HSR (LONDON),
HOUGHTON STREET REVIEW JOURNAL
ISSN: 2058-5519|Impact factor-15.9
http://houghtonstreetreview.com/index.php/hsr

THE ECONOMIC ROLE OF THE STATE IN DEVELOPING SMALL BUSINESS AND ENTREPRENEURSHIP IN UZBEKISTAN

Scientific supervisor: **Babaeva N.M.**
Doctor of Economic Sciences (DSc), acting professor

Student: **Asadboyeva Mushtaribibi**
Kokand State University, Logistics study program, 1st year

Abstract. This article analyzes the economic role of the state in developing small business and entrepreneurship in Uzbekistan. Legal reforms, tax incentives, financial support mechanisms, infrastructure and educational policies are examined. The contribution of small businesses to GDP, employment and exports is assessed on the basis of statistical data, and existing problems and their solutions are proposed.

Keywords: small business, entrepreneurship, state policy, tax incentives, financial support, investment, economic reforms, Uzbekistan.

Introduction.

Small business is regarded as one of the most important pillars of the modern world economy. The experience of both developed and developing countries shows that it is precisely small business and private entrepreneurship that play a key role in accelerating economic growth, creating new jobs, raising household incomes and stabilizing the domestic market. Under conditions of intensifying global economic competition, the rapid development of digital technologies and the growing risk of global crises, small business is acquiring particular significance as a flexible and quickly recovering segment of the economy.

In many countries, supporting small business is considered one of the priority directions of state policy. Through tax incentives, subsidies, preferential loans, infrastructure development and reforms aimed at improving the business environment, the share of small business in the economy is being increased. In Uzbekistan, too, a large-scale state policy has been implemented in recent years to develop entrepreneurship, protect private property and create favorable conditions for small business. As a result, the share of small business in GDP is steadily rising, becoming an important factor in the country's economic stability and employment level.

During the years of independence, in the process of transition to a market economy, small and medium-sized enterprises became an integral component of the national economy and now play an important role in creating jobs, raising household incomes and developing regions.

Within the framework of President Shavkat Mirziyoyev's "New Uzbekistan" strategy, particular attention is paid to supporting entrepreneurship, creating a competitive environment and liberalizing the economy. The Action Strategy for 2017–2022 and the Uzbekistan-2030 strategy designed for 2022–2026 define the development of small business as one of the priority directions.

The aim of this article is to provide a comprehensive analysis of the economic role of the state in developing small business and entrepreneurship in Uzbekistan, to assess the effectiveness of the reforms being carried out on the basis of statistical data, and to propose practical solutions to existing problems. The study draws on official statistical data, regulatory and legal documents, reports of international organizations and economic literature.

HSR (LONDON),
HOUGHTON STREET REVIEW JOURNAL
ISSN: 2058-5519|Impact factor-15.9
http://houghtonstreetreview.com/index.php/hsr

Review of the relevant literature.

The issue of small business and state policy has been widely studied in international economic literature. Representatives of the classical school, Adam Smith and David Ricardo, held that minimal state intervention in the economy is sufficient and that the market regulates itself. However, John Maynard Keynes demonstrated the necessity of an active role for the state during crises. In modern research, the role of the state in correcting market failures (information asymmetry, externalities, public goods) has acquired central importance [4].

According to World Bank and OECD data, in developed countries small and medium-sized enterprises (SMEs) provide 50–60 percent of GDP and 60–70 percent of jobs [9, 10]. Germany's Mittelstand model, South Korea's SME cluster policy and Singapore's favorable business environment all demonstrate the decisive role of state policy in developing small business.

In Uzbekistan, economists such as Shodmonov Sh.Sh., Karimov A.A. and Umarov Kh.S. have studied the impact of state policy on entrepreneurship under local conditions. Their conclusions show that, in Uzbekistan, legal reforms are being implemented sufficiently quickly, yet the practical results often fall short of expectations [5, 6].

Research methodology.

The research methodology employed a systems approach as well as economic-statistical analysis, comparative analysis, grouping, observation and generalization. In the course of the study, data from the Statistics Committee of the Republic of Uzbekistan, regulatory and legal documents, presidential decrees, reports of international organizations and the scientific works of domestic and foreign economists were examined. In addition, the dynamics of the share of small business in GDP, employment, exports and lending were analyzed on the basis of statistical indicators and compared with international experience. This made it possible to comprehensively assess the economic role of the state in developing small business and to formulate practical proposals regarding existing problems.

Analysis and results.

In Uzbekistan, the legal foundation for developing small business has been strengthened by a number of important documents. The Law "On Guarantees of the Freedom of Entrepreneurial Activity" (2012) establishes the rights and guarantees of entrepreneurs. Decree No. PF-5635 of 3 February 2019 enacted the program "On the further development of small business in 2019–2021." The Uzbekistan-2030 strategy defined the development of entrepreneurship as a priority direction of national development.

The introduction of the "single window" principle, the reduction in the number of permits and the limitation of the frequency of inspections have significantly reduced the administrative burden. By introducing online business registration through the my.gov.uz and "Business Registration" portals, the government has radically simplified entrepreneurial procedures.

Tax reforms serve as the main instrument for stimulating small business. Newly established small enterprises are fully exempt from taxes for two years from the day they begin operating. Within the framework of the 2019 reform, the turnover tax rate was lowered from 5 percent to 4 percent. In 2022, the VAT rate was reduced from 20 percent to 12 percent and the profit tax to 15 percent — significantly easing the tax burden on small business and increasing its competitiveness.

In the system of financial support, the "Entrepreneurship" Fund provides preferential loans at 5–7 percent, well below the market rate. The "Uzbekistan Guarantee Fund" serves as a guarantor for enterprises obtaining bank loans. Lending to small entrepreneurs through microfinance organizations and the opportunity to acquire machinery and equipment through leasing mechanisms have been expanded. Commercial banks such as "Hamkorbank" and "Ipoteka Bank" are also developing special credit products for small business.

HSR (LONDON),
HOUGHTON STREET REVIEW JOURNAL
ISSN: 2058-5519|Impact factor-15.9
http://houghtonstreetreview.com/index.php/hsr

At present, more than 200 business incubators, technoparks and free economic zones operate in the territory of Uzbekistan. They provide newly established enterprises with low-cost rent, consulting services and additional incentives. The "Entrepreneurship Academy" and the "Fund for the Development of Youth in a Democratic Spirit" conduct training in business management, marketing, finance and innovation, thereby raising entrepreneurial potential.

Sectoral clusters such as the Fergana Valley textile cluster, the Tashkent IT Park and the Samarkand tourism cluster create an important basis for small enterprises to share resources and to conduct joint marketing and export activities. International experience shows that the cluster approach can increase the competitiveness of small business by 20–30 percent [10].

Small business in Uzbekistan has maintained a steady upward trend in recent years. The table below presents the dynamics of the main indicators:

Table 1.

Main indicators of small business in Uzbekistan (2023–2025)[1]

Indicator	2023	2024	2025
Number of small enterprises (thousand)	603	634	668
Share in GDP (%)	60.2	61.4	62.5
Share in employment (%)	75	76.2	77.5
Share in exports (%)	33	35.1	36.8
Annual credit volume (trillion soum)	22.3	26.8	31.2

As the data in the table show, between 2023 and 2025 the number of small enterprises rose from 603 thousand to 668 thousand, that is, by 10.8 percent. Their share in GDP increased from 60.2 to 62.5 percent and their share in employment from 75 to 77.5 percent. The annual volume of lending grew from 22.3 trillion soum to 31.2 trillion soum — almost 1.4-fold — indicating the ever-widening scope of the financial support policy. These indicators confirm that the state's policy of supporting small business is yielding consistently positive results.

Analysis by region shows that small business is most developed in the city of Tashkent, the Fergana Valley and Samarkand region. In the Republic of Karakalpakstan and a number of northern regions, however, a shortage of infrastructure and limited financial resources remain the main obstacles to the development of small business.

The diagram below shows the year-by-year change in the share of small business in gross domestic product over the period 2019–2025:

HSR (LONDON),
HOUGHTON STREET REVIEW JOURNAL
ISSN: 2058-5519|Impact factor-15.9
http://houghtonstreetreview.com/index.php/hsr

Figure 1. Dynamics of small business share in GDP, % (2019-2025)

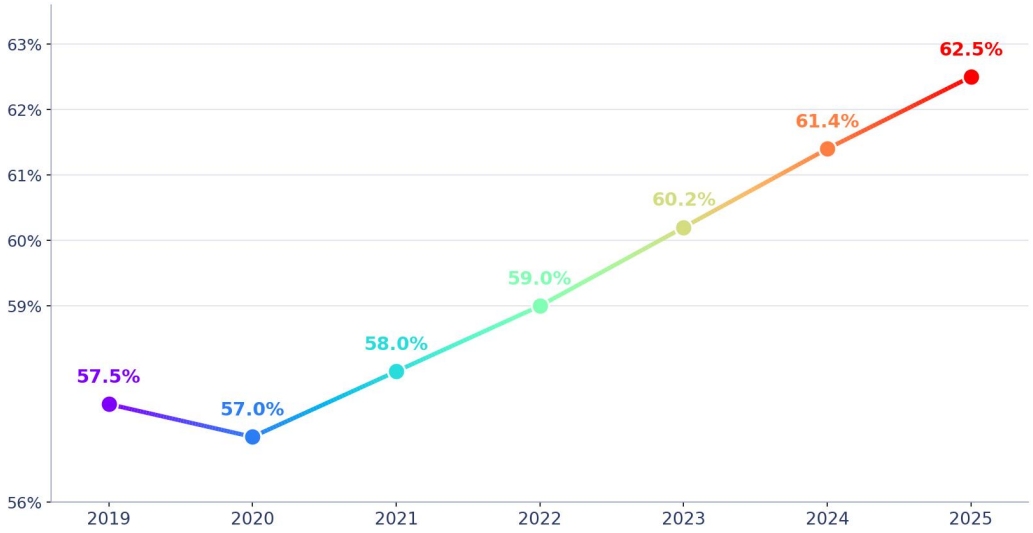


Figure. Dynamics of small business share in GDP, % (2019–2025)[2]

As the figure shows, the share of small business in GDP rose from 57.5 percent in 2019 to 62.5 percent in 2025 — a growth of 5 percentage points. The pace of growth accelerated particularly in 2022–2025, rising by approximately 0.8–1.1 percentage points each year. This dynamic reflects the state's consistent reforms and the growing activity of entrepreneurs. At the same time, given that in developed European countries this indicator reaches 65–70 percent, further accelerating growth and achieving the 65 percent mark by 2030 remains a priority task for Uzbekistan.

According to the research findings, a number of serious problems still confront small business in Uzbekistan. The table below systematically presents the main problems, their causes and the proposed solutions:

Table 2.
Problems and solutions in the development of small business[3]

№	Problem	Cause	Proposed solution
1	Limited access to credit	Collateral requirements and high interest rates	Expand the guarantee fund, ease collateral requirements
2	Administrative barriers	Numerous permits and inspections	Fully digitalize the "single window" system
3	Shortage of skilled personnel	Gap between education and business	Align universities with business needs
4	Technological lag	Low investment in new technologies	Allocate subsidies for digital technologies
5	Import competition	Illegal imports and the "grey" market	Strengthen quality control, develop clusters

HSR (LONDON),
HOUGHTON STREET REVIEW JOURNAL
ISSN: 2058-5519|Impact factor-15.9
http://houghtonstreetreview.com/index.php/hsr

With regard to the financial problem, lending surveys show that more than 60 percent of enterprises cite a lack of financial resources as the main obstacle. The high collateral-property requirements remain an insurmountable barrier for many small entrepreneurs in obtaining bank loans.

The competition of low-priced imported goods and the presence of illegal imports place local small producers in a difficult position. Technological lag, in turn, limits their ability to compete on product quality and price.

International experience shows that, in solving these problems, the state should pursue an active policy that nonetheless does not impede market competition. South Korea contributed to the development of small business by giving it preference in public procurement. Singapore, for its part, achieved the creation of one of the world's most competitive business environments through a favorable tax system and simplified procedures.

Conclusions and recommendations.

On the basis of the analysis of the economic role of the state in developing small business in Uzbekistan, the following conclusions and practical recommendations have been reached:

First, in recent years Uzbekistan has achieved important successes in supporting small business: the legal framework has been strengthened, tax reforms have been carried out and financial support mechanisms have been expanded. As a result, small business provides 60.2 percent of GDP and 75 percent of employment.

Second, to eliminate the existing problems, it is recommended to: ease collateral requirements and expand the guarantee system; fully digitalize all permit and licensing procedures; align the programs of universities and vocational colleges with market needs; allocate subsidies for the introduction of digital technologies in small enterprises; and develop sectoral clusters and support exports.

Third, international experience shows that the successful development of small business requires a combination of consistent state policy, international cooperation and rapid digital transformation. We believe that activity pursued in these directions will serve the more sustainable growth of Uzbekistan's economy.

References:

1. Law of the Republic of Uzbekistan "On Guarantees of the Freedom of Entrepreneurial Activity." — Tashkent, 2012.
2. Decree of the President of the Republic of Uzbekistan No. PF-5635 "On measures for the further development of small business and private entrepreneurship in 2019–2021." — Tashkent, 2019.
3. Statistics Committee of the Republic of Uzbekistan. Annual Statistical Compendium. — Tashkent, 2023.
4. Keynes J.M. The General Theory of Employment, Interest and Money. — Moscow: Eksmo, 2019.
5. Karimov A.A., Mirzayev B.T. The Economics of Small Business in Uzbekistan. — Tashkent: TSUE, 2021.
6. Umarov Kh.S. Entrepreneurship and Market Relations. — Tashkent: Fan, 2020.
7. Nazarov N.N. State and Business: Models of Cooperation. — Tashkent: Akademiya, 2022.
8. Kholmatov D.A. Problems of financing small and medium-sized business // Economics and Finance. — 2023. — No. 4. — pp. 45–58.
9. World Bank. Doing Business 2023. — Washington D.C.: World Bank Group, 2023.
10. OECD. SME and Entrepreneurship Outlook 2023. — Paris: OECD Publishing, 2023.
11. Asian Development Bank. SME Finance in Uzbekistan. — Manila: ADB, 2022.

HSR (LONDON),
HOUGHTON STREET REVIEW JOURNAL
ISSN: 2058-5519|Impact factor-15.9
http://houghtonstreetreview.com/index.php/hsr

12. UNDP. Entrepreneurship Development in Central Asia. — New York: UNDP, 2023.

13. [1] Prepared by the author on the basis of data from the Statistics Committee of the Republic of Uzbekistan and the author's own calculations.
14. [2] Compiled by the author on the basis of data from the Statistics Committee of the Republic of Uzbekistan.
15. [3] Compiled by the author on the basis of the research findings.