



BUSINESS ENVIRONMENT AND SMALL BUSINESS PERFORMANCE IN UZBEKI-STAN: INSIGHTS FROM THE BUSINESS INDICATOR

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Abstract. This study examines the role and development dynamics of small business in Uzbekistan within the context of recent economic reforms and regional disparities. Using secondary data from the World Bank, the Statistics Agency of the Republic of Uzbekistan, and the Business Indicator automated information system, the research assesses regional differences in the quality of the business environment. The analysis is based on a composite set of indicators capturing institutional conditions, access to resources, and levels of entrepreneurial activity.

Key words: small business entities, business environment, competitiveness, regulatory framework, public economic policy

Introduction. At present, small business entities actively participate in all sectors of the national economy and are gaining a significant share in areas such as mechanical engineering, consumer goods manufacturing, agriculture, food production, service provision, and tourism. This trend further increases the importance of small businesses in economic development and contributes to the formation of a stable and diversified national economy.

The sustainability and success of small businesses are determined by multiple factors. Research shows that ensuring financial stability through effective planning, continuously analyzing markets and customers, and developing appropriate marketing strategies are of vital importance for small enterprises, as these practices support the formation of long-term development strategies. According to CB Insights, more than 60% of small businesses fail within their first five years, and 35% of them lose competitiveness in the market due to the inability to adopt innovative technologies. In addition, the Global Entrepreneurship Monitor report notes that small businesses implementing innovative approaches demonstrate growth rates that are 25% higher than those of companies operating with traditional methods. These findings confirm the critical importance of digital transformation for small businesses.

Literature review.

The concept of small business has been formed within various scholarly approaches in the economic literature and is explained through such dimensions as firm size, resource potential, managerial characteristics, and the degree of adaptation to market conditions. For this reason, providing a single, universally accepted definition remains difficult. These approaches indicate that small business should be interpreted not only on the basis of quantitative criteria, but also from the perspective of its economic behavior and development potential. In this regard, classical economic theory serves as an important initial framework for explaining small business.

Within classical economic theory, small business is primarily characterized by limited resources and a relatively small scale of production. Among the representatives of classical economics, A. Marshall, in his works Principles of Economics and Industry and Trade, describes

small business as being defined by constraints in production scale and comparatively limited resource capacity. Small firms play an important role in the economy because they are able to operate efficiently in activities that require relatively low levels of capital.[11]

G. Stigler approaches the concept of small business from the perspective of market structure and competition theory. He explains firm size in terms of the scale of production and the competitive environment in the market. According to Stigler, small businesses are more constrained than large firms in terms of capital and technology; however, it is precisely these constraints that compel them to specialize in narrow market segments. He emphasizes that small firms do not compete directly with large firms, but rather operate by adapting to the specific needs of particular market niches.

For a long period, classical economic approaches to explaining small business relied primarily on firm size and market structure. However, from the late 1950s and early 1960s onward, ideas advanced by E. Penrose laid the foundation for the emergence of an internal-factor-based approach, later known as the Resource-Based View (RBV). Unlike theories grounded in firm size, market share, or external environmental conditions, this approach explains firm success primarily through its internal resources and capabilities. Within the RBV framework, differences in firm performance—particularly the fact that firms of similar size achieve different outcomes—are explained by variations in their resource bases, knowledge, managerial capabilities, and organizational capacities[3].

. One of the scholars who systematized and formalized the RBV theory is Jay Barney. His 1991 article “Firm Resources and Sustained Competitive Advantage” defined the modern interpretation of the RBV. According to Barney, for a firm to achieve sustainable competitive advantage, its resources must satisfy four key criteria: they must be valuable, rare, inimitable, and non-substitutable (the VRIN model)[1]. However, the RBV approach is largely limited to analyzing firm performance from the perspective of internal factors. Empirical evidence suggests that the development and success of small businesses depend not only on internal resources, but also directly on the external institutional environment in which they operate. In particular, the legal system, tax policy, protection of property rights, access to financial institutions, and government support mechanisms significantly influence the formation and effective utilization of small business resources.

This, in turn, necessitates recourse to institutional theory in explaining small business success. The ideas advanced by proponents of this approach focus on examining why small entrepreneurial entities achieve different outcomes across countries, based on economic decision-making as well as variations in social, cultural, and political contexts.

Methods

The study employs secondary data analysis based on data obtained from the World Bank, UNCTAD, the Statistics Agency of the Republic of Uzbekistan, and the Business Indicator automated online information system, which is used to calculate and assess indicators of entrepreneurial development across regions. The research applies comparative analysis as well as inductive and deductive methods. In addition, an empirical analysis is conducted based on foreign academic articles and prior research studies.

Result and discussion

In recent years, the intensification of economic reforms in Uzbekistan, the implementation of measures aimed at improving the entrepreneurial environment, and the



expansion of market mechanisms have had a direct impact on small business activity. Against the backdrop of these processes, the contribution of small business entities to gross domestic product, their role in employment generation, and their level of activity in certain sectors—particularly in the retail trade sector—have changed significantly. However, in order to assess the scale and sustainability of these changes, it is necessary to analyze them on the basis of precise statistical indicators.

Assessing the position of small business in the economy cannot rely on individual indicators alone, as the impact of this sector is multidimensional in nature. Therefore, a comprehensive analysis of small business activity should be conducted through its share in gross domestic product, its contribution to employment, the number of operating entities, and its participation in key sectors, including retail trade. These indicators make it possible to identify the actual role of small business within the economic system and to determine its development trajectories.

Over the period from 2015 to 2024, the share of small business entities in Uzbekistan’s gross domestic product (GDP) can be observed to have remained relatively high overall. Graphical evidence indicates that, at the national level, this indicator was generally formed within the range of 70–80 percent, with minor declines or fluctuations in certain years (Figure 1). This suggests that the contribution of small business to the economy has a systemic character; that is, regardless of short-term cyclical or conjunctural factors, small business has continued to function as one of the key structural pillars of the national economic system.

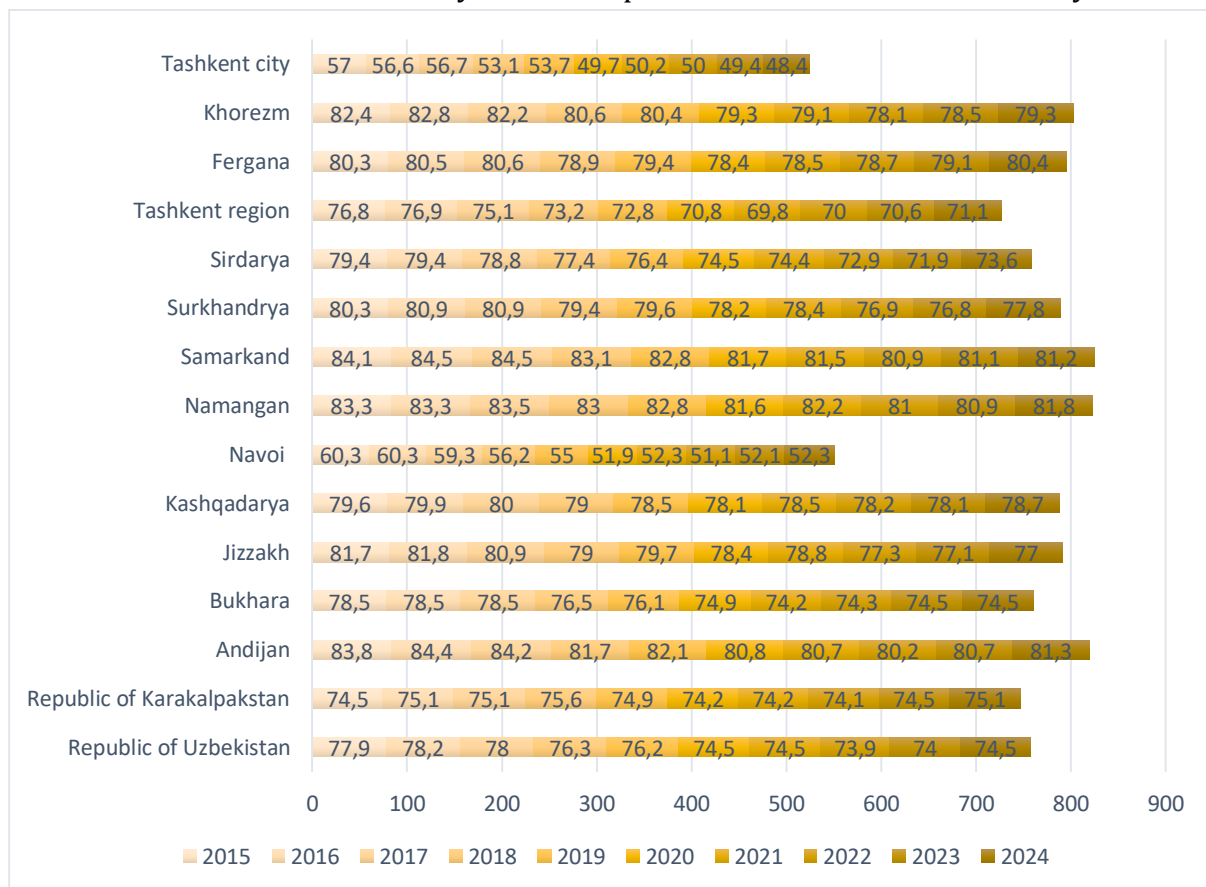


Figure 1. Share of small entrepreneurial entities in total GDP (%) [10]

A regional analysis reveals pronounced disparities in the share of small business in GDP across different territories. In Tashkent city and several more industrialized regions, this indicator tends to be relatively lower. By contrast, in regions where economic activity is dominated by agriculture, services, and retail trade, the share of small business entities in GDP is significantly higher. In these regions, small business emerges as the primary source of economic activity, playing a leading role in supplying local markets with goods and services.

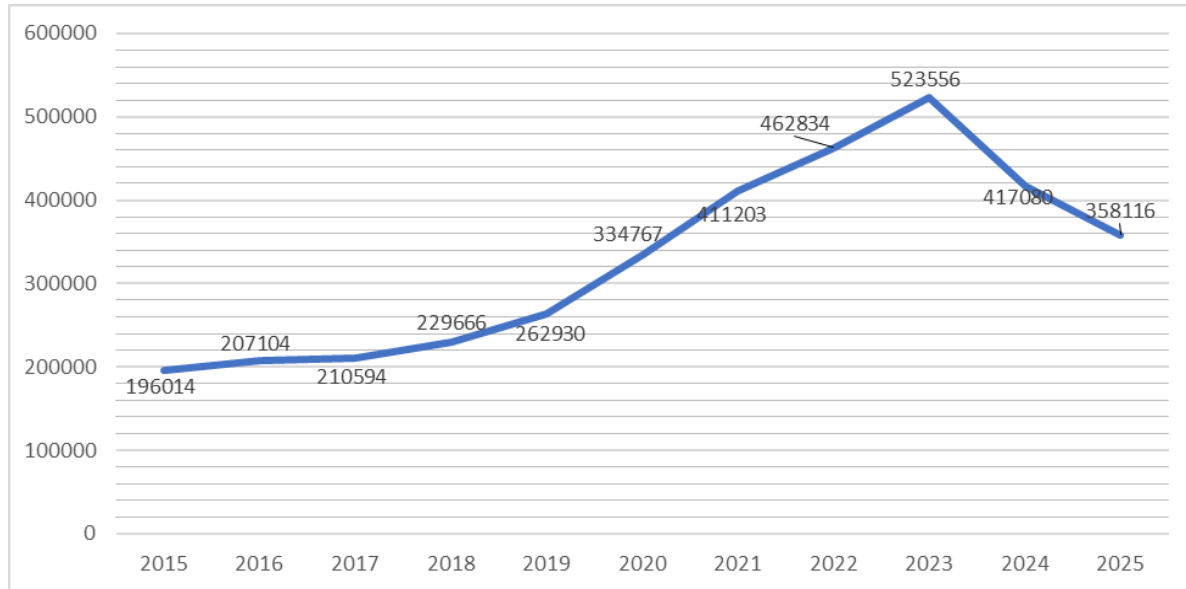
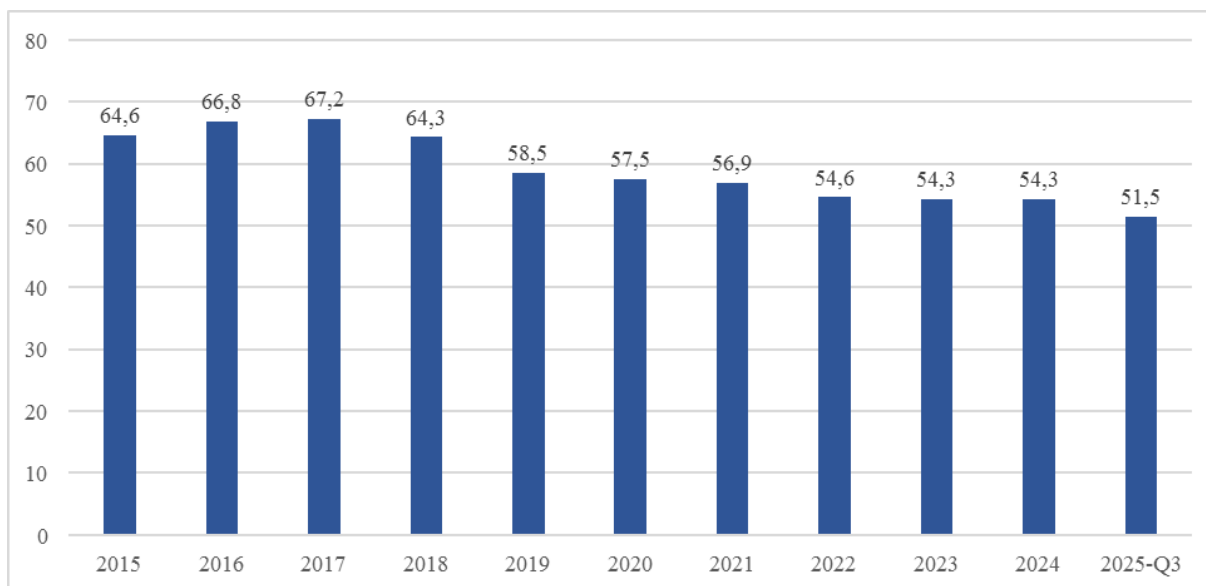


Figure 2. Number of operating small enterprises[10]

When examining recent trends in the number of active small entrepreneurial entities in Uzbekistan, it can be observed that as of 1 January 2023, the number of active small business entities reached a historical peak, amounting to 523,556 units. However, by 2024, a sharp decline in the number of actively operating entrepreneurial entities became evident, with the total decreasing to 417,080 units. Furthermore, as of 1 January 2025, the downward trend in the number of active small business entities continued, reaching 358,116 units, which



represents a 14 percent decrease compared to the 2024 level.

Figure 3. Share of small business entities in employment in Uzbekistan (%) [10]



In recent years, small business entities have come to occupy a significant position within the national economy, serving as an important driver of job creation and as a key factor in increasing household incomes and overall welfare. Despite the decline in the number of operating entities, the share of small business in the country’s GDP has remained substantial. In particular, this indicator accounted for 54.6 percent at the end of 2022, while in both 2023 and 2024 it stood at 54.3 percent.

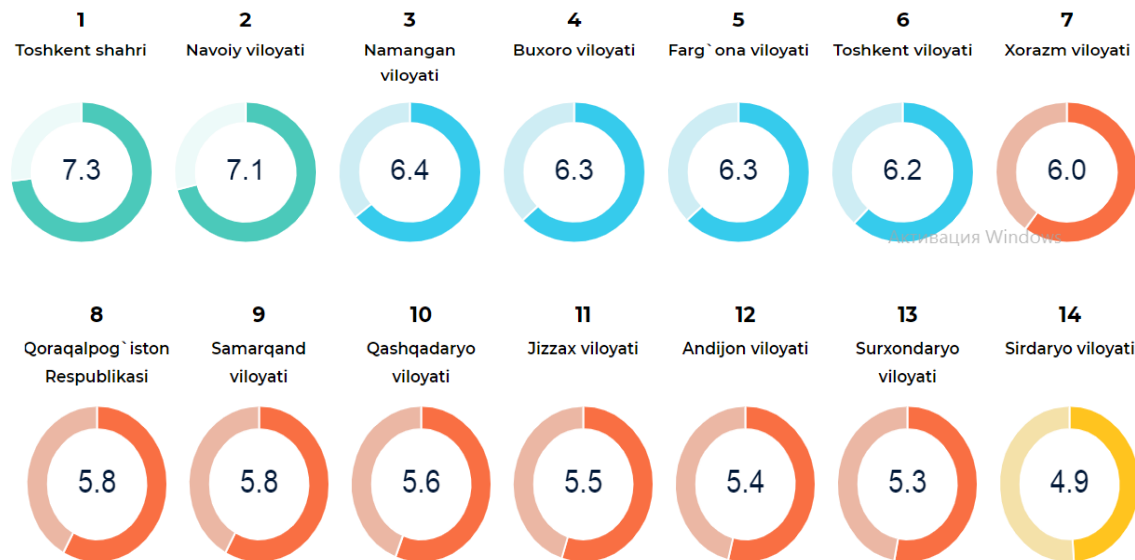


Figure 4. A comparative assessment of the business environment across the regions of Uzbekistan based on the Business Indicator [11]

The figure presents a comparative assessment of the business environment across the regions of Uzbekistan based on the Business Indicator composite index (Figure 4). This index provides an integrated evaluation of regional entrepreneurial conditions by combining quantitative statistical data with qualitative, survey-based indicators. The assessment reflects key dimensions of the business climate, including institutional and regulatory quality, access to economic and financial resources, infrastructure availability, and the overall level of business activity. The results reveal notable regional disparities in business environment quality, with Tashkent city and several industrialized regions demonstrating relatively more favorable conditions for entrepreneurship. Such composite assessments offer an evidence-based framework for identifying structural weaknesses in regional business ecosystems and for informing targeted policy measures aimed at improving the institutional environment for small and medium-sized enterprises.

Conclusion

The findings of this study indicate that small business plays a structurally significant role in Uzbekistan’s economy, maintaining a substantial contribution to gross domestic product and employment despite recent fluctuations in the number of active enterprises. The analysis reveals pronounced regional disparities in the quality of the business environment, which are largely shaped by differences in institutional conditions, access to financial and economic resources, and sectoral structures. Evidence from the Business Indicator system demonstrates that regions with more developed infrastructure and more efficient regulatory frameworks provide more favorable conditions for entrepreneurial activity. At the same time, the decline in the number of active small business entities suggests the presence of structural consolidation

and increasing market pressures. Overall, the results underscore the importance of strengthening regional institutional frameworks and targeted policy interventions to ensure the sustainable development of small business across regions.

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