



SMALL BUSINESS AS THE MAIN FACTOR OF ECONOMIC DEVELOPMENT

M. M. Dadaboyeva

Associate Professor of the Department of “Economics”

Andijan State Technical Institute, Uzbekistan, Andijan

Abstract

This paper highlights the role of small businesses in the modern economy and their impact on economic development. It analyzes the contribution of small enterprises to job creation, the stimulation of innovation, the activation of regional economies, the promotion of a competitive environment, and the increase in tax revenues to the state budget. The study substantiates that sustainable economic growth can be achieved through the development of small businesses. This work considers small business as a strategic factor in economic progress and emphasizes the need to strengthen its position in state policy.

Keywords: Small business, economic development, entrepreneurship, job creation, innovation, regional development, tax revenue, competitiveness, sustainable growth.

I. INTRODUCTION

In the current global economic climate, the role of small businesses is increasingly important. Small businesses are one of the most important factors in economic development, creating jobs, fostering innovation, increasing competition, and developing regional economies. Small businesses are characterized by their ability to adapt quickly to market demands, manage costs effectively, and respond to local needs, compared to large enterprises.

Small businesses are especially important for developing countries in ensuring economic stability and improving the living standards of the population. They not only increase economic activity, but also play an important role in ensuring the social well-being of the population, developing local production, and protecting against external economic influences. At the same time, the



***Modern American Journal of Business,
Economics, and Entrepreneurship***

ISSN (E): 3067-7203

Volume 01, **Issue** 04, July, 2025

Website: usajournals.org

***This work is Licensed under CC BY 4.0 a Creative Commons
Attribution 4.0 International License.***

importance of small businesses has its own characteristics, as they are a source of innovative ideas and technologies, as well as creating opportunities for opening new markets.

Various policies and programs have been developed in many countries of the world to develop small businesses. States are trying to ensure economic growth by supporting small businesses, creating incentives for them, and improving the economic environment. Also, through the development of small businesses, it is possible to create new jobs and reduce social inequality.

This work analyzes the role of small businesses in economic development, their impact on the country's economy, and their importance in the development process. It also discusses the contribution of small businesses to the stability of the state economy and society, as well as the policies and measures necessary to support them.

Recent scientific studies on the role of small businesses in economic development have further clarified their importance in the economy. Small businesses play an important role in introducing innovations, creating jobs, increasing competitiveness, and ensuring the stability of the economic system. According to international and local scientists, innovative approaches, such as clustering and branching, are necessary for the development of small businesses. Based on their views, supporting and developing small businesses can lead to economic stability and growth.

First of all, the role of small business in the economy is directly related to entrepreneurial activity. The famous American economist P.F. Drucker noted that there is an urgent problem in understanding small business and entrepreneurship. He wrote that "many years have passed since Say coined the term, and we are still confused by the definitions of "entrepreneur" and "entrepreneurship"" [1]. Here, the continuing difficulties in formulating a coherent definition of entrepreneurial activity require more precise concepts to better understand the essence of small business.

The role of small business in economic growth is realized through its innovative potential in the market. Schumpeter (1934) considered small business to be the basis of economic development and saw it as a key tool for renewing economic systems through innovation. He emphasized the role of small businesses in the



development and introduction of technologies, as well as their contribution to economic growth through the creation of new products and services.

Schumpeter's concept of "Creative Destruction" shows the ability of small businesses to innovate and adapt to market changes. In this context, small businesses become important actors in the implementation of innovations in the economic system.

Okpara John and Wynns (2016) define small businesses as a dynamic, complex and changing economic system. They express the essence of effective small business management as follows: "The essence of managing such a system is to influence the managed and controlled subsystems aimed at effectively achieving the goal of the activity by developing influence and ensuring its implementation" [2]. This point of view indicates the active participation of small businesses in creating new opportunities and the need for good management in this process.

The formation of clusters is important in the development of small businesses. F.F. Khamidullina (2020) showed the economic essence of small businesses in a dialectical nature. In her opinion, small businesses become important parts of the economic system by quickly adapting to changes, introducing innovations and maintaining competitiveness. F.F. Khamidullina emphasized the specific features of small business and showed that it functions as an independent sector in the economic system.

Methods such as clustering and branching are important in the development of small business, since these methods allow strengthening the business sector, introducing innovations and creating jobs.

Anonymous articles on the role of small business at the international and regional levels note the increasing socio-economic importance of small business. "Over the past decade, small business has become a separate independent socio-economic sector of the economy, in which economic contradictions have intensified" [3], - anonymous researchers noted. This indicates the ability of small business to adapt to changing conditions in the economy and its transformation into an independent socio-economic sector.

There is evidence that small businesses play a role in mitigating economic contradictions and creating new jobs. At the same time, it is also important to increase the technological and competitive capacity of small businesses. Uzbek



economists consider small businesses to be a key factor in the country's economy. They also emphasize the importance of developing small businesses in partnership with medium and large businesses. Uzbek economist F.F. Khamidullina linked the economic essence of small businesses with clustering, branching, and innovation [4]. This approach shows that small businesses play an important role in the economic system and that their development can increase the country's competitiveness.

II. PROBLEMS OF SMALL BUSINESS DEVELOPMENT AND WAYS TO SOLVE THEM

Small businesses are an important part of the economy, as they play a key role in creating jobs, introducing innovations, increasing competitiveness and ensuring social stability. However, there are many problems that hinder the development of small businesses.

One of the biggest obstacles for small businesses is the lack of financial resources. Many small businesses do not have access to start-up capital, which limits their ability to start and develop their business. High interest rates and collateral requirements for loans from banks and financial institutions create difficulties for small businesses in providing them with the necessary funds. This, in turn, hinders business growth.

Small businesses often cannot correctly assess the competition, which prevents them from gaining a strong position in the market. The marketing and research necessary to find a place in local and global markets are often lacking. Also, small businesses often do not have sufficient resources to implement innovative activities. In many cases, there are no necessary opportunities to introduce new technologies and allocate funds for scientific research.

The problem of attracting and retaining qualified personnel for small businesses is also one of the pressing issues. Typically, small businesses face difficulties in recruiting qualified specialists for their activities, which hinders the growth and development of the business.

At the same time, small businesses also face difficulties in tax burdens and regulation. Compared with large companies, small businesses face difficulties in transferring tax and other financial obligations.



***Modern American Journal of Business,
Economics, and Entrepreneurship***

ISSN (E): 3067-7203

Volume 01, Issue 04, July, 2025

Website: usajournals.org

***This work is Licensed under CC BY 4.0 a Creative Commons
Attribution 4.0 International License.***

To expand the opportunities for small businesses to implement innovations, it is necessary to create research and development centers and startup incubation centers. Such organizations play an important role in introducing new technologies and supporting innovations.

Taking all this into account, it is important to develop and implement effective strategies for the development of small businesses. It is necessary to create opportunities for small businesses to develop by expanding financial resources for small businesses, assisting in assessing competition, developing innovative technologies, and training qualified personnel.

In recent years, more than 50 decrees and resolutions of the President of the Republic of Uzbekistan have been adopted to support small business and private entrepreneurship. These resolutions have been a great impetus for the development of small business and an important factor in implementing positive changes in the economy.

Since the first years of Uzbekistan's independence, great attention has been paid to the development of small business. Large investments have been made in the areas of developing the legislative and legal framework, financial support for entrepreneurs, protection of their rights, training and retraining of personnel, infrastructure serving small business entities, and market development.

In 2024, the share of small business entities in gross domestic product amounted to 54.3 percent, compared to 51.2 percent in 2022 and 51.8 percent in 2021. This decrease is explained by the increase in the share of large enterprises in gross domestic product. However, the share of small businesses in GDP continues to grow steadily. In developed countries, the share of small and medium-sized businesses in GDP is 50-60 percent. For example, in Poland it is 51 percent, in Germany it is 53 percent, and in Finland it is 51 percent.

The following important conditions have been created for the development of small businesses in the Republic of Uzbekistan:

Registration of small businesses: An individual entrepreneur can register within 30 minutes. Also, only two documents must be submitted to register a small business under a legal entity.



***Modern American Journal of Business,
Economics, and Entrepreneurship***

ISSN (E): 3067-7203

Volume 01, Issue 04, July, 2025

Website: usajournals.org

***This work is Licensed under CC BY 4.0 a Creative Commons
Attribution 4.0 International License.***

Financial support: Small businesses are provided with preferential bank loans, subsidized rates, and a guarantee from the state fund. Also, interest costs are covered when obtaining loans from commercial banks.

Protection of entrepreneurial activity: Protection of the rights of entrepreneurs, elimination of liability for them in case of errors only at the first stage of control verification, and creation of an effective consultation system. Also, business management training courses for entrepreneurs have been organized at privatized facilities.

The reforms implemented through the measures served to develop small businesses, create a favorable business environment, and form a positive image of Uzbekistan in the international arena.

In the report “Index of Economic Freedom - 2024” of the American Heritage Foundation research center, Uzbekistan ranked 103rd among 184 countries with a score of 55.9. This indicator was 140th in 2019 with a score of 53.3.

At the same time, there are problems that need to be solved in the development of small businesses. Issues related to the necessary technological resources for small businesses, access to credit, problems with obtaining land plots, collateral security, and the development of innovative industrial production are still relevant. It is also important to improve the mechanisms for exporting small business products to global markets and increase competitiveness. The reforms implemented to develop small businesses are expected to further increase economic freedom and strengthen the state's position in the international economic arena. Thus, the small business sector of Uzbekistan will continue to play an important role in the economy, creating new jobs, introducing innovations, and ensuring economic stability.

Conclusions and Recommendations

Small businesses are an important component of the Uzbek economy. They play a key role in creating jobs, introducing innovations, increasing competitiveness, and ensuring economic stability. In recent years, the state has implemented a number of support measures for the development of small businesses, including financial assistance, tax incentives, legal protection, and the introduction of training programs.



However, there are still a number of problems in the development of small businesses, such as a lack of financial resources, difficulties in entering markets, a shortage of qualified personnel, and complexities in the tax system. There are also limited opportunities for small businesses to innovate and difficulties in entering foreign markets.

1. Improving Financial Resources:

Developing microcredit systems for small businesses and continuing to provide subsidized loans.

Creating new investment opportunities, including strengthening cooperation with venture capital and angel investors.

2. Marketing and Market Expansion:

Developing effective marketing strategies for small businesses, expanding market analysis and consulting services to increase competitiveness.

Supporting the development of technologies and exports for small businesses to enter international markets.

3. Training Qualified Personnel:

Further developing vocational education for small businesses, establishing advanced training courses and training centers.

Strengthening cooperation in the private and public sectors in training specialists.

4. Tax and System Simplification:

Simplifying the tax system for small businesses, introducing tax incentives and deductions.

Creating one-stop services for small businesses, as well as reducing registration and licensing processes.

5. Support Innovation:

Establishment of research centers and incubation centers to support startups and innovative projects.



Provide subsidies and grants to small businesses to carry out R&D activities. It is necessary to make maximum use of the existing opportunities for the development of the small business sector. The reforms implemented by the Government of Uzbekistan, measures aimed at creating a favorable business environment for small businesses and increasing integration into global markets will increase the competitiveness of the country's economy. It is important to implement the above recommendations for the effective development of small businesses and their contribution to the economy.

REFERENCES

1. P.F. Druker, "The Concept of the Corporation", New York: John Wiley & Sons, 1946.
2. F.F. Khamidullina, "Small Business and its Economic Essence", Tashkent: Uzbekistan National University Press, 2020.
3. Anonymous, "The Role of Small Business in Modern Economies", International Business Review, Vol. 34, No. 2, 2018.
4. A.Q. Shermatov, "The Development of Small and Medium-sized Enterprises in Uzbekistan", Tashkent: Economy and Finance Publications, 2019.
5. Dadaboyeva M.M. Small Business as the Main Factor of Economic Development: Status, Development Problems. Excellencia: international multi-disciplinary journal of education. Volume 02, Issue 05, 2024. <https://multijournals.org/index.php/excellencia-imje>.