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THE ROLE OF SMALL BUSINESS IN THE SOCIOECONOMIC DEVELOPMENT OF THE REGION AND ITS STIMULATION THROUGH TAXATION (IN THE CASE OF KHOREZM REGION)

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Annotation: *This article analyzes the role of private entrepreneurship and small business entities in socioeconomic development of the region, using the Khorezm region as a case study, and examines the issues of their stimulation through tax incentives. Throughout the research, the position of small business entities within the regional economy is analyzed, and the role of small business in ensuring public employment is studied. The significance of the taxation system in enhancing the investment opportunities of small business entities is evaluated. Furthermore, the study is conducted based on statistical reports across 12 districts of this region, exploring the efficiency of small businesses and the matters of their stimulation through taxation.*

Keywords: *Small business, tax incentives, socioeconomic development, regional economy, entrepreneurship stimulation, employment, fiscal policy.*

INTRODUCTION

In the contemporary market economy, small business and private entrepreneurship are considered among the most vital drivers of economic development. As emphasized in the World Bank, small business entities account for a significant share of GDP and play a crucial role in ensuring public employment²².

In Uzbekistan, supporting small entrepreneurship has been established as a primary objective for fostering economic growth. As noted by Vahobov and Jo‘rayev, tax policy serves as a pivotal mechanism in facilitating the advancement of small business and entrepreneurship. A reduced tax burden enhances investment opportunities and mitigates the prevalence of the shadow economy²³. Crucially, tax incentives stimulate entrepreneurial activity and contribute to the overall improvement of the regional business climate.

Khorezm region occupies a particularly important place in the socioeconomic structure of Uzbekistan due to its rich resource base, favorable natural and economic conditions, and strategically significant geographic position. These advantages create a solid foundation for the development of entrepreneurial activity, especially in the sphere of small business, which plays a crucial role in strengthening regional economic stability, expanding employment opportunities, and increasing household incomes. In recent years, the number of small business entities operating in the region has demonstrated a positive upward dynamic, reflecting the growing interest of the population in private initiative, self-employment, and localized production. At the same time, the quantitative growth of business entities does not automatically guarantee their qualitative development, since many of them

²² World Bank. (2022) Small and Medium Enterprises Finance: Role in Global Economic Growth.

²³ Vahobov.A, Jo‘rayev.A (2021). Soliqlar va soliqqa tortish. Toshkent: “Sharq”, 112-125.

continue to face serious barriers that prevent them from realizing their full production, financial, and market potential.

One of the most pressing issues in the current stage of regional development is the insufficient effectiveness of mechanisms aimed at supporting entrepreneurs operating in remote and relatively less developed areas. Businesses located far from major urban and trade centers often encounter additional difficulties associated with limited infrastructure, weak logistics, reduced access to financial resources, narrower consumer markets, and a shortage of qualified personnel. Under such conditions, taxation policy becomes not merely a fiscal instrument but also an important regulatory tool capable of stimulating entrepreneurial activity, improving business sustainability, and reducing territorial economic disparities. Therefore, the provision of targeted tax incentives for entrepreneurs in remote areas should be considered as one of the priority directions of regional economic policy.

The relevance of this research is determined by the need to assess more deeply the socioeconomic role of small business in the Khorezm region and to identify effective approaches for enhancing its contribution to regional development through a more flexible and incentive-oriented tax framework. Small business is not only a source of job creation and income generation, but also an important factor in the diversification of the regional economy, the development of competitive environments, and the strengthening of local production systems. In this context, a comprehensive analysis of its socioeconomic impact allows for a more accurate understanding of the real significance of entrepreneurial activity in improving living standards and supporting sustainable territorial development.

Accordingly, the main purpose of this study is to examine the socioeconomic impact of small business in the Khorezm region and to explore practical directions for promoting and supporting these entities through taxation mechanisms. Special attention is given to the role of tax incentives as an instrument for encouraging entrepreneurial initiative, expanding business activity in remote territories, and creating more favorable conditions for balanced regional growth. Through this approach, the study seeks to contribute to the development of policy recommendations that can strengthen the effectiveness of small business support and enhance its long-term role in the regional economy.

LITERATURE REVIEW

Joseph Schumpeter extensively analyzed the role of small business in economic development. He posited that entrepreneurship, driven by innovation, is the fundamental engine of economic growth²⁴. Contemporary researchers such as T.Beck and A.Demirguch-Kunt argue that small enterprises constitute a critical segment for ensuring economic stability, although they often encounter significant fiscal and financial constraints²⁵.

Q. Abdurahmonov (2020) examined the significance of small business within the context of socioeconomic development in Uzbekistan. He asserts that the expansion of small business facilities public employment and enhances the financial well-being of the population²⁶.

Regarding the stimulation of small business via the fiscal system, A.Vahobov highlights that tax incentives serve as a vital instrument for expanding investment opportunities for entrepreneurs²⁷. Furthermore, according to OECD reports, the simplification of the tax framework rather than merely reducing tax rates acts as a catalyst for intensifying competition among small business entities within the economy²⁸. Their perspectives are aimed at addressing logistical challenges in remote regions such as Khorezm region through the implementation of tax incentives.

²⁴ Schumpeter, J.A. (1934). *The Theory of Economic Development*. Harvard University Press.

²⁵ Beck, T, Demirguch-Kunt.A.(2006). *Small and medium-sized enterprises : Access to finance as a growth constraint*. Journal of Banking & Finance

²⁶ Abdurahmonov.K.K (2020). *Labour Economics: Theory and Practise*. Tashkent.

²⁷ Vahobov.A..V (2021). *Moilya va soliq tizimi islohotlari*. Toshkent.

²⁸ OECD (2023). *Taxation of SME in Emerging Economies*. OECD publishing.

METHODOLOGY

In this study, 12 districts of the Khorezm region and the small business entities operating within them were designated as the object of research. Statistical data from recent years were compiled to facilitate the analysis. The study identified the number of individuals engaged in small business, the volume of newly created jobs, and the total amount of taxes collected in the region.

The following serve as aids to achieve the research objectives. These include official data from the statistics agency, reports from the Tax Administration of Khorezm region, and documents concerning tax incentives. The following methods were utilized in this research. These are statistical and comparative analysis. The statistical analysis method was used to determine the number of small businesses and the number of jobs created in the 12 districts of the region. The comparative analysis method was utilized to compare the the number of entrepreneurship in the regional areas and the level of their provision with tax incentives.

ANALYSIS AND RESULTS

According to the regional socio-economic development indicators for 2024–2025, the tax incentives granted to small business entities have produced a clearly positive effect on their growth and overall performance. The available data indicate that these incentives have not only supported the expansion of entrepreneurial activity, but have also contributed to broader regional economic stability. In this regard, tax policy has functioned not simply as a mechanism of fiscal regulation, but as an important instrument for stimulating local business development, strengthening production capacity, and improving the investment climate within the region²⁹.

By the end of 2025, small business had become one of the most influential sectors in the regional economy, accounting for 67.2 percent of the Gross Regional Product. This figure demonstrates the central role of small entrepreneurship in shaping regional economic output and confirms its importance as a driver of sustainable territorial development. The growing contribution of this sector to GRP suggests that supportive fiscal measures, including tax incentives, have created more favorable conditions for business activity, allowing entrepreneurs to expand operations, increase production, and participate more actively in the regional market system.

Theoretical views expressed by economists A. Vahobov and A. Jurayev further support this interpretation. They emphasize that one of the main factors enhancing the investment capacity of entrepreneurs is the simplification of the tax system. This argument is reflected in the practical results observed during the research. The findings reveal that investment volumes increased in those areas where tax incentives were introduced more actively. A concrete example can be seen in Tuproqqala district, where the growth rate reached 14.8 percent compared with the 2024 level. This dynamic illustrates that tax preferences can directly influence entrepreneurial confidence and encourage greater financial activity at the district level.

The role of small business is particularly significant in the sphere of employment. Economist Q. Abdurahmonov has stated that small entrepreneurship performs a major function in ensuring employment for the population. The results of the present analysis strongly confirm this view. Based on the 2026 indicators used in the study, 79.8 percent of total employment was generated within the small business sector. Such a high proportion shows that small enterprises are not merely supplementary elements of the economy, but rather form the main foundation of labor market absorption in the region. Their development therefore has direct social importance, since it supports household income formation, reduces unemployment risks, and improves the general standard of living.

The statistical analysis carried out during the research also made it possible to determine the scale of entrepreneurial activity in quantitative terms. It was established that 26,420 small business entities are currently operating in the region. This figure confirms the wide spread of entrepreneurial structures across the regional economy and highlights their significance in maintaining production,

²⁹ Vahobov.A , Jo'rayev A. (2024). Taxes and taxation. Tashkent:“Iqtisod-Moliya”.

trade, and service provision. Moreover, the analysis showed that small business generates 67.2 percent of the Gross Regional Product and 43.8 percent of industrial production³⁰. These indicators demonstrate that the sector is deeply integrated not only into commerce and services, but also into the industrial structure of the region, thereby contributing to economic diversification and strengthening productive potential.

In order to examine the scale and effectiveness of tax incentives more thoroughly, official reports from the regional tax administration were used in the research process. According to the 2025 reports, tax incentives provided to entrepreneurs reached a total value of 1.2 trillion UZS³¹. This is a substantial volume of support, indicating that fiscal policy has been actively employed to stimulate entrepreneurial development. The scale of these benefits suggests that the state recognizes small business as a strategic component of regional growth and is willing to reduce the tax burden in order to expand business opportunities, encourage formalization, and improve the long-term resilience of local enterprises.

The employment dimension of small business development was also examined in detail. The research established that 425.6 thousand people are employed in the small business sector. This number represents 79.8 percent of the entire employed population of the region, further confirming the dominant social and economic role of small entrepreneurship³². Such a result shows that the development of this sector has implications far beyond business performance alone. It affects labor market stability, social welfare, income distribution, and the general sustainability of regional development processes.

Taken together, the results of the study demonstrate that tax incentives have become an effective tool for supporting small business growth in the region. Their impact is visible in the expansion of entrepreneurial activity, the growth of investment in specific districts, the increased share of small business in regional production, and the strong contribution of the sector to employment. Therefore, tax incentives should be viewed as one of the most important mechanisms for strengthening small entrepreneurship and ensuring balanced socio-economic development at the regional level³³.

CONCLUSION

Based on the research devoted to the role of small business in the socioeconomic development of the region and the mechanisms of its support through tax incentives, several important conclusions can be drawn. First of all, small business has firmly established itself as the main pillar of the regional economy and now occupies a dominant position in the structure of economic activity. This is clearly confirmed by the fact that small business entities generate 67.2 percent of the Gross Regional Product, which indicates not only their large quantitative presence, but also their decisive qualitative contribution to the formation of regional output, income creation, and local market development. Such a result shows that the regional economy increasingly relies on the stability, productivity, and adaptability of small business as its core driving force.

The research also demonstrates that the simplification and practical expansion of tax incentives has become one of the key factors behind the strengthening of this sector. As the tax burden became more flexible and supportive, small business entities gained broader opportunities to direct resources toward production expansion, business renewal, and investment in operational activity. Under these conditions, the production volume in the sector reached 12.4 trillion soums, which reflects the substantial economic effect of tax-based support measures. This growth indicates that tax incentives are not merely formal preferences, but an effective economic instrument capable of

³⁰ Statistics Department of Khorezm Region. (2026). Socioeconomic state of Khorezm Region. Urgench.

³¹ State Tax Administration of Khorezm Region. (2026). Analysis of taxes paid and benefits granted by business entities in 2025.

³² Abdurahmonov Q.X. (2023). Division of labor: Theory and Practice. Tashkent.

³³ Statistics Agency under the President of the Uzbekistan. (2026). Demographic and economic indicators of the Republic of Uzbekistan. Tashkent.

stimulating output, increasing business activity, and strengthening the productive base of the region.

An especially important aspect of the implemented policy is that tax incentives were not concentrated only in the central and relatively developed territories, but were also extended to districts located in remote parts of the region. This has particular significance from the standpoint of balanced territorial development, since remote districts often face more serious infrastructural, logistical, and financial constraints. The study shows that this approach produced concrete positive results. In particular, industrial growth rates in the Tuproqqala and Yangibazar districts reached 112.4 percent. Such dynamics demonstrate that tax support can serve as a powerful catalyst for industrial activation even in areas that traditionally possess fewer development advantages. In practical terms, this means that fiscal preferences helped accelerate entrepreneurial activity, improve the use of local capacity, and create more favorable conditions for economic circulation in peripheral territories.

This process has also contributed to an increase in the speed of capital turnover in these districts. Faster capital circulation means that business entities are able to reinvest resources more actively, maintain production continuity, and respond more effectively to market opportunities. From an economic perspective, this is highly important because it strengthens business sustainability, raises efficiency, and supports the formation of a more dynamic regional economic environment. Therefore, the value of tax incentives should be assessed not only through direct financial relief, but also through their broader effect on the movement of capital, production intensity, and local investment activity.

In addition to its economic role, small business has also proven to be the central mechanism for ensuring employment and social stability in the region. The study confirms that 79.8 percent of total employment is concentrated in the small business sector. This figure is exceptionally significant, because it shows that small entrepreneurship performs the main social function of absorbing labor resources, generating income for households, and reducing unemployment pressures. In this sense, the development of small business affects not only production and trade, but also the living standards of the population, the resilience of local communities, and the overall social balance of the region.

Taken together, the research findings make it possible to conclude that small business today represents both the economic foundation and the social backbone of the region. Its high share in Gross Regional Product, strong contribution to production growth, expanding role in remote districts, and dominant position in employment confirm that it is the most important sector for ensuring long-term regional stability. Accordingly, support through tax incentives should be regarded as one of the most effective policy tools for deepening entrepreneurship development, promoting territorial equality, strengthening industrial activity, and preserving social sustainability.

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