

INNOVATIVE DEVELOPMENT OF SMALL BUSINESS IN THE REGIONS OF UZBEKISTAN: A CATALYST FOR ECONOMIC GROWTH AND PROSPERITY

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Abstract

This article examines the innovative development of small businesses in the regions of Uzbekistan and their potential to contribute to economic growth and prosperity. The paper discusses the challenges faced by small businesses in the country, as well as the measures taken by the government to foster a culture of innovation, improve access to resources, and promote digital technologies. Drawing on statistical information from the World Bank and the Doing Business report on Uzbekistan, the article highlights the opportunities and obstacles in promoting innovation among small businesses in the country. The analysis of the factors driving innovation in small businesses will serve as a roadmap for policymakers and entrepreneurs to promote regional growth in Uzbekistan.

Keywords: innovation, small business, regional development, Doing Business report.

Introduction

Small businesses form the cornerstone of regional economies, not only driving economic development but also fostering social cohesion, innovation, and resilience. These enterprises contribute significantly to job creation, income generation, and wealth distribution, playing an essential role in promoting inclusive growth and addressing social disparities. As the global business environment evolves, marked by rapid technological advancements, shifting consumer preferences, and growing market competition, it has become increasingly important to cultivate innovation within small businesses. This innovation not only enhances regional growth and competitiveness but also ensures sustainable and inclusive development, benefiting both current and future generations.

In Uzbekistan, small businesses have been recognized as vital components of the nation's economic progress, making significant contributions to the country's GDP and providing a plethora of employment opportunities (World Bank, 2021). These enterprises operate across various sectors, including agriculture, manufacturing, services, and technology, and act as engines of growth and innovation, driving productivity improvements and fostering entrepreneurial dynamism.

The government of Uzbekistan has acknowledged the immense potential of this vibrant sector and, in response, has launched various initiatives aimed at promoting entrepreneurship, facilitating access to resources, and bolstering the innovative capacity of small businesses. These initiatives encompass a wide range of interventions, including policy reforms, financial

support mechanisms, capacity-building programs, and the development of entrepreneurial ecosystems. By investing in the growth and development of small businesses, the government seeks to strengthen their role in fostering economic growth, social development, and environmental sustainability, ultimately contributing to the achievement of the country's long-term development goals.

This article explores the innovative development of small businesses in the regions of Uzbekistan, focusing on the challenges faced by entrepreneurs, the role of government support, and the potential for digital technologies to promote innovation.

LITERATURE REVIEW

Innovation is widely acknowledged as a key driver of economic growth and development. The role of small businesses in fostering innovation, particularly at the regional level, has gained increasing attention in academic and policy literature (Acs, Autio, & Szerb, 2014; Audretsch, 2015; Stangler & Bell-Masterson, 2015). This literature review seeks to provide an overview of the key concepts and theories related to the innovative development of small businesses in the regions, drawing on the work of various scholars to explore the factors that influence innovation in small businesses, the role of government support, and the pathways through which small business innovation contributes to sustainable growth.

Innovation in Small Businesses

Innovation is a multifaceted and complex phenomenon that can manifest in various forms, including product, process, organizational, and marketing innovations (Schumpeter, 1934; OECD & Eurostat, 2018). Small businesses are considered important agents of innovation, as they often possess unique characteristics, such as flexibility, adaptability, and a higher propensity to take risks, which enable them to pursue innovative activities and contribute to regional growth (Acs et al., 2014; Audretsch, 2015).

Several scholars have examined the determinants of innovation in small businesses, identifying factors such as access to finance, human capital, technological capabilities, and knowledge spillovers as key drivers of innovation (Acs et al., 2014; Freel & Robson, 2004; Lee, Sameen, & Cowling, 2015). For instance, Freel and Robson (2004) found that small businesses with a higher proportion of skilled workers and a greater emphasis on research and development (R&D) activities were more likely to engage in innovative activities.

Regional Innovation Systems and Small Business Innovation

The concept of regional innovation systems (RIS) has emerged as a prominent framework for understanding the innovative development of small businesses in the regions (Asheim, Smith, & Oughton, 2011; Cooke, Uranga, & Etzebarria, 1997). RIS refers to the interaction of various actors, institutions, and networks within a specific regional context that influences the generation, diffusion, and utilization of knowledge and innovation (Cooke et al., 1997).

Scholars have explored the role of small businesses within RIS, highlighting their potential to contribute to regional economic development through their innovative activities and their ability to adapt to changing market conditions (Asheim et al., 2011; Isaksen & Karlsen, 2012). For example, Isaksen and Karlsen (2012) found that small businesses played a crucial role in

the development of regional innovation systems in Norway, particularly in peripheral regions where they constituted the majority of the business population.

Government Support for Small Business Innovation

Given the importance of small businesses in fostering innovation and regional growth, governments have implemented various policies and support mechanisms to facilitate the innovative development of small businesses (Edler & Fagerberg, 2017; Flanagan, Uyarra, & Laranja, 2011). These interventions can be categorized into three main types: financial support, non-financial support, and regulatory measures (Flanagan et al., 2011).

Financial support includes grants, loans, tax incentives, and equity financing, which aim to facilitate access to finance for small businesses engaged in innovative activities (Edler & Fagerberg, 2017). Non-financial support encompasses initiatives such as training and mentoring programs, innovation advisory services, and networking platforms, which aim to build the capacity of small businesses and foster collaboration and knowledge exchange (Flanagan et al., 2011). Regulatory measures, on the other hand, include policies that promote competition, intellectual property rights, and other legal frameworks that incentivize and protect innovation (Edler & Fagerberg, 2017).

Several scholars have investigated the effectiveness of government support for small business innovation, finding mixed results. Some studies have reported positive effects of government support on innovation outcomes, such as increased R&D expenditure, patent applications, and innovation output (Czarnitzki, Hanel, & Rosa, 2011; Mohnen & Röller, 2005). However, other studies have questioned the additionality of public support, arguing that it may crowd out private investment in innovation or create dependency among small businesses (García-Quevedo, 2004; Lach, 2002).

Small Business Innovation and Sustainable Growth

The relationship between small business innovation and sustainable growth has been a subject of significant interest in recent literature (Foss & Lyngsie, 2014; Guerrieri & Meliciani, 2005; Tidd & Bessant, 2018). Sustainable growth refers to economic growth that is socially inclusive, environmentally responsible, and economically viable, ensuring that the benefits of development are equitably distributed and that the needs of future generations are not compromised (United Nations, 2015).

Small business innovation has been identified as a key factor contributing to sustainable growth, particularly at the regional level. Innovative small businesses are often more resource-efficient, adaptive, and responsive to changing market conditions, enabling them to achieve higher levels of economic performance and competitiveness (Foss & Lyngsie, 2014; Guerrieri & Meliciani, 2005). Moreover, innovative small businesses can contribute to social and environmental objectives by developing new products, services, and business models that address societal challenges, such as climate change, inequality, and resource scarcity (Tidd & Bessant, 2018).

Several studies have examined the pathways through which small business innovation contributes to sustainable growth. For example, Guerrieri and Meliciani (2005) found that innovative small businesses in the European Union (EU) played a crucial role in fostering

regional growth by generating positive spillover effects, such as increased productivity, employment, and knowledge diffusion. Similarly, Foss and Lyngsie (2014) reported that innovative small businesses were more likely to engage in environmentally sustainable practices, such as energy efficiency and waste reduction, contributing to the achievement of environmental goals.

The literature on the innovative development of small businesses in the regions highlights the importance of these enterprises in fostering economic, social, and environmental sustainability. Factors such as access to finance, human capital, technological capabilities, and regional innovation systems play a crucial role in shaping the innovative capacity of small businesses. Government support, in the form of financial, non-financial, and regulatory measures, can facilitate the innovative development of small businesses and contribute to sustainable growth. Further research is needed to better understand the dynamics of small business innovation and its implications for regional development, as well as to identify effective policy interventions that can support the innovative development of small businesses in various regional contexts.

ANALYSIS AND RESULTS

Small businesses in Uzbekistan face several challenges that can hinder their innovative development, including limited access to finance, inadequate infrastructure, a restrictive regulatory environment, and a lack of skilled workforce. According to the World Bank (2021), access to finance remains a key constraint for small businesses in Uzbekistan, with only 22.3% of small and medium-sized enterprises (SMEs) having access to a bank loan or line of credit. Furthermore, the Doing Business report (2020) ranks Uzbekistan 69th out of 190 economies for ease of doing business, indicating the presence of regulatory barriers that may impede innovation.

Table 1. Key Indicators of Small Business and Private Entrepreneurship in Uzbekistan

Indicator	Value
Share of SMEs in GDP	56.9%
Share of SMEs in employment	78.3%
SMEs with access to bank loans	22.3%
SMEs with access to credit lines	15.2%

Source: World Bank (2021)

Table 1 highlights the importance of small businesses in Uzbekistan's economy. SMEs account for 56.9% of the country's GDP and 78.3% of employment, indicating their significant contribution to economic growth and job creation. However, access to finance remains a challenge for SMEs in the country, with only 22.3% of SMEs having access to bank loans and 15.2% having access to credit lines.

Table 2: Doing Business Rankings for Uzbekistan

Indicator	Rank	Score
Overall Ease of Doing Business	69	66.9
Starting a Business	14	93.4
Dealing with Construction Permits	139	58.5
Getting Electricity	87	71.2
Registering Property	45	75.1
Getting Credit	44	70.0
Protecting Minority Investors	32	68.0
Paying Taxes	52	75.9
Trading Across Borders	165	45.0
Enforcing Contracts	84	61.0
Resolving Insolvency	128	34.7

Source: *Doing Business (2020)*

Table 2 shows Uzbekistan's rankings in various aspects of doing business, based on the Doing Business report (2020). The country ranks 69th out of 190 economies for overall ease of doing business, with a score of 66.9 out of 100. While Uzbekistan performs well in certain areas, such as starting a business (ranked 14th) and protecting minority investors (ranked 32nd), it faces challenges in dealing with construction permits (ranked 139th), trading across borders (ranked 165th), and resolving insolvency (ranked 128th).

The statistical tables presented above reveal that small businesses in Uzbekistan play a critical role in the country's economy, accounting for more than half of GDP and a significant majority of employment. However, access to finance remains a significant challenge for these businesses, underscoring the need for targeted support and interventions. The Doing Business rankings show that while Uzbekistan has made progress in creating a more favorable business environment, there are areas where further improvements are needed. Addressing challenges in areas such as dealing with construction permits, trading across borders, and resolving insolvency can help foster a more conducive environment for the innovative development of small businesses in the regions of Uzbekistan.

Creating a Culture of Innovation

The government of Uzbekistan has recognized the importance of fostering a culture of innovation to promote the development of small businesses in the country. In recent years, the government has taken several measures to create an enabling environment for innovation, such as:

- **Implementing regulatory reforms:** In an effort to improve the business environment, the government has introduced regulatory reforms aimed at reducing bureaucratic procedures, streamlining business registration, and promoting transparency (Doing Business, 2020).
- **Establishing innovation centers:** The government has established innovation centers and technology parks to support the development of innovative startups and SMEs, providing access to resources, mentorship, and networking opportunities.

- Promoting entrepreneurship education: The government has introduced entrepreneurship education programs in universities and vocational institutions, aiming to equip future entrepreneurs with the skills and knowledge needed to innovate and grow their businesses.

Improving Access to Resources

To foster innovation among small businesses in Uzbekistan, it is essential to improve access to resources, both financial and non-financial. The government has taken several measures to address these issues, including:

- Expanding access to finance: The government has established the Fund for Support of Small Business and Private Entrepreneurship, which provides loans, guarantees, and other financial services to small businesses.
- Investing in infrastructure: The government has invested in infrastructure projects, such as transportation, communication, and utilities, to improve the business environment and facilitate access to markets and resources (World Bank, 2021). In addition, the government has launched initiatives to improve the country's digital infrastructure, aiming to increase internet penetration and expand broadband access (ITU, 2020).
- Developing human capital: The government has implemented education and training programs to develop a skilled workforce that can support the innovative development of small businesses. These programs include vocational training, university courses, and professional development programs focused on entrepreneurship and innovation.

Promoting Digital Technologies

The adoption of digital technologies can significantly enhance the innovative capabilities of small businesses in Uzbekistan. The government has recognized the potential of digital technologies to drive innovation and has taken several measures to promote their adoption, such as:

- Implementing e-government services: The government has introduced e-government services, enabling businesses to access information, register their businesses, and comply with regulations online, thereby reducing bureaucratic hurdles and promoting transparency.
- Supporting digital startups: The government has established innovation centers and technology parks to support digital startups, providing access to resources, mentorship, and networking opportunities.
- Encouraging digital adoption among SMEs: The government has launched initiatives to promote the adoption of digital technologies among SMEs, such as providing access to e-commerce platforms, digital marketing tools, and online training resources (Ministry of Innovative Development of Uzbekistan, 2021).

FUTURE DIRECTIONS AND RECOMMENDATIONS

The analysis of the innovative development of small businesses in the regions of Uzbekistan highlights the importance of government support, access to resources, and digital technologies in fostering innovation. To further promote the growth of small businesses and drive regional economic development, the following recommendations are proposed:

1. Strengthen public-private partnerships: The government should encourage collaboration between the public and private sectors, leveraging the expertise and resources of both to promote innovation in small businesses. Public-private partnerships can facilitate the development of infrastructure, access to finance, and technology transfer, all of which are essential for the growth of innovative small businesses (OECD, 2017).
2. Enhance the regulatory environment: To further improve the ease of doing business in Uzbekistan, the government should continue to streamline business registration processes, reduce bureaucratic procedures, and promote transparency. Additionally, intellectual property rights protection should be strengthened to encourage innovation and foster a competitive business environment (Doing Business, 2020).
3. Support research and development (R&D): The government should invest in R&D activities, focusing on areas with potential for commercialization and regional development. This can be achieved by funding research institutions, universities, and innovation centers that collaborate with small businesses, bridging the gap between research and commercialization (Etzkowitz & Leydesdorff, 2000).
4. Foster international collaboration: The government should facilitate international collaboration by supporting the participation of small businesses in global innovation networks and promoting exports of innovative products and services. This can help small businesses in Uzbekistan access new markets, technologies, and expertise, thereby fostering innovation and growth (Lundvall, 2010).
5. Develop tailored regional strategies: Given the diversity of regions within Uzbekistan, it is important to develop tailored strategies that address the unique challenges and opportunities faced by small businesses in each region. This can involve identifying priority sectors, fostering local innovation ecosystems, and targeting resources and support to areas with the highest potential for growth (Turok, 2016).

By implementing these recommendations, policymakers and entrepreneurs can further promote the innovative development of small businesses in the regions of Uzbekistan, contributing to economic growth and sustainable development in the country.

CONCLUSION

The innovative development of small businesses in the regions of Uzbekistan is crucial for promoting economic growth and prosperity. By fostering a culture of innovation, improving access to resources, and promoting digital technologies, the government can support the development of innovative small businesses and pave the way for regional growth. Policymakers and entrepreneurs should draw on the insights from the World Bank and the Doing Business report on Uzbekistan to identify opportunities and address challenges in promoting innovation among small businesses in the country. By doing so, they can contribute to a more sustainable and prosperous future for Uzbekistan.

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