Private business is a target for current reforms in Uzbekistan since it is considered an important driving force behind transformations in the socio-economic and socio-political spheres. Small businesses and private entrepreneurship (SBPE) are directly connected to the generation and expansion of a middle-class social stratum. The present status of entrepreneurship in Uzbek society is still far from meeting needed socio-economic criteria. Satisfying such criteria would enable business agents to make a positive developmental impact. Endeavours to support private business are linked to the current environment, which at the present time involves excessive regulation and a high non-production risk level. Together, these factors contribute to speculative business models and hinder intensive and qualitative development in the private sector.

Introduction

Examining the effectiveness of private sector development through the prism of social stratification is relevant due to the fact that in developed countries, entrepreneurs tend to make up a large section of the middle class. In part, this is apparently due to the convergence for business stakeholders and members of the middle class of certain life values and goal sets. These include the pursuit of self-improvement, economic independence and stability, and the focus on long-term activities. Entrepreneurial skills such as “awareness of responsibility” (which includes social accountability), “strategic thinking” (aimed at long-term growth) and “sustainable development throughout implementation” are all hallmarks of the middle class.
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A study of business in Uzbekistan was carried out in order to discover the extent to which today’s entrepreneurs can contribute to societal changes. Taken into account were the most urgent problems at the present stage of socio-economic transformation in Uzbekistan, including its demographic trends. In this context, the study also examined the ability of local business entrepreneurs to contribute to industrialization and economic development, as well as to increase the proportion of the society’s middle stratum. Social engineering processes cannot be undertaken quickly, and thus a phased implementation of the proposed measures aims at achieving the set goals by 2030.

1. The middle class and business

The middle class is a foundation for building the civil society of any country and is a key factor in stable and sustainable development. According to estimates of the US financial corporation Goldman Sachs, by 2050 the share of global middle class-generated GDP will be about 40% (vs. 23% in 1960 and 30% in 2007). Today in Western countries the middle class forms 50–70% of their populations. This social stratum is commonly made up of entrepreneurs and highly skilled employees. At the current stage of socio-economic development in Uzbekistan, entrepreneurs have the greatest potential for becoming a resource to generate this social group of the population. As stated by the President of Uzbekistan, Islam Karimov, “we consider the creation in the country of exceptionally favourable and priority conditions for small businesses and private entrepreneurship, and the advanced development of private property as a major source of economic, income and employment growth. The formation of a middle class is currently becoming a main support and engine of democratic reforms”1.

Accordingly, a study has been undertaken to examine the basic aspects and central functions of entrepreneurs in Uzbekistan, including behavioural characteristics and the problems that arise during periods of transformation. The term “middle class” actively entered the...
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At the current stage of socio-economic development in Uzbekistan, entrepreneurs have the greatest potential for becoming a real basis for forming a middle class

public consciousness and scholarly discourse in the past two decades. Since the description of a middle class cannot be based on a single main criterion, the term has not yet been clearly defined, nor is there a uniform research methodology. The middle class is a social aggregate characterized by a group of factors, including tangible and intangible indicators (income level, education, business legitimacy, investment preferences, etc.). The current general understanding of various characteristic traits of this social stratum includes the following:

- it is the most educated, productive and efficient portion of the workforce, thus concentrating the human and social capital of the nation;
- it is a class that owns property and thus is mindful of the stability of economic, financial and social institutions, including institutions regulating property relations;
- it is the market’s most active economic entity, and the status of the market’s development and prospects depend on its performance;
- it is a vehicle of innovative patterns of economic, consumer and financial behaviour, and is the first to develop and hand over best practices to the entire society;
- it is a major taxpayer and thus a co-investor in the social sphere.

Thus, the formation of a middle class, with a focus on entrepreneurs, can be considered a major criterion in the efficiency of Uzbekistan’s financial sector, testifying to the strength of an entire system of economic, social and political institutions. Only businesses that meet most of the above indicators will be able to become real “driving force” in the country’s further democratic and socio-economic reforms.

2. The entrepreneur’s profile

2.1. Average age

The typical domestic entrepreneur is a man of Uzbek nationality, with higher education, fluent in Russian, and who resides in a regional centre. A larger proportion of interviewees consisted of respondents aged 45–60 years (45%) and experienced in doing business for over fifteen years (31%). The proportion of younger entrepreneurs (25–35 years) was three times less (15%). See Fig.1.

An analysis of demographic data has shown that the proportion of Uzbeks aged 45–60 years is only 13% of the total population, and the proportion of those most actively working (aged 20–35) is 27%. Thus, there is an imbalance between the age structure of domestic entrepreneurs and the country’s general population. What is the reason for this?

First, today’s business environment in Uzbekistan is marked by high risks. This is due to high transaction costs, both formal and informal. This generates reluctance in the population, especially in young people, to engage in entrepreneurial activities. The study showed that the more experience an entrepreneur has, the larger the company he represents is (see Fig. 2).

Most currently operating domestic entrepreneurs started their businesses in the 1990s. They have accumulated a certain amount of capital, and have gained experience and a wide range of contacts, helping them succeed in their area of operation. Young entrepreneurs
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are mainly people who have the support of older peers or who are well off, also through family connections (for example, older kin, father-son relations, etc.). Young people without such support or opportunities are unlikely to start a business from scratch or to make it a success. Especially persons from low-income families often lack adequate training and face difficulties in accessing start-up capital, despite governmental support programs.

According to the study, the main sources of capital in the first year of operation of domestic entrepreneurs were personal/family assets (69.7%); financial means of business co-owners (21.8%); financial means of relatives/friends (16.3%); and commercial bank loans (22.7%). The total is higher than 100% because respondents were allowed to choose up to three answers (Fig. 3).

The relatively low level of borrowing by small businesses is due to the high cost of banking services and the stringent conditions for loans. The respondents identified various obstacles complicating their dealings with banks, including: high interest rates on commercial loans (28%); high collateral requirements for being approved for a credit (22%); difficult access to cash facilities (14%); absence of long-term loans (13%); and other factors (Fig. 4).

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Secondly, according to several CES studies, young people entering the labour market in Uzbekistan today have socialization gaps. Behavioural stereotypes in young people are created by existing formal and traditional institutions. Civil socialization primarily reflects conservative values such as patriotism, collectivism, respect for elders, etc. However, the society’s accelerated industrialization and development in the current era of information technology necessitate other behavioural patterns, patterns that are inevitable for industrial and post-industrial societies.

The current situation poses a major challenge for Uzbekistan. On one hand, the pace of development of the SBPE sector and creation of jobs lag behind current demographic trends. The number of SBPE enterprises per 1,000 people has hardly changed in recent years, remaining at 15 with average yearly fluctuations of -1% to +2%. On the other hand, children and youth under the age of eighteen forms 34% of population. In ten to fifteen years, they will constitute the major proportion of the country’s most active citizens (see Fig. 5). What opportunities they have in terms of self-realization will decide the success of the socio-economic transformation of the entire society.

In this regard, one of the most important tasks of the government at the present stage of development is to provide conditions allowing for the “rejuvenation” of the average age of the domestic entrepreneurs.

2.2. Gender

Among those surveyed, the proportion of women entrepreneurs was on average 21% across all sectors of the economy. Women were mainly represented in sectors such as science, education, innovation and mass media (51%), health care (44%), and light industry (34%) (see Fig. 6). This is linked to stereotypes regarding the social roles of men.
and women, a cause for gender imbalance typical for many modern societies. The study showed that 50% of the respondents would prefer a man as their manager, in contrast to 10% of the respondents who said they would not mind a female supervisor (if she had equal professional qualifications). For 39% this aspect did not matter.

The development of entrepreneurship in Uzbekistan will facilitate a gradual change in gender stereotypes. A major contributing factor to this will be state programs supporting female entrepreneurship and enhancing the role of women in the socio-political and socio-economic life of the country. Today, the number of women involved in the SBPE sector tends to increase. Among entrepreneurs with sixteen years of experience or above, the proportion of women is only 15%. In contrast, for those engaged in business for up to two years, women already make up nearly 31% (see Fig. 7). The development of entrepreneurship has, in fact, become a key determinant in the civil socialization of women in Uzbekistan.

The study found that most female entrepreneurs are operating independently or are employed by small enterprises (21–24%). It was also found that female entrepreneurs, unlike men, are more likely to run non-speculative forms of business (i.e. non-trade) and therefore make long-term investments. Of entrepreneurs who consider the manufacture of consumer goods to be the most attractive type of business, there are more women (25%) than men (20%). Thus, creating conditions that encourage the development of private enterprises, particularly manufacturing industries, will contribute to a 40–50% increase in female entrepreneurs by 2030. This will speed the process of the civic socialization of women by strengthening their position in society.

Creating conditions that encourage the development of private enterprises, particularly manufacturing industries, will boost the proportion of female entrepreneurs to 40–50% by 2030.

Fig. 6. Most women were presented in areas such as science and education, innovation and mass media - 51%; health - 44%; light industry - 34%

Fig. 7. Among entrepreneurs with experience of 16 years and more, women account for only 15%, while among those engaged in business for up to 2 years women already make up 31%
2.3. Business style

The study found that the role of kinship and friendship ties, to which great importance is traditionally attached in Uzbekistan, is also manifested in business. Of the respondents, 47% reported that company employees also include relatives and friends of the business’s co-owners. However, the degree of such connections depends on the entrepreneur’s place of residence and the type of business activities. In the survey, a majority of employers (53%) said that the style of organization and the management of their business can be compared to family relationships. At the same time, the study showed that 58% of such enterprises operate in small towns and rural areas where the level of economic industrialization is relatively low. Such organisation is associated, firstly, with national and cultural traditions of Uzbekistan, where family ties are highly valued, and, secondly, with the predominance in the SBPE sector of quite simple forms of business (agriculture, trade, catering, etc.), industries that do not need specialists.

In large cities, more complex types of entrepreneurial activity prevail and family ties are less tight. The style of business management in such companies is more similar to “a sports team”, with the teamwork, understanding and professionalism of each “player” being critical. This is the style of doing business for 22.2% of entrepreneurs. It is noteworthy that most such respondents (40%) live in large cities with populations of 500,000 or more (see Fig. 8).

From the point of view of ongoing socio-economic transformation, Uzbekistan entrepreneurs need to develop meritocratic approaches to human resource recruitment. Management needs to follow values that can be characterised as middle class: not based on kinship principles but on the qualifications of their employees. It is important to note that this does not mean “family businesses” should no longer be run, but that raising professional culture and the quality of business organization are factors that will ultimately be beneficial to success. Building such qualities in businesspeople depends on the type of activities they are undertaking and their need for appropriate professionals. This requires a state strategy for industrializing the various regions of the country, providing comprehensive measures to enhance entre-

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*Respondents’ answers to the question: “What does the style of organization and management in your company look like – as in the family, the army or a sports team?”*
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Entrepreneurs’ access to resources, and stimulating the growth of long-term private investment in processing industries. Creating medium-sized manufacturing enterprises will have a positive impact on the development of needed entrepreneurial skills, up-to-date organizational forms of business, and conditions for the industrialization of the economy.

2.4. Production level of innovative products

The volume of innovative products being manufactured by domestic entrepreneurs is still quite low, reflecting the slow pace of qualitative development. According to the study, over the past three years, only 6% of the surveyed entrepreneurs began manufacturing entirely new products. Although 25% began to manufacture substantially upgraded products, there were 69% that did not launch the manufacture of any new or updated products at all (see Fig. 9).

The lack of interest in the majority of respondents to vary or modify their production is considered an alarming negative trend. This situation is reinforced by a monopolistic economy and the poor effectiveness of state support in the form of privileges or preferential status provided under regional programmes. Domestic manufacturers often have a competitive advantage in the form of exemptions or other privileges, which does not encourage them to improve the quality or range of their products. Only 31% of the respondents said that they needed to upgrade their products in order to increase their competitiveness, while 59% reported that this is something they do not need (see Fig. 10).

It is clear that this type of attitude slows down the process of economic industrialization, as evidenced by the slow pace of technological innovation in enterprises. Only 35% of the respondents introduced new equipment or technology in their enterprises during the period 2009–2013, whereas 62% reported that they had not done so. The obstacles hindering the purchase of new equipment cited by most entrepreneurs (33.3%) were lack of personal funds and difficulties in raising a loan.

The study established a correlation between rates of technological

Only 31% of the respondents stated that they need to upgrade their products in order to increase their competitiveness

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5Innovative product is the product or service, that has undergone technological changes. The share of innovative products in the total production determines the qualitative development of the industry.

Figure 9. In the past three years, only 6% of the respondents have launched the production of an entirely new product

Figure 10. Most respondents stated that they do not need to update products in order to increase their competitiveness

| Business services, legal services | 9% | 91% |
| Public catering                   | 16% | 84% |
| Transport                         | 7%  | 92% |
| Trade                            | 13% | 87% |
| Communication and IT              | 20% | 80% |
| Consumer services, recreation     | 24% | 76% |
| Finance, insurance, real estate   | 9%  | 91% |
| Health                           | 24% | 76% |
| Science and education, innovation, mass media | 6% | 94% |
| Food industry                     | 4%  | 96% |
| Light industry                    | 10% | 90% |
| Construction and building services | 10% | 90% |
| Other industries                  | 30% | 70% |
| Total                            | 6%  | 94% |

- Completely new
- Substantially updated
- There was no start of production

Source: Results of sociological research
Due to economies of scale, creating conditions in which private enterprises can grow to at least a medium size will allow the economy’s industrialization to accelerate and will produce new jobs.

renovation of enterprises and the manufacture of new products with the size of the business and its form of ownership:

• Of the companies that introduced new equipment and technology over the past three years, 49%, 36% and 29% were large, small and micro enterprises, respectively, and 18% were entrepreneurs operating independently. Accordingly, most manufacturers of new and updated products were large enterprises (8% and 29%, respectively) (see Fig. 11).

• By type of ownership, among the enterprises that have implemented new equipment and technologies over the past three years, companies with a foreign equity share take the lead (46%). They are followed by joint stock companies (39%), individual and family businesses (30%) and enterprises with state equity share (29%) (see Fig. 12).

In this context, incentives for quality development, scaling up small businesses and creating medium-sized enterprises in processing industries are of particular relevance. Due to economies of scale, creating conditions in which private enterprises can grow at least to a medium size will allow the economy’s industrialization to accelerate and will produce new jobs.

2.5. The most attractive areas for business

Today the most attractive business areas are industries with a high ratio of capital turnover. The share of entrepreneurs considering trade as their most preferred business sector grew by 10.4% compared to 2006, and made up 28.4% at the time of the survey. In contrast, only 20.7% of the respondents mentioned the production of consumer goods as the most promising area of activity (vs. 22% in 2006). Preferences of entrepreneurs for other sectors of the economy were on average about 3.5% (Fig. 13).

This situation is firstly due to the high monopolization of the economy and the over-regulated business environment. These factors create conditions that promote speculative transactions. The principle behind the existing economic management system is to support the
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Firstly, the non-productive factors have a negative impact on the development of certain sectors by redistributing revenues from more profitable sectors. While such an approach is a critical element in industrial policies, in the absence of market incentives, the practice of subsidizing lagging sectors leads to distortions in the economy, increases its monopolization and keeps transaction costs high.

Secondly, the above factors set a relatively low profit threshold for enterprises in processing industries. Profitability, however, is major motivation for business development. Potential profits are instantly “eaten” by a variety of formal and informal operating costs, including many costs associated with contractual and administrative relations (permits, standardization fees, banking fees, purchase of raw materials or equipment, tax tariffs and social charges, cashing of financial assets, imposed charity, unofficial payments, etc.). Third, as noted above, the current business environment is characterized by high non-production risks, caused by potential formal and informal transaction costs at all stages of production.

In order to successfully address the challenges of social and economic transformation, Uzbekistan needs entrepreneurs who are innovative and are interested in investing in processing industries. In this regard, a suitable business environment should be created that makes businesses less interested in speculative running models. It is important to emphasize that these conditions should be motivating in nature, rather than prohibitive or restrictive, since the latter only increases the flow of private capital into the informal sector.

2.6. Level of business legality

The study showed that the involvement of domestic business into shadow operations is still high. Only 52.6% of the entrepreneurs who responded expressed confidence that their business rivals do not conceal parts of their income; 35% of the respondents refused to speak about this matter and 12.4% were of the opposite opinion (Fig. 14). High administrative and regulatory transaction costs that are a prerequisite for any sort of economic or business activity (including high
taxes and compulsory charges for social funds) are a major reason for growth in the informal sector.

The respondents believed that the most common business violations are concealing receipts to evade taxation and understating the real number of employees. This is illustrated by 28% of the respondents stating that the business of an honest entrepreneur in the current environment just “will not survive”. Most respondents referred to the unexpected enactment of new regulations (17%), the establishment of standards leading to increases in taxes and social charges (14.7%), and obstacles of a regulatory nature that impede business operations (see Fig. 15).

Lack of incentives for doing entirely legal business is indirectly confirmed by the preference of most entrepreneurs to run businesses with a high ratio of capital turnover. The level of business legality is directly linked to the business environment, which generates the behavioural characteristics of business activity. If activity is based on a framework of “survival strategy”, aimed at realizing a profit under any conditions, behaviour is adapted accordingly. For example, 30% of the entrepreneurs who responded in the study believe that “a bribe is dishonest, but in some cases you can pay one.” And only 31% believed that for the success of their business they needed suitably talented employees and were not interested in “supporting a gang of criminals or associated ‘family’.” The opposite opinion was shared by 15% of the respondents, while 38% said that a successful business requires both. It is noteworthy that the majority of entrepreneurs who believe that “to make your business successful you need both talent and a ‘roof’” operate in sectors with a large number of regulations, with compliance tightly controlled by the state: legal and business services (52%); transport (47%); health care (45%); construction and building services (44%); and public catering (42%) and others.

The level of business legality is an important success indicator of the socio-economic transformation of a society. Having legitimate means for generating income is a representative criterion for defining a middle class. It has a stabilizing role in society, provides a high level...
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of self-respect as well as respect from others, and generates the self-confidence necessary for active social and political participation. In addition, business legality has a direct impact on qualitative development (a shift from preference for areas with high ratios of capital turnover towards growth of processing industries and the implementation of innovation). To support this, the government is recommended to make efforts to reduce business transaction costs, including tax burdens.

At the current stage of Uzbekistan’s development, the government’s strategy for supporting SBPEs should aim at providing entrepreneurs greater economic freedom. A new social contract could be striven for: “loyalty in exchange for guaranteed opportunities”.6 To achieve this, the state must reduce administrative and regulatory intervention in the economy and improve the business environment. Above all, this concerns state rules governing property right relations, which often lead to increases in the costs involved in economic exchange.7

When establishing rules governing economic activities, the government should endeavour to avoid creating unnecessary barriers limiting the enjoyment of property rights, also those dealing with business entities and private enterprises. In this context, a private enterprise is not just property or financial resources, but also a legal person. Its owner ideally has the right to use the enterprise at his or her own discretion. From this viewpoint, ownership rights include:

- the right to fully control and manage an enterprise at the owner’s discretion (set limits: licensing and regulating various activities, mandatory reporting, rules governing the enterprise’s staffing, cash flows, etc.);
- the right to use the company at the owner’s discretion (restrictions: imposing production targets and plans, procedures of business closure, bankruptcy or sale, etc.);
- the right of the company’s proprietor to gain the maximum possible profit from its use (restrictions: high taxes and social charges, customs duties, prices for raw materials and products that are unreasonable from an antitrust point of view, imposed charity, introduction of rules for cash intake, etc.);
- the right to security and the guaranteed protection of the owner of a company from it being expropriated (restrictions: the weak role of the legal and judicial system as well as NGOs in protecting business interests before public authorities, etc.).

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7 From economic point of view, the term «property rights» should not be considered in a narrow sense and just only in relation to tangible objects, for example, such as real estate, commodity or finance. In economics ownership/property is not only good, but also a set of specific rights to the use of given good.
Obviously, it is hardly feasible to eliminate all barriers (it is impossible to cancel all taxes, customs duties and regulations). Nonetheless, the state must understand that the more administrative tools it uses to regulate economic processes, the greater are the restrictions being imposed on the ownership rights of proprietors of private enterprises. This reduces the potential for entrepreneurs to develop. This is not a question of reducing the state’s role in regulating the economy, but of need to use market regulation instruments that minimize administrative and bureaucratic influence and give private business more economic freedom. (Examples for this can be found in China, Singapore, Vietnam and other countries in south-east Asia).

2.7. Enterprise size

Most entities in the SBPE sector of Uzbekistan today are small and micro enterprises with 1–20 personnel; 59% of all respondents owned such companies. The proportion of respondents whose companies had 20–100 employees was 28%, and 7% had a staff of 100–500 (see Fig. 16). What is the reason for this? First, the possible quick return on speculative transactions and current economic risks encourages entrepreneurs to invest in sectors with a high ratio of capital turnover. These generally do not involve medium and large enterprises. Secondly, high transaction costs, including taxes and compulsory charges to social funds, make it difficult to generate and maintain new jobs. Entrepreneurs are thus not interested in scaling up existing companies or opening new medium to large companies. Because of their size, it is difficult for such companies to be run in an informal manner. Third, the lack of available financial resources and limited access to borrowings restrains the capacity of entrepreneurs to expand their businesses.

Efforts undertaken by Uzbekistan’s government for developing private enterprise should be comprehensive and include measures that not only stimulate new business start-ups but also motivate businesses to develop qualitatively. If the state creates conditions that minimize economic risks and provide entrepreneurs with guaranteed opportunities for self-realization, entrepreneurs will seek to legalize

![Image](image_url)
their businesses, implement innovations, raise their competitiveness and increase in size, moving from small to medium businesses and from medium to large enterprises. Increasing the proportion of medium-sized enterprises will stimulate the economic development of the country and encourage innovative processes that, ultimately, will enhance the country’s competitiveness.

2.8. Social and political participation

From the standpoint of social transformation, forming a group identity involves, in addition to certain conditions, a certain degree of citizens’ involvement in social and political processes. The study results showed that domestic entrepreneurs are not indifferent to these or other political issues. However, their participation in the social and political life of the country is still quite low; this is especially characteristic of young entrepreneurs. Only 13% of the respondents were members of a political party in Uzbekistan (Fig. 17).

Of these, 17% of respondents who are part of the older generation of entrepreneurs (over 50 years) were members of a political party; of the age group 25–34 years, 8% were members of a political party; of businesspersons under the age of 24, there were no party members at all.

Today, most entrepreneurs in Uzbekistan who are members of a political party lack higher education and live in rural areas (Fig. 18). In addition, the public and political participation of businesses is often a mere formality. Thus, regardless of political party membership, only 12% of the respondents said that they had offered proposals for economic development plans of their village, city, district or region (84% had not, and 4% did not answer the question). Such proposals were mainly channelled through local authorities (5.6%), branches of industry and commerce chambers (1%), party organizations (0.9%) and mass media (0.9%). This reserved attitude of businesspeople to political parties and other public organizations can be explained by the lack of confidence in the ability of such structures to solve pressing business problems, especially when compared to public authorities.
The social and political activities of the middle class often vary at different stages in the development of a country, depending on the economic and political situation as well as other spheres of life. However, the middle class has explicitly formulated interests, including interests that go beyond the purely personal. They are able, if necessary, to defend their interests collectively (through political movements, civil society and other organizations). Creating an enabling environment for the social and political participation of local entrepreneurs should therefore be an important part of the government’s SBPE development strategy.

3. Recommendations

The results of this study revealed a strong relationship between qualitative parameters of business development such as the manufacture of innovative products and the rate of technological renovations of enterprises and enterprise size and type of ownership. Moreover, the industrialization of the economy through the development of medium and large industrial enterprises in Uzbekistan today is becoming a major factor in the civic socialization of young people. A focus in the following recommendations is thus the need for creating conditions that encourage entrepreneurs to invest in long-term projects and expand their size of business. Medium-sized enterprises in manufacturing industries will be able to generate demand for skilled labour. They will be also engines for regionalism and export trade, which will generate demand for SBPE products and services. Accordingly, this will have a positive impact on employment growth in this sector and increase in the proportion of the middle class in general.

Given the demographic trends of Uzbekistan, it seems necessary to achieve an annual sustainable growth of a specific number of SBPE entities to ensure that by 2030 there has been a two- or threefold increase in the number of companies, to at least 30 to 40 per 1,000 people. In order to increase the pace of development and qualitative growth in the SBPE sector, government measures in this area must satisfy a single but fundamentally important condition – reducing the use of administrative tools for business regulation (financial, pricing, fiscal, etc.). A gradual transition to real market-based instruments of economic regulation will enable entrepreneurs to achieve a “mass” market. This approach will contribute to the “rejuvenation” of domestic business, lowering the mean age of entrepreneurs. To this end, in the medium-term outlook the government must pay attention to the following issues.

3.1. Risk reduction and business transaction costs

The study showed that the major deterrents to business legalization and qualitative development are most perceptible in administrative regulatory standards established as part of fiscal and monetary policies. In this regard it will be necessary to:

- develop and adopt measures to eliminate the gap between cash and non-cash transactions to maintain macroeconomic stability, and not establish additional rules to regulate the use of the financial resources of the private sector;
In the area of economic regulation, businesses must not only be aware of upcoming changes but also participate in establishing the norms the government is planning to introduce.

Predominantly administrative methods with only limited use of market-based instruments create an environment in which only large state-owned monopolies and a relatively small proportion of the SBPE entities enjoy preferential conditions.

3.2. Development of competitive environment and increasing access to resources

To implement structural reforms in the economy, the government continues to apply tools such as price regulation and the distribution of raw materials. Predominantly administrative methods with only limited use of market-based instruments create an environment in which only large state-owned monopolies and a relatively small proportion of SBPE entities that take part in various state programmes enjoy preferential conditions. A more decisive role should be given to the wider use of market-based allocation of resources, in order to reduce transaction costs and stimulate innovative business. To do this, it will be necessary to:

- accelerate the departure from systems of state pricing and resource allocation in favour of market-stimulating tools;
- abandon targeted tax breaks and create equal business conditions for economic entities across the country, especially in those regions and sectors of the economy that are lagging behind (in order to speed their industrialization);
- continue efforts to improve a corporate governance system, including the separation of the management, control and economic (business) activities of state structures.

3.3. Development of self-organized business institutions

Further improvements to the market economy management system can be made through a gradual move away from forms of command-administrative systems. There should be a clear division of responsibilities.

- abandon ineffective concessional loans (to reduce exemptions in the list of enterprises and put sector privileges into practice) and create a bank interest rate policy with new conditions;
- develop and adopt measures to promote competition in the banking sector and establish non-bank lending institutions offering collateral requirements and other terms and conditions that are easier to meet than those of banks;
- continue efforts to reduce the tax burden on the SBPE sector (reduced payroll tax rates, abolition of single tax payments of uniform size, and minimum standards for staffing and payroll).

In the area of regulating the economy, the government should change its approach regarding important decision-making procedures, creating a process that is more consultative. Businesspeople should not only be aware of upcoming changes, but also participate in designing the norms the government is planning to set. When government and business arrive at mutual solutions, the process becomes part of a new social contract. The standards that are introduced are then effective in terms of social transformation and the country’s economic development. Importantly, reducing transaction costs in the economy and creating an enabling environment for the growth of small enterprises and the creation of medium-sized ones will also strengthen the potential of the private sector to implement socially responsible activities.
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3.4. Increase the level of entrepreneurs’ social and political participation

Creating an enabling environment for development in the private sector is not feasible without effective interactive mechanisms between the state, the public, and business and civil society. Therefore, enhancing the role of entrepreneurs in social and political processes is an important strategic move for SBPE development in general. Evolving institutional mechanisms is regarded critical for shaping needed personal properties in businesspeople and, especially, young people, such as innovative thinking, a retreat from traditional collectivist to individualist behaviour, and awareness of personal responsibility, both for their own future and the progressive development of the whole country. To this end, the government should actively involve civil society organizations and political parties in important government decisions in the area of

Developing self-regulatory organizations will enable the government to shift some of its control and supervisory functions in certain areas to the market players themselves.
The government should actively involve civil society organizations and parties in the process of making important governmental decisions in the area of economic regulation. An approach of this type will encourage entrepreneurs to take a more active civic stand, as well as to develop skills to defend their collective interests. Work being carried out today in Uzbekistan on implementing a system of regulatory impact assessment (RIA) at the institutional level can be the catalyst for these processes. One of the key elements in RIA, which ensures its high-quality performance, is government bodies holding public consultations on all matters of economic regulation, and the compulsory publication of their results.9

Active involvement of SBPE representatives in political parties is possible if the parties show themselves to be a real social force able to defend private sector interests. Strengthening the powers of the Supreme Assembly (Oliy Majlis) of the Republic of Uzbekistan and its role in making important government decisions shall continue, including:

- Stepping up the practice of drafting and passing laws that are directly applicable, define all of the governing activities of executive bodies in a particular field, and establish their responsibilities. Adopting laws of this type will restrict the law-making power of executive power bodies, which is important as it will prevent the enactment of bylaws that reflect predominantly internal departmental interests.
- Strengthening the control and analytical work in parliament, above all, undertaking state regulatory impact assessments and examining the economic efficiency of laws that are passed.
- Using the capacity of public NGO support funds and other civil society institutions under the Supreme Assembly to conduct periodic sociological surveys of local entrepreneurs’ opinions and other related activities.