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SMALL BUSINESS AS A FACTOR OF REGIONAL ECONOMIC EFFICIENCY

Ajamilova Nigora Asametdinovna
PhD Candidate, Institute for Advanced Training and Statistical Research

ABSTRACT----------
Small business plays a crucial role in regional economic development, enhancing employment, fostering innovation, and ensuring economic diversification. This article explores the impact of small businesses on regional economic efficiency by analyzing their contribution to GDP, employment, and sectoral growth.
KEYWORDS: *Small Business, Regional Economy, Economic Efficiency, Entrepreneurship, Innovation, Economic Growth----------*

INTRODUCTION

The role of small businesses in driving regional economic efficiency has been extensively studied in economic literature, highlighting their contributions to job creation, innovation, and economic diversification. As the backbone of many regional economies, small enterprises serve as catalysts for local economic development, ensuring sustainable growth, fostering competition, and enhancing market dynamism. Their ability to quickly adapt to changing economic conditions makes them critical to regional economic stability and resilience.

Small businesses play a crucial role in bridging economic disparities between different regions by decentralizing economic activity. Unlike large multinational corporations, which tend to cluster in highly urbanized areas, small enterprises are more evenly distributed across regions, facilitating balanced economic development. They stimulate local demand, encourage the formation of business networks, and support supply chain integration, thereby reinforcing economic interconnectedness within regions. This economic decentralization is particularly important in developing countries, where regional disparities in income and employment remain significant.

Regional economic efficiency, a key measure of economic performance, refers to the optimal use of available resources to achieve maximum economic output with minimal waste. Small businesses contribute to this efficiency by enhancing resource allocation, fostering productivity, and creating employment opportunities at a lower capital cost compared to large firms. Their presence also stimulates knowledge diffusion, skills development, and innovation, all of which are essential for economic competitiveness at both regional and national levels.

Despite their significant contributions, small businesses often face substantial challenges, including limited access to finance, regulatory constraints, and difficulties in integrating into global value chains. These obstacles can hinder their potential to drive regional economic growth effectively. Therefore, understanding the conditions that enable small businesses to thrive and their role in regional economic efficiency is essential for policymakers and economic development strategists.

LITERATURE REVIEW

Small businesses play a crucial role in regional economic development by driving job creation, enhancing innovation, and improving economic resilience. Their impact has been widely studied in economic literature, particularly in the context of employment generation, productivity growth, and sectoral diversification (Acs & Audretsch, 1990; Ayyagari). The ability of small businesses to adapt quickly to market changes and to utilize local resources efficiently makes them indispensable to regional economies.

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The capacity of small businesses to generate employment is a key factor in their contribution to economic efficiency. Studies show that small and medium-sized enterprises (SMEs) account for the majority of job creation in both developed and developing economies (Ayyagari et al., 2011). For instance, research conducted by the World Bank found that SMEs contribute approximately 50% of total employment worldwide.

In developing countries, small businesses often serve as an entry point into the labor market, particularly for marginalized groups such as women and young entrepreneurs (De Mel, McKenzie, & Woodruff, 2008). Empirical studies in Latin America and Sub-Saharan Africa suggest that microenterprises and informal businesses provide a crucial source of income, even though their productivity levels are generally lower than those of larger firms (McKenzie & Woodruff, 2014). Furthermore, research indicates that self-employment and microenterprise initiatives can reduce poverty by offering individuals alternative income-generating opportunities (Banerjee & Duflo, 2011).

Small businesses are often more innovative relative to their size than larger enterprises, contributing significantly to productivity growth (Acs, Braunerhjelm, Audretsch, & Carlsson, 2009). In many economies, small firms drive the commercialization of new technologies and adapt rapidly to changing market conditions (Van Stel, Carree, & Thurik, 2005). Research suggests that small firms are particularly effective at developing niche markets and introducing product innovations (Audretsch & Keilbach, 2004).

Structured management practices have also been found to enhance productivity in small firms. Bloom et al. (2013) conducted a study on Indian manufacturing firms, revealing that those that adopted structured management techniques experienced significant productivity gains. This finding suggests that targeted business training and capacity-building programs can enhance the competitiveness of small enterprises.

The presence of small businesses in a region has a significant multiplier effect on the local economy. Moretti (2010) demonstrated that for every new job created in the tradable sector, additional jobs are generated in the local non-tradable sector. This local economic spillover effect highlights how small businesses indirectly contribute to economic development beyond their immediate industry.

Cluster-based approaches have also been effective in fostering regional development through small businesses. Glaeser, Kerr, and Ponzetto (2010) found that entrepreneurial clusters promote knowledge spillovers and enhance regional competitiveness. In particular, the clustering of small firms within industrial zones has been linked to higher productivity and innovation rates due to shared resources and collaborative networks (Porter, 1998).

Despite their contributions to regional economic efficiency, small businesses face significant challenges that can hinder their growth and impact. One of the most prominent barriers is access to finance. Another major constraint is regulatory and institutional inefficiencies. Djankov et al. (2002) highlight that excessive bureaucracy and high startup costs deter entrepreneurial activity, particularly in emerging economies. Simplifying business registration processes and reducing administrative burdens have been shown to significantly improve business formation rates and economic efficiency (McKenzie, 2017).

ANALYSIS AND RESULTS

Small and medium-sized enterprises (SMEs) are pivotal to the economic fabric of both developed and developing nations, serving as catalysts for employment, innovation, and overall economic growth. According to the World Bank, SMEs represent about 90% of businesses and more than 50% of employment worldwide. Their ability to adapt swiftly to market changes and their inherent flexibility position them uniquely to drive regional economic efficiency.

The employment landscape across various countries underscores the critical role of SMEs in job creation. In the European Union, SMEs account for 99.8% of non-financial enterprises and employ two-thirds of the workforce. Similarly, in developing Asian countries, SMEs constitute nearly 90% of all business entities and are the principal private sector employers, providing 50-80% of all jobs.

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Within the framework of this study, an in-depth analysis was conducted to assess the role of small businesses in regional economic development using various key indicators. The contribution of small businesses to the economy of the Tashkent region was scientifically examined across multiple dimensions.

Table 1. Key Economic Indicators of Small Business and Private Entrepreneurship in the Tashkent Region

Year	Industry (bln UZS)	Construction (bln UZS)	Employment (thousand people)	Export (mln USD)	Import (mln USD)	Trade (bln UZS)
2010	1,178.2	275.9	839.9	296.1	447.2	1,901.8
2011	2,103.6	438.7	869.2	685.0	667.2	2,635.4
2012	2,612.0	623.9	901.7	403.1	601.6	3,524.4
2013	2,734.4	762.1	938.0	496.0	792.6	4,225.6
2014	3,665.6	935.0	971.1	661.0	1,159.3	5,250.1
2015	4,440.6	1,104.0	984.6	651.3	553.0	6,647.1
2016	5,737.5	1,214.9	989.8	316.4	696.1	8,385.8
2017	6,514.6	1,409.2	968.5	280.6	729.7	9,900.3
2018	10,885.4	2,257.9	898.8	405.6	1,006.2	12,426.7
2019	11,839.2	4,451.6	897.8	530.1	1,424.9	15,729.8
2020	65,949.9	2,961.1	833.4	501.2	1,285.1	16,208.8
2021	83,433.9	4,174.8	853.3	469.9	1,264.6	19,618.2
2022	18,549.3	9,111.1	843.3	616.9	1,734.4	24,098.4
2023	22,547.2	11,372.6	872.0	605.9	2,061.3	26,242.7
2024 (Jan-Dec)*	37,063.5	20,063.5	---	682.7	2,122.2	33,020.7

Source: Tashkent Regional Statistics Department

The analysis of key small business and private entrepreneurship indicators in the Tashkent region from 2010 to 2024 demonstrates that small business has become one of the primary drivers of regional economic growth. Over this period, industrial production increased from 1,178.2 billion UZS in 2010 to 22,547.2 billion UZS in 2023, nearly a twentyfold rise. This trend highlights the growing role of small businesses in industrial production and innovation.

Similarly, the construction sector has exhibited substantial growth. The volume of construction work, which amounted to 275.9 billion UZS in 2010, reached 11,372.6 billion UZS in 2023, indicating an increase in the competitiveness of small businesses and their significant contribution to regional infrastructure development.

Employment trends indicate that small businesses and private entrepreneurship have played a stabilizing role in the labor market. Between 2010 and 2015, employment figures steadily increased, but after 2018, employment levels stabilized at approximately 900,000 workers. This stabilization could be attributed to automation, the introduction of innovative technologies, and improvements in labor productivity.

The dynamics of export and import indicators suggest significant growth in foreign trade activities among small businesses. While exports increased from 296.1 million USD in 2010 to 605.9 million USD in 2023, imports rose at a much faster rate, from 447.2 million USD to 2,061.3 million USD over the same period. Consequently, the trade balance deficit has widened, indicating the need for policies to enhance import substitution industries.

The trade sector has remained one of the most stable and rapidly growing segments of small business, with its volume increasing from 1,901.8 billion UZS in 2010 to 26,242.7 billion UZS in 2023. This underscores the expanding domestic market demand and the dominant role of small businesses in consumer goods markets.

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Table 2. Share of Small Business and Private Entrepreneurship in the Tashkent Region (*as a Percentage of Total Volume)*

Year	GDP	Industry	Construction	Employment
2010	54.7	21.5	57.0	72.7
2011	57.2	28.9	67.6	73.4
2012	54.6	30.8	70.4	74.2
2013	55.3	26.2	68.9	75.3
2014	56.2	29.4	70.3	76.3
2015	64.8	30.8	70.7	76.8
2016	66.2	34.0	73.8	76.9
2017	63.3	30.0	77.2	75.1
2018	57.3	28.9	75.1	73.2
2019	49.8	22.1	79.6	72.8
2020	49.2	22.3	80.8	70.8
2021	46.8	17.3	76.4	69.8
2022	46.5	19.9	75.0	70.0
2023	48.7	23.7	79.1	70.6
2024 (Jan-Dec)*	53.9	29.8	83.1	---

Source: Tashkent Regional Statistics Department

The analysis of small business and private entrepreneurship shares in the gross regional product (GRP), industry, construction, and employment confirms that this sector plays a leading role in the regional economy. Specifically, in 2010, small business accounted for 54.7% of GRP, reaching a peak of 66.2% in 2016 before declining and then recovering to 53.9% in 2024. This trend highlights the adaptability and resilience of small businesses in responding to economic fluctuations.

The role of small businesses in construction has consistently increased, reaching 83.1% in 2024. Meanwhile, the employment share has stabilized around 70%, underscoring the sector's stability in the labor market. However, the relatively low contribution of small businesses to industrial production (ranging from 17.3% to 34%) suggests the need for stronger government policies to enhance small business participation in industrial manufacturing.

RECOMMENDATIONS

Based on the research findings, it can be concluded that small businesses and private entrepreneurship play a crucial role in the economic development of the Tashkent region. This sector has demonstrated strong performance, particularly in construction and service industries, where small businesses have taken a leading position. However, in the industrial sector, the share of small businesses remains significantly lower compared to other sectors, indicating untapped potential for growth. Therefore, it is advisable to develop and implement comprehensive state programs aimed at expanding and supporting the participation of small business entities in industrial production.

To enhance the export potential of small businesses in the region, it is essential to promote the production of export-oriented goods. This can be achieved by expanding access to export credits, tax incentives, and other supportive financial mechanisms for small enterprises. Additionally, streamlining customs and tax control systems and promoting e-commerce platforms can facilitate the participation of small businesses in international trade and improve their access to global markets. The government should also focus on creating specialized export support centers that provide training, market research, and legal assistance for small enterprises aiming to expand internationally.

Furthermore, in order to improve employment rates and ensure labor market stability, continuous enhancement of small business and private entrepreneurship support mechanisms is required. Targeted state programs should be implemented to encourage youth, women, and socially vulnerable groups to engage in entrepreneurial activities. Expanding preferential financing mechanisms for these groups will contribute to increased job creation and economic inclusivity. Additionally, vocational training programs and business incubation centers should be

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established to equip potential entrepreneurs with the necessary skills and knowledge to operate successful businesses.

Another critical aspect is improving access to financial resources for small businesses. In many cases, limited access to capital remains a major barrier to business growth. Strengthening the role of microfinance institutions, introducing innovative credit schemes tailored to small businesses, and simplifying loan application procedures can significantly contribute to the sector's expansion. Encouraging partnerships between commercial banks and small enterprises through risk-sharing mechanisms will also play a vital role in financial inclusion.

Finally, infrastructure development is essential to support small business expansion. Improved logistics networks, access to modern technology, and the creation of industrial parks specifically designed for small enterprises can foster an environment conducive to business growth. Encouraging public-private partnerships (PPP) in infrastructure projects can provide small businesses with better facilities and resources.

CONCLUSION

In conclusion, small businesses and private entrepreneurship serve as a fundamental driver of economic growth in the Tashkent region. This sector plays a key role in economic diversification, job creation, income generation, and overall socio-economic stability. To further enhance the efficiency and contribution of this sector to regional economic development, it is essential to implement a set of comprehensive measures in the areas mentioned above.

Strengthening financial and tax policies to support small enterprises, integrating modern technologies, enhancing their participation in global markets, and fostering human capital development are crucial steps to ensure sustainable growth. Moreover, encouraging innovation and digitalization within small businesses will enhance their competitiveness and resilience in a rapidly changing economic environment.

By adopting these measures, the regional economy can achieve greater stability, increase the competitiveness of the domestic market, and improve the overall well-being of the population. Investing in the long-term development of small businesses will not only contribute to economic expansion but will also create a more resilient and adaptive business environment capable of withstanding global economic challenges.

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