



Inclusive Institutional Environment as an Important Factor of Sustainable Development of the Economy and Business

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ABSTRACT

In the work was analyzed the entity of institutions, based on the study have been substantiated, the role of inclusive institutions in the long-term and high-quality growth of the economy and entrepreneurship. Also described the successful practices of institutional reforms in foreign countries, as well as the main aspects of the strategy for the formation an inclusive institutional environment. Noted that when foreign institutions importing and implementing it is important adopt them to the national conditions. Based on the accumulated international experience, has proposed practical measures to develop an inclusive institutional environment in the country.

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ARTICLE INFO

Article history:

Received 29 Oct 2021

Received in revised form

05 Nov 2021

Accepted 10 Dec 2021

Keywords: inclusive institutions, economic growth, entrepreneurship, corruption, state apparatus, reforms, market environment.

Introduction. Subjects of small businesses and private entrepreneurship (SBPE) are an integral element of any market system, without which the economy and society as a whole cannot function and develop progressively. Despite the fact that the level of scientific, technical and production potential of the state is mainly determined by large enterprises, the basis of the economy is SBPE. It is they who give the economy flexibility, mobility, the ability to rapid structural and technical shifts, which is a valuable quality in today's conditions of instability and periodic crises.

Despite the concentration of the bulk of SBPE entities in the field of trade and consumer services, this sector provides a significant number of jobs for the population.

Small business and private entrepreneurship play a huge role in the economy of Uzbekistan. Over the past fifteen years, the share of SBPE in the country's gross domestic product has increased from 31,1 to 56,7 percent, or 1,8 times. A third of all industrial and 98 percent of agricultural products are produced in this area today. It employs over 77 percent of the total employed population. The share of income from entrepreneurial activity is 52 percent [1].

The level of development of the SBPE is an important indicator of the effectiveness of the economic reforms carried out in the country. Despite the fact that economic growth is observed in Uzbekistan and there are favorable conditions for doing business, this process is developing unevenly, with a low pace and quality compared to developed countries. It is the SBPE that need to ensure sustainability, especially during the period of reforms.

In order for SBPE plays the role of a stable segment of the national economy, they need support from the state. However, the previously applied fragmentary measures turned out to be insufficient to radically affect the development of entrepreneurship, to make it sustainable and competitive in modern conditions. To achieve this goal, such measures must be systemic, comprehensive, long-term and, most importantly, have a holistic, institutional design.

It is for this reason that the government, as part of the implementation of the Action Strategy for the five priority areas of development of the Republic of Uzbekistan in 2017-2021, attaches great importance to the formation of an effective institutional environment aimed at reducing the state's presence in the economy, strengthening macroeconomic stability and maintaining high economic growth rates, further strengthening protection of private property rights, stimulation of the development of small business and private entrepreneurship [2].

Literature review. The criticality of the quality of the institutional environment for economic development has become a generally accepted fact. In particular, in the work of the American economist D.Rodrick "Institutions Dominate", it is illustrated that in intercountry regressions built on long time intervals, the quality factor of institutions (primarily a measure of the quality of protection of property rights and the legal system) significantly better explains the differences in long-term growth rates than other fundamental factors [3].

It should be noted that the term "institutional environment", most often used in modern economic science, was first introduced into circulation not so long ago - in 1971 by American scientists L.Davis and D.North. According to the authors' interpretation, the institutional environment is a set of fundamental political, social and legal rules that forms the basis for production, exchange and distribution. L.Davis and D.North use the term institutional environment to denote relations that develop at the macro level, namely: the general institutional framework, which are constraints for contractual agreements between individuals [4].

Another American economist D.Acemoglu notes that institutions, and in particular economic institutions, are important because they influence the structure of economic incentives in society. In particular, without property rights, individuals will have no incentive to invest in physical or human capital or to adopt more efficient technologies. In addition, economic institutions are important because they direct resources to where they will be used in the most efficient way, determine who gets the profit, income, and, ultimately, control the situation [5].

Material and methods. The research used methods of information collection, analysis and synthesis,

scientific abstraction, economic and mathematical modeling.

Results. It is important to emphasize that institutional factors are essential, first of all, to explain long-term growth rates, i.e. cross-country differences in current levels of per capita income. Attempts to explain differences in growth rates over short intervals using institutional variables give results that are statistically less significant and less robust [6]. These results are in full agreement with the conclusions drawn from the study of specific periods of economic growth acceleration in individual countries: such acceleration very often does not require fundamental improvements in local institutions. Growth can begin without this, if it is possible to weaken the effect of any other, non-institutional constraints in the economy. China and India are recent examples of successful growth that began before major institutional change.

Discussion. But over a long time interval, the role of institutional factors seems to be decisive - without improving institutions, growth turns out to be unstable, i.e. the acceleration of development that has begun cannot be made sustainable. This, in particular, is the fundamental weakness of the growth model in authoritarian and non-market systems. The latter are quite capable of generating impressive short-term growth through internal resource mobilization, but, as a rule, they are not able to maintain this pace for any length of time.

Despite progress in the study of economic growth processes and the achievement of a fairly broad consensus on the decisive role of institutions, the formation of universal “institutional recipes” for growth, for example, a list of priority institutions for the modernization of institutions, is extremely difficult [7].

Over the past century, attempts have been made to transplant the institutions of developed countries into developing economies, but only in a limited number of cases have they been successful. Thus, the American economist D. Berkovits analyzed the experience of modernizing the legal systems of 39 countries. The author recognizes the results of the reform as satisfactory only in 6 cases (Japan, Italy, Holland, Israel, Argentina and Chile) and notes that the main factor in the success of institutional imports was the ability to adapt the introduced norms to local conditions and historically formed traditions, among which the prevailing practice of law enforcement [7].

Here it is proposed to compare the institutional factors influencing the development of SBPE in the OECD countries and in Uzbekistan.

Modern institutional research does not offer any universal recipes for a large-scale acceleration of institutional reforms. Many issues will always require careful adjustment for the uniqueness of local conditions. Moreover, certain points of institutional reforms, especially the political and economic aspect of the problem, require a much better understanding of the overall institutional dynamics. At the same time, attention should be paid to the following general conclusions made by D. Rodrick in relation to the strategy of institutional transformations:

- in most cases, there is no need for universal and all-encompassing institutional reform. The reform strategy should focus on a limited set of key institutional constraints;
- the same goals can be achieved through different institutional solutions. The imports of institutions must be balanced against their careful adaptation to national conditions;
- it is very important to pay adequate attention to strengthening institutions that ensure the economy's resilience to external shocks, such as the social protection system and consultative mechanisms between the government and main social groups [9].

Table 1: The negative impact of some factors on the development of SBPE in the OECD countries and in Uzbekistan, (%)

| Factors that have a negative impact on the development of SBPE in OECD countries, (%) | | Factors that have a negative impact on the development of SBPE in Uzbekistan, (%) | |
|---|------|---|------|
| Limited credit resources | 36,5 | Underdeveloped infrastructure | 37,2 |
| High inflation | 34,6 | Limited credit resources | 37,0 |
| Political instability | 34,4 | Regulatory volatility | 36,5 |
| Ineffective tax system | 33,5 | Corruption | 34,7 |
| High exchange rate | 28,0 | High inflation | 30,7 |
| Corruption | 27,7 | Ineffective tax system | 28,0 |
| Organized crime | 24,5 | High exchange rate | 25,4 |
| Underdeveloped infrastructure | 17,0 | Organized crime | 21,8 |
| Regulatory volatility | 13,7 | Political instability | 16,4 |

Source: Center for Economic Research and «2nd OECD conference of ministers responsible for small and medium-sized enterprises (SMEs) promoting entrepreneurship and innovative SMEs in a global economy: Towards a more responsible and inclusive globalisation, p.15». [8]

If in the first half of the 90s the need to strengthen market institutions was most often considered in a fairly narrow framework, then in recent years institutional factors have been assigned a central role in explaining the successful implementation of market transformation and ensuring sustainable development of SBPE. The effectiveness of various economic policy measures, including privatization, subsidy cuts and the promotion of competition, largely depends on the quality of the institutional environment in which these economic policies are implemented. Currently, there is a small but rapidly growing body of empirical research on the impact of institutions on improving the business environment and economic growth in transition countries. In almost all of them, researchers manage to find a positive and statistically significant relationship between the quality of national institutions, the rate of economic growth and the development of entrepreneurship. One of the first works in this direction can be considered the research carried out by the Swiss economist A. Brunetti, who analyzed the factors that determine the volume of foreign direct investment in 20 countries with economies in transition, while also examining the influence of institutions on economic growth and business development. A number of indices based on expert surveys were used as explanatory institutional variables:

- an index reflecting the level of predictability of the adopted rules;
- political stability index - change of course by the executive branch;
- index of property rights protection;
- index of reliability and predictability of the judicial system;
- corruption control index. [7]

According to A. Brunetti, the impact on economic growth is assessed in two ways: either a separate regression is constructed for each of the listed indices, with control over the initial economic conditions, the openness of the economy, inflation and the level of government consumption. Or, regressions are constructed for each index without including the above control variables, but using the method of instrumental variables, in which these variables were used as instruments. In both specifications, all institutional indices had a positive statistically significant effect on economic growth and

entrepreneurship.

Along with formal institutions (such as the quality of law and order and the protection of property rights), the business environment and the economic situation are also influenced by informal institutions that relate to social capital. Social capital is defined as a cultural phenomenon that shows the degree of involvement of citizens of a country in political and economic processes, the presence of trust between citizens and citizens' trust in their state institutions.

The conditions for the high efficiency of state policy to support and stimulate the activity of the entrepreneurial sector as a driver of economic growth are provided by regulatory and organizational measures aimed at simultaneously improving the internal business environment and integrating Uzbekistan into the developing system of economic relations of the Central Asian region and in general into the global economic system. At the same time, the decree of the President of the Republic of Uzbekistan Sh.M. Mirziyoyev dated March 2, 2020 No. UP-5953 "On the State Program for the Implementation of the Strategy of Action in Five Priority Areas of Development of the Republic of Uzbekistan in 2017-2021" in the "Year of Development of Science, Education and the Digital Economy" [13], the tasks take into account those achieved in the previous years, the results and emphasize the role of the synergistic effect from the interaction of the spheres of science, education and business in solving current socio-economic problems and achieving the strategic development goals of Uzbekistan.

The relevance of the aspects under consideration is emphasized by a set of regulatory documents adopted by the Government of Uzbekistan in recent years. The objects of targeted incentive measures are:

- ▶ the innovative potential of entrepreneurship as a factor in the optimal redistribution of economic resources, accelerated development of science and technology, increasing the socio-economic potential of regions and sustainable growth in the standard of living of the population [15];
- ▶ employment and economic activity of the population, which is stimulated in the form of family entrepreneurship through the creation of favorable institutional and investment conditions [16, 18];
- ▶ legal guarantees for the protection of the rights and interests of business entities, provided by optimizing the activities of executive authorities [11, 19];
- ▶ the investment climate and business environment, developing on the basis of expanding the access of business entities to financial resources and production infrastructure [12, 20];
- ▶ financial and economic literacy of the population, the increase of which is ensured by the implementation of the basic functions of the Agency for the Development of Small Business and Entrepreneurship, which consist in expanding the types of non-financial support, including training the population in the basics of doing business and legislation in this area, skills in assessing the risks of entrepreneurship, improving the qualifications of entrepreneurs, organizing internships, etc. All sectoral ministries and departments of Uzbekistan are involved in this process;
- ▶ digitalization as a prerequisite for increasing the transparency of the activities of administrative structures, the efficiency of monitoring the business environment and the availability of administrative and information resources that expand the capabilities of small businesses;
- ▶ social protection of the population, economic sectors and business entities during the coronavirus pandemic by mobilizing internal and external resources [14, 17]. Internal resources provide continuous material and financial support for families with children, exemption from taxes for entrepreneurs and

the suspension of the application of increased property and land tax rates in relation to unused production areas. As means of external assistance, grants and concessional long-term financing are attracted for measures to counter the negative consequences of the global coronavirus pandemic;

► reduction of the informal sector of the economy based on the wide involvement of the population in entrepreneurial activity and the creation of additional conditions for the implementation of legal labor activity by simplifying the system of business registration and taxation [12, 19-20].

Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated August 29, 2020 No. 526 "On measures to restore economic growth in 2020–2021 and the continuation of systemic structural reforms in sectors of the economy" [20] provides a plan of practical actions for 2020–2021 and a Roadmap for implementation measures to restore and continue structural reforms of the economy. At the same time, at the first stage, stabilization and recovery growth are expected until the end of 2020, at which GDP growth will be achieved at the level of 102,2%, industry – 103,4%, agriculture – 103,3%, investments – 101,2%. services sector – 100,1%, retail turnover, including catering - 103%, export – 94,3%.

In a strategic perspective, economic growth rates of 5-5,5% are expected as a result of key measures to curb the growth of external debt, efficient use of external borrowing, optimize government investment costs and customs benefits, improve industrial and competition policies, continue reforming the agricultural sector, and increase productivity labor in the economy and in each industry [21].

The analysis of the development of the sphere of small business and private entrepreneurship was carried out on the basis of open data of the State Committee on Statistics of the Republic of Uzbekistan (Fig. 1).

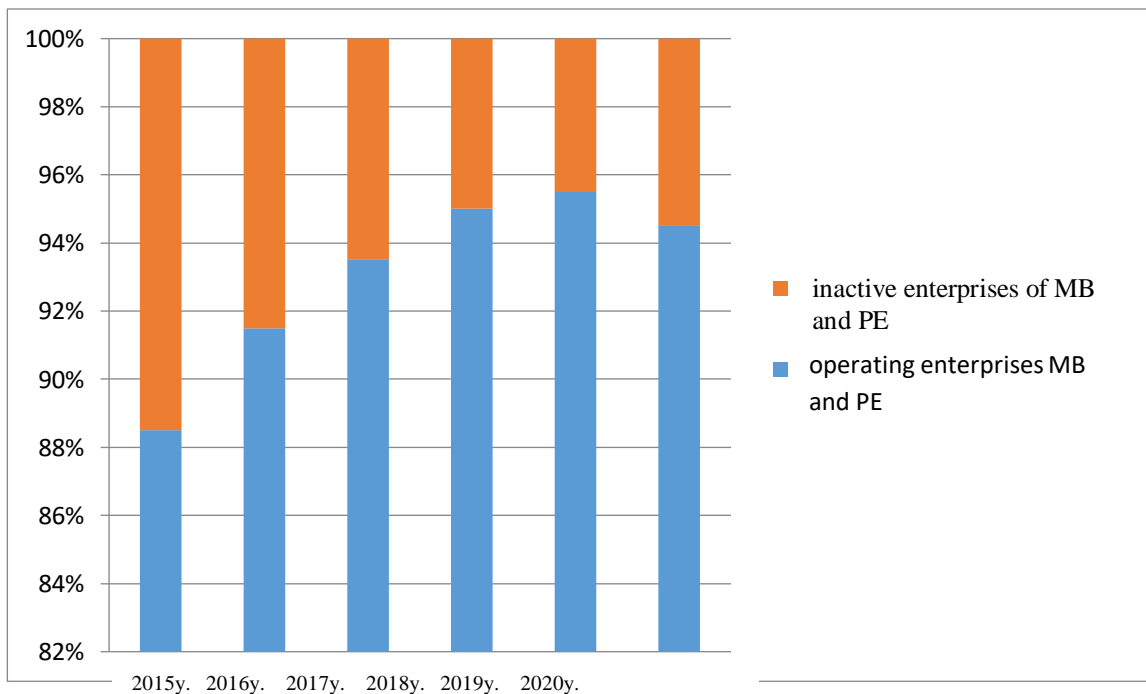


Fig. 1. Dynamics of growth in the sphere of SMPE in the economy of Uzbekistan as a result of the implementation of the Action Strategy in five priority areas of development of the Republic of Uzbekistan in 2017–2021 and anti-crisis measures during the coronavirus pandemic [22].

The dynamics of growth in the sphere of small business and private entrepreneurship is characterized by a decrease in the share of economically inactive entities and an increase in the share of newly created small enterprises. At the same time, the number of liquidated enterprises is decreasing in all regions and sectors of the economy. The current trends are an actual confirmation of the effectiveness of the social and economic policy of the state, implemented within the framework of the Action Strategy in five priority areas of development of the Republic of Uzbekistan in 2017–2021.

The anti-crisis reforms aimed at mitigating the consequences of the 2020 global pandemic resulted in a stable growth in the economic activity of the population. Analysis of the demography of small business shows a positive trend in the context of all regions. Despite the slowdown in the development of the SBPE sphere, they remain relatively high in the Andijan, Bukhara, Kashkadarya, Navoi, Tashkent, Syrdarya and Khorezm regions. The total number of SBPE subjects registered in the republic in 2020 amounted to 353,9 thousand enterprises, which is 60% higher than in 2015, and by more than 20% by 2019. Of the total number of operating small enterprises are 334,8 thousand. Compared to 2015, the growth was 71%, from 2019 - more than 27%. Evidence of the growth of business activity of the population against the background of the measures of state support being taken is the sharp increase in newly created small enterprises: in 2015 – 26,0 thousand, in 2019 – 18,9 thousand, in 2020 – 92,9 thousand. Positive dynamics is also observed in terms of increasing the sustainability and competitiveness of small businesses. Thus, the number of liquidated small enterprises in the republic on average decreased by 17%. In particular, in Bukhara region by 25%, Jizzakh - 17%, Kashkadarya - 77%, Namangan – 17,6%, Surkhandarya - 60%, Syrdarya - 20%, Fergana - 71%, in Tashkent – 33,3 % [22].

In the context of sectors of the economy, small business demonstrates an excess of the average annual growth rate. For the economy as a whole, compared to the five-year average in 2020, the number of registered small businesses increased by 28% compared to 2019, and on average from 2015 to 2019 inclusive, this indicator increased by only 12% per year. The number of small businesses operating increased by 27%, compared with an average annual growth rate of 14%. For newly created small enterprises, the average annual growth rate is 51,5%, and for 2020 - 90%. The highest rates of small business development were observed in industry, construction, services and trade.

Conclusion. Against the background of positive growth processes, such problems as lack of experience in competition, ignorance and inability to use modern management technologies, and insufficient understanding of the capabilities of the digital business environment are clearly manifested. Subject to all-round state support for the development of the private entrepreneurial sector, there is an urgent need to study and implement the best practices of organizing a business at the level of individual entrepreneurial structures.

Acknowledgement. It is important to educate novice entrepreneurs in new approaches based on systems engineering, uniting and harmonizing the role of human capital and the material component of business organization. A process approach is also important when choosing current and strategic alternatives, which involves the active implementation of project management principles that allow flexible regulation and adequate transformation of the business at all stages of the life cycle based on risk-based management. Digital technologies, the widespread implementation of which is actively supported by the state investment policy, already today make it possible to digitize not only document flow, but also many business processes of the production and commercial levels.

Thus, for small business at the present stage, technologies for controlling the consumption of time resources, optimizing work processes and their transfer to the status of business processes with clearly defined responsibilities are becoming relevant, which makes it possible to meaningfully and efficiently

use budgeting, controlling and management accounting strategies, which are purposefully allow you to regulate costs and increase the competitiveness of SBPE subjects.

All of these tools become in demand provided that the economic and business activity of business entities is motivated as a result of the reforms being carried out within the framework of the Action Strategy in five priority areas of development of the Republic of Uzbekistan.

In general, on the basis of the above, we can conclude that inclusive institutions are an important factor in ensuring the growth and development of the national economy, improving the business environment, since it is this environment that forms sustainable models of entrepreneurship behavior. In the absence of the necessary reforms, the economic losses caused by the inefficiency of existing institutions will increase at an ever-increasing rate.

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