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THE SIGNIFICANCE OF STATE SUPPORT IN THE LEGALIZATION OF SMALL BUSINESS IN THE REPUBLIC OF UZBEKISTAN AS A PRIMARY FACTOR

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Abstract

This thesis proposes a methodology for assessing the role of state support in the legalization of small and medium-sized businesses, highlighting that state support measures (financial, informational, consultative, and property assistance) and the simplified tax regime (professional income tax) have led to rapid growth in the number of self-employed individuals, yet as a result, the share of budget revenues from special regimes has, on the contrary, shown a declining trend. This contradiction is explained as creating a gap between the quantitative (number of subjects) and qualitative (budget efficiency) indicators of legalization. The share of small businesses in the country's GDP (50.5%), significant regional disparities (from 75.8% in Surkhandarya to 23.5% in Navoiy), and the evolution of the self-employment institution (from the preferential regime of 2020 to the introduction of the social tax in 2025–2026) are analyzed. In conclusion, the thesis proposes a multi-stage support model based on monitoring legalization not by the number of subjects, but through tax revenues and the stages of the business life cycle.

Keywords: Informal economy, small and medium-sized business, state support, self-employed individuals, tax incentives, legalization.

Introduction

The informal economy disrupts the integrity of national and regional socio-economic systems, diverts funds away from the official market, and distorts statistical, financial, and tax reporting (Bochkareva, Fedotova, 2024). The most effective way to eliminate it is to create conditions in which violating the law and operating in the “shadow” becomes disadvantageous for entrepreneurs, that is, to legalize business by ensuring a low tax burden and a straightforward and simple reporting system. In this process, state support measures occupy a special place.

In the economy of the Republic of Uzbekistan, small and medium-sized businesses have traditionally held a high share; in particular, the share of small entrepreneurship in the gross domestic product amounts to 50.5 percent. At the same time, the share of the non-observed economy in 2024 accounted for 34.8 percent of GDP, and in 2025 by the end of the year, it officially amounted to 26.9 percent. Thus, despite the high official share, the legalization potential in the country's economy, especially in the small business and individual entrepreneurship segment, has not yet been fully realized.

Accordingly, the relationship between the legalization of the number of subjects through state support measures (including the special tax regime for the self-employed) and budget tax revenues was analyzed on the basis of statistical data.

Main Part

In international practice, small business support encompasses financial (subsidies, grants, guarantees), informational, educational, consultative, property, and innovative types of support. In the Republic of Uzbekistan, a number of normative-legal acts have been adopted for the purpose of supporting small business, among which the Resolutions No. PP-306 of September 14, 2023, and No. PF-50 of March 19, 2025, are considered the main ones in this regard. In particular, Decree No. PF-50 includes the following target indicators set for 2025: raising the share of small business in GDP to 55 percent, in industry to 34 percent, in exports to 34 percent, and in employment to 75 percent. As financial support mechanisms, credit resources of 120 trillion soums planned for 2025, unsecured loans of up to 50–150 million soums, accelerated (within 7 days) refund of value-added tax, and exemption from state duty when registering individual entrepreneurs are envisaged.

Furthermore, a moratorium on new obligations until January 2028, the "first opportunity" principle (exemption from liability for a first-time violation), and a simplified liquidation procedure without tax audits have been introduced, which are progressive elements of Uzbekistan's legislation aimed at stimulating entrepreneurial initiative.

In Uzbekistan, the share of small entrepreneurship in GDP is high overall at 50.5 percent, but this indicator differs sharply across regions: it amounts to 75.8% in Surkhandarya, 75.5% in Jizzakh, and 72.0% in Bukhara, while in the Navoiy region it stands at 23.5%. The low share in Navoiy stems not from the weakness of small business, but from the dominance of large state industrial complexes (Navoiy MMC and others) in the regional economy, while the high shares in Surkhandarya and Jizzakh are linked to an agrarian, poorly diversified economy. Therefore, assessing the effectiveness of legalization measures requires analysis that takes into account the economic structure of each region, along with the aggregate national indicator, and demands a system of region-level indicators.

In the Republic of Uzbekistan, the status of "self-employed person" was introduced by Regulation No. 806 of December 23, 2020, initially with full or partial tax exemption and a simplified registration procedure; in addition, these persons have had the opportunity, since 2024, to obtain unsecured loans of up to 100 million soums.

However, within the framework of the 2025–2026 reforms, this regime is being gradually tightened: in particular, the introduction of a social tax in the amount of one base calculation unit (BCU) (approximately 412 thousand soums) is envisaged for self-employed individuals and individual entrepreneurs, and the list of permitted types of activities is also being reduced. Such a reform, if not implemented carefully and gradually, may have the opposite effect, namely pushing a portion of the already formalized self-employed back into informal activity, which must be taken into account.

In particular, although small business entities are officially registered, their real turnover, income, and tax obligations are not fully transparent. For this reason, in assessing the effectiveness of legalization in Uzbekistan as well, it is recommended to pay special attention not to the growth in the number of subjects (including the self-employed) alone, but to the dynamics of the share of tax revenues received from them in total budget revenues.

Accordingly, it is necessary to introduce multi-stage support programs in which businesses are monitored not on a one-time basis, but at all stages of their life cycle (from registration to stabilization), and to exercise oversight based on tax reporting and revenues rather than on the appropriation of allocated state funds.

To implement this approach, the following directions are proposed:

Creating a “legalization map” across the stages of self-employed person, individual entrepreneur, and limited liability company (LLC), and gradually increasing the tax burden at each stage, thereby preventing the entrepreneur from exiting the formal sector;

Applying a differentiated (gradual or progressive) procedure when introducing the social tax for the self-employed, taking into account regional and sectoral characteristics (for example, seasonal income in agrarian regions);

Strengthening targeted programs for the diversification of small business across regions (especially in industrially dominant areas such as Navoiy);
Introducing a system of regular monitoring of the real effectiveness of measures such as unsecured loans and accelerated VAT refunds envisaged in normative-legal acts, based not on the number of subjects but on the dynamics of tax revenues received from them;
Raising awareness of the advantages of operating in the formal sector through the wide promotion of progressive norms such as the "first opportunity" principle and simplified liquidation among small business entities.

Conclusion

It has been scientifically substantiated that assessing the impact of state support on legalization not only through the number of subjects but also through the efficiency of budget tax revenues is methodologically significant.
The discrepancy between the high official share of small business in Uzbekistan's GDP (50.5%) and the still significant share of the informal economy (26.9–34.8%), as well as the large regional disparities (from 23.5% in Navoiy to 75.8% in Surkhandarya), indicates that the legalization process is not yet complete and demonstrates the need for a differentiated approach that takes into account regional and sectoral characteristics.
The evolution of the self-employment institution from a preferential regime toward the introduction of a social tax may serve as a response to the "quantity-quality" problem, but this process must be implemented cautiously and gradually so as not to push entrepreneurs back into informal activity.

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