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Effective Mechanisms of State Support for Small and Private Enterprises

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ABSTRACT

To date, a comprehensive work is being carried out in the country to develop and support small and private businesses by the state. The article pays special attention to such issues as current benefits and reforms provided by the state for the development of small and private businesses, credit support for small businesses, the role of the State Fund in the development of the business environment in the country, as well as the study of the current economic status of Uzbekistan in the global market.

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Introduction

Small business in the socio-economic development of the country serves as a generator of structural changes in the economy and society, contributing to an increase in gross product and solving acute social problems: employment, unemployment, growth level and quality of life of the population.

In economically developed countries of the world, the number of small and medium-sized

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enterprises exceeds 80% of the total number of enterprises, where 60% of the economically active population is concentrated, producing at least half of the gross domestic product. These countries have active and consistent policies to support and develop small businesses. Small enterprises contribute to increasing social and political stability, are able to mitigate the consequences of structural changes in the economy, make a significant contribution to preserving the region's labor resources and reduce the volume of commuting labor migration, and make a significant contribution to filling regional budgets [1].

Regarding the world experience on small business development, one should admit that USA is a leader in the global economy in small business development. The following figures indicate the effectiveness of the small business sector in the American economy: share of small enterprises in GDP of the country is 43.5% (as for the 2023 year), 99.9% of businesses in the U.S. are small businesses, overall number of which is 33.2 million small businesses in the U.S. To add to this, 46% of Americans are employed by a small business which accounts for 62 million of people. Owing to small businesses 12.9 million jobs created during1996 – 2021 years in the USA [2].

The complex of government support for small businesses in the United States is over 80 years old. The cardinal moment in the development of the system of state support for small and medium-sized businesses was the creation in 1953. The US Small Business Administration (SBA), responsible only to the President and Congress. Since 1954 The SBA began lending to small businesses from its own budget and providing government guarantees for small businesses when lending to commercial banks

In 2004, as part of e-government, a special portal SBA-Net was opened on the Internet, through which small businesses were able to quickly interact with government agencies and government agencies online.

SBA-Net provides free information services to small and medium-sized businesses in the following areas:

• ACE-Net (Angel Capital Electronc Network) – searching for investors for SMEs;

• Business LINC – information about opportunities interactions between small, medium and large enterprises;

• PRO-Net – conducting marketing research to search and place state, regional and private orders for supply and purchase of products (services) to SMEs;

• TECH-Net – information system about high technologies and enterprises implementing R&D in the field of high technology;

• Trade-Net – a system for developing export opportunities for SMEs and finding partners in

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international trade, providing consultations and information about financial, legal, customs and other features carrying out export operations [3].

These abovementioned innovations can be as a role-model for other countries to follow in the way to improve business environment within the country.

At the present stage of strategic transformations in the Republic of Uzbekistan, an important role is given to the formation of a civilized small business market, which can largely become a source of stimulating public demand for goods and services and creating new jobs and increasing employment of the population, increasing the level of its well-being and additional impulses of economic growth [4].

Currently Uzbekistan is on its way to achieve its long-term goal to take up the status of an upper-middle-income country by 2030, which will be mainly focused on growing a large and solid middle-class social stratum. The current reforms in Uzbekistan are largely aimed at the development and expanding of small businesses and private entrepreneurship as this sector of the economy has the big potential for becoming a real basis for forming a middle class [5].

According to Harvard University analysis, Uzbekistan has enough capacity to produce more than fifty types of industrial products. In the role of national economy's drivers can be such sectors of industry as oil, gas, metallurgy, chemistry, pharmaceuticals, textiles, leather production, food and mechanical engineering [6].

Taking into account the strategic goal of the country, the purpose of this paper is to analyse and determine the role of government in the development of small business sector within the country.

Based on this goal, the following tasks are formulated:

1. Analyse current reforms and preferences created by the government for small business' activity facilitation.
2. Identify the Public Fund's contribution in the process of development small and medium businesses in Republic of Uzbekistan.
3. Discuss credit support for small business and private entrepreneurship within the country.
4. Observe Uzbekistan's national economy status in global market.

Research methodology

In this article the general methods of scientific knowledge, methods of observation, logical and structural analysis, grouping, mutual and comparative comparison were effectively used in the implementation of the goals set in the tasks of the research.

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Results

Comprehensive support for small businesses and private entrepreneurship, eliminating barriers to their development, ensuring freedom of activity and simplifying the procedure for their organization are one of the priority areas of state policy of Uzbekistan. A clear indication of the enormous attention and care for the development of the private sector of the economy was the Decree of the President of the Republic of Uzbekistan dated September 14, 2023 No. PP-306 "On measures of financial and institutional support for the development of small businesses", where, from October 1, 2023, a Comprehensive Program for Continuous Support of Small Businesses is being implemented.

To achieve this goal, the following tasks have been set:

• 6 trillion UZS of state funds and funds in the amount of 1.2 billion US dollars from foreign financial institutions will be allocated for the implementation of the program

• Financial and advisory support will be provided to small businesses; it is envisaged to allocate loans in the amount of up to 1.5 billion UZS with a period of up to 7 years, a grace period of up to 2 years. Advisory support considers issues of obtaining licenses, participation in public procurement, information on benefits and others.

According to the Asian Development Bank report on September, the organization has raised its growth forecast for Uzbekistan for 2023 and 2024. It projects a 5.5% growth for Uzbekistan's gross domestic product (for comparison, in April ADB projected the 5% growth forecast. Growth in industry surpassed expectations in the first half of the year, accelerating from 4.6% to 5.6%. The growth forecast for 2024 was also raised to 5.5% from 5% in April [17].

Along with ADB projections, we would like to take a look at Uzbekistan's position at Index of Economic Freedom.The Heritage Foundation Research Center has published the 2023 Index of Economic Freedom report [18].

Uzbekistan's economic freedom score is 56.5, taking 109th place in the 2023 Index. Its score is 0.8 point higher than last year result (Pic.1). Among the countries of Asia–Pacific region, Uzbekistan is ranked 23rd out of 39, and its overall score is believed to be below the world average.

The "Freedom of Business" subindex, which is directly related to the development of small businesses and the business environment in general, reflects the opportunities for opening, running and closing a business; the level of general administrative burden on entrepreneurs, as well as the degree of government efficiency in regulating the business environment

Today Uzbekistan is pursuing critical reforms to build a competitive market economy. At the

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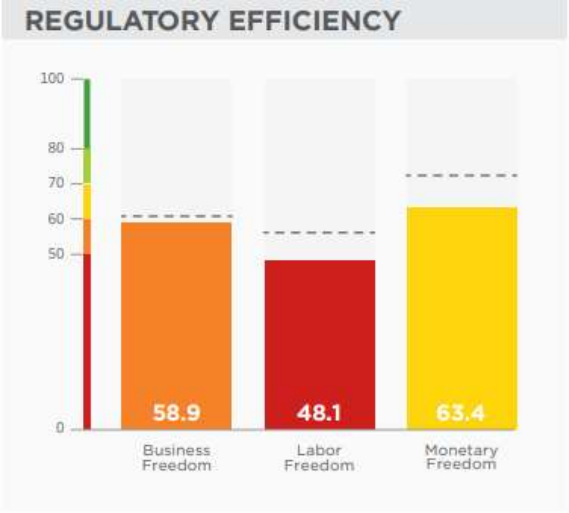
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national level, Uzbekistan has been adopting policies that advance and enhance its economic freedom, transitioning to greater openness and modernization of economic environment. Surely there are some institutional shortcomings, but positive changes have been taking root.



Picture 1. Uzbekistan's economic freedom score for 2023:www.adb.org

Analysing regulatory efficiency of doing business, despite some progress, the overall regulatory system lacks transparency and clarity. The business start-up process had been simplified. Country's labour market continues to evolve. Despite inflationary pressures, monetary stability has been relatively well maintained. (Picture 2).



Picture 2. Regulatory efficiency in Uzbekistan for 2023: www.adb.org

Moreover, regarding Uzbekistan's economic position at global scene, we can note positive changes relying on the results of The Bertelsmann's Transformation Index for 2022. As we can see from the picture below, in 2022 Uzbekistan's economy status is 4.6, for comparison in 2020 this number was equal to 4.5.

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According to the results of Bertelsmann Transformation Index (BTI) in 2022, Uzbekistan economy status is 4.6, taking 89th position in the world out of 137 countries [19].



Overall status of Uzbekistan in The Bertelsmann's Transformation Index: atlas.bti-project.org



Economy Status of Uzbekistan in The Bertelsmann's Transformation Index: atlas.bti-project.org

As it is seen from the picture above, economy status of the country is moving forward which indeed shows the outcomes of reforms for market competition growth within the country. Antitrust policies are kicking into high gear, however the government has still some issues to be addressed. Among main

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challenges one can point out lack of transparency in public procurement, dominant state control over country's key industries, over-regulated banking system, poor protection private property rights. All these barriers put a brake on development of healthy competition in the market and create problems in investment attracting.

Observing such statistics, we understand that the importance of developing and expanding small business niche is even more crucial for Uzbekistan's economic conditions today.

So, in order to deliver a comprehensive support for small business entities, to boost export capacity of domestic goods, to raise foreign investment and increase the level of investment attractiveness, and ultimately achieve one of its strategic goals – to reach the status of an upper-middle-income country by 2030, current time Uzbek government is issuing and implementing variety of privileges and preferences in support of small business, working on improvement of the regulatory-legal base as well as the elimination of bureaucratic barriers and obstacles during business management process. Reforms for provision of tax breaks, allotment of credit on preferential terms, minimizing tax check-ups are also part of governmental support program of small business [20].

On June 9, 2022, President of Uzbekistan Shavkat Mirziyoyev signed the Decree "On additional measures to further improve the activities of the State Fund for Support of Entrepreneurship."

According to the document, from July 1, the State Fund for Support of Entrepreneurial Activities provides compensation for up to 3 years to cover part of the interest in excess of the main rate of the Central Bank (but not more than 30% of rates) for loans and leasing allocated for small business projects. The loan amount should not exceed 5 billion UZS, and the interest rate on it should be 1.5 times the main rate of the Central Bank.

The fund also provides guarantees to small businesses for bank loans. The guarantee amount is 50% of the loan, the size of which should not exceed 2.5 billion UZS.

The Fund set the following tasks: improve business environment and local entrepreneurship within the country; assist in increasing of country's export volume; contribute to the opening of new job places while developing small business; develop small business niche in the country; provide financial aid for development of information systems.

Until January 1, 2025, the fund will also be able to provide a guarantee for up to 75% of the loan, the amount of which should not exceed 2.5 billion UZS. Leading small enterprises assigned to mahallas to assist in the development of small businesses and family entrepreneurship on the basis of cooperation in remote and hard-to-reach areas and areas with excess labor resources, as well as projects for the

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development of home-based work, can count on receiving it. Compensations and guarantees of the fund are provided for loans and leasing issued exclusively in national currency. Financial assistance applies exclusively to one project of one entrepreneur.

To add to the abovementioned benefits, on December, 30, 2022 year the President of Republic of Uzbekistan Sh. Mirziyoyev signed a decree "On measures to divide the territories of the republic into categories and introduce a differentiated system of support for entrepreneurship".

According to the document, from January 1, 2023, the districts and cities of the republic were divided into 5 categories. The decree states that from January 1, 2023 to January 1, 2026, a differentiated taxation procedure were introduced, according to which:

Types of businesses included in areas classified as category 5 (except of large taxpayers, permanent institutions, budgetary organizations and state enterprises, along with legal entities in the authorized capital (capital) of which the government share is 50 percent and more) pay:

- income tax, turnover tax and social tax - at a tax rate of 1 percent;

- property tax for legal entities and land tax for legal entities - at a tax rate of 1 percent of the amount accrued for these taxes;

-individual entrepreneurs registered and operating in areas classified as category 5 are exempt from paying personal income tax in a fixed amount;

-for businesses which are included in category 4 (except for large taxpayers, permanent institutions, budgetary organizations and state enterprises, as well as legal entities in whose authorized capital (capital) the state share is 50 percent and more) the basic tax rate of turnover tax is set at 3 percent. At the same time, in cases provided for by law, reduced tax rates for this tax are maintained [21].

For the successful development of the country's economy, the state needs to provide assistance to small and medium-sized businesses, since they are active subjects of the country's market. This is due to the fact that small and medium-sized businesses, unlike large companies, do not have enough of their own capabilities for their development.

Analyses. According to the State Statistics Committee, in our republic as of October 1, 2023, the number of business entities (excluding farms and dekhkan farms) amounted to 592371 units, for comparison in 2022 this number concluded 528929 units.

On August 22, 2022 Shavkat Mirziyoyev held an open dialogue with entrepreneurs. During the dialogue, the head of state outlined five main areas and put forward many initiatives for each of them [22].

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Direction 1	Considers the introduction of separate approaches to supporting enterprises by dividing them into categories. The first direction defines the introduction of individual approaches to supporting enterprises by dividing them into categories. In particular, enterprises with an annual turnover of up to 1 billion soums will be classified as micro-businesses, up to 10 billion soums - as small businesses, and up to 100 billion soums - as medium-sized businesses.
Direction 2	Is about the creation of a favourable financing system. For this purpose, 20 trillion soums will be allocated for small business projects. In addition, commercial banks will attract funds from international financial organizations for these purposes. Opportunities of the Entrepreneurship Fund to provide guarantees will be doubled. As a result, at least 15 thousand entrepreneurs will be able to resolve the issue of collateral for loans.
Direction 3	Regards the issue of introducing special approaches for business based on the conditions of districts and cities is considered. Credit is only one aspect of the problem. Business needs infrastructure and a guaranteed market. In this regard, for example, opportunities in the Tashkent region and remote areas are completely different. The established payment amount for land privatization is 20-multiple of the land tax will be reduced by 10 times in the city Tashkent and regional centers, 5 times in other regions
Direction 4	concerns the protection of the property of entrepreneurs. It is emphasized that only the court can cancel decisions on the allocation of land and property, as well as consider the issue of seizure of property during the investigation. The ability of entrepreneurs to go to court will also be expanded. In particular, when applying to administrative courts, the state duty rate will be halved. The deadline for entrepreneurs to appeal the tax authorities' decisions in court will be extended from the current one month up to three years.
Direction 5	discusses of control over activities of entrepreneurs and calling them to account. First of all, a moratorium for a period of three years will be declared on the introduction of new types of liability and penalties against entrepreneurs. All types of inspections will be coordinated with the business ombudsman, and the amount of fines should not exceed the amount of tax paid by the entrepreneur.

Five main areas to support small and medium-sized businesses in 2022-2023: www.stat.uz

President of Uzbekistan during an open dialogue with entrepreneurs on August 18, 2023 listed support measures for the development of small and medium-sized businesses.

During the meeting it was stated that more than $1 billion is allocated annually through the

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programs for financial support of micro-businesses. As a result, today at least 40-50 new entrepreneurs have appeared in each mahalla, thousands of permanent jobs are being created

Now, in order for small entrepreneurs to "get back on their feet" and expand their activities, new approaches will be introduced. An integral ecosystem will be created to train representatives of this sector in entrepreneurship, develop projects for them, finance activities, search for business partners and a market for products.

For this purpose, Qishloq Qurilish Bank will be transformed into the Business Development Bank. A small business centers will be created at the bank in each region.

Within the framework of family entrepreneurship programs, more than 500 thousand representatives of micro-businesses have improved their skills. From now on, assistant of hokims in 9,400 mahallas will assign 3-4 entrepreneurs in their territory to the centers every month who want to switch from micro to small businesses.

The centers will help the development of business projects of initiators, at their own expense train entrepreneurs who want to implement a new project, attract the necessary specialists to them, and provide accounting, tax, auditing, marketing, legal and other consulting services to entrepreneurs.

Additionally, financing of projects of entrepreneurs trained in small business centers in the regions will be provided on the most favourable terms.

For these purposes, in one "entrepreneurial year" the bank alone will provide $500 million, and the state will allocate another $500 million. Loans will be provided to entrepreneurs on preferential terms for a period of 5-7 years. Financing will begin on October 1, and credit lines will be opened for $150 million [23].

Discussion

Thus, summing up the results of the study, we can conclude that the state is directly interested in the development of small and medium-sized businesses. Small and medium-sized businesses play an important role in a modern market economy. Small and medium-sized enterprises create new jobs, increase competition, fill a niche and operate mainly in places where big business is reluctant to operate. More than a quarter of the country's total GDP today comes from small and medium-sized businesses. Due to mobility, flexibility, and an innovative approach, small and medium-sized enterprises are able to quickly adapt to changes in consumer demand, find their market niche, and quickly produce new products in small batches. They have low operating costs, create a rational structure of organization and management, constantly search for unconventional solutions and new ways of action, and are

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characterized by initiative and entrepreneurship

In conclusion, it is necessary to ensure that the creation of an effective system of state support for entrepreneurship is covering both economic and legal, organizational and social aspects. Application of the experience of leading countries in the development of small business will allow Uzbekistan not only to effectively solve large-scale tasks of the development strategy, but also to create the necessary institutional foundations for the formation of an innovative economy.

Based on the obtained results it can be recommended for Uzbekistan's national economy to take necessary steps to foster competitive economic environment, reduce monopoly level in the country gradually, enhance capability of national goods in both domestic and international markets.

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