



Article

Features of The Development of Small Business in Uzbekistan

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Abstract: Small businesses and private entrepreneurship play a critical role in Uzbekistan's economic development, yet challenges persist in optimizing their contribution to national growth. While previous studies have analyzed small business dynamics, gaps remain in understanding their evolving role within Uzbekistan's New Uzbekistan and Uzbekistan-2030 strategies. This study employs a systematic analysis of statistical data from 2005 to 2023, utilizing comparative methods, graphical representation, and expert evaluations. Findings indicate a steady increase in small business participation in GDP, employment, and exports, though innovation adoption and resource utilization remain suboptimal. The results underscore the need for policy reforms to enhance competitiveness and sustainability. The study's implications suggest targeted governmental support and strategic digitalization to further integrate small enterprises into the global economy.

Keywords: Small Business, Private Enterprise, Reform, Export, Import, Share, New Job, Employment, Services Sector, Welfare of Life, Industry, Privilege

1. Introduction

It should summarize the rationale, provides a concise research background (not an exhaustive review) and states in single sentence the objective of the study. Please do not include any results or the conclusion of the study.

Given the significant importance of small business and private enterprise in the social economic development of the country, the policy of consistent development of the industry has been systematically continued in the Republic of Uzbekistan since the first years of independence. One of the most important steps in this regard is the formation of a hierarchical regulatory and legal system in order to strengthen the legal framework of entrepreneurial activity. The development of small business is an important factor in increasing the share of the middle layer in the structure of society, while ensuring economic, social and political stability in the country.

Small businesses are of great importance in stabilizing the economy in developed countries such as the United States, Germany, China, France, Japan, Italy. "According to the International Small Business Council (ICSB), small business entities account for more than 90% of all enterprises, 60-70% of employed, 50% of gross domestic product" [1]. These enterprises form the basis of the economy of developed countries of the world, play an important role in the employment of women and young entrepreneurs and low-income groups in promoting economic development.

The development of small business and private entrepreneurship, the theoretical and methodological aspects of its support, have been studied in the economic literature by

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many scientists, including foreign economic scientists J.B. Sey, Dj. Keynes, R. Hezrich, M. Peters, Y.Schumpeter, P.V. Druker, R. Cantillon, R. Kemble, K.R. McConnell, L.S. Brue, A. Marshall, D. Ricardo, F. Kene [2], CIS economist scientist A.A. Abalkin, A.N. Asaul, I.N. Buzdalov, N.D. Kondratev, A.V. In the works of such scientists as Chayanov, it is illuminated in detail [3]. Practical issues of the development of entrepreneurship were discussed by local scientists A. Vakhobov, Sh. Shodmonov, A. Immortal, T. Farmanov, U. Gofurov, A. Qalandarov, S. Analyzed in Rasulov's Works [4].

The works of these authors have been limited to highlighting some aspects of small business and entrepreneurship. But in the conditions of implementation of programs for the development strategy of New Uzbekistan for 2022 – 2026 and the strategy of Uzbekistan-2030, its theoretical foundations and specifics have not been thoroughly analyzed by them in a new economic context.

The object of research is the development of small business and private entrepreneurship in Uzbekistan and the problems that hinder it. In order to comprehensively analyze the problem raised in the scientific article, develop scientifically based conclusions and recommendations based on the systematization of the analysis results, such methods as scientific abstraction, induction and deduction, monographic observation, systematic and comparative analysis, graphic depiction, expert assessment and economic statistics were widely used. The development indicators of small business, the sectoral structure, the share of small business in employment and gross domestic product, and factors influencing the development of small business in 2005-2023 were analyzed [4], [5].

2. Materials and Methods

The research employs a comprehensive methodological approach to analyze the development of small business and private entrepreneurship in Uzbekistan, focusing on statistical trends, policy implications, and sectoral dynamics. A systematic analysis of economic data from 2005 to 2023 was conducted, drawing on official statistical reports, government policy documents, and scholarly literature. The study integrates both qualitative and quantitative techniques, utilizing economic indicators such as GDP share, employment rates, and export contributions of small businesses.

To ensure the validity and reliability of the findings, methods including scientific abstraction, induction and deduction, monographic observation, and systematic comparative analysis were applied. The study also incorporates graphical representation to visualize trends and expert assessments to interpret the data within the broader economic framework [6]. Economic statistical tools were employed to measure the impact of government initiatives on small business growth, assessing factors such as ease of market entry, productivity levels, and the extent of innovation adoption. Special attention was given to legislative and regulatory reforms, particularly within the framework of the New Uzbekistan and Uzbekistan-2030 strategies, to evaluate their influence on entrepreneurial development.

By examining regional disparities and sectoral variations, the study provides an in-depth understanding of how small businesses contribute to economic stability and job creation [7]. The methodological approach not only highlights key growth patterns but also identifies structural constraints that hinder the efficiency of small enterprises. Through this multi-faceted analysis, the research offers a data-driven foundation for policy recommendations aimed at enhancing the competitiveness and sustainability of small businesses in Uzbekistan.

3. Results and Discussion

In our country, in order to introduce a comprehensive system for financial support of small and medium-sized businesses, including the formation of entrepreneurial skills in

the population, the financing of their business initiatives and the implementation of projects, necessary conditions are being created for the expansion of their activities based on the chain of "family entrepreneur - micro-business - small business - medium-sized business" [8]. The increasing share of private entrepreneurship in the country's gross domestic product is one of the important factors in filling the domestic market with competitive and high-quality goods, expanding the scope of services in line with modern requirements, increasing the number of products in demand in world markets, with high added value in the export structure, creating new jobs, primarily for young people, and on this basis increasing the income and well-being of the population [9]. Compared to other countries, the formal private sector operating in our republic is characterized by several features, in particular:

1. the entry of new enterprises into the formal sector is lower than in other countries.
2. labor productivity in small enterprises entering the market is low and their growth rates remain sluggish.
3. the employment level in the formal private sector is growing at a faster rate than in small enterprises in other sectors.
4. low intensity of effective use of available resources.
5. the low practical application of the results of innovative activities, the low innovative activity of private enterprises negatively affects their level of competitiveness, in particular, 8.2% of private formal enterprises operating in Uzbekistan have internationally recognized quality certificates.

In accordance with the current legislation in Uzbekistan, business entities are divided into the following categories based on the number of employees and annual income:

a) small business entities:

1. individual entrepreneurs;
2. microfirms - business entities whose founders (participants) are individuals and whose total income during the calendar year is up to 1 billion soums;
3. small enterprises - business entities with a total income during the calendar year of 1 billion to 10 billion soums;

b) medium-sized business entities - business entities with a total income during the calendar year of 10 billion to 100 billion soums;

c) large business entities - business entities with a total revenue of 100 billion soums or more during the calendar year [10].

Today, more than 80% of the total employed population in our country works in the private sector. Small business enterprises account for more than 90% of all existing economic entities. Currently, 51.2% of the gross domestic product, 26.9% of industrial production, 74.7% of construction and 97.0% of agricultural production fall on this sector - private entrepreneurship [11]. In 2023, the highest share of small business entities in the GRP by region was in Surkhandarya region - 75.9%, in Jizzakh region - 73.7% and in Namangan region - 72.8%. Also, in 2023, the share of small business and private entrepreneurship in exports was 29.0% and in imports - 50.7%.

The improvement of the business environment created the basis for the economic development of the small business sector on a solid basis and a steady growth.

Table 1. Small business 2005-2023 the main indicators of development in the years.

N	Indicators	Measurement Unit	2005	2010	2017	2020	2023
1.	The share of small business in gdp,	%	38,2	52,5	53,3	53,9	equals to 54,3

2.	Small and micro enterprises at the same time	%	21,5	32,7	36,3	36,7	36,8
3.	The number of those who are employed in small business	the million man	content 6.7	8,6	9,9	10,4	10,3
4.	The share in total employment	%	65,5	74,3	78,3	79,4	74,0

As can be seen from Table 1, the share of small businesses in GDP increased from 38.2% to 54.3% or 16.1 points over the period 2005–2023, including an increase in the share of small enterprises and microfirms in GDP from 21.5% to 36.8% or 15.3 points, respectively. The number of people employed in the small business sector was 6.7 million in 2005 and 9.9 million in 2017, while in 2023 the number of people employed in this sector was 10.3 million or 74.0 percent of the country's economically active population [12]. For comparison, the share of small businesses in total employment is 54% in the USA, 56% in the UK, 69.5% in Germany, and 71% in Italy. The increase in employment in the small business sector is an important factor in reducing the number of low-income people and reducing poverty. Due to the steady growth of newly established small business entities, the creation of a favorable business environment, the reduction of tax rates on single tax payments, the simplification of production infrastructure and the conditions for the purchase of resources, as well as the development of cooperative relations between large companies and small business entities, the share of small businesses in the production of industrial products has increased from 9.8% in 2005 to 26.9% in 2023.

The rapid development of the small business sector largely determines the high socio-economic effectiveness and interest in the mechanism for implementing structural reforms. The Strategy of Actions implemented in our country [13], as well as the Strategy “Uzbekistan-2030”, which acts as its logical continuation, pay special attention to measures to ensure reliable protection of private property rights and guarantees, eliminate all obstacles and restrictions on the development of private entrepreneurship and small business, give it full freedom, and implement the principle “If the people are rich, the state will be rich and strong” [14]. As a result, small business entities have a larger share compared to other economic entities in all sectors and areas of the national economy, including the commodity market. A slightly higher growth in the share of production by small enterprises by 16.1 points was observed in the food industry, where the volume of production by small business entities in this sector increased by 33% in 2023 compared to 2008. As a result of the great attention paid to the development of farmers and dehkan (homestead) farms, the share of small businesses in agricultural production increased from 85.7% to 99.0% between 2005 and 2023 [15].

Table 2. 2005-2023 years of the economy change in the product of the share of small business.

N	Indicators	Measurement	2005	2010	2017	2020	2023
		Unit					
1.	The share of small business in gdp,	%	38,2	52,5	53,3	53,9	equals to 54,3
2.	Small and micro enterprises at the same time	%	21,5	32,7	36,3	36,7	36,8
3.	The number of those who are employed in small business	the million man	content 6.7	8,6	9,9	10,4	10,3
4.	The share in total employment	%	65,5	74,3	78,3	79,4	74,0

Table 2 shows that, along with the construction of housing estates, small businesses are also constructing and commissioning drinking water networks, rural medical centers, general education institutions, social infrastructure, and service facilities. If in 2010 52.5% of construction work was carried out by small businesses, this figure increased to 64.8% in 2017 and 78.6% in 2023, in particular, in Andijan region in 2023 this figure amounted to 94.5%, in Namangan region - 93.2% and in Surkhandarya region - 91.8%. The share of small businesses in retail turnover reached 83.8% in 2023 with a growth rate of 120%, which is twice as much as in 2005 [16].

State support for small businesses producing export-oriented products has created the basis for an increase in the share of small businesses in the growth of export products and services. Due to the average growth of export indicators of small businesses by 108-110%, [17] the share of small businesses in the country's total foreign trade turnover increased from 18.0% in 2005 to 29.0% in 2023.

By type of economic activity, a total of 86,030 new small enterprises and microfirms were established in 2023, which is 4.5% less than in 2022. When analyzed by sector and industry, 9388 new small and micro-enterprises were established in agriculture, forestry and fisheries (10.9%), 14101 in industry (16.4%), 4859 in construction (5.6%), 33470 in trade (38.9%), 3946 in transportation and storage (4.6%), 2932 in information and communication (3.4%), 1,458 in healthcare and social services (1.6%), 5955 in accommodation and food services (6.9%), and 9921 (11.5%) in other activities. At the same time, [18] when studying the sectoral structure of all operating small business entities, it is found that 51.2% of all entities operating in industry are small business entities, 94.8% in agriculture, forestry and fisheries, 51.4% in investment, 74.7% in construction, 83.8% in retail trade, 91.6% in passenger transportation, and 73.5% in freight turnover. In conclusion, small business plays an important role in Uzbekistan's worthy entry into the global economic community. Many business analysts and researchers believe that in the 21st century, small business and private entrepreneurship will become a dynamic part of the economy in a number of countries and will form a solid foundation for the development of the national economy [19]. In other words, small business is the main basis for the successful development and prosperity of any state and is recognized as a key sector of the economy in the context of the transition to market relations [20]. Therefore, the growth rates of the country's gross domestic product and the increase in the well-being of the population depend to a large extent on the development of small business and private entrepreneurship.

Now, in order to further develop the activities of business entities in our country:

1. In accordance with the "Uzbekistan - 2030" strategy, it is planned to increase the share of the non-state sector in the economy to 85% by 2030, and reduce the number of 2,300 enterprises with a state share by 6 times;
2. It is planned to abolish 17 types of state monopolies in the republic, widely involve the private sector in these sectors, and retain only the main energy and transport networks, sectors related to public administration and security in the state economy;
3. It is aimed to transfer the construction and management of railways and highways, gas and electricity supply services to the private sector;
4. It is planned to widely introduce private partnership mechanisms in such state monopoly sectors as irrigation, waste processing, energy and heat supply in social facilities;
5. It is planned to expand the practice of granting strategically useful mineral deposits to local business entities, and to increase the number of permits issued for gold, silver, non-ferrous metals, tungsten, coal, and ore deposits by 4 times [21]
6. In order to ensure the stability of the tax system, it is planned to guarantee that the value-added and profit tax rates for businesses will not be increased for 3 years [22]

7. It is aimed to fully digitize, simplify the tax system and create equal opportunities for all entrepreneurs, ensuring all necessary conditions for the official sector to be advantageous and profitable over illegal activities
8. It is planned to expand the opportunities for small and medium-sized businesses to enter international markets, develop microfinance, support innovations and startups, and implement new instruments for developing cooperation with large businesses.
9. Transition from "simple hand" labor to industrialized production stage in providing employment on the basis of family business, the amount of preferential loan for equipment is 100 mln. it is planned to increase to soums [23]
10. It is planned to provide all services to business entities through an online portal based on the principle of "single window" and to reduce the time of service up to 3 times on average [24].

4. Conclusion

The findings of this study underscore the significant role of small businesses and private entrepreneurship in Uzbekistan's economic development, with notable increases in their contributions to GDP, employment, and exports from 2005 to 2023. Despite this growth, challenges such as low innovation adoption, inefficient resource utilization, and limited formal sector participation hinder their full potential. The study's implications highlight the necessity of targeted policy interventions, including enhanced government support, digitalization initiatives, and regulatory reforms to foster a more competitive and sustainable small business sector. The insights provided emphasize the importance of strategic economic planning, particularly in alignment with the New Uzbekistan and Uzbekistan-2030 strategies, to ensure a conducive business environment. Future research should explore the impact of digital transformation on small business efficiency, the role of financial technology in expanding entrepreneurial access to capital, and sector-specific policy frameworks to address disparities across industries and regions. By addressing these gaps, further studies can contribute to a deeper understanding of how small businesses can drive long-term economic resilience and inclusive growth in Uzbekistan.

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