

**MECHANISMS FOR ENHANCING THE COMPETITIVENESS AND RESILIENCE OF  
SMALL BUSINESSES IN UZBEKISTAN**

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**Abstract.** Small and medium-sized enterprises (SMEs) are a core component of Uzbekistan's economy, playing a major role in output and employment. This study analyzes key economic mechanisms for strengthening SME competitiveness and resilience, focusing on innovation, digitalization, access to finance, skills development, market diversification, and sustainability. The results show that an integrated approach combining these factors enhances SMEs' adaptability and supports sustainable economic growth.

**Keywords:** small and medium-sized enterprises, competitiveness, resilience, innovation, digitalization, access to finance, Uzbekistan.

**Introduction.** Small and medium-sized enterprises (SMEs) constitute a fundamental pillar of Uzbekistan's national economy, playing a decisive role in the formation of gross domestic product, employment generation, and socio-economic stability. Over recent years, SMEs have consistently accounted for approximately half of national GDP and an overwhelming majority of total employment, underscoring their systemic importance for sustainable economic development and social inclusion. Beyond their quantitative contribution, SMEs also perform a stabilizing function by supporting household incomes, fostering regional development, and facilitating entrepreneurial activity.

The economic disruptions caused by the COVID-19 pandemic and subsequent external shocks have exposed structural vulnerabilities within the SME sector, including limited access to finance, uneven digital readiness, and dependence on narrow markets. At the same time, these challenges have revealed the sector's latent potential for adaptability and recovery. SMEs, due to their organizational flexibility and proximity to markets, are capable of mitigating economic shocks through diversification, innovation, and rapid adjustment of business models, provided that enabling economic conditions are in place.

Against this background, strengthening the competitiveness and resilience of SMEs has become a strategic priority for Uzbekistan's long-term growth agenda. This study focuses on the identification and analysis of practical economic mechanisms that enhance SME performance, with particular emphasis on innovation and technology adoption, digital transformation, access to financial resources, human capital development, market and value-chain diversification, and the integration of sustainability principles into business operations. By examining recent trends and regional development patterns, the research aims to provide an analytically grounded framework for improving SME resilience and supporting inclusive, innovation-driven economic growth in Uzbekistan.

**Methods.** In the article, statistical analysis, comparative ("before–after") analysis, benchmarking, tabular data systematization, the case study method, qualitative analysis, and descriptive-analytical synthesis are used.

**Results.** Recent data confirm the large scale and structural importance of Uzbekistan's SME sector, while simultaneously revealing a set of persistent and interrelated constraints that limit its contribution to sustainable economic growth. A comparative analysis of key indicators from the pre-pandemic period and recent years demonstrates that, despite quantitative dominance, qualitative development of the SME sector remains uneven.

The share of small enterprises in GDP, which stood at approximately 54% in 2019, has

shown a slight downward adjustment and by mid-2025 amounted to about 49.6%. This trend reflects not a contraction of the sector per se, but rather slower recovery dynamics compared to large enterprises, particularly in capital-intensive and export-oriented industries. At the same time, SMEs continue to dominate the business landscape in numerical terms, accounting for the overwhelming majority of registered enterprises and a substantial share of total employment. This confirms their central role in job creation, income generation, and social stability.

However, a deeper structural analysis indicates that a significant proportion of SMEs remain micro-scale, informal, or concentrated in low value-added activities. New enterprise formation continues to be skewed toward traditional sectors such as trade, agriculture, and basic manufacturing, while participation in technologically advanced, knowledge-intensive, and export-oriented activities remains limited. This structural concentration constrains productivity growth and reduces the sector's resilience to external shocks.

One of the most binding constraints revealed by the data is limited access to finance. Despite ongoing reforms in the banking sector, only a small fraction of small firms have access to formal credit, while a substantial share of enterprises remains outside the formal financial system altogether. This restricts investment capacity, inhibits technological upgrading, and reinforces dependence on short-term internal financing. Financial exclusion is particularly pronounced among women-led and youth-owned enterprises, which further amplifies inequality within the SME ecosystem.

Digital and technological gaps represent another critical bottleneck. Adoption of information and communication technologies among Uzbek SMEs remains low, both in terms of internal business processes and external market engagement. Electronic commerce and digital platforms account for a relatively small share of SME sales, indicating that the potential of digitalization as a driver of market expansion, cost reduction, and productivity enhancement is not fully realized. The lack of digital skills among entrepreneurs and employees emerges as a systemic constraint, limiting firms' ability to integrate into modern value chains and compete in increasingly digitalized markets.

Skills development and human capital formation also remain insufficient. Only a minority of firms provide formal training to their workforce, with small enterprises particularly lagging behind. This contributes to persistent skill mismatches, constrains labor productivity, and slows the diffusion of new technologies and management practices. In the long run, insufficient investment in skills undermines the innovative capacity of SMEs and weakens their ability to adapt to structural changes in the economy.

Market concentration and limited diversification further exacerbate vulnerabilities within the SME sector. Many enterprises remain heavily oriented toward the domestic market and a narrow range of activities, which increases exposure to local demand fluctuations and sector-specific risks. The relatively modest contribution of small businesses to total exports highlights structural barriers to internationalization, including scale limitations, compliance costs, logistics constraints, and insufficient integration into global value chains.

Finally, sustainability challenges are becoming increasingly relevant for the long-term viability of SMEs. Resource inefficiencies, reliance on subsidized energy inputs, and exposure to environmental risks—particularly in water-intensive and energy-dependent sectors—pose latent threats to competitiveness. Although quantitative data on environmental performance of SMEs remain limited, existing patterns suggest that without targeted support for resource efficiency and green transformation, these challenges may intensify over time.

Overall, the expanded analysis indicates that while Uzbekistan's SME sector remains a cornerstone of the national economy in quantitative terms, its qualitative transformation is constrained by financial, technological, human capital, market, and sustainability-related factors.

Addressing these interlinked challenges requires a shift from predominantly quantitative support measures toward integrated policies aimed at enhancing productivity, innovation, digitalization, and resilience of small and medium-sized enterprises.

**Analyses.** An in-depth analysis of the development of small and medium-sized enterprises (SMEs) in Uzbekistan reveals a persistent imbalance between the quantitative scale of the sector and its qualitative contribution to economic modernization and long-term growth. While SMEs dominate in terms of the number of enterprises and employment generation, their role in productivity growth, export expansion, and technological upgrading remains structurally limited. The observed decline in the share of SMEs in gross domestic product relative to the pre-pandemic period reflects uneven recovery dynamics across firm sizes. Large enterprises, benefiting from superior access to capital, technology, and external markets, demonstrated stronger resilience to economic shocks. In contrast, SMEs were disproportionately affected by demand volatility, supply-chain disruptions, and rising production costs. This asymmetry has resulted in a relative concentration of value creation within larger firms, despite the numerical dominance of small businesses. Sectoral composition remains a defining constraint. A significant share of SMEs continues to operate in low value-added activities such as retail trade, primary agriculture, and basic manufacturing. This sectoral concentration limits opportunities for productivity enhancement, innovation, and scaling. As a result, many SMEs function primarily as subsistence-oriented or survival enterprises rather than growth-oriented economic actors, reducing their potential to drive structural transformation. Financial constraints constitute a central structural bottleneck in SME development. Limited access to formal finance restricts investment in fixed assets, technology, and workforce development. The predominance of internal financing reinforces short planning horizons and discourages risk-taking associated with innovation and market expansion. These constraints are particularly acute for women-led and youth-owned enterprises, intensifying inequality within the SME ecosystem and constraining inclusive growth. Technological and digital gaps further compound financial limitations. Low adoption of digital tools in management, production, and marketing reduces operational efficiency and market reach. Insufficient integration into digital platforms constrains SMEs' participation in modern value chains, where data analytics, automation, and online market access increasingly determine competitiveness. The lack of digital capabilities thus translates directly into reduced productivity and limited scalability. Human capital deficiencies represent another critical constraint. The low prevalence of formal training within SMEs contributes to skill mismatches and slow diffusion of new technologies. Small firms often lack the institutional capacity and financial resources to invest in continuous skill development, leading to a persistence of low-productivity employment. This creates a self-reinforcing cycle in which limited skills constrain innovation, and limited innovation reduces incentives for skill upgrading. Market orientation of SMEs remains predominantly domestic, with limited diversification across sectors and geographic markets. Dependence on local demand exposes firms to regional economic fluctuations and restricts revenue growth. Barriers to export participation—such as compliance costs, logistics inefficiencies, and scale limitations—prevent SMEs from leveraging international markets as a source of growth and risk diversification. Sustainability considerations are increasingly relevant to the long-term viability of SMEs. Resource inefficiencies, reliance on energy-intensive production methods, and exposure to environmental risks represent latent vulnerabilities. As economic reforms progress and environmental standards tighten, SMEs that fail to adopt resource-efficient and environmentally sustainable practices may face rising costs and declining competitiveness.

Overall, the analysis indicates that the principal challenge facing Uzbekistan's SME sector is not its size, but the quality of its integration into the broader economic system. Without a

strategic shift toward productivity-driven growth—supported by improved access to finance, digital transformation, human capital development, market diversification, and sustainability measures—the potential of SMEs to act as a catalyst for inclusive and resilient economic growth will remain underutilized.

**Discussion.** The findings suggest several interrelated strategies for strengthening the competitiveness and resilience of small and medium-sized enterprises (SMEs in Uzbekistan). Drawing on global best practices and existing national initiatives, these strategies highlight how innovation, digitalization, finance, human capital, market diversification, and sustainability can be systematically leveraged to support SME development.

**Fostering innovation and technology adoption** is a key prerequisite for enhancing SME value creation and global competitiveness. Product and process innovation enable firms to move up value chains and reduce vulnerability to price-based competition. Uzbekistan has already taken initial steps toward nurturing an innovation-oriented SME ecosystem through the development of startup support programs and technology-oriented accelerators. Expanding cooperation with international innovation hubs and strengthening industry–university linkages would further stimulate knowledge transfer and commercialization. The introduction of targeted research and development incentives, including grants and tax preferences for technology-intensive and high-value manufacturing SMEs, can help cultivate a sustainable culture of innovation across the SME sector.

**Accelerating digital transformation** is equally critical for improving SME productivity and resilience. Enhancing digital capacity requires coordinated investments in digital infrastructure, including broadband connectivity, cloud-based services, and secure digital platforms. At the firm level, wider adoption of e-commerce, digital marketing, and data-driven management tools can significantly expand market reach and operational efficiency. Establishing integrated digital support systems—such as centralized online portals for business services—and extending digital incentives beyond specialized zones would allow a broader range of SMEs to participate in the digital economy. Public–private partnerships with fintech firms and online marketplaces can further lower entry barriers to digital commerce, enabling SMEs to maintain continuity and adapt during economic disruptions.

**Expanding access to finance** remains a central challenge for SME development. Despite ongoing reforms, micro and small enterprises continue to face constraints related to collateral requirements, credit history, and limited financing instruments. Strengthening financial inclusion through credit guarantee schemes, blended finance instruments, and alternative funding mechanisms can help close existing financing gaps. The diversification of financial channels—including microfinance, venture capital, Islamic finance, and digital lending platforms—would reduce dependence on traditional bank lending. At the same time, improving credit assessment systems and adopting digital credit scoring tools can enhance transparency and reduce lending risks, thereby broadening SME access to formal finance.

**Investing in training and skills development** is essential for addressing productivity constraints and supporting sustainable SME growth. Skills gaps—particularly in digital technologies, management, and entrepreneurship—limit firms’ capacity to innovate and scale. Expanding vocational education and enterprise-oriented training programs, with a focus on practical and applied learning, can significantly improve SME performance. Mobile advisory services, on-site consultations, and targeted training programs for women and youth entrepreneurs have demonstrated positive outcomes and should be institutionalized nationwide. Closer involvement of private-sector actors in curriculum design would further ensure alignment between workforce skills and market needs.

**Diversifying markets and strengthening value-chain integration** enhances SME

resilience by reducing dependence on limited domestic demand or narrow product specializations. Continued efforts to improve trade facilitation, logistics infrastructure, and customs procedures can better integrate Uzbek SMEs into regional and global value chains. Export promotion initiatives, harmonization of product standards, and support for value-added processing—particularly in agribusiness and light manufacturing—can expand SMEs’ international market participation. In parallel, the development of digital trade platforms offers new opportunities for SMEs to connect with foreign buyers and participate in cross-border commerce.

**Encouraging sustainable and environmentally responsible practices** contributes both to cost efficiency and long-term resilience. Adoption of energy-efficient technologies, water-saving processes, and environmentally sound production methods can lower operational expenses while improving compliance with emerging international standards. Integrating sustainability components into SME support programs—such as technical assistance for green technologies or certification support—can also open access to environmentally sensitive markets. Moreover, promoting climate-resilient practices, including climate-smart agriculture and renewable energy solutions, strengthens SMEs’ ability to withstand environmental and economic shocks.

Collectively, these measures form a comprehensive framework for enhancing SME competitiveness and resilience. Initial outcomes indicate positive momentum, as financial inclusion has expanded and digital adoption accelerated in recent years. Targeted support for women- and youth-led enterprises has also contributed to narrowing participation gaps within the SME sector.

Nevertheless, the effectiveness of these strategies will depend on coordinated implementation and continuous policy evaluation. Regular monitoring of key performance indicators—such as access to finance, productivity growth, and export participation—will be necessary to assess impact and adjust interventions. Sustained international cooperation can further reinforce domestic efforts by providing both financial resources and technical expertise. Overall, a holistic approach that integrates finance, technology, skills development, market access, and sustainability offers a robust pathway toward job-rich growth and enhanced economic adaptability in Uzbekistan.

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