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**STATE SUPPORT MECHANISM OF SMALL SCALE BUSINESS  
AND PRIVATE ENTREPRENEURSHIP**

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# STATE SUPPORT MECHANISM OF SMALL SCALE BUSINESS AND PRIVATE ENTREPRENEURSHIP

Nodira Murodova<sup>1</sup>

## Abstract

Economic mechanism is a system consisting of technologies, tools, instruments of the substantive and technical, financial and institutional resources to achieve the goals of small scale businesses and private enterprises, resulting in a corresponding development of all parts of the economy and their target-oriented use. The functioning of this system requires an appropriate legal framework and the content consists of (1) Guarantees of entrepreneurship activity, (2) Framework for entrepreneurship activity and (3) Foundations for the development of entrepreneurship. In the process of accelerating the development of small scale business and private entrepreneurship (SSBPE), there were number of laws related to foreign investments, banks, taxes, private property protection and owner rights, entrepreneurship freedom guarantees, including the range of regulations aimed at simplification of licensing procedures, reducing tax and statistical reporting.

**Key Words:** Small Scale Business and Private Entrepreneurship (SSBPE), Economic, Development, Mechanism, Guarantees, Innovative

**JEL Codes:** L26, L38, L52, O14, O17

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## **1. INTRODUCTION:**

A system with unique features, called the Uzbek model of “*Small Scale Business and Private Entrepreneurship (SSBPE)*” has been created. Development of small scale business and private entrepreneurship is essential to increase the share of this sector in the gross domestic product, solving the problems of unemployment and income growth, and the formation of middle-class property owners. Entrepreneurs differ with their rational use of production resources and effective performance, and at the same time, with their need for support from the state. Assessment of the economic content and advantageous aspects of entrepreneurial activity is connected with the deep theoretical knowledge and study in this area.

In the context of economy’s development factors developing entrepreneurship ability of the state population, creating economic mechanism that facilitates the effective usage of initiative of independent economic activity, and providing stable growth of entrepreneurship and its acknowledgement as driving force of social development is a significant issue of scientific and practical importance.

Every country, in the development of SSBPE, support and encouragement from the government and different kinds of economic methods are used. In market conditions, to ensure stable economic growth of the national economy and a stable state enterprise is a very important part of the support mechanisms. Effective use of economic instruments to support SSBPE has an effect as internal driving force and becomes part of it.

## **2. ANALYSIS OF ECONOMIC MECHANISM EFFICIENCY:**

In our view, economic mechanisms are important with their function to fill market mechanisms and increase their significance. The structure of the economic mechanism includes taxes, government procurement, customs tariffs, licenses, subsidies, credit and price controls.

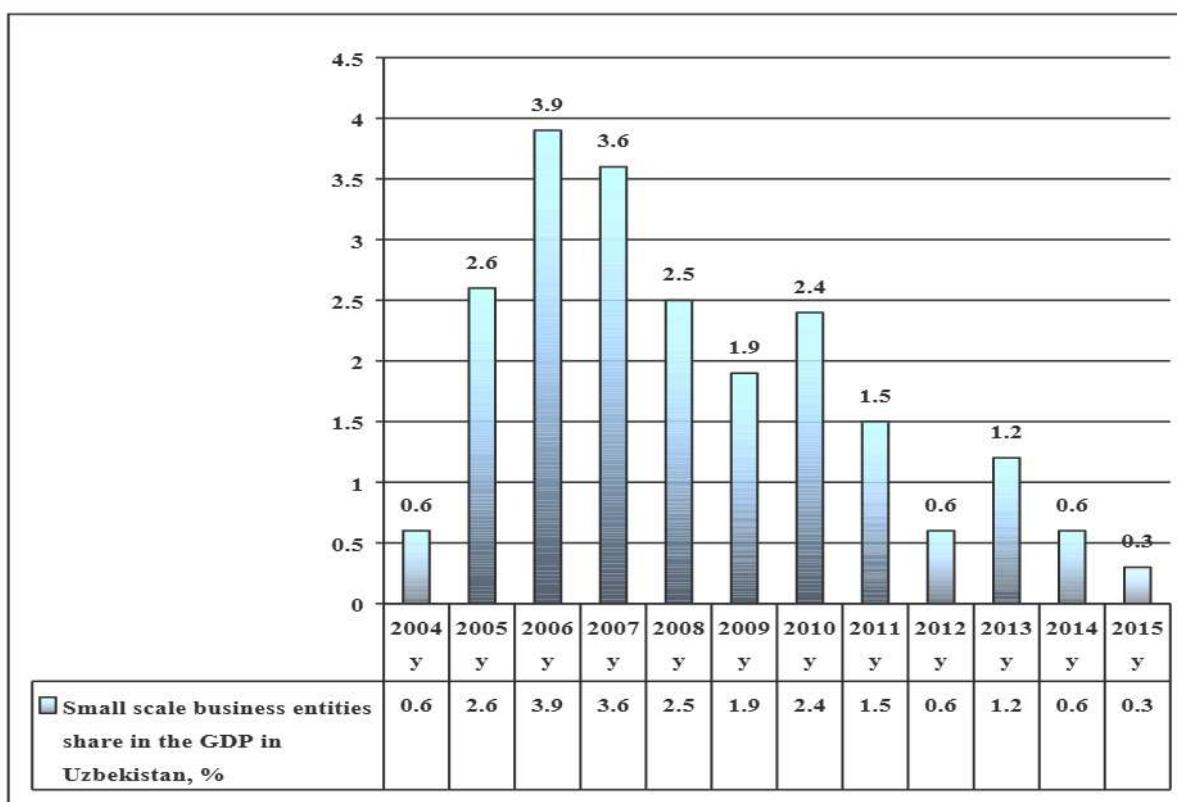
Economic mechanisms and market mechanisms are interconnected and complement each other. In practice, economic mechanism denotes categories and

laws that define the general properties of methods and tools, forms, various phenomena, and it is the theoretical basis of the economic mechanism.

In our opinion, to ensure stable growth of the national economy, the economic mechanism of state support for the following reasons is essential:

- economic mechanism influences through economic methods, forms and means on economic relations and processes.
- formation of the economic methods by state is carried out with the use of economic methods technological framework within certain purposes and principles of entrepreneurship.
- economic mechanism acts as a system that encompasses the purpose of business, forms and methods of economic incentives, logistical and financial support of the company.

**Figure 1:** Annual changing dynamics of small scale business entities share in the GDP in Uzbekistan (Per cent).



In 2013, 80 types of licensing procedures in regard to SSBPE were canceled; 15 activities that require the licensing have been reduced; 65 types of statistical reporting and 23 types of reports' submission deadlines were reduced; 22 kinds of online tax services introduced, and time for issuance of permissions has reduced by 2 times, and the costs of these procedures have reduced by 5 times. Communication of business entities with government and regulatory bodies is carried out on an electronic basis.

At present, 86 per cent of business entities tax reports, and nearly 86 per cent statistical reports are submitted electronically. Today in Uzbekistan registration of business entities operating in two days. In 2011, the introduction of the electronic trading system on public procurement, was the basis for a competitive environment among the participants of exchange trading. In 2013, the volume of public procurement in electronic trading composed up to 190 million (mln) USD and trading results showed that 37 mln USD budget money was saved. Here, it is worthy to emphasize that in the framework of public procurement of goods and services, 83 per cent of all purchases were made by small scale businesses.

An important aspect in the development of a more efficient SSBPE support is to increase the banking services system. While in 2000, in the total amount of credits allocated to microcredit was 5.5 mln USD and in 2013 this figure amounted to 576 mln USD. In the current context of economic modernization, progress of small scale business depends on the strengthening of its economic and financial fundamentals (The journal of statistical review of the Republic of Uzbekistan, 2000-2013).

As an analysis of leasing companies, the bulk of leasing, *i.e.* 74.7 per cent of all services fall to agricultural machinery, big trucks and complex of real property. But in the structure of provided leasing services, the share of the leased computers, office equipment, machinery trade, woodworking and printing services is very low.

Today, the entrepreneurs of Uzbekistan are attracting foreign investors for cooperation to the country. In the country, encouraging and protective legislation for entrepreneurial activity has strengthened. Accordingly, there is an active investment policy aimed at accelerating modernization, technical and technological re-equipment

of enterprises, the organization of production based on modern, and high-tech. On this occasion, the importance of free industrial and economic zone is very large.

In the implementation of the modernization and restructuring of the economy, the need for regulatory mechanisms to encourage subjects of SSBPE through fiscal instruments is increasing. The reason is that stimulation of modernization, technical and technological re-equipment of small scale businesses requires an increase in the incentive role of taxes and reduction of the tax rates. During the years of independence, the reduction of dynamics of the tax rates is the result of a real support for this sector through economic mechanisms.

For instance, in 1991 tax rate composed 49.1 per cent, then by 2013, the figure was equal to 20.3 per cent. One of the main factors influencing on the level of the tax rate is the result of an annual reduction in the tax rate of the tax system.

In particular, if in 1998 the tax on income (profit) was 35.0 per cent; in 2013 it was 8.0 per cent. This dynamic reduction can be seen in the unified social payment. During the years of independence, this rate has dropped from 40 per cent in 2007 to 24 per cent for micro and small scale businesses; nationwide tax decreased from 24 per cent in 2000 to 5 per cent in 2013. Compared with 1993, in 2013 the tax burden has fallen by more than twice, and in comparison with 2000 by 16.8 points.

According to the Decree of the President of the Republic of Uzbekistan "*The additional measures to improve the investment climate and business environment in the Republic of Uzbekistan*" No.-PD-4609 from 7<sup>th</sup> April 2014, small scale businesses make timely payment of taxes and other obligatory payments, as well as to ensure stable growth and profitability of small scale businesses and private entrepreneurs the monitoring for tax payments of these companies has been postponed until 1<sup>st</sup> January 2017. Also, since the second quarter of 2014, newly formed small scale businesses, in addition to retailers, within 6 months after the approval of documents for registration of building a new facility, but not more than one year after the state registration, have been introduced the practice of paying a single tax and a single social payment, not taking into account the minimum rate approved payments based on the volume of

work performed, and the minimum average annual number of workers in small scale enterprises of food, light industry and construction companies up to 200 people.

There is a positive tendency of increasing the share of small scale business, micro-firms and individual entrepreneurs in the total number of operating enterprises in the structure of employment and gross domestic product. In the main sectors of the economy, the share of small scale businesses, the share of small scale business in the industry increased from 11.3 per cent in 2000 to 24.8 per cent in 2013, respectively. In agriculture from 73.6 per cent to 99.0 per cent; in construction from 37.9 per cent to 44.0 per cent, and in the service sector from 37.9 per cent to 44.7 per cent; finally exports products to small scale businesses compose for about 18.0 per cent (The journal of statistical review of the Republic of Uzbekistan, 2000-2013).

Vividly upward trend in the share of SSBPE in GDP can be observed and increased employment as well in cross-sectional areas. The analysis shows that the number of active enterprises of small scale businesses in the republic in 2013, for every thousand people there are 17.1 units, and the development of SSBPE companies in different regions differs. For example, for every thousand people, the average number of employees in small scale businesses in the Republic of Karakalpakstan and Namangan region composed 12 persons; in Andijan, Ferghana, Samarkand, and Surkhandarya on 14 persons, in Navoi region 17 persons, and in Tashkent 16 persons. The highest rates are observed in Kashkadarya (30 persons), Sirdaryo (25 persons), and Khorezm (20 persons) provinces.

The development of SSBPE there are regional differences. Small scale business occupies a significant place in the economies of Jizzakh (79.9 per cent), Namangan (79.0 per cent), Samarkand (76.3 per cent), Surkhandarya (74.2 per cent), Sirdaryo (80.0 per cent) and Khorezm (73.8 per cent) regions. In these regions, indicators of SSBPE share in GDP in 2013 are above the national average. These figures in Navoi region compose 36.9 per cent, Tashkent (56.7 per cent) and Kashkadarya (52.4 per cent), regions are significantly lower than average national indicators. Accordingly, that differs in the proportion of the employed population of SSBPE. In Andijan, Samarkand, Khorezm, Sirdaryo, Namangan, and Jizzakh regions indicators of employment in this sector composes for more than 78-80 per cent, and

the rate of Navoi (58.2 per cent) region and Tashkent city (57.1 per cent) is much lower than average for Republic.

In the most cases, the analyzed indicators are relatively high in regions with weak industrial potential. So we can conclude that SSBPE is of great importance in the regions where the development of agriculture and processing industry of their products, which are formed on agro-industrial complex. Directly in the agro-economic system, there are no major imbalances, as in all regions farmers and private farms are formed.

The analysis shows that small scale businesses are not sufficiently developed in high-tech industries, such as the energy industry, fuel industry, chemical industry and so forth. If evaluating the development of the economic potential of the country directly through the production, it is in turn characterized by interconnection capacity of small scale businesses in the regions.

### **3. COMPARATIVE ANALYSIS OF STRUCTURE AND DEVELOPMENT TRENDS OF SSBPE:**

As known in the region, the main part of the workforce is economically active population. In Navoi region the share of employment in SSBPE is 59.6 per cent of all employment in the region's economy. As of January 1<sup>st</sup>, 2014 the number of registered small scale businesses (enterprises) not counting farms was 6599 units. Currently 15397 businesses are registered. The main part of the registered companies and organizations are in agriculture (50.5 per cent of all registered entities), trade and catering (14.5 per cent), industry (9.0 per cent) and construction (5.4 per cent).

About 25.1 per cent of the total investment made to the fixed assets of the regional economy, 69.6 per cent of construction works fall for a small scale business. 10.1 per cent of the total foreign trade turnover accounted for area small businesses. In 2013, small businesses have been exported 12.8 per cent of the total exported goods. And import by entities of small business and private entrepreneurship was 10.2 per cent of total imports (The journal of statistical review of the Republic of Uzbekistan, 2000-2013).

Analysis of the data shows that the volume of produced goods and services per capita Navoi region ahead of the average for the country. Comparative analysis of the development of small scale business in the Republic and in the Navoi province shows that, if the growth rates of GDP, the share of agriculture and the number of small scale businesses per thousand people are equal in terms of employment in the area, and one can note that share in GDP and in small scale enterprises in micro-region is significantly lower. The biggest difference is observed in the industry.

To our opinion, the improvement of economic mechanisms of SSBPE' states support is to follow the principles of selectivity and support for starting their business. This is due to the youth's employment. One of the reasons is that about 30 per cent of Uzbekistan's population is young people aged 16 to 30 years. An increase in young people in the total population is observed. In 2014, the fact that more than 516,000 young men and women graduate colleges and high schools talking about the necessity for creating new jobs. In 2015, more than 500,000 young men and women graduates of colleges and high schools began their career that have 2-3 specialties and work skills, and ready to apply their knowledge in a variety of industries, services and management. Of particular importance is the direction of a youth in the area of business and support business starters.

According to this, the use of diagnostic techniques entrepreneurial skills of young people to start their businesses and determining the methodology of calculation of availability of families to business practice are important.

**Table 1:** Diagnosing the Entrepreneurial ability of the Youth.

Sr. No.	Entrepreneurial Ability (Yes or No)	Level of the Youth's Entrepreneurial Ability	Students Who Meet the Level of Entrepreneurial Ability	Their Share in the Total Number of Participants (%)
1	0-9 score	Poor	476	28
2	10-15 score	Capable	985	58
3	16-21 score	Developed	239	14

We through science-based diagnostic tests conducted among 1700 college graduates in different directions, in Navoi province with the intention to create their own business. The results of research show that the bulk of the students no matter what obstacles before them are ready to start their business (86 per cent) and are willing to work 12-14 hours a day; they are convinced that their main aim is to create their own business (88 per cent), ready to be experienced and educated entrepreneurs. These results indicate that our young people are not indifferent to the business, which is a priority in the development of the national economy. These results are particularly positive for the country and its regions.

But the lack of persistence to support their decisions and fragility of confidence for success (54 per cent) show that they have not formed sufficient skills to entrepreneurial risk and that increases the need to teach such things for young people for such situation.

Therefore, it is necessary to analyze the state of readiness for entrepreneurship by family members in family business. These results were achieved thanks to the well thought state's targeted monetary policy to strengthen the national currency, the country's economy to attract foreign investment, accelerated growth in the GDP share of industry and services, and the involvement of these areas in modern technology and due to the extensive development of Small Scale Business and Private Entrepreneurship (SSBPE).

It follows that, despite the increase in entrepreneurial activity in the national economy, there are still problems hindering the development of small scale business and private entrepreneurship.

The analysis of the results achieved in the development of SSBPE in the country and forecasts the prospects for their development that focus on the following urgent tasks: the dynamics of the relationship of the scope, number and per capita income, the impact indicators of SSBPE' share in GDP and changes in the volume of produced goods (services) in this area, the impact of its consistent tax policy in the country for potential SSBPE (share in GDP), an integrated assessment of the potential SSBPE

prospective and its increase and the presence of interference patterns of the framework of economic mechanisms.

#### **4. ECONOMIC MECHANISM PRIORITY AND PERSPECTIVES:**

One of the important tasks of today in terms of development and conservation of stable economic balance is to provide innovative development of small scale businesses. Key aspects of support for this sector are the economic mechanism closely associated with the ongoing economic, investment, tax, credit and export policies (Table 2).

Stable innovative development in the sector in Uzbekistan is closely linked with the main economic instruments, such as investment, tax, credit and export policies. This situation confirms the high level of correlation between all studied parameters:

Table 2 presents coefficient correlation of relationships influencing on factors, according to figures on the innovative development of small scale businesses in Uzbekistan (Murodova, 2015; calculation based on official statistic data in 2004-2015)

**Table 2:** Coefficient correlation of relationships influencing on factors and development of small scale businesses in Uzbekistan.

Indicators	GDP	Export	Investment	SB taxes	Loan
SB share in GDP	1.000				
SB share in export	0.894	1.000			
Investment	0.834	0.673	1.000		
Tax revenue	0.894	0.768	0.897	1.000	
Loans	0.854	0.725	0.908	0.990	1.000

During this period, the main endogenous indicator is the share of the highest spheres of the country's exports and the volume of investment which exogenous indicators have a dramatic impact on the dynamics of the share of small scale business in GDP, allocated loans to this sector and the tax revenues from this sector tax

payment, in turn, require the determination of the correlation relationship between the stable growth of small scale businesses' potential and the factors-indicators.

Analytical and predictive calculations on the basis of the revealed laws are summarized in the below Table 3. Here value factors-indicators are calculated by regression of traditional patterns in the long term to a change in taxes, credit, investment and exports.

Table 3 provides influencing factors in innovative development of small scale business in Uzbekistan and its analysis (Data of tax Committee of the Republic of Uzbekistan, 2005-2015).

In the future, the development of small scale business and entrepreneurship will be implemented through the laws of the interdependence of the endogenous (performance) indicators of exogenous (variables) indicators.

As analyzed before, near future, the development of our country's economy will be achieved at the expense of the active development of the small scale business subjects. This will ensure the growth dynamics of their products. The use of econometric methods to identify quantitative aspects of the relationship between economic indicators and explanation of division from the quantitative standpoint facilitate the determination of the presence of relationship between them. Flexibility equations of econometric regression allow us to select a combination of exogenous variables of unlimited value predictions and more precise economic interpretation.

**Table 3:** Influencing factors in innovative development of small scale business in Uzbekistan.

Year	Share of SSBPE in GDP		Share of SSBPE in Export		Share of SSBPE in Invest		Tax rate through SSBPE		Credit for SSBPE	
	%	Annual development	%	Annual change	%	Annual change	Mln. USD	Annual development	Mln. USD	Annual change
2005	38.2	2.6	6.0	-1.3	24.0	5.2	87	51.3	185	-56.8
2010	52.5	2.4	13.7	-0.9	28.5	4.8	392	272.1	1223	838.5
2013	55.8	1.2	18.0	4.0	33.5	-1.8	596	77.7	2789	790.4
2015	56.4	1.4	19.0	0.7	37.0	1.5	713	143.3	3022	661.2
2020	63.0	1.3	22.1	0.6	44.6	1.5	1038	143.3	4525	661.2

Change in the number of new jobs created by small scale businesses depends on the material interest of the working population of the Republic in the small scale business and the average wage. Such financial interest affects the growth of the share of small scale business and entrepreneurship in GDP. Here, improving division relationships, increasing income of business people and increasing their roles as stimulators provide the balance and as a result the long term development of small scale business and private entrepreneurship will be achieved (Table 4).

**Table 4:** Future Development Indicators of Small Scale Business and Entrepreneurship in the Republic.

Sr. No.	Name of Indicators	2007	2015	2020
1	Republic population, thousand people*	26800.6	30885.8	32428800
2	Number of SSBPE subjects**	351986	522408	695046
3	Share of SSBPE in GDP, in percentage**	45.7	56.4	63.0
4	Number of new jobs****	513770	569000	721342

$$* PAC (t) = 22771 .64 + 366 .276 t ; t = \text{time (from 1 to 19)}; R^2 = 98.04\%$$

$$** KBS (i) = -1387234 + 65 .24 PAC (i); R^2 = 83.29\%$$

$$*** KBYIM = (t) 24.887 + 1,643 x t; R^2 = 93.58\%$$

$$**** GDG y = 202649.e^{0.091x}; R^2 = 93.55\%$$

In our opinion, according to prognosis variant on optional calculations here, in the years 2013-2018 due to the increase of tax benefits provided to 1.8 and 2.5 per cent, there will be an increase in their share in GDP respectively by 0.8 and 1.2 per cent. Above it shows that in the years of independence, not considering the reduction of the loans based on the prognosis (to 2.5 per cent) for the development of the sector, increase in the level or quality of main indicators of SSBPE subjects' activity are expected. As a final result, in 2020 it is expected that share of SSBPE in the country's GDP shall increase up to 63 per cent.

## **5. Conclusions:**

The analysis shows that in some regions of the republic SSBPE in the development of regional business development of the regional strategy for the development of the investment necessary to develop a program of measures is not enough. This business skills in order to learn the foreign market place, to regulate the internal environment of the company to implement fiscal and monetary policy, the existing institutional system of self-regulation mechanisms of state support for the economic means that there is a need for improvement.

As can be seen from the results of the econometric analyses of the factors affecting to the development of the scope of the study factor 3 is allocated to loans and introduced investment in the share of this sector in the structure of the country's exports are positive (+), 3 factor of the tax burden on the economy, and the tax rate corporate income and single tax rate for small scale businesses-negative (-) relationship.

Small scale business is to preserve the stability of the country's GDP growth in the share of products with high added value in improving and expanding the size and type of production, processing into a product which is in great demand in the world market for the 3-4 tier system is desirable to accelerate the transition.

Small scale business is constant technical and technological renewal of production, and its share of the industry is necessary to continue the further modernization and diversification.

Export-oriented products, to further expand the use of the system of tax incentives to enterprises, through the implementation of the system-level processing products for export to the foreign trade operations related to the reduction of tariffs on exports to all of the documentation and authorization procedures for issuance of electronic forms introduction.

Small scale business enterprise and industrial cooperation, including financial and industrial groups, and encourage the creation of vertically integrated production, "bank" and the Ministry of Labor and Social Protection under the Employment Assistance Fund should expand preferential loans for the development of the services sector.

In our view, the result of the analysis of cases of entrepreneurship skills in the foreign market in order to regulate the internal environment of the enterprise to take fiscal and monetary policy, the existing institutional system based on the creation of a mechanism of self-regulation there is a need to improve the mechanism of state support for the economic.

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