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## **Economic Mechanism of Innovation Activity of Small Business Entities in the Conditions of Uzbekistan**

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### **ABSTRACT**

In the context of globalization and increasing competition, innovation has become a key factor in ensuring sustainable economic growth and competitiveness. Small business entities play a crucial role in the national economy of Uzbekistan by contributing to employment, income generation, and market diversification. This thesis examines the economic mechanism of innovation activity of small business entities in Uzbekistan, identifies its specific features, and analyzes the factors influencing its effective functioning. Special attention is paid to institutional conditions, state support mechanisms, financial instruments, and innovation infrastructure. The study highlights existing challenges and proposes directions for improving the economic mechanism of innovation development in small businesses.

**Keywords:** small business, innovation activity, economic mechanism, state support, Uzbekistan, entrepreneurship.

### **Introduction**

In recent years, the development of small business and private entrepreneurship has been identified as one of the strategic priorities of economic policy in Uzbekistan. The transition to an innovation-driven development model requires the active participation of small business entities in innovation processes. Innovation activity enables small enterprises to increase productivity, improve product quality, reduce production costs, and enhance their competitiveness in domestic and international markets.

However, innovation activity in small businesses is constrained by a number of economic, financial, and institutional factors. Therefore, the formation and effective functioning of an economic mechanism that stimulates innovation activity is of particular importance. In the conditions of Uzbekistan, this mechanism has specific features related to the structure of the economy, the level of market development, state regulation, and access to resources.

The purpose of this thesis is to study the economic mechanism of innovation activity of small business entities in Uzbekistan, to identify its key elements and features, and to determine ways to improve its effectiveness.

## **Theoretical Foundations of Innovation Activity in Small Business**

Innovation activity is generally understood as a set of scientific, technological, organizational, and financial measures aimed at the creation and implementation of innovations. For small business entities, innovation activity has distinctive characteristics compared to large enterprises. These include flexibility, adaptability to market changes, lower bureaucratic barriers, and closer interaction with consumers.

The economic mechanism of innovation activity represents a system of interrelated methods, tools, incentives, and institutional arrangements that regulate and stimulate innovation processes. It includes:

- financial mechanisms (credit, investment, grants);
- economic incentives (tax benefits, subsidies);
- institutional support (innovation infrastructure, legal framework);
- Organizational mechanisms (partnerships, clusters, networks).

In small businesses, the effectiveness of the economic mechanism largely depends on external support, as internal financial and technological resources are often limited.

### **Specific Features of the Economic Mechanism of Innovation Activity in Uzbekistan**

The economic mechanism of innovation activity of small business entities in Uzbekistan is shaped under the influence of national economic conditions and state development priorities. One of the key features is the strong role of the state in regulating and supporting innovation processes.

#### **State Support and Regulation**

In Uzbekistan, the government implements various programs aimed at supporting small business innovation. These include preferential taxation, concessional lending, subsidies, and targeted state programs. Innovation activity is encouraged through strategic documents focusing on digitalization, industrial modernization, and technological development.

At the same time, administrative reforms aimed at reducing regulatory barriers and improving the business environment contribute to increasing innovation activity among small enterprises.

#### **Financial Mechanisms**

Access to financial resources remains a critical issue for innovative small businesses. The economic mechanism includes:

- preferential loans provided by commercial banks;
- state-backed credit guarantees;
- innovation grants and funds;
- leasing and microfinance instruments.

Despite these measures, limited access to long-term financing and high investment risks continue to constrain innovation initiatives.

#### **Innovation Infrastructure**

The development of innovation infrastructure is another important feature of the economic mechanism. Technology parks, business incubators, innovation centers, and research institutions play a supporting role in facilitating innovation activity. However, the integration of small business entities into innovation ecosystems remains insufficient.

### **Factors Influencing Innovation Activity of Small Businesses**

The effectiveness of the economic mechanism of innovation activity depends on a combination of internal and external factors.

## **Internal Factors**

Internal factors include managerial competence, human capital, financial stability, and innovation culture within the enterprise. In many small businesses in Uzbekistan, innovation activity is limited by a lack of qualified personnel and insufficient strategic planning.

## **External Factors**

External factors include the institutional environment, market conditions, access to technology, and state support. Macroeconomic stability and legal protection of property rights also play a significant role in encouraging innovation.

## **Challenges in the Functioning of the Economic Mechanism**

Despite positive developments, several challenges hinder the effective functioning of the economic mechanism of innovation activity in small businesses:

- limited access to innovation financing;
- low level of commercialization of research results;
- weak cooperation between science and business;
- insufficient innovation awareness among entrepreneurs;
- uneven regional development of innovation infrastructure.

These challenges reduce the overall innovation potential of small business entities and limit their contribution to economic growth.

## **Directions for Improving the Economic Mechanism of Innovation Activity**

To enhance the effectiveness of the economic mechanism of innovation activity in small business entities in Uzbekistan, the following measures are proposed:

1. **Improving financial support mechanisms** by expanding innovation funds and venture financing.
2. **Strengthening innovation infrastructure** through the development of regional technology parks and incubators.
3. **Enhancing human capital** by promoting innovation-oriented education and training programs.
4. **Encouraging cooperation** between small businesses, research institutions, and large enterprises.
5. **Improving the institutional environment** by simplifying procedures and ensuring transparency in state support programs.

## **Conclusion**

Small business entities play a vital role in the innovation-driven development of Uzbekistan's economy. The economic mechanism of innovation activity serves as a key instrument for stimulating innovation processes and enhancing competitiveness. While the existing mechanism includes various support measures, its effectiveness is constrained by financial, institutional, and organizational challenges.

Improving the economic mechanism of innovation activity requires a комплекс (comprehensive) approach that combines state support, market-based instruments, and institutional reforms. The successful implementation of these measures will contribute to increasing the innovation potential of small business entities and ensuring sustainable economic growth in Uzbekistan.