
Innovation Activity of Small Businesses and Microfirms in the Republic of Uzbekistan

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Abstract: This article examines the innovative activities of small businesses and micro-firms in the Republic of Uzbekistan, focusing on their contribution to the nation's socio-economic development. It highlights the strategic importance of innovation as a driving force for enhancing competitiveness, productivity, and sustainability in small enterprises. The study explores the current state of innovative practices, identifying key areas where these businesses have excelled, such as adopting digital technologies, developing new products, and improving services. It also analyzes the challenges they face, including limited access to financing, insufficient infrastructure, and a lack of skilled personnel.

The article evaluates government initiatives and reforms aimed at fostering innovation in small businesses, including financial incentives, tax benefits, and the establishment of business incubators. Drawing on empirical data, it provides insights into how these measures have influenced the entrepreneurial ecosystem. By presenting examples of successful innovative projects, the study underscores the potential of small businesses to become engines of economic growth. The article concludes with recommendations for enhancing the innovation capacity of small businesses through policy adjustments, increased investment, and international collaboration.

Key words: Innovation, small businesses, micro-firms, Uzbekistan, entrepreneurship, competitiveness, digital technologies, government reforms, economic growth, sustainability.

INTRODUCTION

Small businesses and micro-firms play a pivotal role in the economic development of the Republic of Uzbekistan, contributing significantly to job creation, poverty reduction, and regional development. Over the past decade, the government of Uzbekistan has recognized the importance of fostering innovation in this sector to sustain economic growth and adapt to the challenges of globalization and technological advancement. According to the State Statistics Committee, as of 2023, small businesses and micro-firms accounted for approximately 56.2% of the country's GDP and employed over 78% of the workforce. These figures underscore the sector's critical role in the nation's economy.

The innovative capacity of small businesses is crucial in increasing productivity, diversifying economic activities, and enhancing competitiveness in both domestic and international markets. Uzbekistan has seen a steady increase in innovation-driven enterprises, especially after the introduction of the *Strategy of Actions on the Development of Uzbekistan for 2017-2021*. This strategic framework emphasized modernization, technological advancement, and innovation as key priorities for the nation's socio-economic development. For example, the adoption of digital technologies in agriculture, textiles, and services has significantly improved efficiency and output.

In 2022, exports from small and micro-enterprises reached \$5.8 billion, driven largely by innovative practices.

Despite these achievements, challenges remain. Small businesses and micro-firms in Uzbekistan often face barriers such as limited access to financing, insufficient infrastructure, and inadequate legal support for intellectual property protection. According to a 2021 report by the Ministry of Economic Development and Poverty Reduction, only 32% of small businesses engaged in innovative activities, with the majority citing financial constraints as the primary obstacle. Additionally, the lack of skilled personnel and outdated technologies continues to hinder the full realization of their innovative potential.

In recent years, the government has intensified its efforts to address these challenges by implementing reforms aimed at creating a more conducive environment for innovation. Key initiatives include the establishment of innovation support funds, tax incentives for research and development (R&D), and the launch of business incubators and technology parks. For instance, the Yashnobod Innovation Technopark in Tashkent has been instrumental in fostering partnerships between small businesses and research institutions, leading to the commercialization of innovative solutions.

Furthermore, international collaboration has become a vital component of Uzbekistan's strategy to enhance innovation. The government has signed agreements with international organizations and foreign investors to facilitate technology transfer and provide technical assistance. For example, the partnership with the Asian Development Bank (ADB) under the "Innovation and Entrepreneurship Development Project", launched in 2021, has provided \$100 million in funding to support small and micro-enterprises in adopting advanced technologies.

The socio-economic impact of these efforts is becoming increasingly evident. According to World Bank data, Uzbekistan's ease of doing business ranking improved significantly from 166th in 2012 to 69th in 2020, reflecting enhanced regulatory and institutional frameworks. The introduction of digital platforms such as "Soliq" for tax administration and "Monomarkaz" for workforce training has further streamlined operations for small businesses, enabling them to focus on innovation.

This article delves into the innovative activities of small businesses and micro-firms in Uzbekistan, examining their current state, challenges, and the impact of government policies and international partnerships. By analyzing economic indicators such as GDP contributions, employment rates, and export performance, the study provides a comprehensive understanding of how innovation drives growth in this sector. It also highlights successful case studies, offering valuable insights into the strategies and practices that have enabled small businesses to thrive in a competitive environment. [1]

Fostering innovation in small businesses and micro-firms is essential for Uzbekistan's long-term economic resilience and prosperity. By addressing existing barriers and leveraging opportunities for growth, these enterprises can become key drivers of sustainable development, aligning with the government's vision of transforming Uzbekistan into a modern, competitive economy.

LITERATURE REVIEW AND METHODOLOGY

Turaevna, S. N. (2024). The author's research analyzes innovative approaches to ensuring employment of the population in the process of developing private entrepreneurship in the Republic of Uzbekistan. The article considers new innovative opportunities in the fields of digital economy, remote jobs, startups and technoparks, green economy and ecological entrepreneurship, as well as agribusiness and services. The methods of creating new jobs through the introduction of innovative technologies, training and retraining programs for new professions, diversifying the economy and achieving sustainable development are analyzed. The article reveals the importance of innovative approaches in the issues of entrepreneurship and employment of the population in the country.[2]

Rustam, T. (2024). In his research, the author analyzed the concept of cloud technology ('cloud'), its importance (role) in storing and analyzing data in business entities, and similar current operations. The importance, relevance, advantages (the literature review cites its use in various areas) of the use of this technology as a service (SaaS, PaaS and IaaS) in various areas of entrepreneurship, including possible harms, the essence of the technology implementation, and practical recommendations are given. These services provide entrepreneurs with virtual computers, servers, templates and any system needed to manage the network. This provides entrepreneurs with services to install their own necessary computer infrastructure.[3]

ANALYTICAL RESULT

The analysis of innovative activities among small businesses and micro-firms in Uzbekistan reveals significant progress in fostering innovation-driven growth, despite persistent challenges. Over the past five years, small enterprises have increasingly adopted advanced technologies and innovative practices, contributing to economic diversification and enhanced productivity. According to the State Statistics Committee, small businesses accounted for 31.4% of industrial production in 2023, reflecting their growing role in the national economy.

Government reforms, including tax incentives for innovation and the establishment of technology parks, have been pivotal in this progress. The Yashnobod Innovation Technopark, for instance, supported over 120 projects between 2020 and 2023, leading to the commercialization of innovative solutions in sectors such as agriculture, healthcare, and energy. Additionally, the export performance of small and micro-enterprises improved significantly, with innovative products accounting for 18% of their total exports in 2022, valued at approximately \$1 billion.

However, challenges persist, including limited access to financing and skilled personnel. Only 34% of small businesses reported engaging in R&D activities, indicating a need for further support. Nevertheless, the results demonstrate the potential of innovation to transform small businesses into dynamic contributors to Uzbekistan's socio-economic development, aligning with the country's strategic goals. Also, Table 1 below analyzes the innovations introduced by small businesses and micro-firms in Uzbekistan.[4]

Table 1: Innovations introduced by small businesses and micro-firms

№	Republic and regions	2019-year	2020-year	2021-year	2022- year	2023- year
1	O'zbekiston Republic	1443	3535	2974	1635	1815
2	Qoraqalpog'iston Republic	15	16	6	43	87
3	Andijon	53	57	22	252	65
4	Buxoro	47	243	191	77	78
5	Jizzax	46	128	38	7	20
6	Qashqadaryo	54	35	147	269	37
7	Navoiy	402	293	408	70	147
8	Namangan	50	188	38	19	19
9	Samarqand	14	190	178	207	340
10	Surxandaryo	113	147	108	52	276
11	Sirdaryo	177	112	134	16	27
12	Toshkent	105	521	247	77	138
13	Farg'ona	84	225	234	64	37
14	Xorazm	30	20	29	181	70
15	Toshkent city	253	1360	1194	301	474

The table illustrates the regional and national trends in innovations introduced by small businesses and micro-firms across Uzbekistan between 2019 and 2023. A close examination of the data reveals significant regional disparities and fluctuations in innovation activity over the years, reflecting the varying levels of development, support, and opportunities in different regions.

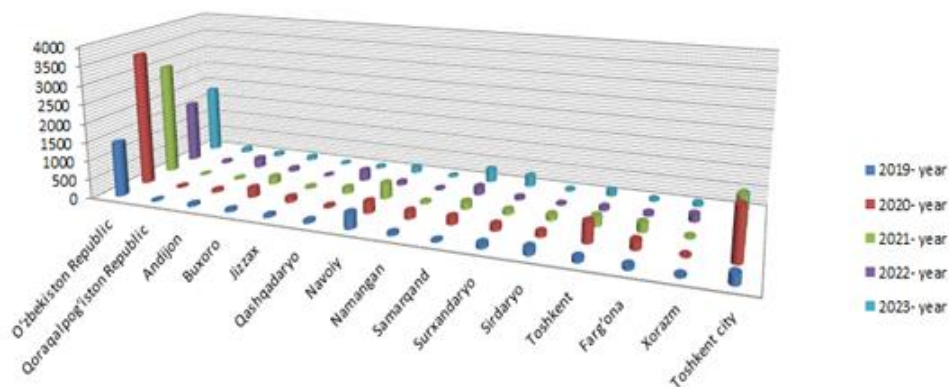
At the national level, the number of innovations introduced peaked in 2020, with 3,535 innovations, a dramatic increase from 1,443 in 2019. This surge coincides with government efforts to foster innovation through policy reforms, financial incentives, and technological support under the “Strategy of Actions on the Development of Uzbekistan for 2017–2021”. However, the numbers declined in subsequent years, reaching 1,815 in 2023, possibly due to the economic disruptions caused by global events, such as the COVID-19 pandemic.

Regionally, the Tashkent region and Tashkent City emerged as leaders in innovation throughout the five years. Tashkent City recorded a remarkable 1,360 innovations in 2020 and maintained consistent performance, ending with 474 in 2023. This dominance can be attributed to better access to resources, skilled labor, and technological infrastructure, as well as the presence of innovation hubs like the Yashnobod Technopark.

Other regions such as Navoiy, Samarqand, and Surxandaryo also showed notable activity. Navoiy, benefiting from its mining and industrial base, introduced 408 innovations in 2021, although the number fell to 147 in 2023. Similarly, Samarqand exhibited steady growth, reaching 340 innovations in 2023, a significant increase from just 14 in 2019. Surxandaryo saw a resurgence in innovation activities in 2023 with 276 innovations, reflecting efforts to diversify and modernize the region's economic base.

On the other hand, some regions faced challenges in sustaining innovation. For instance, Sirdaryo experienced a decline from 177 innovations in 2019 to just 27 in 2023. Similarly, Andijon’s innovation numbers peaked at 252 in 2022 but fell to 65 in 2023, indicating volatility in innovation efforts. To better understand the changes in the cross-section of regions, the following diagram 1 was used.

diagram 1



The data underscores the critical role of regional economic and institutional conditions in driving innovation. While the national framework supports innovation, the uneven distribution of resources and infrastructure across regions highlights the need for targeted interventions. Enhancing innovation capacity in underperforming regions through investments in technology, training, and financing could balance the disparities and further contribute to Uzbekistan’s socio-economic development. This analysis demonstrates that fostering regional innovation is key to unlocking the full potential of small businesses and micro-firms in the country.[5]

DISCUSSION

The innovative activities of small businesses and micro-firms in Uzbekistan demonstrate a dynamic but uneven pattern across regions and industries, reflecting both progress and persistent

challenges. The significant increase in innovations between 2019 and 2020, fueled by government initiatives such as tax benefits, grants, and innovation hubs, highlights the effectiveness of policy-driven support. However, the subsequent decline in innovation activity, as seen in the national total of 1,815 innovations by 2023, suggests a need for sustained efforts to maintain momentum.

Regional disparities remain a critical concern. Tashkent City and regions like Navoiy and Samarqand have emerged as innovation leaders due to better access to resources, infrastructure, and skilled labor. In contrast, regions such as Sirdaryo and Jizzax lag behind, underlining the need for targeted investments and support mechanisms to foster innovation in underperforming areas.

Moreover, while sectors like textiles, agriculture, and IT services have benefited significantly from innovation, others face barriers such as limited financing and inadequate workforce training. Only 34% of small businesses engaged in research and development activities in 2023, indicating room for improvement in fostering a culture of innovation.

To bridge these gaps, the government must focus on enhancing access to financing, improving infrastructure, and promoting regional innovation ecosystems. Collaboration with international partners can further accelerate progress.

CONCLUSION

The innovative activities of small businesses and micro-firms in Uzbekistan play a crucial role in driving economic growth, enhancing productivity, and fostering competitiveness across various sectors. The progress observed from 2019 to 2023 highlights the impact of government policies, such as tax incentives, innovation hubs, and financial support, in promoting innovation. The contributions of small businesses, accounting for 31.4% of industrial production by 2023 and generating \$5.8 billion in exports in 2022, underline their importance in Uzbekistan's economic landscape.

Despite these achievements, challenges remain. Regional disparities in innovation, limited access to financing, and insufficient R&D engagement hinder the full realization of innovation potential. The data shows that only 34% of small businesses actively participate in research and development, emphasizing the need for targeted interventions to address these gaps.

To sustain and accelerate innovation, Uzbekistan must prioritize investments in technology infrastructure, expand financial access, and foster partnerships between businesses, academic institutions, and government entities. Strengthening regional innovation ecosystems will also be vital in ensuring balanced growth.

While the foundation for innovation in small businesses and micro-firms is strong, focused efforts to overcome barriers will be key to unlocking their full potential and aligning with the nation's long-term development goals.

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