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INCREASING THE EFFICIENCY OF SMALL BUSINESS IN RURAL DEVELOPMENT AND IMPROVING THE QUALITY OF LIFE OF THE POPULATION

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Abstract: This article examines how increasing the efficiency of small business can become a practical mechanism for rural development and for improving the quality of life of the population in Uzbekistan. The study is based on the works of Uzbek researchers, current legal documents, and official statistical materials. The paper argues that the main issue in rural areas is not the simple numerical growth of enterprises, but the rise of their productivity, market integration, innovation capacity, and income-generating effect. It is proved that rural welfare improves most sustainably where small business is connected with processing, services, logistics, digital tools, and family entrepreneurship rather than remaining limited to low-value trade.

Keywords: small business; rural development; quality of life; employment; household income; family entrepreneurship; rural infrastructure; microfinance; regional inequality; Uzbekistan.

INTRODUCTION

The question of rural development in Uzbekistan can no longer be treated as a narrow agricultural issue. In macroeconomic terms, it is a question of **territorial balance, employment resilience, household income growth, and poverty reduction**. World Bank data show that in 2024 Uzbekistan still had about **17.95 million rural residents**, or roughly **49%** of the total population, which means that the development model of the country remains heavily dependent on what happens outside the largest cities. At the same time, official statistics show that small business continues to be one of the central pillars of the national economy: in 2024 its share in GDP reached **54.3%**, while the number employed in small business rose to **10.63 million people**, accounting for **74.5%** of total employment. These figures are strong, but they also expose the core analytical problem of this article: **high macro-share does not automatically mean high micro-efficiency in rural living conditions**.

LITERATURE REVIEW

The Uzbek academic literature has already created a useful basis for studying this issue, although many works focus more on the **importance** of entrepreneurship than on its **efficiency metrics**. Abdurakhmanova analyzed the role of small business in ensuring employment in Uzbekistan [1], while Tolipov examined family entrepreneurship as a historical and institutional factor of employment expansion [2]. Kodirov emphasized the significance of business cooperation chains [3], and Abdullaev linked poverty reduction with employment, family business, and income stabilization [4]. Nishonboyev and Shadiyeva showed that small business is not only a growth factor, but also a mechanism for improving welfare and expanding the middle-income base [5; 6]. More recent works by Raxmonqulova, Dzhorayeva, Nazarov, Qurbanov, Shamshiyev, and Xurramov pay attention to territorial entrepreneurship, microfinance, state support, income effects, and export potential [7-13]. The literature is therefore broad enough to establish consensus on one point: **small business matters**. What remains insufficiently elaborated is a sharper question: **which concrete channels make small business effective enough to transform rural living standards rather than merely support subsistence activity?**

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This gap is important because rural quality of life is not defined by enterprise registration alone. It depends on whether entrepreneurship raises **stable income**, creates **non-seasonal jobs**, stimulates **local value addition**, reduces **distress migration**, improves **service access**, and supports **human capital reproduction**. Official income statistics show why this distinction matters. In 2024 average per capita income in Uzbekistan was **24.1 million soums**, but regional disparities remained sharp: in Surkhandarya it was **17.88 million soums**, in Namangan **16.85 million soums**, and in the Republic of Karakalpakstan **16.86 million soums**, while Tashkent city reached **60.59 million soums**. Even in January-September 2025 the national per capita income was **21.8 million soums**, while Surkhandarya remained one of the lowest-income regions at **16.48 million soums**, against **52.03 million soums** in Tashkent city. A rural development policy that counts firms but ignores this productivity and income gap is analytically weak.

METHODOLOGY

Methodologically, this article uses **comparative-statistical analysis, dynamic comparison, and content synthesis** of scholarly and official sources. The empirical base includes official data from the National Statistics Committee of Uzbekistan, legal and strategic documents from Lex.uz, and analytical materials from the World Bank and national policy reviews. The study proceeds from a simple but demanding hypothesis: **small business improves rural quality of life only when it shifts from extensive expansion to intensive efficiency**, that is, when each business unit generates higher productivity, more durable jobs, greater local processing, and stronger connections to infrastructure, finance, and markets. This approach is consistent with Uzbekistan's agricultural and regional development agenda, including the 2020-2030 agricultural strategy and the broader Uzbekistan-2030 framework, which emphasize productivity, infrastructure, and efficient resource use rather than formal growth alone.

ANALYSIS AND RESULTS

The statistical material shows that the structural position of small business in Uzbekistan is already substantial, but its rural effect is uneven. In 2024 small business generated **753.2 trillion soums** of value added, or **54.3%** of gross value added in the economy. Of that amount, **33.9%** came from agriculture, forestry, and fisheries, confirming that the rural economy remains one of the main spaces where small business operates. In January-September 2025 the small business share in GDP was still **51.5%**, which means that the sector remained systemically important despite fluctuations. Yet the same figures show why raw scale is an insufficient indicator: small business dominates numerically in rural and agrarian segments, but many of these enterprises still operate in low-productivity niches with weak technological content and unstable access to wider markets.

Employment data reinforce this conclusion. By 2024, **10.63 million** people were employed in small business, equal to **74.5%** of total employment. This is a major social stabilizer, particularly for rural territories where family-based, self-employed, and micro-enterprise formats absorb labor more flexibly than large corporations. However, employment volume and employment quality are not the same. If labor is concentrated in informal, seasonal, low-margin trade or primary agricultural activity, then the welfare effect remains shallow. The 2025 data on newly created enterprises are revealing: in January-June 2025, **40.3 thousand** new small enterprises and microfirms were created, of which **5,315** belonged to agriculture, forestry, and fisheries. The state clearly supports entrepreneurial expansion, but the decisive question is whether these new units are entering **processing, storage,**

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transport, repair, rural tourism, digital commerce, and service ecosystems—the sectors that raise value added per worker and improve local living standards more directly.

Poverty and income data further confirm that small business efficiency must be treated as a welfare variable, not merely a business variable. The World Bank reported that poverty based on the national line declined from **17.0% in 2021 to 11.0% in 2023**, and national analytical reviews indicate further decline to **8.9% in 2024** and **5.8% in 2025**. At the same time, the 2025 review noted that rural poverty remained **higher than urban poverty**—**6.4%** in rural areas versus **5.2%** in cities, though both improved from 2024 levels. This means rural Uzbekistan is progressing, but still carries a disproportional social burden. The implication is direct: **small business matters most in rural policy not when it exists, but when it becomes capable of compressing the rural-city welfare gap**.

DISCUSSION

The central argument of this article is that improving small business efficiency in rural areas requires a conceptual shift from **"supporting entrepreneurship"** to **"engineering local value systems."** Much of the existing discourse, both policy and academic, still treats small business as a universal remedy: create more firms, extend more loans, simplify more procedures, and results will follow. That logic is incomplete. A village with many micro-traders but weak roads, no cold storage, unstable power, limited digital payments, poor packaging services, and no distribution network will not experience durable welfare growth. It may experience circulation of low incomes, but not structural upgrading. This is why the more persuasive works of Uzbek researchers point not simply to entrepreneurship, but to its institutional environment—employment effects [1; 2; 8], cooperation [3], welfare outcomes [6], microfinance architecture [9], state support [10], export linkages [12], and regional strategy [7]. In practical terms, the efficiency of small business in rural Uzbekistan must be measured by **income per worker, business survival, linkage density, female and youth participation, and local value added**, not by registration numbers alone.

A second issue is the structure of rural entrepreneurship itself. In many districts, small business is still concentrated in **trade, basic services, and unprocessed agricultural activity**, while the highest welfare returns come from the middle layers of the value chain: **sorting, packaging, storage, primary processing, transport, repair services, veterinary and agronomic consulting, rural hospitality, and digital intermediation**. This is where policy often underperforms. It is easier to distribute concessional loans than to build local logistics ecosystems. But the latter is what changes household welfare. When a rural entrepreneur sells raw produce, the margin is thin and volatile. When

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the same entrepreneur or cooperative processes, stores, brands, and reaches wider markets, the income effect multiplies. That is why the share of small business in agriculture is important, but not sufficient. The real developmental question is whether rural enterprises are moving **up the value chain**.

Third, **family entrepreneurship** remains one of the most realistic tools for rural transformation, but only if it is modernized. Tolipov's work on family entrepreneurship and employment is valuable because it shows that the family business format in Uzbekistan is not marginal; it is historically rooted and institutionally familiar [2]. Yet many family businesses remain trapped in low-capital, low-productivity forms. The answer is not to romanticize them, but to professionalize them. Family entrepreneurship should be linked to accounting literacy, digital sales, standardized packaging, micro-leasing, business planning, and cooperative procurement. Otherwise, it remains survival entrepreneurship. The same applies to women's and youth entrepreneurship. If policy only expands access but neglects productivity tools, then the rural household receives temporary income relief, not a durable rise in life quality. **Quality of life improves when entrepreneurship changes the household's economic trajectory, not merely its monthly cash flow.**

Fourth, the financial mechanism matters, but not in the simplistic way it is often presented. Credit expansion by itself does not guarantee efficiency. Dzhorayeva and Iskanderov are correct to focus on the organizational and legal basis of microfinancing [9], and Nazarov's emphasis on state support [10] is also justified. But both lines of thought point to the same hard truth: **finance works only when matched with capability and market access**. In rural areas, many enterprises fail not because loans are absent, but because loan products are poorly timed, too short-term, or disconnected from production cycles. Agricultural processing, rural logistics, greenhouse operations, repair workshops, and digital service centers require differentiated financial instruments: seasonal grace periods, equipment leasing, guarantee funds, warehouse receipt systems, and blended microfinance for women and youth-led firms. A "one-size-fits-all" microcredit model creates indebtedness risks and weak business survival. Therefore, improving efficiency means upgrading the **architecture of rural finance**, not just increasing the amount of disbursed money.

Fifth, **regional inequality** should be treated as an efficiency test. The official data on per capita income show that some regions with large rural populations remain far below national averages. That means the problem is not simply the absence of entrepreneurship, but the unequal productivity of territorial business systems. Rural development policy should therefore be **territorially selective**, not administratively uniform. Districts with strong agricultural output but weak services need processing and logistics. Districts with tourist potential need guesthouse networks, rural catering, transport, and local crafts. Districts with labor surplus need labor-intensive manufacturing and subcontracting links with larger firms. Xurramov's focus on export potential [12] and Raxmonqulova's emphasis on regional entrepreneurship channels [7] are useful here because they shift attention from abstract support to functional specialization. In other words, each rural territory should not be encouraged to do everything; it should be helped to do **a few economically coherent things extremely well**.

Sixth, rural infrastructure is not background; it is part of enterprise efficiency itself. The older and newer policy frameworks on rural development, including agricultural strategy documents and the Uzbekistan-2030 agenda, underline the importance of water efficiency, communications, and territorial upgrading. That is not just a public administration concern. It determines transaction costs for every rural business. Poor road quality reduces farm-gate prices. Weak internet limits e-commerce and digital payments. Inadequate cold storage increases post-harvest losses. Unstable power raises

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production risk. Limited service infrastructure prevents the growth of repair, education, healthcare, and logistics services that directly shape the quality of life of rural families. Therefore, the most defensible policy conclusion is that **small business policy and rural infrastructure policy must be integrated**. Treating them separately is analytically wrong and fiscally inefficient.

Finally, the welfare effect of efficient small business should be understood in multidimensional terms. A narrow economic view would look only at income. That is too limited. When rural small business becomes more efficient, it also changes **time use, gender roles, educational choices, migration pressure, housing conditions, service consumption, and local fiscal capacity**. Increased and more stable household income improves nutrition, school participation, healthcare access, and the ability to invest in housing or productive assets. It also strengthens local demand for non-agricultural services, which in turn supports a second wave of entrepreneurship. This is why the discussion of small business must move beyond slogans about "supporting entrepreneurs." The serious developmental objective is to create a **self-reinforcing rural economy** in which entrepreneurship, infrastructure, human capital, and institutions raise one another's returns. Where that loop forms, rural quality of life improves in a measurable way. Where it does not, business support remains fragmented and welfare gains stay shallow.

CONCLUSION

The study shows that in Uzbekistan the role of small business in rural development is already quantitatively large, but its qualitative impact depends on whether the sector becomes **more efficient, more productive, and more structurally connected** to local development systems. The evidence demonstrates that rural welfare does not improve simply because the number of enterprises increases. It improves when small business generates **stable employment, higher household income, deeper processing, stronger market access, better territorial specialization, and stronger use of digital and financial instruments**. The most effective directions are therefore clear: development of family and women's entrepreneurship on a productivity basis; expansion of rural processing, logistics, and service networks; microfinance reform tied to business cycles; territorial specialization by district potential; and integration of enterprise policy with infrastructure policy. **The strategic task is not to create more rural businesses at any cost, but to create rural businesses that change the economic quality of everyday life.** That is the point at which small business becomes not only an economic category, but a real mechanism for social modernization and balanced regional development.

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