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The Development of Small Business and Entrepreneurship in Digital Economy

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ABSTRACT

This article aims to discuss the impact of small businesses and entrepreneurship on Uzbek economy, as well as study the current trends of its development. Moreover, the conditions for digitalization of small businesses have been demonstrated and the development trend of ICT infrastructure also have been explored.

Keywords: small business, entrepreneurship, digital technologies, infrastructure, investments

INTRODUCTION

Small business is an entrepreneurial activity carried out by subjects of a market economy under certain criteria established by laws, government authorities or other representative organizations that state the essence of this concept¹. Small business is one of the leading sectors that largely determines the rate of economic growth, the state of employment, the structure and quality of the gross national product. The development of small business meets the global trends towards the formation of a flexible mixed economy, a combination of different forms of ownership and an adequate economic model, in which a complex synthesis of a competitive market mechanism and state regulation of large, medium and small

¹Muminov N.G., Khamidova N.M. Xuaqiao as a specific form of entrepreneurship development in East Asia // Issues of Economics and Management. International scientific journal (Russia). No. 3 (14) / 2018. C.4-6

production is implemented². World practice convincingly shows that even in countries with developed market economies, small business has a significant impact on the development of the national economy, solving social problems, and increasing the number of employed workers. In terms of the number of employees, in terms of the volume of goods produced and sold, works performed and services rendered, small businesses in certain countries play a leading role. Small and medium-sized enterprises, in comparison with large ones in some countries, occupy a dominant position, both in terms of number and proportion in the production of goods, performance of work, and provision of services. The study showed that in Western countries, the rapid growth of the share of small companies and enterprises originated in the mid-70s and early 90s of the last century. At the moment, in the most developed Western countries, the share of small business is 70-90% of the total number of enterprises, in the USA more than half of the total population (53%) is involved in small business, and in Japan it is much more than 71.7%³.

The role of small business and private entrepreneurship in the modern economy it is difficult to overestimate. In developed countries, the products manufactured in this sector makes up most of the gross national product and exports, in it a significant number of jobs are concentrated. Small business and private entrepreneurship is today the core of sustainable economic and political development. Currently, the development of small business and private entrepreneurship is one of the foundations of the economy of Uzbekistan. Small business and private entrepreneurship affects all socio-economic spheres of life society. And lending can serve as a special incentive for the development of small business and private entrepreneurship. Therefore, Uzbekistan is introducing new economic reforms to create an enabling environment for entrepreneurs and businessmen.

The decree of the President of the Republic of Uzbekistan dated July 16, 2012 "On a significant reduction in statistical, tax, financial reporting, licensed activities and licensing procedures" gave impetus to the activation of business entities, created more conditions for their activities. By this decree, from August 1, 2012, 80 licensing procedures were canceled, which undoubtedly significantly eliminated unnecessary bureaucratic barriers and obstacles in the way of small business, and expanded the freedom of entrepreneurship. By the beginning of 2015, small businesses submitted 98 % of tax and statistics reporting, and customs declarations in electronic form.

According to statistics, from January to December 2019, small businesses and private entrepreneurship assimilated investments for 22 369 billion soums, and this is 45.6 % of the total investment. Similarly, if these indicators are compared with the data of 2015, then the growth will be 120.3 % compared to the previous year.

Along with the aforementioned achievements, there are some problems that hinder the development of private entrepreneurship:

- the legal culture in the field of small business and private entrepreneurship is poorly developed, in some cases the mechanism of protecting the rights of entrepreneurs is vulnerable;
- shortcomings in the provision of social infrastructure in regions and districts;
- interruptions in the supply of electricity and gas, which affects the continuity of the activities of small enterprises;

²Zhannazarova G.K. The creation of an effective market infrastructure base is the basis for the development of the region. *Mintaqalar raqobatbardoshligini oshirishning yziga khos hususiyatlari. Ilmiy maqolalar teplami.*-T. 2018.B-28-32.

³Muminov N.G., Khamraev O. Ya. The concept of "new public administration" and foreign experience in the field of social partnership // *Actual research in the modern world (Ukraine)*. No. 6 (38), part 4. P. 119-123

- the presence of restrictions on the provision of financial, material and technical resources for small businesses and private entrepreneurship;
- underdeveloped competition in the market infrastructure affects the provision of quality services to small businesses and entrepreneurship, etc. These problems are especially noticeable at the regional level. In addition, the country has a number of problems on a national scale in the macro regulation of the private sector. In the context of liberalization, modernization and diversification of the national economy, their solution is extremely important.

Literature review. The theoretical and methodological basis of the study was the views on the development of small business of such economists as R. Cantillon, J. Say, A. Marshall, J. Schumpeter, F. Braudel, S. Bru, D. Lindsay and others. The studies of Vakhobov A.V., Gulyamov, Pardayev M.Q., Safarov B.SH., S., Khikmatov A., Berkinova B., Makhmudova N., Baturina V., Muminova N., Tursunkhodzhaeva, M., Janzakov B., and others have been crucial in studying underlying issues in the development of small business and entrepreneurship.

Lending to small businesses and private entrepreneurship is the basis economics, therefore, economists pay great attention to this industry economy. For example, G. N. Franovskaya in her book "Small Business" emphasized for voluntary financing of innovative small business: "As alternative types of funding can be voluntary contributions individuals and legal entities, allocations of non-financial institutions for implementation of a specific project to support innovative small businesses region"⁴. A.I. Shpynova pays attention to financing by attracting borrowed funds (lending) and financing through the assignment of capital shares⁵.

I would like to note the role of foreign investors referred to Glebova I.S. and Sadyrtidinov R.R. "Development banks should redistribute funds the state budget allocated to support small businesses, or credit resources of international donor organizations - the World Bank, European Bank for Reconstruction and Development (EBRD), various investment funds, as well as to involve in the process of lending to small and medium entrepreneurship, commercial banks and other credit organizations, acting as intermediary banks within the country"⁶.

Analysis and results. If we look at the dynamics of the share of small business and entrepreneurship in GDP (Figure 1), we can notice that it steadily increased from 2000 to 2016, but from 2017 to 2020 decreased by 10%. This trend can be explained in the following way: as a result of tax reforms many previously small enterprises reestablished themselves as bigger enterprises, because they don't have to more if the size increases, and have one administration for the management of the company. Before reforms it was comfortable for entrepreneurs to divide enterprises into small ones, so as to pay less taxes. However, now they pay much less taxes, even if their companies' size increments. Therefore, the number of small businesses seemed to decline in figure 1. But beyond the tax reforms, in 2020 the effect of pandemics negatively reflected on the business activity, and this also could be the reason for sharper decline in following years.

⁴Franovskaya G.N. Small Business: A Study Guide. - Voronezh: Publishing house Voronezh State University, 2007 - 182 p.

⁵Shpynova A.I. Lending to small and medium-sized enterprises: foreign and Russian experience. - Moscow: Plenipotentiary, 2009. - 156 p.

⁶Glebova I.S., Sadyrtidinov R.R. State regulation of small and medium-sized businesses: Textbook. - Kazan: Kazansky State University named after IN AND. Lyanova - Lenin, 2008. - 326 p.

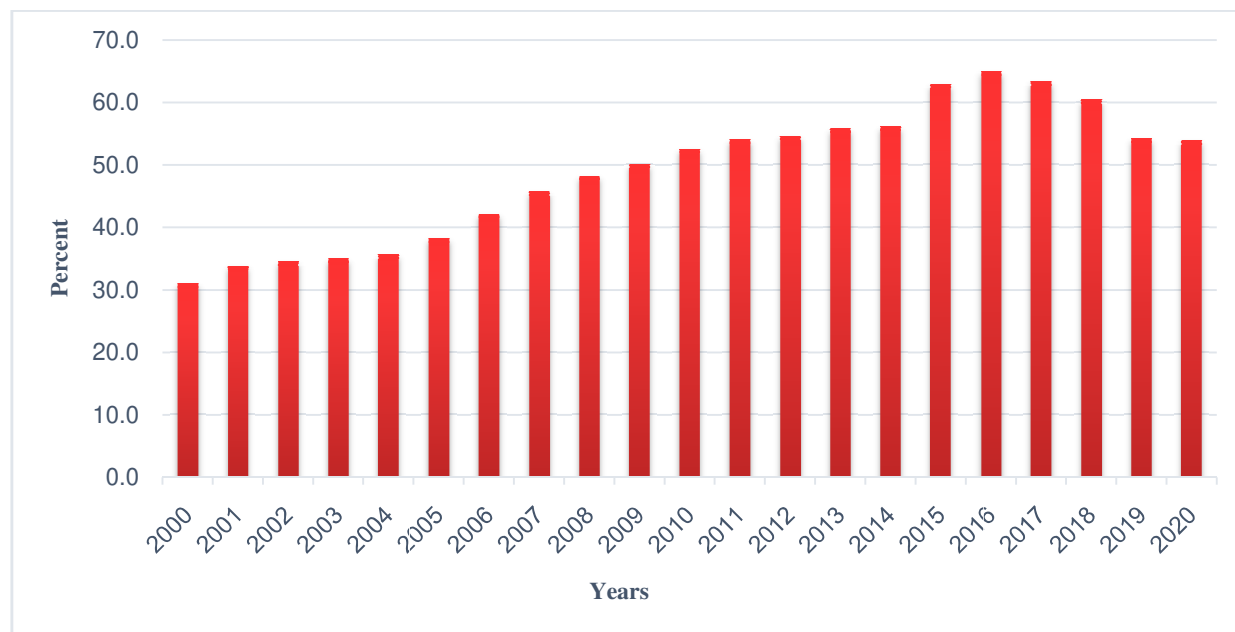


Figure 1. The dynamics of the share of small business and entrepreneurship in GDP
Source: The State committee of statistics, stat.uz

Today, digitalization became one of the priorities in arranging small businesses in many countries including Uzbekistan. Digitalization mainly eases the iterative processes which occur in companies, sometimes even automatizing them. For big companies digital technologies have already become the main part of production process, however in small enterprises it is still not so widely spread. Of course, there are some nuances applying digital technologies, because it is not always possible to standardize the product. If standardization is not possible, then it is hard to apply digital technologies (figure 2).

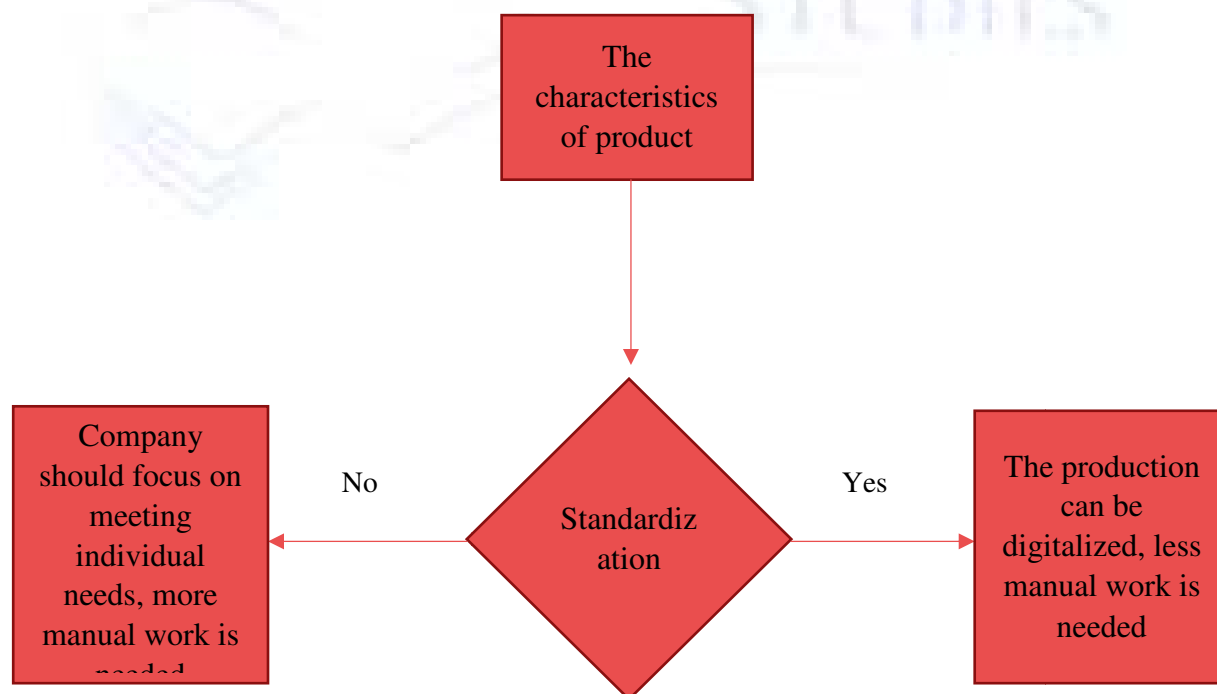


Figure 2. The condition for digitalization in small businesses

If small businesses cannot standardize their products, instead they can focus on meeting individual needs of customers, but in this situation they will have to hire more skilled employees. However, if standardization is possible then the whole process of production can be automatized using digital technologies, which positively reflects on productivity of enterprise.

In Uzbekistan, the process of digitalization is speeding up. One can see a significant increase in people connected to internet per 100 people (Figure 3).

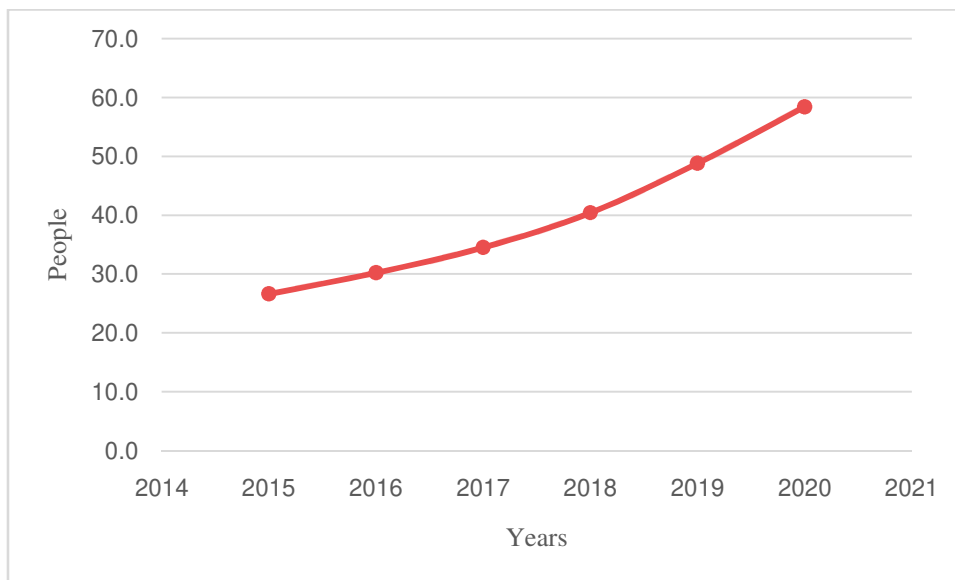


Figure 3. Internet connection per 100 people in Uzbekistan

The progress of digitalization in Uzbekistan can be seen in the rising trend of information and communication technologies' volume from 2016 to 2020.

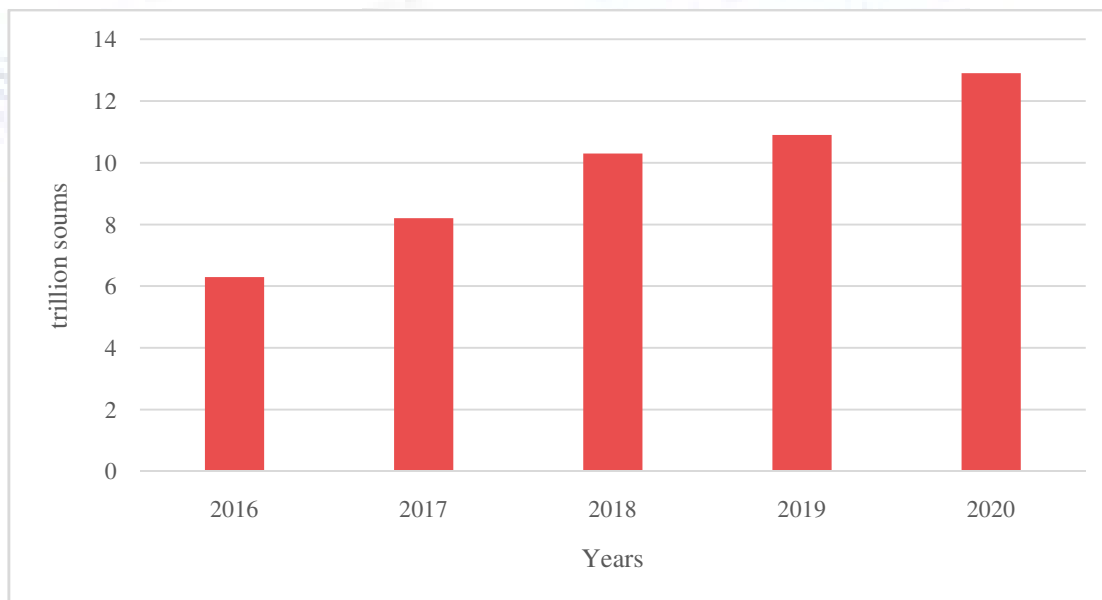


Figure 4. The dynamics of information and communication technologies' volume

Here it is seen that the volume of information and communication is steadily rising even accelerating in 2020. Nowadays, government is paying attention to digitalize all its services, therefore more than 1000 websites and platforms have been started in recent years. Especially, the coronavirus pandemics rose the

demand for distant processing of services, and thereby gave great impulse for the development of digitalization both in state and private sector.

Conclusion and discussion. In brief, we can say that the development of small businesses hugely impact the economy as a whole. It was found out that the share of small business and entrepreneurship in GDP fell significantly from 2016 to 2020. This was due to mainly tax reforms, which encouraged small enterprises to consolidate into one bigger enterprise. In other words, many entrepreneurs decided to restructure their businesses as a reaction to tax and finance policy. The process of digitalization plays an important role in ensuring high productivity in small businesses. We also demonstrated that digitalization is stipulated by the possibility of standardization in small business. If standardization is not possible, then it is better to focus on meeting individual needs of customers.

All in all, we propose to take following measures, so as to encourage development of small business and entrepreneurship in the macro level:

- 1) Ease bureaucratic hurdles for establishing and running businesses;
- 2) Encourage development of financial market of bonds, stocks, options, futures and others so as to stimulate the funds' circulation;
- 3) Encourage entrepreneurs to cooperate with higher educational institutions in applying innovations into the production;
- 4) Support the development of information technology services, establish better conditions for IT specialists and encourage creating more IT businesses.
- 5) Encourage the development of audit services focusing on digitalization of paperwork within enterprises.

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