



Article

The Dynamics of Small Business Development in Uzbekistan and Its Perspectives

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Abstract: The article aims to highlight the dynamics of the development of small business in Uzbekistan and assess its perspectives. Services generated by small businesses account for more than one third of total exports, because of this we decided to forecast volume of services rendered by small businesses. The volume of services rendered by small businesses has been increasing exponentially, if the current favorable conditions remain unchanged, the growth is expected to continue and reach 1.27 quadrillion Uzbek soums in 2028.

Key words: small business, exponential smoothing, forecast, services, employment

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Introduction.

One of the main objectives of establishing a socially-oriented market economy in Uzbekistan is the priority development of small businesses. To achieve this goal, phased economic reforms have been implemented, and large institutional foundations have been created to enhance the role of small businesses. Legal and regulatory documents ensuring the free operation of small businesses have been adopted, and market infrastructure supporting small businesses has been established.

As a result, small business entities are now actively operating in all sectors of the national economy, including the production of machinery, consumer goods, agricultural and food products, as well as in service industries and tourism[1].

The experience gained in a short period in our country has proven that small businesses are a crucial factor in sustainable economic growth. Particularly, in the context of deep structural transformations and economic diversification, small businesses play a key role in ensuring the stable development of the national economy, increasing its competitiveness, and achieving high macroeconomic indicators[2].

Over the years, a number of laws, decrees, and programs aimed at supporting the development of small businesses and private entrepreneurship in Uzbekistan have been adopted[3]. These include:

Presidential Decree No. PR-4231 of March 9, 2019, "On Additional Measures to Broadly Involve the Population in Entrepreneurship and Develop Family Business in the Regions".

Presidential Decree No. PR-4498 of October 25, 2019, "On Additional Measures to Improve the Procedure for Financing Projects Implemented within the State Programs for Family Business Development".

Presidential Decree No. PR-149 of April 2, 2024, "On Additional Measures to Improve the Financing of Business Initiatives of the Population within the Framework of Family Business Development Programs".

Presidential Decree No. PR-146 of April 1, 2024, "On Measures to Implement the Tasks Defined during the Dialogue with Entrepreneurs Engaged in the Production and Export of Agricultural and Food Products".

Presidential Decree No. PR-115 of March 7, 2024, "On Measures to Support Industrial Production in Household Settings and Utilize New Resources in Household and Private Farming".

Presidential Decree No. PR-366 of November 16, 2023, "On Additional Measures to Broadly Involve the Population in Small and Medium-Sized Businesses".

Presidential Decree No. PR-306 of September 16, 2023, "On Measures for the Financial and Institutional Support of Small Business Development".

Presidential Decree No. PR-5228 of August 23, 2021, "On Additional Measures to Create a Favorable Investment Environment in the Surkhandarya Region and Promote Small Business and Family Entrepreneurship".

Additionally, the following resolutions and decrees have been adopted:

Presidential Decree No. PD-193 of November 11, 2023, "On Measures to Improve the System of Financial Support for Small and Medium-Sized Businesses".

Cabinet of Ministers Resolution No. 181 of January 20, 2024, "On Measures to Implement the Comprehensive Program for the Continuous Support of Small Businesses".

Cabinet of Ministers Resolution No. 128 of March 14, 2024, "On Measures for the Implementation of the Innovative Development Strategy of Uzbekistan for 2024-2025".

Cabinet of Ministers Resolution No. 37 of January 22, 2024, "On Measures to Implement the Comprehensive Program for the Continuous Support of Small Businesses".

Presidential Decree No. 504 of August 9, 2021, "On Measures to Reduce Poverty by Developing Family Entrepreneurship Based on the 'Mahallabay' Approach and Increasing Sustainable Sources of Income for the Population". Along with these, several other decrees and resolutions have been enacted to further support small businesses and private entrepreneurship in Uzbekistan. All the above-mentioned regulations emphasize importance of small business for national economy. In this study we focused on the growing service sector within small business. As the digital economics is growing, so the volume of services related to latest business models is increasing fast.

Methodology.

The research aims to shed light on the conditions for business operations in Uzbekistan, as well as forecast volume of services rendered by small enterprises. As the dynamics of volume of services was exponential, we decided to use Holt Winters method for forecasting.

Exponential smoothing was first suggested in the statistical literature without citation to previous work by Robert Goodell Brown in 1956, and then expanded by Charles C. Holt in 1957[4][5]. Most common formulation is attributed to Brown and is known as "Brown's simple exponential smoothing"[6]. All the methods of Holt, Winters and Brown may be seen as a simple application of recursive filtering, first found in the 1940s to convert finite impulse response (FIR) filters to infinite impulse response filters[7].

Holt's method, also known as **double exponential smoothing**, extends **simple exponential smoothing** by adding a second component to account for trends in time series data. It consists of two equations:

$$L_t = \alpha Y_t + (1 - \alpha)(L_{t-1} + T_{t-1})$$

L_t –level estimate at time t.

Y_t –observed value at time t

α –smoothing parameter for level($0 < \alpha < 1$)

T_{t-1} –trend estimate from the previous step.

$$T_t = \beta(L_t - L_{t-1}) + (1 - \beta)T_{t-1}$$

T_t –trend estimate at time T .

β –smoothing parameter.

Forecasting equation will look like this:

$$Y_{t+h} = L_t + hT_t$$

Y_{t+h} –forecasted value at time $(t + h)$;

h – forecast horizon.

Unlike simple exponential smoothing, which assumes no trend, Holt's method captures increasing or decreasing trends over time. The parameters α and β control how quickly the model adapts to new data: A **higher** α makes the model more sensitive to recent data, but it can lead to overfitting. A **higher** β makes the trend update quickly, which is useful for rapidly changing trends. The method generates smooth forecasts that follow the general pattern of the historical data.

Results and analysis.

The study aims to analyze the state of the small business in Uzbekistan. Small business plays a vital role in the economy of the country. Figure 1 shows the dynamics of employment in small business from 2010 to 2023. From 2010 to 2016 the share of small business in the total employment steadily rose up to 78%, however starting from 2017 it began going down and accounted for 74% in 2023. Small business usually is very flexible to external factors, such as demand fluctuations, policy changes et cetera. However, due to lack of resources it is also prone to bankruptcy and instability. Therefore, for any government it is important to build robust financial and economic system based on modern business models, which enable high flexibility, speed and high quality. For this reason, nowadays, more and more attention is being paid to the development of digital technologies, such as cobots, AI assistants, and other digital technologies[8]. Digital technologies are transforming existing rules in many markets including retail, entertainment, heavy industry and others.

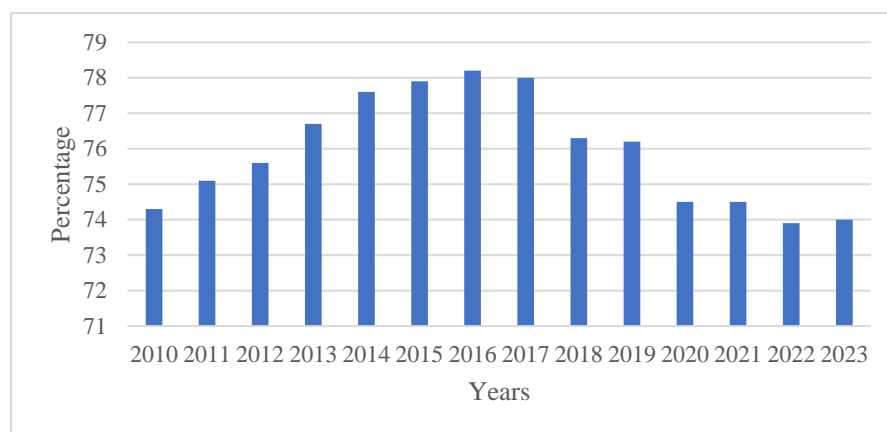


Figure 1. Share of small businesses in the total employment[9]

The time necessary for obtaining a license is significantly less in Uzbekistan than averages in Europe and World as a whole. According to the survey taken by the World Bank Group in 2019 time for obtaining import license, construction related permits, operating license and senior management's time spent dealing with government requirement is significantly lower than average values from Europe and World. This survey involved 1266 enterprises operating in Uzbekistan.

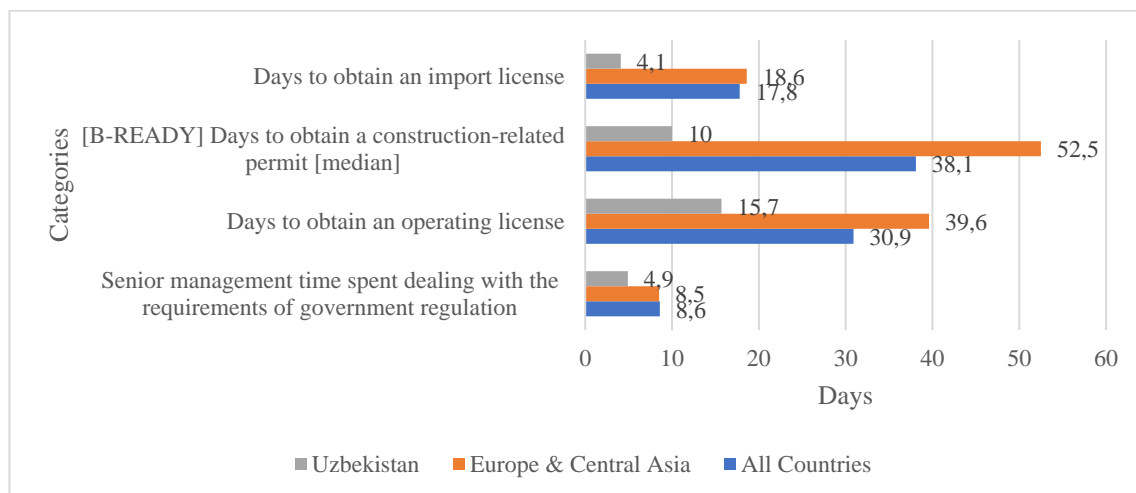


Figure 1. The comparison of the duration of obtaining import, construction related and an operating license and well as time to deal with government regulation in Uzbekistan, World, Europe and Central Asia[10]

It is obvious from figure 1 that the duration to obtain import license, construction related permit, operating license and senior management's time spent on dealing with government regulations it takes significantly less time in Uzbekistan than average time for Europe and Central Asia, as well as the world.

Services and products provided by small business and entrepreneurship account for 54.3% of GDP in 2024[9]. As it is clear more than half of the GDP is shaped by small business's contribution and therefore it is crucial to provide stable conditions for the development of small business enterprises.

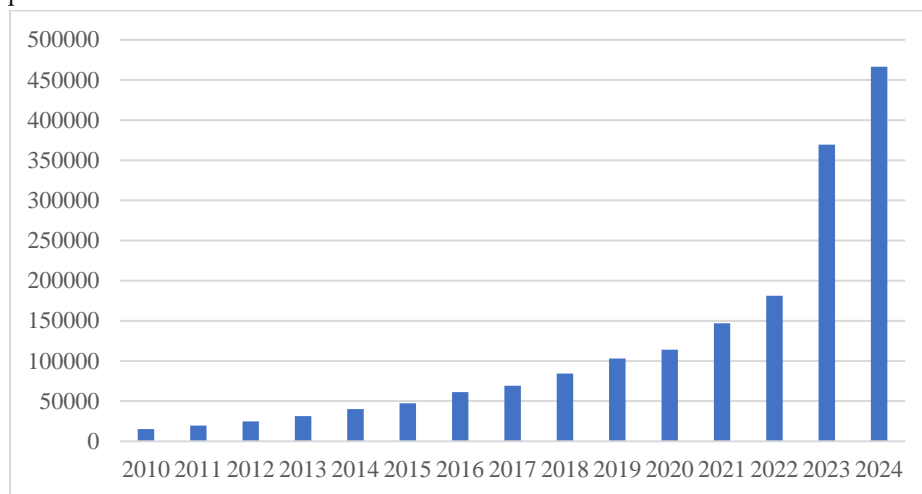


Figure 2. The volume of services rendered by small businesses (billion Uzbek soums)[11]

According to figure 2 the volume of services in small business is increasing exponentially, in particular, in 2023 the volume of services rose twice as much as in 2022[12]. The trend is largely due to the transformation of the economy, the emergence of digital services. The share of services provided by small businesses in exports accounted for 33% in 2024. The dynamics appears to be rising in the recent future, because the resources for economic growth, namely, labor force prices, capital cost is lower than in many developing countries. According to a report published in UzDaily, "the population of Uzbekistan as of the beginning of 2024 is 36.8 million people. The rate of population growth in recent years (2020-2023) has accelerated to 2.1%, or in absolute terms by approximately 700-800 thousand people annually.

At the same time, a significant part of the population (57%) belongs to the working age group. At the same time, starting from the 2010s, the share of the working-age population of the total population gradually decreased, which was caused by an increase in the birth rate from the 2000s

to the present. This, on the one hand, indicates an increase in the demographic burden in the short and medium term, and on the other hand, in the long term it may lead to an increased need to create more jobs.[13]”

These numbers demonstrate strong potential for economic growth and in combination with favorable conditions for business, the economy is expected to grow steadily in the recent[14]

The study also aims to forecast the volume of services rendered by small businesses. If the existing conditions of external and internal factors withhold for 4-5-year period, it is possible to do an accurate forecasting. As the volume of services of small businesses is growing exponentially, we can use Holt-Winter method to do the forecasting.

The results of Holt-Winter’s method is illustrated in the table 1.

Table1. Forecast results

Year	Forecasted Value, billion UZS	Mean absolute error	Root mean squared error	Standard deviation of residuals	Alpha
2025*	599668.31	0.09	0.15	0.15	0.2
2026*	770825.31				
2027*	990833.84				
2028*	1273637.08				

Table 1 shows that mean absolute error of the forecast was 0.09, while standard deviation was 0.15 indicating very high accuracy. The forecasted values for 2025, 2026, 2027, and 2028 are expected to grow exponentially, based on the assumption that previous trend will continue and no significant factors affect volume of services. Alpha value for the configuration of the model was equal to 0.2.[15]

Figure 3 demonstrates 80%, 90% confidence intervals of the forecasted values. The red line represents the values given in the Table 1. It is clear that trend can swiftly continue growing and by 2028 reach 1.27 quadrillion UZS.

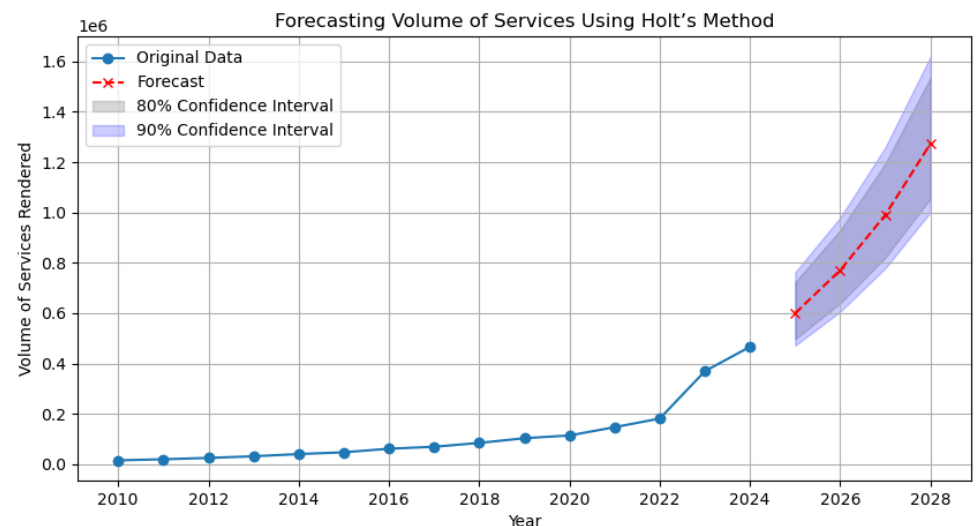


Figure 3. Forecasting volume of services using double exponential smoothing

Figure 3 shows that starting from 2010 to 2020 the volume of services grew steadily similar to linear trend, but during pandemics, in 2020 and 2021 the volume of services started to increase faster. From 2023 to 2024 the volume of services doubled and reached 500 trillion UZS.

Conclusion.

In conclusion, the conditions for doing business in Uzbekistan, particularly regarding the efficiency of obtaining necessary permits and licenses, are relatively favorable compared to global and regional averages. The government's proactive approach in implementing reforms, regulatory

frameworks, and financial support programs has significantly contributed to the expansion of small businesses across various sectors.

Our study highlights the rapid growth of the service sector within small businesses, driven largely by digital transformation and evolving business models. The application of Holt-Winter's method for forecasting confirms that, under current conditions, the volume of services is expected to continue its exponential growth, reaching 1273 trillion UZS by 2028. The high accuracy of our forecasting model, with a low mean absolute error and standard deviation, suggests that these projections are reliable, assuming no major economic disruptions.

Moreover, the demographic structure of Uzbekistan, with a large and growing working-age population, presents further opportunities for sustained economic expansion. The combination of an abundant labor force, relatively low costs of doing business, and increasing integration into global markets creates a strong foundation for future development. However, sustaining this growth will require continuous improvements in business regulations, infrastructure development, and investments in digitalization and innovation.

Future research could focus on identifying potential risks that may hinder this growth, such as external economic shocks, regulatory changes, or shifts in global trade dynamics. Additionally, exploring sector-specific trends within small businesses could provide more targeted policy recommendations for ensuring long-term economic resilience.

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