

# BUSINESS IN UZBEKISTAN: PREREQUISITES, OBSTACLES, ORDER OF INTRODUCTION

Marhabo Saidova & Shokhrukh Madikhonov

**Abstract:** This article refers to the theoretical and practical aspects of business, its development paths and strategy selection in Uzbek economy, the statistical analyses through methods of observation, collection of statistical data, classification, tabulation; and also diagrams and graphs frequently used in presenting data, dynamic changes, comparison and prognosis of indicators of the development of business, including the ways of improvement of private sector in the formation of economy as well as the perspectives of development of business in Uzbekistan.

**Index terms:** *business, competitiveness, productivity, innovation, micro firm, privatization, family business, individual business, small business, statistical analyses of data, analytical method, prognosis.*

## 1 INTRODUCTION

The operation of a market economy is inseparably going to connect with business which is considered to be one of the main sectors as fast growing economy and improving living standards in national economy. Through developing of these sectors new jobs are created, productivity and competitiveness are increased, poverty are alleviated and societal goals are achieved, in particular by helping specific population groups to help themselves. Business plays a crucial role in the formation and development of Uzbek economy. Since its independence the republic of Uzbekistan, which is a doubly landlocked country conducted enormous economic changes. Economic reform has been gradually increased throughout many areas, such as business. As stressed by The First President of the Republic of Uzbekistan I.A.Karimov "Measures to improve the business environment and create more favorable conditions for the development of small business and private entrepreneurship deserve all kind of support"[1]

There are many different opinions to open the meaning of business. One of them is business is one which is independently owned and operated and not dominant in its field of operation. Inexperienced management and lack of financial stability, small businesses suffer a mortality rate significantly higher than that of larger, more established businesses primarily because of limited resources.

The intricacy of entrepreneurship makes it impossible to apprehend the totality of entrepreneurship with an idea; for that reason, I propose the following definition of entrepreneurship: "The entrepreneur has an owner or acting function, a risk and uncertainty bearing function, as well as, an innovation function."

The combination of innovation, owning or operating an establishment, and bearing uncertainty provides an effective working definition of entrepreneurship that is useful for economic development purposes. This definition captures all of the components other scholars identify and is multi-faceted, to capture these multiple components of entrepreneurship.

There are some issues cause most business failures, they are: poor operations management, lack of experience, poor financial management, over-investing in fixed assets, poor credit practices, failure to plan, inappropriate location, lack of inventory control and others.

As it's said above, business plays a distinctive and irreplaceable role in the development of the economy in Uzbekistan. Through developing of these sectors is provided with creating new jobs, increasing productivity and competitiveness, alleviating poverty and achieving societal goals. Uzbek economy operates two types of enterprises, which are large and small enterprises, as well as the activities depend on personal and family labor. The condition to run a business in Uzbekistan has been implemented through the Law of the Republic of Uzbekistan "On family business", "On the introduction of amendments and additions" in the Law of the Republic of Uzbekistan, "On guarantees of free entrepreneurial activity" and they are designed to further facilitate the development of business.

According to the Decree of the President of the republic of Uzbekistan the law "On measures to further stimulation of business development" from April 9, 1998, the subjects of Business divided into three parts:

- 1) Individual business-is physical person without legal entity, juridical / juristic person.;
- 2) Micro firm- employing 20 people or fewer people in production, 10 people or fewer in services, 5 people or fewer in trade (retail and wholesale).;
- 3) Small business. A firm was considered "small" for the purposes of tax collection if the number of employees did not exceed an officially established limit of 200 people (to July 1, 2014 was 100 people) in heavy industry and construction, 25 in Research and science, 20 in other areas of production, 10 in trade and services.

The official definition of small businesses has changed a few times. The law "On measures to further stimulation of business development" currently regulates all activity of the business sector.

## 2. LITERATURE REVIEW

Presently, business development have been an issue among local and foreign researchers, scientists and specialists, amid uzbek researchers I.A.Karimov, Y.Abdullayev, Abdullaev A., Yugai A.,

- **Saidova Markhabo Habibullo qizi** - teacher of Statistics Department, TFI, E-mail: [marhabo.uzb@mail.ru](mailto:marhabo.uzb@mail.ru) (+998 94) 2793060
- **Madikhonov Shokhrukh Otabelk o'g'li** - student of Tashkent Financial Institute, ( Тел: +99897 484 26 04)  
E-mail: [madixonovshohrux@bk.ru](mailto:madixonovshohrux@bk.ru) (+998 97) 4842604

Sotvoldiev A., Sirojiddinov I, Botirova A., Abirova G., Yuldashev Sh.A., A.Vakhobov, U.Burkhanov, N.Jumaev, F. Mullajonov, M. Solihov, B. Berdiyurov, F. Dodiyeu, N. Holmuratov, Sh. Normuminov, S.K.Salayev, N.B.Fayzullaev, B.U.Tadjiyev, E. Egamberdiyev, H.Hujaqulov, S.Sattorov, N. Abdunazarova, N. O'rmanova, N.Xusanov, O.Iminov; among foreign scientists Richard Cantillon, Jean Baptiste Say, Alfred Marshall, Y.Schumpeter, R.Kirzner, Lapusta M.G, Gorfinkel V.Ya., Polyak G.B, Shvandar V.A., Nikolas N., Gorfinkel V.Ya., Shvandar V.A., Hirshleifer, Fama, Miller, Jensen, Meckling, Breley, Meyers and others have researched these issues.

**3. RESEARCH METHODOLOGY**

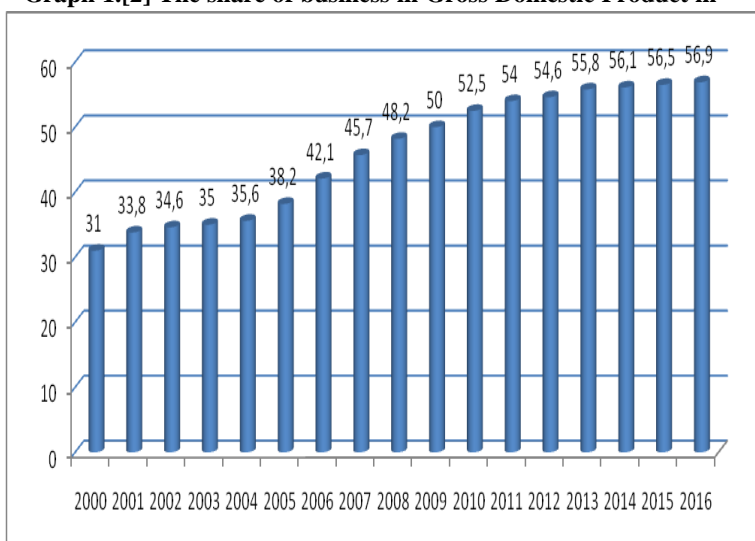
In readiness of this article there have been extensively used methods of observation, collection of statistical data, classification, tabulation; and also diagrams and graphs frequently used in presenting data, dynamic changes, comparison and prognosis of indicators of the development of business.

**4. ANALYSIS AND RESULTS**

As the matter of fact, according to the governmental report, Uzbekistan achieved growth of gross domestic product (GDP) by 7,8 % in the previous 2016. The contribution of business in GDP amounted to 56,9 %. As a result, the total number of operating small businesses entities as on 1 January 2016 reached 207104 units or 5.7 percent more than the same period last year, according to the press service of the State Statistics Committee of the Republic of Uzbekistan".[2]

It is admitted that, the share of business in GDP is increasing year by year. As you can see below, the bar chart represents growing trend of share of business development from 2000 to 2016.

**Graph 1.[2] The share of business in Gross Domestic Product in**



**Uzbekistan**

Based on [www.stat.uz](http://www.stat.uz)

The message of the Committee says that in 2016 the share of business in total volume of industrial production amounted to 45 % (in 2015 – 40,6 8%), in retail turnover – 89,6% (87.1 %), and in employment – 78,1 % (77.9%). [2]

A prediction is a statement about a risk. It is often based upon experience or knowledge and it can be useful to assist in making decisions about possible developments. Howard H. Stevenson writes that prediction in business is at least two things: important and hard.

In statistics, prediction is a part of inference. One particular approach to such inference is known as predictive inference, but the prediction can be undertaken within any of the several approaches to statistical inference. Indeed, one description of statistics is that it provides a means of transferring knowledge about a sample of a population to the whole population, and to other related populations, which is not necessarily the same as prediction over time. When information is transferred across time, often to specific points in time, the process is known as forecasting.

Statistical techniques used for prediction include regression analysis and time series analysis, and their various sub-categories such as ordinary least squares, logistic regression and vector auto regression models. When these and/or a related, generalized set of regression or machine learning methods are deployed in commercial usage, the field is known as predictive analytics.

In many applications, such as time series analysis, it is possible to estimate the models that generate the observations. If models can be expressed as transfer functions or in terms of state-space parameters then smoothed, filtered and predicted data estimates can be calculated.

To use analytical method for prediction, data are collected on the variable that is to be predicted. A functional form, often linear the parameters of the function are estimated from the data that is, are chosen so as to optimize is some way the fit of the function, thus parameterized, to the data. For the prediction step, explanatory variable values that are deemed relevant to future values of the dependent variable are input to the parameterized function to generate predictions for the dependent variable.

We know, through analytical method we can predict future events. Necessary information is given below:

*Table 1*

**Results theoretical aspects of business share in GDP for observing period**

Years	$Y_i$	$t$	$t^2$	$Y_i \cdot t$	$Y_t$
2010	52,5	-3	9	-157,5	53,021
2011	54,0	-2	4	-108,0	53,664
2012	54,6	-1	1	-54,6	54,307
2013	55,8	0	0	55,8	55,593
2014	56,1	1	1	112,2	56,236
2015	56,7	2	4	170,1	56,879
2016	56,9	3	9	170,7	56,985
$\Sigma$	329,7				329,7

In order to use analytical method we need right linear equation. Here its mathematical formula:

$$\bar{y}_t = a_0 + a_1 t$$

In this, t-periods;  $a_0$  and  $a_1$

$$\begin{cases} a_0 n + a_1 \sum t = \sum y, \\ a_0 \sum t + a_1 \sum t^2 = \sum yt \end{cases}$$

Here,  $y$ -real degree of lines; and  $n$ -the number of degree.

$$a_0 = \bar{y} - a_1 t \quad \text{and} \quad a_0 = \frac{\sum y}{n} - a_1 \frac{\sum t}{n}, \text{ after that } a_0 = \frac{n \sum yt - \sum t \sum y}{n \sum t^2 - (\sum t)^2};$$

If  $\sum t=0$ , then the equation above can be in that manner:

$$\begin{cases} a_0 n = \sum y, \\ a_1 \sum t^2 = \sum yt \end{cases}$$

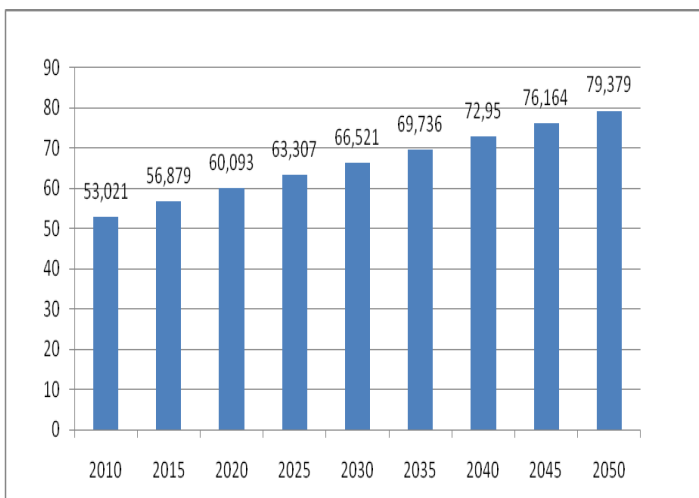
First of all, it is needed to be identified  $a_0$  and  $a_1$ ; for that purpose we have to calculate  $\sum y$ ,  $\sum t^2$ ,  $\sum yt$ . According to certain information these parameters are the

$$\text{following sequence: } a_0 = \frac{\sum y}{n} = \frac{329.7}{6} = 54,95 \text{ and } a_1 = \frac{\sum yt}{\sum t^2} = \frac{18.0}{28.0} = 0,6$$

To measure tendency of business I decided to use analytical method, which is one of the main methods to analyze economic changes in dynamic lines in statistics. Analytical methods welcome early applied demonstrations of new analytical methods. This method should be demonstrated that methods and technology are sufficiently fit for purpose in the future.

In this example, analytical method about long-range prognosis of business development in Uzbekistan characterized by the following graph and it is predicted through zoom lines how recent economic trend may play out over the next few decades:

**Graph 2. The prognosis of business share in Gross Domestic Product in Uzbekistan**



Calculated by authors through using information Business in Uzbekistan. Statistical Bulletin. Tashkent 2016

The bar chart illustrates the percentage of business in GDP in Uzbekistan from 2010 until 2050. It shows both present and future trend.

Over the following five years, the share of business increased slightly from 53,0 per cent in 2010 to 56,8 per cent in 2015. As can be seen, every five year the growth rate has raised three or four per cent and the share is expected to go up modestly. Between 2015 and 2050, it is also projected to raise, but more steadily and it is predicted to reach more than three quarters in 2050 and then it will

soar gradually.

## 5. CONCLUSION AND RECOMMENDATIONS

Business more flexible and can adapt quickly to changes in demand, the situation on the global and regional markets, timely respond to their challenges, because it's compact in form, has a mobility and speed in decision-making and it's receptive to innovation. Creating and develop business do not require large expenditures and capital investments, which allows faster and easier to carry out modernization, technical and technological equipment, develop new products, constantly updating its range and provide competitiveness. The higher stability of this sector compared with large enterprises to the challenges and consequences of the global financial and economic crisis. Business are not only a source of income, but also opportunity to disclosure the creative and intellectual abilities of people. This scope allows everyone to show their individual talents and capabilities, thereby forming a new layer of people - enthusiastic, enterprising and prone to self-employment who can achieve the goal.

The most important document accepted by the Central Bank of the Republic of Uzbekistan jointly with the Association of Banks of Uzbekistan, commercial banks and international financial institutions is the development of foreign funds and banks, proposals for the creation of the Guarantee Fund. It provides for business the need for the part uncovered collateral for loans of commercial banks issued for the purchase of new equipment.

As you know, one of the basic principles of lending in the allocation of loans by commercial banks is that of a secured loan. The main problem is lack of business Republic of collateral in the financing of investment projects. The problem of lack of security for loans by business exists not only in countries with economies in transition, but also in developed countries such as the U.S., Japan and EU countries. In these countries, the issue is solved just through the mechanism to guarantee repayment of loans - the guarantee fund.

Creation of the Guarantee Fund for Development of entrepreneurship in Uzbekistan will increase access thousands of business representatives to bank loans who wants to organize production and services on the basis of new, advanced technologies. Undoubtedly business play an important role in shaping the structure of the economy, meet rapidly changing market demands. Business represents a sphere of labor application and a source of income generation for a significant percentage of the country's population. Moreover, it is the most flexible part of the national labor market, covering a lion's share of predominantly low-skilled manpower, those with insufficient practical experience and those preferring flexible working hours. Very often, it is the only economic sector, where many socially vulnerable strata of population, such as women, young people, uneducated and unskilled persons, can find a job.

Principles of incentives to ensure the development of small business and private entrepreneurship are the provision of tax incentives, the use of a simplified tax system, preferential loans, reducing the frequency and timing of tax and accounting in government tax and statistical authorities, ways to reduce the frequency of tax and other inspections.

The higher stability of this sector compared with large enterprises to the challenges and consequences of the global financial and

economic crisis. Business is not only a source of income, but also opportunity to disclose the creative and intellectual abilities of people. This scope allows everyone to show their individual talents and capabilities, thereby forming a new layer of people - enthusiastic, enterprising and prone to self-employment who can achieve the goal.

As stressed by the President, "We should be aware that what has been achieved so far is just the beginning of the long path that the country has chosen: to become a modern, developed, democratic country; to ensure a decent quality of life for the people and for future generations; and to achieve a strong reputation in the international community". [5]

Following the introduction of the President's initiative, the country has adopted 27 laws and dozens of normative acts to implement constitutional and regulatory reforms. These reforms aim to: further develop and enforce the constitutional principle of separation of powers, enhance the role of the Oliy Majlis (Parliament) within the governance system, and strengthen the parliamentary role and authority in shaping and implementing both domestic and foreign policies. Parliamentary powers have thus been enhanced, while the Government's accountability to the Parliament and local authorities' accountability to the Councils of the Peoples' Deputies have been strengthened. Critically, Uzbekistan has introduced an important institutional mechanism that allows the party that receives the largest number of Deputy seats in the legislative chamber to promote its candidate to the post of Prime Minister; strengthen judiciary control to ensure that civil procedural rights are enforced during the stages of inquest and investigation. The number of civil courts has been increased to improve the quality and speed of case processing. Strengthen accountability of the Government and public agencies for decisions taken under the Law "On the Openness of the Government and Public Agencies", further improve institutional and regulatory frameworks of civil self-governance institutions and enhance their roles in providing legal protection to citizens, particularly youth, women and vulnerable populations.

Opportunities of various strata of the population in taking advantage of benefits of economic growth also directly depend on infrastructure conditions. Infrastructure services are not only the major consumer benefits but also are means for increase of labour productivity and improvement of market access. Both functions of infrastructure - support of economic growth and expansion of its facilities- has a great importance for overcoming poverty, accumulating human capital, and increasing the welfare of the country.

Despite all these achievements, according to some sources, serious problems and imbalances, attributes of which can be found practically in all sectors and segments of the given sector of the economy, are maintained and being aggravated in social and economic infrastructure of the country.

Taking into account national peculiarities and spiritual values of the republic, entrepreneurship has a special social significance. Social efficiency reflects the degree of achievement of the social

dimensions of entrepreneurship. In this case brings to the fore the question of how data with limited resources to best meet the needs of staff entrepreneurial structures (micro level) and all members of society (macro level).

Recommendations will be in the further development of business in Uzbekistan:

- Reduction of government intervention and regulatory authorities in the financial and economic activities of businesses;
- Creation of maximum favorable conditions, privileges and preferences on tax and other payments for business, improvement and standardization of the reporting system and the mechanism of delivery of reports in the financial, tax and statistical authorities;
- Broad involvement and direction for the development of business of foreign investment, especially concessional loans from international financial institutions and private equity;
- Further development of the information management system and advice to business, as well as in matters of training, retraining and skills development;
- Expand opportunities for small businesses bank loans, raw materials.

However, the Law of the Republic of Uzbekistan "On family business": allowed to carry out activities in the family business of residential and non-residential premises owned by the participants in the family business ownership or other legal basis, sales of products family business can be carried out at the place of production; determined that after the payment of family business members of taxes and other obligatory payments remaining under their jurisdiction shall be exempt from income tax; found that a family business in the manner prescribed by law shall be exempted from the single tax on revenue received from the sale of products of national crafts and applied arts own making.

According to the idea of M.Kalecki who is Polish economist, the most important prerequisite for becoming an entrepreneur is the ownership of capital. In terms of prerequisite for business he was totally right. Nevertheless it is also important entrepreneurial skills.

Recent advances in the theory of ownership and contracting provide a more specific analytical justification for business. The trade-off facing a government seeking to arrange for the provision of a particular service is between quality and efficiency. The private sector can use its better management skills and capacity for innovation to more actively pursue opportunities to reduce costs, but service quality may be compromised in the process. However, private provision may be workable if the government can write a fully specified, enforceable contract with the private sector. It needs for entrepreneurs to be able to enforce contracts, and reviews the types of reform of contract enforcement which have proven to be successful. For instance, tax registration, labor registration, administrative registration, bank deposit, notarization, health benefits, notice in newspaper, Company seal, court registration, statistical papers and etc.

Needless to say, special initiatives to reduce burdens and support regulatory compliance of business should be balanced against other

concerns. Business have been put forward and originally realized in industrially developed countries, but soon was picked up also in developing countries, which have experienced urgent need for expansion and modernization of infrastructure. The most important features are the ability of small businesses to accelerate the development of investment and high turnover of working capital. Another characteristic of this sector is an active innovation and accelerate the development of various sectors of the economy in all sectors of the Uzbek economy.

The inherent flexibility of small businesses and high adaptability to market conditions variability contribute to the stabilization of macro-economic processes in the country. Analysis showed that in Uzbekistan, the sector characterized by a certain yield, high labor intensity, the complexity of the introduction of new technologies, limited own resources, and increased risk of competition. In our view, it is appropriate to establish a definite system which provides for sanctions for clear violations or improper fulfillment of the law. A special role is played in business control over the implementation of legislation and economic reforms should be based on the full legal space. In this case, absolutely equal footing before the courts and arbitration authorities should be all. Uzbekistan has developed industry and regional priority programs and enterprise development are successfully implemented.

## REFERENCE

- [1] In order to make more opportunities for development of private property and private enterprise through the implementation of the indigenous structural change in economy, a consistent continuation of the processes of modernization and diversification is our priority. President Islam Karimov's keynote speech at the meeting of the Cabinet of Ministers dedicated to the results of socio-economic development of the country in 2014 and main priorities of economic program for 2015. January 16, 2015.
- [2] Small business in Uzbekistan. Statistical Bulletin. Tashkent 2015. 16 p.
- [3] Annual Statistical Report of Uzbekistan. Tashkent.2015.
- [4] The Law of the Republic of Uzbekistan "On measures to further stimulation of business development" from May 25, 2000.
- [5] The year 2015 observed the continuation of active work on providing the reliable protection to private property, small business and private entrepreneurship, the removal of barriers to their rapid development. The Ministry of economy of the Republic of Uzbekistan has published a report on the results of socio-economic development of the country in 2015 and the most important priorities of economic program for 2016. January 15, 2016.