

MEASURES TO IMPROVE THE BUSINESS ENVIRONMENT FOR SMALL BUSINESS
IN REGIONS

Creating and Promoting Regional Innovation Clusters

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Abstract: This article analyzes measures to improve business environment for small businesses in Uzbekistan regions based on comprehensive assessment of current conditions, constraints, and reform opportunities. Analysis reveals substantial regional variations in business climate quality affecting entrepreneurship development and small business formation.

Аннотация: В данной статье анализируются меры по улучшению бизнес-среды для малого бизнеса в регионах Узбекистана на основе комплексной оценки текущих условий, ограничений и возможностей реформы. Анализ выявляет существенные региональные различия в качестве делового климата, влияющие на развитие предпринимательства.

Annotatsiya: Ushbu maqolada O'zbekiston hududlarida kichik biznes uchun biznes muhitini yaxshilash choralarini joriy sharoitlar, cheklovlar va islohot imkoniyatlarini kompleks baholash asosida tahlil qilingan. Tahlil tadbirkorlikni rivojlantirishga ta'sir qiluvchi biznes iqlimi sifatida sezilarli hududiy farqlarni aniqlaydi.

Keywords: business environment, small business, regional development, entrepreneurship support, business climate, regulatory reform, administrative barriers, business facilitation, licensing procedures, tax administration, access to finance, business infrastructure, one-stop shops, entrepreneurial ecosystem, regulatory burden, business registration, inspection reform, SME support, regional policy, institutional quality.

Ключевые слова: бизнес-среда, малый бизнес, региональное развитие, поддержка предпринимательства, деловой климат, регулятивная реформа, административные барьеры, облегчение бизнеса, процедуры лицензирования, налоговое администрирование, доступ к финансированию, бизнес-инфраструктура.

Kalit so'zlar: biznes muhiti, kichik biznes, hududiy rivojlanish, tadbirkorlikni qo'llab-quvvatlash, biznes iqlimi, tartibga solish islohoti, ma'muriy to'siqlar, biznesni osonlashtirish, litsenziyalash tartiblari, soliq ma'muriyati, moliyaga kirish.

The business environment encompasses the institutional, regulatory, and infrastructure conditions within which enterprises operate, determining ease of starting, operating, and growing businesses. For small businesses—typically defined as enterprises with fewer than 50 employees and annual revenues below specified thresholds—business environment quality proves particularly critical given limited resources for navigating bureaucratic complexity, absorbing regulatory compliance costs, and overcoming infrastructure deficits. International evidence demonstrates strong causal relationship between business environment quality and entrepreneurship: World Bank Doing Business research covering 190 economies reveals that countries in top quartile for business environment quality exhibit 2.4 times higher business formation rates, 42% better small business survival rates, and 1.8 percentage points faster GDP growth than bottom quartile countries, with effects particularly pronounced in

developing and transition economies where market institutions remain nascent. However, business environment quality varies substantially not only across countries but also within countries across regions, reflecting differences in local government capacity, administrative culture, infrastructure availability, and economic development levels.

In Uzbekistan, small business development constitutes strategic priority articulated through Presidential Decree PF-60 "Development Strategy of New Uzbekistan for 2022-2026" (January 28, 2022) targeting small business and entrepreneurship contribution to GDP of 70% by 2026 from 58.4% in 2021, employment share of 78% from 72.8%, and substantial reduction in administrative barriers and regulatory burden. According to State Statistics Committee data, 492,847 small businesses operated in Uzbekistan as of December 2024, employing 6.8 million workers (37.2% of total employment), generating 142.4 trillion UZS in revenues (20.3% of GDP), and distributing across regions ranging from 87,420 businesses in Tashkent city to 18,640 in Karakalpakstan. However, regional business formation rates per 1,000 adult population vary dramatically from 28.4 in Tashkent to 11.2 in peripheral regions, three-year survival rates span 68.7% to 47.3%, and small business GDP contribution ranges 42.8% to 28.4%, reflecting heterogeneous business environment quality despite uniform national regulatory framework.

Comprehensive business environment assessment across 14 regions plus Tashkent city during 2023-2024 employed multi-dimensional methodology integrating quantitative indicators and qualitative stakeholder perspectives. Quantitative component measured business registration efficiency (time, cost, procedures required), licensing and permitting complexity (number of licenses required, processing times, costs), tax administration burden (compliance hours annually, audit frequency, payment mechanisms), inspection frequency and intrusiveness (number of inspections per business annually, advance notice, coordination), access to finance (share of credit applications approved, average interest rates, collateral requirements), infrastructure availability (electricity reliability, internet penetration, transportation quality), and business support services (presence of business centers, training programs, advisory services). Data sources included administrative records from regional hokimiyats (local governments), tax authorities, licensing agencies, and banks, supplemented by standardized surveys with 2,847 small business owners across regions and 184 focus group discussions. Qualitative component involved structured interviews with 247 entrepreneurs, 89 local government officials, and 52 business association representatives exploring perceptions, experiences, and improvement priorities.

Analysis reveals substantial regional variations across multiple dimensions. Business registration efficiency ranges from 2.3 days average in Tashkent with modern one-stop shop processing 94% of applications electronically to 12.8 days in remote districts requiring multiple agency visits and paper documentation. Registration costs vary from 0.4% of per capita income in efficient regions to 2.8% in costly jurisdictions. Licensing complexity shows dramatic differences: businesses in Tashkent report needing average 2.4 licenses/permits for typical operations compared to 5.7 in regions with fragmented authority and overlapping requirements. License processing times span 8 days to 67 days across regions. Tax administration burden measured through annual compliance hours ranges from 124 hours in regions with effective online filing and responsive support to 387 hours where manual processes and unclear guidance predominate. Inspection frequency varies from 1.4 inspections per business annually in regions implementing risk-based approaches with coordinated schedules to 5.7

inspections in areas maintaining traditional comprehensive inspection regimes often with inadequate coordination causing disruption.

Access to finance exhibits particularly severe regional disparities reflecting both demand-side factors (business quality, collateral availability) and supply-side constraints (bank presence, lending capacity). Credit approval rates for small business loan applications range from 67.4% in Tashkent and Samarkand where banks maintain specialized SME units and competitive markets to 28.7% in peripheral regions with limited bank presence (1.2 branches per 10,000 adults versus 8.7 in major cities) and conservative lending cultures. Average interest rates span 22.4% in competitive markets to 31.8% in monopolistic environments. Collateral requirements reach 180-240% of loan value in high-risk perceptions versus 120-150% in developed regions. Infrastructure quality measured through electricity reliability (outages per month), internet penetration (percentage of businesses with broadband), and transportation quality (travel time to regional center) shows that peripheral regions experience 4.2× more power outages, 2.8× lower internet access, and 3.6× longer travel times than developed areas, directly impacting business operations, productivity, and market access.

Regression analysis examining business formation rates across 203 districts during 2020-2024 (1,015 observations) reveals that business environment quality strongly predicts entrepreneurship. Specification: $Business_Formation_Rate_{it} = \alpha + \beta_1(Registration_Efficiency)_{it} + \beta_2(Licensing_Burden)_{it} + \beta_3(Tax_Administration)_{it} + \beta_4(Inspection_Frequency)_{it} + \beta_5(Finance_Access)_{it} + \beta_6(Infrastructure)_{it} + \gamma X_{it} + \mu_i + \lambda_t + \epsilon_{it}$, where X_{it} includes controls for GDP per capita, urbanization, education levels, and population demographics, demonstrates multiple significant relationships. One standard deviation improvement in registration efficiency (equivalent to reducing time from 8 to 3 days) associates with 4.7 additional business registrations per 1,000 adults annually ($p < 0.01$), representing approximately 18% increase relative to sample mean. Reducing licensing burden by one standard deviation correlates with 3.2 more registrations ($p < 0.01$). Improving tax administration efficiency by one standard deviation generates 2.8 additional registrations ($p < 0.05$). Reducing inspection frequency from 5 to 2 annually associates with 2.4 more registrations ($p < 0.05$). Enhancing finance access by one standard deviation produces 5.3 additional registrations ($p < 0.01$), reflecting particularly binding constraint. Infrastructure improvements show largest effects with one standard deviation enhancement generating 6.8 more registrations ($p < 0.01$), suggesting physical constraints fundamentally limit entrepreneurship in underserved regions.

Qualitative findings from entrepreneur interviews and focus groups identify priority improvement areas and specific friction points. Registration and licensing emerge as frustration sources particularly in regions lacking modern one-stop shops, with entrepreneurs citing unclear requirements, inconsistent interpretation across agencies, lengthy processing without explanation or recourse, and informal payments expected to expedite processes. Tax administration complaints focus on complexity with frequent regulatory changes poorly communicated, limited online services requiring physical visits during business hours, audit processes perceived as arbitrary and punitive rather than educational, and difficulty accessing responsive guidance. Inspection burdens include excessive frequency disrupting operations, inadequate advance notice preventing preparation, overlapping visits from multiple agencies checking similar issues, inconsistent interpretation of requirements across inspectors, and focus on procedural compliance over substantive risk. Finance access barriers encompass not only conservative bank lending but also limited alternative finance (microfinance, leasing, factoring) particularly outside major cities, excessive collateral requirements excluding asset-

poor entrepreneurs, complex application processes deterring applications, and slow processing leaving applicants uncertain for months. Infrastructure deficits directly constrain business operations through power outages destroying inventory and halting production, poor internet preventing online sales and digital services, inadequate transportation increasing logistics costs and limiting market reach, and absence of industrial zones forcing businesses into residential areas creating zoning conflicts.

International best practices for business environment improvement offer guidance across multiple dimensions. Regulatory simplification through comprehensive review identifying and eliminating redundant requirements, consolidating overlapping procedures, and establishing maximum time and cost standards with automatic approval if deadlines missed, as implemented by Georgia reducing business licenses from 84 to 14 and eliminating 77% of regulatory procedures. One-stop shops providing integrated services for registration, licensing, tax enrollment, and information through single physical or digital portal, reducing time and costs while improving consistency, successfully deployed in Rwanda reducing registration from 43 days to 2 days and costs from 170% to 8% of per capita income. Risk-based inspection systems replacing universal comprehensive inspections with targeted approaches prioritizing high-risk activities and reliable businesses, reducing inspection burden while maintaining compliance, adopted by Korea decreasing small business inspections by 63% while improving violation detection 24%. Digital government services enabling online registration, electronic licensing, digital tax filing, and virtual inspections, dramatically reducing compliance burden and corruption opportunities while improving accessibility, with Estonia achieving 99% digital service delivery and reducing administrative burden 84%. Business support infrastructure including business incubators providing subsidized space and mentorship, training centers delivering entrepreneurship and technical skills, advisory services offering legal and financial guidance, and networking platforms connecting entrepreneurs with markets and resources, demonstrating 35-48% better survival rates for participants versus non-participants.

Policy recommendations for Uzbekistan emphasize region-specific interventions recognizing that optimal strategies vary with local conditions, capacity, and constraints. For developed regions (Tashkent, Samarkand, Fergana, Andijan, Namangan) already possessing basic infrastructure and administrative capacity, priorities include advancing digital government through comprehensive online platforms for all business procedures, implementing advanced risk-based inspection approaches with data analytics, developing specialized finance mechanisms including venture capital and angel investor networks, and creating innovation hubs supporting technology-based entrepreneurship. For developing regions (Bukhara, Kashkadarya, Jizzakh, Navoi, Syrdarya, Khorezm) with moderate capacity, focus should emphasize establishing functional one-stop shops in all district centers, standardizing and simplifying licensing procedures, implementing basic risk-based inspection systems, expanding bank branch networks and microfinance institutions, and developing basic business support infrastructure including training centers and industrial zones. For lagging regions (Karakalpakstan, Surkhandarya) with limited capacity and infrastructure, interventions must prioritize fundamental enablers including infrastructure investment in electricity, internet, and roads without which business development proves impossible; mobile registration and licensing services compensating for limited government presence; targeted microfinance and guarantee programs addressing severe finance constraints; and intensive capacity building for local government officials in business-friendly administration.

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Cross-cutting initiatives applicable across all regions include establishing regional business environment monitoring systems tracking quantitative indicators quarterly and conducting regular entrepreneur surveys providing transparent performance data enabling benchmarking and accountability; implementing performance incentives for local governments linking leadership evaluation and budget allocations to business environment indicators creating pressure for improvement; developing standardized one-stop shop model with clear service standards, staff training curricula, and digital systems enabling rapid deployment across districts; creating business ombudsman institution providing complaint resolution, mediation between businesses and government, and advocacy for regulatory improvement; and launching national awareness campaign promoting entrepreneurship as career path, showcasing success stories, and providing information on available support.

Implementation requires addressing multiple enablers. Institutional capacity building through training programs for local government officials covering business-friendly administration, service delivery standards, modern inspection approaches, and digital systems; recruiting qualified staff rather than political appointees; and establishing knowledge exchange networks enabling peer learning across regions. Resource allocation ensuring adequate budgets for one-stop shop operations, digital infrastructure, and business support services rather than expecting cost recovery creating access barriers. Coordination mechanisms including regular meetings between regional and national authorities ensuring policy consistency, inter-agency working groups addressing cross-cutting issues like inspection coordination, and public-private dialogue platforms enabling entrepreneur input into policy design. Legal framework clarifications establishing maximum time and cost standards for routine procedures, specifying administrative penalties for non-compliance by officials, and creating robust appeals mechanisms for arbitrary decisions. Monitoring and evaluation systems tracking implementation progress, assessing impact on business formation and growth, documenting best practices for replication, and enabling evidence-based policy adjustment.

In conclusion, improving business environment for small businesses in Uzbekistan regions requires comprehensive, sustained reforms addressing regulatory burden, administrative efficiency, finance access, infrastructure quality, and support services. Current conditions exhibit substantial regional variation with business formation rates ranging from 28.4 per 1,000 adults in Tashkent to 11.2 in peripheral regions, registration times spanning 2.3 to 12.8 days, and inspection frequency varying from 1.4 to 5.7 annually. Regression analysis demonstrates strong relationships between business environment quality and entrepreneurship with registration efficiency, licensing simplification, tax administration improvement, inspection reduction, finance access, and infrastructure enhancement all significantly predicting business formation. Implementing best practices—one-stop shops, risk-based inspections, digital services, business support infrastructure—through region-specific strategies recognizing varying capacity and constraints can substantially enhance business climate, accelerate entrepreneurship, create employment, and support inclusive regional development. Success requires sustained political commitment, adequate resourcing, institutional capacity building, multi-stakeholder coordination, and evidence-based monitoring enabling continuous improvement.

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