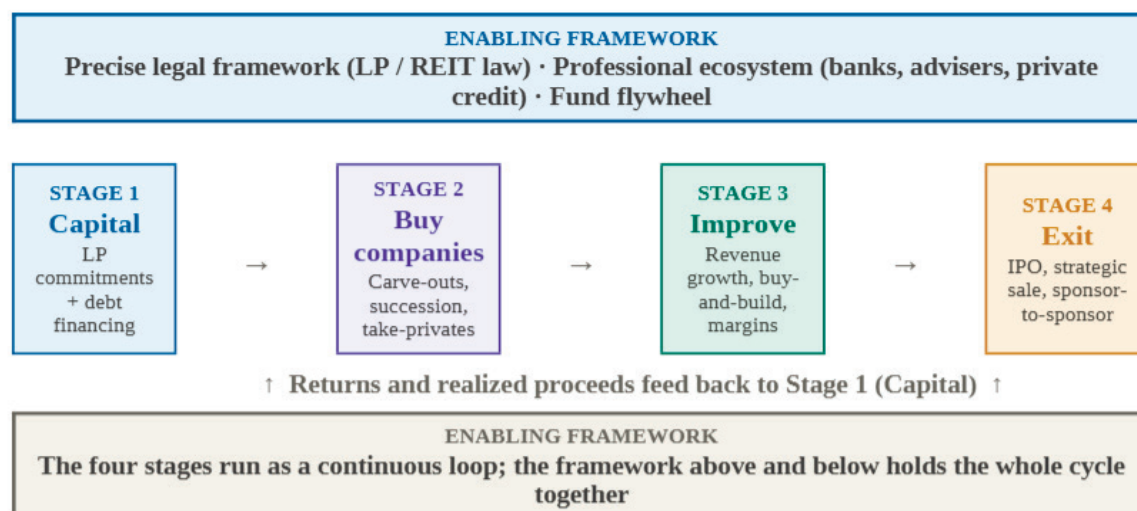


Figure 3. The U.S. Private Equity Value Cycle [14]

As Figure 3 illustrates, capital supplied by limited partners and credit markets allows PE firms to acquire companies, improve their operations and subsequently realize value through exits. The returns can then be distributed to investors and redeployed into new investments. This creates a continuous cycle in which successful investment and value creation support the ability to attract further capital and pursue new opportunities. The cycle is supported by investment banks, consultants, law firms, lenders and other professional intermediaries, creating an ecosystem in which successful funds can attract further capital and expand their investment capacity.

This institutional logic is relevant to Uzbekistan because private equity has already begun to develop as part of broader economic and capital-market reforms. Several direct investment institutions have been established, including UzOman Investment Company, Abu Dhabi Uzbek Investment and the Uzbekistan Direct Investment Fund. UzOman was established with committed capital of \$500 million and manages more than \$300 million in assets [15], while the Uzbekistan Direct Investment Fund initially committed \$100 million to Uzbek projects [16].

Although these institutions demonstrate the emergence of professional direct investment, most are sovereign or bilateral structures rather than conventional private equity funds raising capital from private limited partners. The development of genuinely private fund structures is therefore particularly important. An important recent example is Highland Capital Partners' first closing of a fully private equity fund in Uzbekistan, which raised \$36 million from the International Finance Corporation, the European Bank for Reconstruction and Development and China's Silk Road Fund [17].

There are also examples of active ownership and governance. In 2025, UzOman and Abu Dhabi Uzbek Investment invested \$110 million in Korzinka [18], after which three new non-executive directors were appointed to the company's supervisory and governing board. The company subsequently continued expanding its operations and strengthening its business and ESG practices. This example corresponds closely to the governance-oriented definitions of PE presented in Table 1, demonstrating that investment can be accompanied by direct involvement in corporate development.

Uzbekistan is also developing a potential source of deal flow through privatization. Presidential Decree No. 70, "About the privatization program for 2025" [19], and Presidential Resolution No. 145, "On the privatization of large state-owned enterprises in international markets" [20], from April 2025 established a programme under which 29 public companies were to be sold to third parties and 12 additional companies were to be prepared for IPOs or separation on domestic or international markets. For private equity, this creates an important potential pipeline of investment opportunities.

Exit infrastructure has developed simultaneously. The Tashkent Stock Exchange had 85 ordinary and 38 preferred shares listed with a market value of approximately \$9.7 billion as of January 2026 [21]. The IPO of the Uzbekistan National Investment Fund, which brought together 13 state assets and was managed by Franklin Templeton, represented an important step in developing international access to Uzbek equity markets [22].

These developments are consistent with the country's broader development objectives. The *Uzbekistan-2030 Strategy* aims to strengthen economic growth, attract investment and increase the role of the private sector [23]. More specifically, the current strategy includes measures to increase foreign investment and expand IPO and SPO activity, providing a policy environment that is relevant to the further development of private equity.

The relevance of alternative investment has also become increasingly explicit at the policy level. In his 2026 address at the Tashkent International Investment Forum, President Shavkat Mirziyoyev identified the development of the capital market and alternative financial instruments as a priority and stated that laws on the Capital Market and Alternative Investment Funds would be adopted [24]. This provides a direct policy connection between the development of alternative investment structures and the country's capital-market reforms.

At the same time, several constraints remain. Bank-based financing continues to play a dominant role, while equity-based financing and alternative investment infrastructure are less developed. The limited number of private funds, the relatively narrow institutional investor base and limited domestic experience in private equity transactions can restrict the development of the full investment cycle. These constraints do not mean that a private equity market is absent; rather, they indicate that its different components are still developing at different speeds (Figure 4.).

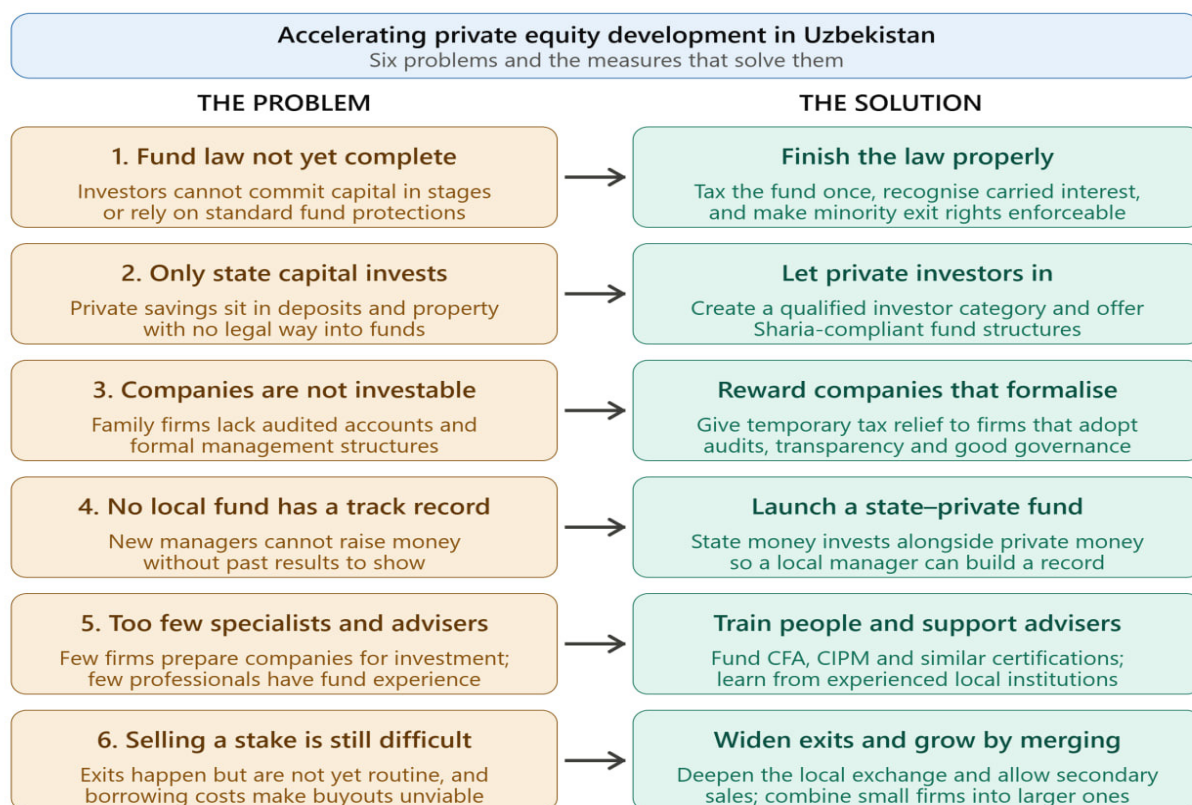


Figure 4. Constraints and Recommended Measures [25]

As Figure 4 illustrates, the main constraints are interconnected. A limited legal framework affects fund formation, limited exit opportunities can reduce investor confidence, and insufficient professional expertise can constrain transaction execution and portfolio management. The recommended measures therefore also need to be interconnected.

The first priority is the development of a comprehensive legal framework for alternative investment funds. A modern framework of this kind would need to move beyond the general provisions currently governing partnership structures in Uzbekistan and address the specific mechanics that private equity requires: staged capital commitments rather than lump-sum contributions, defined fiduciary duties between fund managers and investors, recognised treatment of carried interest, and enforceable minority protections such as tag-along and pre-emption rights. Such a framework would provide clearer rules for fund structures, investors and fund managers alike, replacing the current reliance on bespoke, transaction-specific arrangements with a standing regime that any manager could rely upon in advance. The resulting certainty would matter as much for domestic capital as for foreign investors, since a predictable legal architecture is what ultimately allows a passive investor to commit funds for a decade-long horizon without direct control over daily operations.

The second priority is strengthening exit mechanisms through initial and secondary public offerings, strategic sales and secondary transactions. At present, successful exits in Uzbekistan remain individual achievements rather than routine outcomes, and building a genuine multi-channel exit environment would require developing

each pathway in parallel rather than relying on any single route. A deeper domestic stock exchange would make public listing accessible to mid-sized portfolio companies that cannot pursue international offerings; an active market for strategic and sponsor-to-sponsor sales would give investors a second viable channel when public listing is not appropriate; and a regulatory framework for secondary transactions would allow early investors to realise value and reallocate capital before a company is fully exit-ready. The presence of several credible exit routes operating simultaneously, rather than a single narrow channel, is what ultimately gives investors the confidence to commit capital in the first place.

Third, institutional and international co-investment could increase the supply of long-term capital while transferring international expertise to the domestic market. Structuring such co-investments deliberately, with explicit provisions for knowledge transfer and the secondment of domestic professionals into international sponsor teams, would allow Uzbek investment institutions to accumulate the operational, diligence and exit-execution capability that no training programme alone can replicate. This channel is particularly valuable because it builds two scarce resources simultaneously: a broader base of long-duration capital and the practical fund-management experience on which the credibility of future domestic vehicles depends.

Finally, improving corporate governance, financial transparency and management practices could increase the number of Uzbek companies capable of attracting private equity investment. Many potential targets remain founder-led enterprises that were never built to institutional standards, with informal governance arrangements, unaudited or partially audited accounts, and manual processes where modern systems could be introduced. Encouraging the emergence of a domestic advisory and consulting layer capable of preparing such companies for investment—introducing recognised reporting standards, formalising board structures, and modernising operations—would expand the pool of genuinely investable enterprises well beyond what currently exists.

Conclusion and Recommendations

Private equity has been developing in Uzbekistan in recent years as part of the country's broader reforms aimed at attracting investment, increasing private-sector participation and developing the capital market. The establishment of direct investment institutions, the emergence of private fund capital, the expansion of privatization, the development of the Tashkent Stock Exchange and the preparation of legislation on alternative investment funds demonstrate that important foundations for a private equity ecosystem are already being created.

The U.S. experience demonstrates that a developed private equity market depends on the interaction of several components: deep capital supply, continuous deal flow, active ownership and operational value creation, reliable exit mechanisms and a clear legal and professional environment. Figure 3 demonstrates how these components form a continuous investment cycle rather than functioning separately.

In our opinion, the further development of Uzbekistan's private equity market could be supported particularly effectively by completing the legal framework for alternative investment funds, strengthening IPO, SPO and other exit mechanisms, encouraging institutional and international co-investment, improving corporate governance and financial transparency among potential portfolio companies, and developing local professional expertise. These measures would complement the reforms already underway.

If implemented consistently, they could contribute effectively to the further development of private equity in Uzbekistan by connecting capital, investment opportunities, active ownership, operational value creation and exits into a more sustainable investment cycle. This could strengthen not only the private equity market itself but also corporate modernization, access to long-term financing, governance standards and the broader development of Uzbekistan's capital market.

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