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Article

Factors for Business Development and Increasing Population Well-Being in Uzbekistan

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Abstract: This article systematically examines the conceptual foundations and practical mechanisms of progressive poverty reduction through the expansion of small and medium-sized enterprises (SMEs), support for entrepreneurial initiatives, and the growth of population income in the Republic of Uzbekistan. Amidst the radical economic reforms implemented in the country in recent years—specifically against the backdrop of ensuring macroeconomic stability—the institutional effectiveness of the "mahallabay" (neighborhood-by-neighborhood) system, the activities of assistants to the district khokims (governors), microfinancing conditions, and issues concerning the reduction of the tax burden are deeply analyzed. By examining the dynamics of macroeconomic indicators, the article identifies the drivers of sustainable economic growth, demonstrates the effectiveness of the inclusive growth model, and develops scientific and practical proposals and recommendations aimed at eliminating systemic challenges in private sector development.

Keywords: entrepreneurship, poverty reduction, population well-being, small business, sustainable economic growth, mahallabay system, macroeconomic stability, investments, employment, private sector, inclusive development, institutional reforms.

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1. Introduction

Under the current conditions of globalization, digital transformation, and geopolitical shifts in the global economy, ensuring sustainable macroeconomic growth, enhancing population well-being, and systematically reducing poverty levels constitute strategic priorities for every nation. Globally, achieving the Sustainable Development Goals (SDGs) is directly linked to ensuring equitable access to economic resources and actively integrating low-income segments of the population into mainstream economic processes.[1]

In the Republic of Uzbekistan, the comprehensive economic and structural reforms enacted in recent years place human interests, robust social protection, and the creation of decent living conditions at the forefront of national priorities. Poverty, by its very nature, is a highly complex socio-economic phenomenon. It is characterized not merely by a current lack of income or a restricted consumption basket, but also by a lack of access to quality education, modern healthcare, decent housing, safe drinking water, and advanced infrastructure facilities.[2]

International economic practices and empirical research demonstrate that poverty cannot be fundamentally and permanently eradicated solely through the distribution of social allowances, increasing transfer payments, or one-time material assistance from the state. Such passive social assistance methods are temporary in nature; over the long term, they can foster dependency mindsets

among the population and diminish activity within the labor market. The most sustainable and economically effective solution lies in increasing the population's incentive to work and create value, broadly involving them in entrepreneurial activities, and transforming small and medium-sized businesses into the primary drivers of economic growth.[3]

By creating new and stable jobs, supplying the domestic market with competitive and affordable products, facilitating import substitution, and ensuring tax revenues for the state budget, entrepreneurial entities serve as the core link in resolving social issues. Therefore, systematically analyzing the factors behind fundamentally improving the business environment, activating the economic potential of regions, and increasing population well-being within the context of Uzbekistan carries high scientific, theoretical, and practical relevance.[4]

Literature Review

The development of entrepreneurship and its role in raising living standards and reducing poverty have been extensively researched by representatives of economic science. Scholars ranging from classical schools of economic thought to modern economists have dedicated specific attention to this subject.[5]

In particular, Joseph Schumpeter, in his theory of economic development, defines entrepreneurship as the primary driving force of the economy through the process of "creative destruction." According to him, entrepreneurs who introduce new technologies, innovations, and business models drive economic growth and elevate the general welfare of society to a new level.[6]

Amartya Sen, a Nobel laureate who investigated the problem of poverty from the perspective of economic freedom and human capability, evaluates poverty in his fundamental work "Development as Freedom" not simply as low income, but as a deprivation of basic capabilities that prevents a person from realizing their full potential. According to Sen, microfinancing and the creation of an entrepreneurial environment grant individuals economic freedom of choice and help them escape the poverty trap.[7]

Modern economists Abhijit Banerjee and Esther Duflo, in their seminal research "Poor Economics", empirically demonstrated the effectiveness of micro-entrepreneurship and targeted state programs in reducing poverty. They emphasize that state-provided incentives and infrastructure support are of decisive importance for the survival of microbusinesses and the improvement of family well-being.[8]

Among Uzbek scholars, analysts and economic researchers are actively exploring ways to increase the share of the private sector, optimize the taxation of small and medium-sized enterprises, and ensure employment. Local studies primarily analyze the specific characteristics of the "mahallabay" working system, its role in increasing social capital, and its impact on lowering poverty rates in rural areas from an institutional economics perspective. However, a systematic study harmonizing the infrastructural support of the business environment with macroeconomic constraints within the banking and credit system still requires additional research.[9]

2. Materials and Methods

This study utilizes a systemic approach, comparative economic analysis, statistical grouping, time-series analysis, as well as induction and deduction methods. The empirical foundation of the research is formed by official data from the Statistics Agency under the President of the Republic of Uzbekistan, the Ministry of Poverty Reduction and Employment, and the Central Bank. Furthermore, the correlation between the share of small businesses in GDP and the official poverty rate in the country over the last three years was analyzed from an economic-mathematical standpoint.[10]

3. Results and Discussion

Business Development – The Foundation of Economic Growth

Small and medium entrepreneurship (SME) forms the foundation of any adaptable, competitive, and sustainable economic system. Unlike large enterprises with high state ownership, small business entities possess the capacity to rapidly transform and adapt to shifts in market conditions, global and regional economic shocks, logistical crises, and technological innovations. In Uzbekistan, as a result of the progressive liberalization of entrepreneurial activity, the digitalization of licensing and permitting procedures, and radical tax reforms, this sector has assumed a

strategically leading position in the national economy.[11]

Today, the Table 1. share of small business in the country's Gross Domestic Product (GDP) is growing at a stable pace and, according to current estimates, exceeds 56%. Most significantly, this sector absorbs approximately 75–78% of the total employed population. This indicates that the majority of the country's able-bodied population derives its source of income and material well-being precisely from the private sector, family entrepreneurship, and self-employment. Financial assistance, subsidies, and systemic incentives provided by the state—especially targeted programs adopted to support women's and youth entrepreneurship—have provided a powerful impetus for the rapid proliferation of new economic entities in rural and remote regions.[12]

Table 1. Dynamics of Business and Poverty Indicators in Uzbekistan

Indicator Name	2021	2022	2023
Share of small business in GDP (%)	54.9%	55.4%	56.1%
Official poverty rate (%)	17.0%	14.0%	11.0%
Newly established business entities (thousands)	92.4	88.7	94.2
Share of those employed in the private sector (%)	77.5%	78.1%	78.9%

As seen from the data in Table 1, the activation of small business entities and the establishment of new enterprises display an inverse correlation with the continuous decline of the official poverty rate in the country from 17.0% in 2021 to 11.0% in 2023. This economic pattern confirms that increasing entrepreneurial activity is the most fundamental factor directly reducing poverty.

Institutional Mechanisms for Enhancing Population Well-Being and Poverty Reduction

In the practice of Uzbekistan's economic reforms, an entirely unique institutional mechanism for rapid poverty reduction and enhancing population well-being—the "mahallabay" system—has been successfully introduced. Within this innovative vertical system, specialists possessing economic knowledge and high qualifications from ministries, agencies, and commercial banks were assigned to every neighborhood across the republic as "khokim assistants." The functional duties of these khokim assistants include going door-to-door to diagnose the real socio-economic condition of residents, identifying their actual problems, and directing them toward income-generating labor based on the internal potential of each family and regional drivers.[13]

As a result of this micro-level approach, segments of the population in need of social assistance and protection were unified through three primary electronic platforms and systems:

1. **"Temir Daftar" (Iron Register) –** for systematically supporting households in the most difficult financial situations;
2. **"Ayollar Daftari" (Women's Register) –** for ensuring the employment of women and engaging them in entrepreneurship;
3. **"Yoshlar Daftari" (Youth Register) –** for financing the startup initiatives and vocational education of the younger generation.

However, economic analysis indicates that registration or maintaining statistics alone cannot be the final solution. The true multiplicative effect is achieved by allocating targeted preferential microcredits to the population, providing them with modern tools of labor on a subsidy basis (materials for building greenhouses, sewing machines, motor cultivators, and equipment), and granting long-term leases of land plots for farming in the agricultural sector. It is precisely as a result of this complex and inclusive chain of measures that a significant reduction in the country's poverty indicators was achieved in a short period.

Factors Ensuring Sustainable Uplift and Existing Systemic Barriers

To progressively improve the business environment, elevate its position in international rankings, and maintain population well-being sustainably over the long term, a number of systemic

factors and macroeconomic problems in the economy must be considered and eliminated.[14]

First, the limitation of financial resources and their cost (interest rates). Today, the high interest rates on loans allocated by commercial banks under market conditions (around 22–26% annually) pose a serious financial burden for entrepreneurs wishing to implement medium- and long-term investment projects or start new businesses. Low-interest preferential loans provided by the state within the framework of family entrepreneurship programs are unable to fully cover the expanding real needs of all entities.

Second, the provision of production and transport infrastructure. Seasonal and technical disruptions in electricity, natural gas supply, and road-transport infrastructure in the regions—especially in remote rural areas and districts far from centers—constitute a significant barrier to the continuous, full-capacity operation of production facilities and refrigerated warehouses. This situation leads to an increase in product prime costs and financial losses for entrepreneurs.

Third, tax administration and integration of digital systems. As a result of tax reforms, lowering the value-added tax (VAT) rate to 12% and unifying turnover tax types provided great financial freedom to the private sector. However, in practice, tax control mechanisms, excessive reporting, and certain bureaucratic barriers in tax administration increase administrative costs for entrepreneurial entities, necessitating further simplification of these processes.[15]

4. Conclusion

Based on the comprehensive research conducted, statistical analysis, and synthesis of international experience, the following scientific and practical proposals and recommendations have been formulated to achieve sustainable, inclusive economic growth by increasing business activity and uplifting population well-being in Uzbekistan:

1. Expanding Strategic Directions of Poverty Reduction: Rather than merely providing material support to the population, it is necessary to strengthen the system of teaching them entrepreneurial skills and vocational retraining. Based on internal capabilities within neighborhoods, it is advisable to expand high-income micro-sectors in a chained manner, such as poultry farming, rabbit farming, modern apiculture, the establishment of intensive greenhouses, and national craftsmanship within households.

2. Aligning Infrastructural Provision with Business Needs: Regional infrastructure development programs should be directly linked to the physical location of business entities. Supplying small industrial zones, free economic zones, and agro-industrial clusters with guaranteed and uninterrupted energy resources, alternative energy sources, and logistical routes will rapidly accelerate the inflow of private local and foreign investments.

3. Radically Transforming the Microfinancing System: It is essential to expand the activities of non-bank credit organizations and microcredit organizations in the country and develop digital microfunctional services. A gradual reduction of interest rates on loans granted by commercial banks through flexible monetary policy instruments and the broad implementation of mechanisms to simplify the collateral system (utilizing insurance policies, intellectual property, or future revenues) are required.

4. Simplifying Tax Administration and Reducing the "Shadow Economy": To incentivize entrepreneurs operating honestly and legally, it is necessary to make tax risk-analysis systems transparent, reduce excessive audits and administrative measures, and reorganize digital tax services based on the principle of "helper to the entrepreneur."

In conclusion, granting real economic freedom to representatives of the private sector and institutionally protecting their business initiatives serves as the most reliable and unmatched guarantee for ensuring the country's long-term macroeconomic stability and fundamentally uplifting the living standards of the population.

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