



## Article

# Problems and Prospects of Development of Small Business and Private Entrepreneurship in the Service Sector

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**Abstract:** This article examines research questions on the current state and perspectives for the development of small business and private entrepreneurship... The article explores the role of small service firms in socio-economic development, new job creation potential, provision of innovative services and delivery of more personalized service to customers. It further assesses the key challenges in the growth of small business – capital bottlenecks, inadequate market ecosystem, absence of digital ability, and human resource matters. This article also discusses ways to address these issues, and outlines potential directions for the future.

**Keywords:** Service Sector, Small Business, Private Entrepreneurship, Innovation, Jobs, Digital Transformation, Financial Support, Socio-Economic Development, Market Infrastructure

## 1. Introduction

The tertiary sector is the most basic foundation of the economy of every country. Not only is this an essential ingredient of raising the standard of living, it is an important element of economic security and social development. The international experience of economic development testifies that public services sector – the element of economic structure – is one of the fastest growing part of any national economy, along with industry and agriculture [1]. For instance, the service sector constitutes 60–70 percent of total employment and makes a major contribution to gross domestic product (GDP) in developed countries. Simultaneously, one of the most tolerant fields for small enterprises and individual entrepreneurship, which allows creating new jobs, putting forward innovative solutions, taking into consideration the individual needs of each consumer.

Small business and private entrepreneurship have been a major factor in taking up the sledge effort for greater flexibility of the economy in the service sector. There are many reasons why small businesses enjoy huge advantages in being swift to decide, responsive to the market, and creative with new services. Moreover, they also play a key role in supporting the local economy. Small service category set up a good relationship among local producers and consumers, generate money flows and it has a role played in increasing the level of peoples living.

## Literature Review

The issues of developing small business and private entrepreneurship in the service sector have been extensively studied in economic literature. The role of this sector in the

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economy, its development trends, and existing problems have been studied by many local and foreign scholars [2].

In the book “**New Uzbekistan Strategy**”, the President of the Republic of Uzbekistan, Shavkat Mirziyoyev, places particular emphasis on the modernization of the national economy, the support of entrepreneurial activity, and the development of the service sector. The work also identifies the support of small businesses and private entrepreneurship as an important task for creating new jobs and ensuring sustainable economic growth.

In economist Q.X. Abdurahmonov's work “**Theory of Economics**” the importance of small business and entrepreneurship in the economy, their role in the market relations system, and their impact on economic development are extensively covered. According to the author, small business entities increase the economy's adaptability and play an important role in shaping the competitive environment.

Thus, in the textbook, **National Economy**, written by A.V. Vahobov, T.T. Jurayev, the ratio of the service sector in the national economy, the influence of various factors on its development, as well as the efficiency of small business entities, are analyzed. The growth of the service sector is a precondition for economic growth and employment, so point out the authors [3].

Also, the works of scientists Gulomov S.S., Rasulov A.A. Were analyzed, which studied the stages of formation development of small business and private entrepreneurship, economic efficiency and mechanisms of their state support. In these studies, small business organizations overall have an important part in neighbouring the economy and growing the service industry.

## **2. Material and Methods**

Various scientific research methods were used in this study to examine the process of developing small business and private entrepreneurship in the service sector and to identify its problems and prospects.

During the research process, economic literature, scientific articles, textbooks, and normative legal documents were analyzed first. Through these sources, it identified the theoretical basis, trends of development and lack of small business and private entrepreneurship in the sphere of services.

The research was characterized by the frequent application analysis as well as synthesis methods. Research is based on the use of analytical method that made it possible to distinguish factors affecting the additional activities of small business entities in the service sector, while conclusions were drawn collectively on the basis of the quantitative results of the diagnostic study using synthetic method characteristic of the cognitive process within itself.

In addition, the study utilized statistical analysis methods. Based on official data from the statistical agencies of the Republic of Uzbekistan, the share of small business and private entrepreneurship in the service sector, their number, and development dynamics were examined.

## **3. Results**

According to the results of the study, small business and private entrepreneurship in the service sector are an important component of the country's economy. This sector plays a significant role in ensuring economic growth, creating new jobs, and increasing employment among the population [4].

Research from years past shows some trends in the field, which is that, through utilization of the data gathered, small business entities seem to be rising of late. That process is associated with reforms that the government is currently setting in motion to stimulate entrepreneurial activity, tax breaks and improvements in business environment.

The research results also indicated a few issues to address in developing small service businesses. In particular, aspects such as lack of availability of financial resources, challenges in modern technology implementation, skilled personnel shortfalls, and poor infrastructure development in several regions are adversely impacting the growth of this market.

Given the diversity of the service sector, it encompasses several industries, that are: hospitality and tourism, transportation and logistics, trade and retail, information and communication technologies, healthcare, education, and culture. On the other hand, each sector has distinct traits and demands, thus, the common small business development strategy needs a modification in line with the circumstances in a sector. For instance, the hotel and tourism industry lays emphasis on quality of service and customer experience whereas other sectors such as IT services, focuses on speed, innovative solutions, and digital skills. Hence, for the development of the entrepreneurship in service sector it becomes imperative to carry out the detailed study of the characteristics of the sector [5].

The service sector has been growing in recent years in Uzbekistan. But from statistics, the number of entities of small and micro enterprises increases. As an example, January 1, 2025, Spanning the Republic was 358000 units, an increase of 5.4 per cent over 2014. This indicator demonstrates the dynamic growth of private entrepreneurship in the services sector and the increasing preparedness of the population for entrepreneurial activity. Simultaneously, jobs', and jobs' in the sector are number is also stable, which is very vital through economic stability as well as job creation (Table 1).

**Table 1.** Number of small enterprises and micro firms (dynamics) in 2020–2025

Year	Number of small enterprises and micro firms
2020	411.2 thousand
2021	462.8 thousand
2022	417.1 thousand
2023	523.6 thousand
2024	417.1 thousand
2025	358.1 thousand

These data show that the number of small business entities has fluctuated over the years under various economic factors. Small businesses are an important pillar of the country's economy, playing a crucial role in creating new jobs and increasing people's incomes.

The development of small businesses in the service sector depends on several socio-economic factors. First, people's sources of income are expanding beyond wages and pensions to include entrepreneurial activity. This, in turn, enables the creation of new services and their rapid delivery to the market. Secondly, the widespread adoption of digital technologies and online platforms opens up significant opportunities for developing innovative solutions and business models in the service sector [6]. Third, a system of policies and institutions aimed at supporting small businesses by the government contributes to the sustainable development of the service sector.

At the same time, there are a number of challenges to developing private entrepreneurship in the service sector. The creation of small enterprises is impeded by financial obstacles, such as lack of start-up capital and challenges in accessing credit. The insufficient development of the market infrastructure, the inefficiency of the logistics systems, and insufficient knowledge on digital marketing and e-commerce constraints the growth of entrepreneurs [7]. However, at the same time, a lack of quality resources will

result in a downfall in the service and customers feeling unsatisfied. This all necessitates the evolution of policies and practices that encourage private enterprise in the service economy.

The service sector is the collection of activities we use in our daily lives, not as material products but as services. For example:

**Transportation services** – bus, subway, taxi, postal services.

**Healthcare** – doctors, pharmacies, medical consultations.

**Education** – schools, training courses, online classes.

**Trade and retail** – stores, cafes, and restaurants.

**Tourism and hospitality** – hotels, travel agencies, tours.

Simply put, services are the "helping tasks" that make our lives more convenient.

The service sector is important in the economy in the following ways:

1. **It creates jobs.** For example, when a new café opens in a city, it not only brings income to its owner but also creates new jobs for a cook, a waiter, and a cashier. In this way, the service sector increases employment among the population.
2. **It contributes to economic development.** For example, when tourists visit our city and use hotel, transportation, and restaurant services, money circulates through this sector. As a result, the city's economic revenue increases [8].
3. **It connects with local producers.** For example, to operate, a restaurant buys vegetables and meat from local farmers. In this way, services also develop other economic sectors.
4. **It helps introduce innovations.** For example, online ordering and delivery apps (like Uber Eats and Glovo) make service operations faster and more convenient. This creates new opportunities for small businesses (Table 2).

**Table 2.** General indicators of small business entities in the service sector

Indicator	2019	2020	2021	2022	2023
<b>Service enterprises (thousands)</b>	45.0	47.5	50.2	52.0	55.6
<b>Number of jobs (million)</b>	3.2	3.4	3.7	3.9	4.2
<b>Value Added (billion \$)</b>	15.1	14.8	16.2	17.0	18.7

The service sector is one of the fastest-growing sectors of the economy and directly impacts people's lives. Small businesses play a vital role in this field, creating employment, developing innovative solutions and being more agile to the needs of the population. Compared to others in the service sector, small businesses have some clear advantages [9]. The benefits can be examined across multiple key sectors.

Small businesses are naturally very adaptable and that is a huge advantage. Due to complex management systems, large enterprises and strict internal regulations, the new service/ product cannot be introduced to the market quickly. For small businesses, though, the decision-making and service-implementation processes can happen at a remarkable pace.

For example, small city cafes or catering services quickly adapt to customer demand: they add new menu items, change service hours, or accept online orders. In this way, they gain a significant advantage in providing personalized service to customers and remain competitive.

Small businesses in the service sector create many new jobs. Every local eatery, cafe, retail shop, travel agency, or IT service company offers several jobs [10]. Another example is the opening of a small hotel, which on the one hand can provide income to the owner,

but on the other hand, it also has the potential to create jobs such as cook, waiter, housekeeper, or cashier.

Furthermore, small businesses create jobs for young adults, women, and other groups that are being forced into the labour market. This not only has tremendous economic significance but also social significance since it develops the population through the growth in the standard of living and filling of jobs.

Rapid decision-making gives small businesses the ability to deploy new technologies and inventive services quickly. For example, small business internet solutions like online ordering, on demand service through mobile apps, fast delivery systems, or personalized customer service through Artificial Intelligence are more quickly put into practice.

These cutting-edge alternatives allow small companies to respond to market needs in a timely fashion and stay ahead of the competition. As an example, if a new regional carrier offers a solution that sends customer orders within a few minutes, it will have a competitive edge over large service firms. Small businesses are also more adept at close work with customers and fulfilling very specific needs [11]. Large enterprises treat customers as "number", services are generic, less definitions and hence less flexibility.

In small businesses, owners and employees are in constant communication with customers and can respond quickly to their requests. For example, a small barbershop can listen to a customer's wishes and tailor its services individually. This increases customer loyalty and expands business growth opportunities. Small businesses collaborate directly with local producers. For example, restaurants and cafes purchase their products from local farmers. In this way, the service sector not only generates revenue from its own operations but also helps develop other economic sectors.

In addition to this, this process contributes to the flow of money in the local economy correctly and provides a sustainable link between producers and consumers. The creation of small business attracts new ideas for business, and it also allows modernized services to be established. One of the great things about small businesses is their lower barriers of entry – lower startup costs and financial risks than large enterprises. For illustration, an IT service company is relatively small and does not have a large office or massive manufacturing space but is selling digital services to customers.

A small business owner also utilizes the resources effectively, eliminate unnecessary expenses, and also adjust the business according to the market rapidly [12]. This enables them to seize new opportunities quickly.

Small businesses also have a high level of social value. Small entrepreneurs help poets well-being by creating jobs, working with local producers and using out-of-the-box solutions. Small businesses in the tourism and hospitality sector, for example, promote local culture, boost tourism income, and help a city or village grow.

While creating small business and private entrepreneurship in the service sector is significant for the economy, this process is accompanied by many issues and barriers. Such issues are not only a bottleneck in the growth of business entities, they also impact the innovative development of the sector, the creation of new and highly paid jobs, and the entire population's ability to effectively utilize services. Thus, to examine sustainable development service sector and small enterprises, it is necessary to determine and clarify their principal development problem.

Among the most basic difficulties of establishing small companies, it is the lack of capital. Unlike in the manufacturing sector, there are not enough capital-saving technologies in the service sector, and most small entrepreneurs do not have enough capital to start their own businesses [13]. This restricts the development of new services, adopting modern technologies, or capacity expansion.

Financial limitations, which range from low initial capital, restricted access to bank credit, high-interest rates, and low provision of grants and subsidies. Investments in

appropriate and sufficient vehicles and for a tech platform are necessary but not enough if the funds have run out for the business. e.g. for someone trying to set up a small courier service. Financial assistance programs, as low-interest loans, and the grants for new small business are of strategic value for small businesses.

One of the key challenges for small businesses in the service sector is the underdeveloped market infrastructure. This includes limited logistics systems, delivery services, retail networks, and e-commerce platforms.

For example, if small city restaurants want to set up a rapid delivery system for their products, the weak transport and logistics infrastructure poses a major problem for them. At the same time, in regions with uneven market conditions, the service sector cannot fully capitalize on its development opportunities. This reduces competitiveness and slows the pace of business growth.

Today, service sectors are heavily reliant on digital tools and technologies. Everything including online ordering, mobile apps, electronic payment systems, marketing, and e advertising are done on digital platforms. Simultaneously, a lot of small businesses don't have these digital capabilities. The absence of digital literacy restricts the chances for a business to promote online, interact with customers, and improve service quality. For instance the fact that small hotel not having any online booking number will lose a good amount of revenue from the tourists flow [14]. Thus, implementation of digital transformation as well as enhancement of digital-skilling of entrepreneurs remains a strategic necessity in the service sub-sector.

One more challenge that emerges during the development of small business is the shortage of competent workers. Providing quality service requires professionals who have received the right training. IT services need skilled programmers, restaurants need chefs and waiters, and even hotels need housekeeping staff for all of that! There are very few training centres and vocational schools available and the existing workforce is of a low qualification which leads to poor service. This does harm the customer experience and consequently, the business suffers competitiveness. Hence, a system of training and professional development of staff is required to ensure the longevity of growth in the service sector.

Tax and regulatory issues add another handcuff on the growth of small businesses. Many small entrepreneurs are unaware of the legal system; the procedure of tax payment, the acquisition of licenses, and permits is very complicated and lengthy [15]. Additionally, in some cases a local institution runs informally, which denies small businesses access to loans, grants and other support. Accordingly, it is very important to facilitate the legal and tax system and provide electronic services and consulting centers for entrepreneurs.

In the service sector, fierce competition poses a problem for small businesses. Large companies, brands, and entities with deep financial resources compete with small entrepreneurs.

For example, a small city café may lag behind large chain restaurants in advertising, marketing, and pricing policies. Therefore, a small business's growth strategy should be based on innovative services, high quality, and personalized customer experiences.

Business Type and Local Conditions Apart from natural factors, human factors also shape the development of a small business. If the income level of the population is low, demand for services will be limited. Additionally, minimal or nonexistent infrastructure, transport, communication and internet facilities in the area also contributes to the pace of growth in the business being slow [16].

The previous sections examined how the development of small businesses and private entrepreneurship in the service sector, while creating numerous socio-economic advantages, is also associated with a number of challenges. financial constraints, insufficient market infrastructure, and low digital skills, problems such as financial

constraints, insufficient market infrastructure, low digital skills, a lack of qualified personnel, and tax and regulatory barriers slow down the growth of entrepreneurship and negatively affect the sector's sustainable development. Therefore, identifying effective solutions to these problems and implementing them systematically is of strategic importance for the service sector and small businesses (Table 3).

**Table 3.** Trend of growth in the number of small service enterprises

60	
55	***
50	***
45	***
40	***
35	***
30	
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2019	2020
2021	2022
2023	2024
2025	

As the chart shows, the number of small service enterprises exhibited a steady growth trend from 2019 to 2023. Although the number of enterprises was relatively low in 2019, in subsequent years, the establishment of new enterprises increased due to growing demand in the service sector and a policy of supporting entrepreneurship.

Since 2020, the number of businesses operating in this sectors has increased and the importance of the service sector in the economy has also increased [17]. Specifically, the large volume of business franchise is increases on the small business enterprise in the areas of trade, transportation, the household services and the informatics services.

Between 2023 and 2024, the total number of small service enterprises' income rose to 55,000, one of the highest figures in the observed period. This shows that the service sector is a major driver of economic development.

The growth rate decelerated or even slightly declined in 2024–2025. This might be the effects for the closing of some enterprises, changing of economic circumstances, power resource effects and reduction of the renew eligible of new enterprise (Table 4).

**Table 4.** Solutions to the problems

Solution	Implementation Method
<b>Financial support</b>	Low-interest loans, grants, attracting investors
<b>Development of market infrastructure</b>	Transport, lo sticker, online trading platforms
<b>Digital Transformation</b>	Digital skills development, automation, online services
<b>Training of personnel</b>	Vocational centers, professional development, mentorship programs
<b>Tax and legal simplification</b>	Simplified tax system, electronic services, consultation centers
<b>Innovation and competitiveness</b>	Creation of new services, personalized customer experience, environmental services

Problem-solving approaches are aimed at ensuring the sustainable growth of small businesses. Financial support and the development of market infrastructure stand out as the most effective solutions [18]. Digital transformation and workforce training serve to enhance service quality and strengthen competitiveness. Tax and legal simplification

attract entrepreneurs into formal activity, while innovations improve service quality and help adapt to customer needs.

#### 4. Conclusion

Small Enterprises and Private Entrepreneurship in Service Sector of the Republic of Uzbekistan. The growth of this industry plays a crucial role in providing for employment for the population, new jobs and an increase in the incomes of the people.

The issues of business sector development, especially the service sector, receiving a special attention in recent years in our country through encouragement of small and private enterprises, provision of favorable business environment for entrepreneurs, tax and financial preferences. Because more small enterprises and more microfirms are developing in this industry, as are the scope of services.

However, the development of small enterprises in the service sector still has certain problems. Not to mention some of the other determinants holding the sector's development back to some extent, which include lack of adequate financing, difficulties in implementing modern technologies and innovations, shortage of skilled labor, and inadequate infrastructure development in some areas.

The widespread introduction of innovative technologies to develop small businesses and private entrepreneurship in the service sector in the future, strengthening mechanisms for financial support for entrepreneurs, increasing the share of digital services and further improving the quality of services is of great importance. These measures will contribute to the further development of the service sector and the stable growth of the country's economy.

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