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TAX POLICY AND THE DEVELOPMENT OF SMALL BUSINESS IN UZBEKISTAN

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Annotation: The article examines the impact of tax policy reforms in Uzbekistan during 2018–2024 on the development of small and medium-sized enterprises (SMEs). The analysis is based on information from Stat.uz, reports from international financial institutions like the World Bank, IMF, ADB, and IFC, and evaluations from professional consulting firms like EY and PwC. According to the findings, the ratio of SMEs to GDP has remained constant over time, remaining between 40 and 55 percent. Digital tax services (such as online reporting and the SOLIQ mobile application) have reduced the administrative burden on entrepreneurs and encouraged the shift to the formal sector. At the same time, while the system of tax incentives supported the investment climate, their broad and generalized application limited overall efficiency. Moreover, the large share of the informal economy (30–35 percent) and constraints in access to finance continue to restrict the full positive impact of tax policy.

Although credit lines from international financial institutions have helped improve SMEs' short-term liquidity, gaps in the financing market still remain. Therefore, the policy recommendations include: linking tax incentives to specific targeted outcomes, expanding digital services alongside improving financial literacy, and introducing inclusive financial instruments to reduce the size of the informal economy.

Keywords: Tax policy**,** Small business**,** Tax administration**,** Informal economy**,** SME financing**,** Digital tax services**,** Tax incentives**,** Economic reforms

INTRODUCTION

One of the most important pillars of any nation's economic development are small and medium-sized businesses (SMEs). They not only create new jobs, but also play an important role in introducing innovations, increasing export potential, and ensuring regional development. Uzbekistan's experience confirms this: in recent years, the share of small businesses in gross domestic product (GDP) has consistently remained between 40–55 percent. By the end of 2023, this percentage stood at 51.2%, according to the State Statistics Committee (Stat.uz), indicating the sector's steady and significant role in the economy. The years 2018–2024 marked a turning point in the country's tax policy. During this period, a new Tax Code was adopted, the coverage of value-added tax (VAT) was expanded, and simplified taxation procedures were revised. In addition, the digitalization agenda led to the widespread introduction of electronic tax services, online reporting systems, and mobile applications. These reforms made the

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taxation process much more convenient for small entrepreneurs, reduced bureaucratic burdens, and encouraged more businesses to enter the formal sector.

At the same time, a number of pressing challenges remain. In particular, the large size of the informal economy (estimated at 30–35 percent of GDP) continues to limit opportunities to broaden the tax base. SMEs also face significant barriers in accessing financial resources, which slows their investment activity and sustainable growth. For this reason, international financial institutions — such as the World Bank, International Monetary Fund, Asian Development Bank, and International Finance Corporation — are working with the country to modernize tax administration and implement financial support projects for SMEs.

This study focuses on analyzing these processes: how tax policy reforms have influenced the formalization and sustainable development of small businesses; the extent to which digital tax administration has helped reduce bureaucratic burdens for entrepreneurs; and how the informal economy and financing constraints undermine the effectiveness of fiscal policy. In doing so, the article aims to highlight Uzbekistan's experience and outline the role and future directions of tax policy in supporting SME development.

METHODOLOGY

A comprehensive method is used in this study to examine the growth of small businesses in Uzbekistan and the effects of changes in tax policy.

Data sources. The World Bank, the State Tax Committee, the Ministry of Finance, the State Statistics Committee, and open reports from international financial institutions provided the primary statistical indicators. Based on dynamic data for the period 2018–2024, an in-depth analysis was conducted of the SME share in GDP, the number of newly established enterprises, and tax revenues.

Analytical methods. Both qualitative and quantitative methods were used in the study: Using a quantitative approach, statistical data were used to create tables and charts. The share of small businesses in GDP was compared year by year, growth rates were identified, and overall trends for 2018–2024 were outlined. Additionally, calculations like "year-over-year change (%)" were used to emphasize the indicators' dynamic nature. Qualitative analysis: The effectiveness of tax reforms was studied on the basis of international and domestic expert reviews. Official reports from EY, PwC, IFC, ADB, and the World Bank, as well as government decrees (including Resolution No. 885), were used to explain the impact of tax policy on the business environment.
Diagram and table construction. Special tables and charts based on statistical data were created for the study. In particular:
Tables: The tables presented data on the SME share in GDP by year, the number of newly established micro-firms, and changes in tax revenues. Columns such as "Year," "Indicator Value," and "Percentage Change" were part of the structure of the table.
Diagrams: Line graphs and bar charts were used to show growth trends. A line graph, for instance, depicted the annual dynamics of the SME share of GDP, while a bar chart depicted the number of newly established businesses. The research results were easier to comprehend and more visually appealing as a result of this strategy.
Additional methods.
Comparative analysis was conducted to evaluate Uzbekistan's tax policy in relation to that of other developing countries.

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Uzbekistan's tax policy was examined alongside the fiscal strategies of other developing economies through comparative analysis.

General strategy. The study was conducted from two perspectives, thanks to the chosen methodology: first, statistical data were used to analyze concrete facts, and second, qualitative sources were used to explain the deeper causes and effects of these indicators. A comprehensive evaluation of tax policy and the growth of small businesses was made possible by this dual approach.

RESULTS

Key Indicators and the Share of Small Businesses in GDP (2018–2024)

Table 1 — Small Business Indicators (Selected Periods, Official Data from Stat.uz)

Private entrepreneurship and small businesses have become increasingly important to the economy of Uzbekistan over the past few years. The sector's share of GDP has generally remained stable, according to statistical data for the years 2018–2024, but certain periods have seen a trend toward decline.

PERIOD	The share of small business in GDP (%)	Number of small businesses / micro-firms	Number of newly established small businesses / micro-firms	NOTE
January–September 2018	50.2%	257127	38073	Before the introduction of the new Tax Code
January–December 2019	56.5%	334767	92874	Changes in the VAT system began
January–March 2021	45.0%	450200	26800	The stage of digitalization in tax administration intensified
January–2022	51.8%	493700	76 876	Measures to reduce the informal sector
January–June 2023	48.6%	523,556	46300	Period of stabilization of reforms
January–December 2023	51.2%	411100	86 030	Period of stabilization of reforms
January–September 2024	53.8%	399000	62500	Agriculture – 37.1%, Services – 40.5%, Industry – 12.8%, Construction – 9.6%

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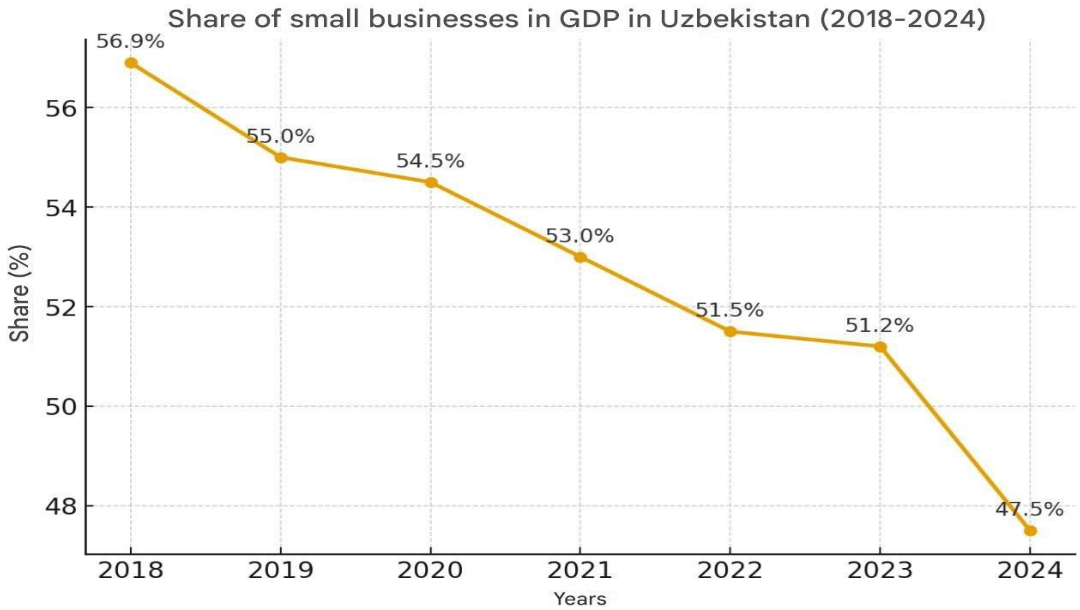
Source: Statistics from the State Committee of the Republic of Uzbekistan (Stat.uz), "The share of small business in GDP," from 2018 to 2024

The table shows that the share of small business declined from 56.9% in 2018 to 47.5% in the first half of 2024. However, this decline does not necessarily imply that small businesses are no longer as important to the economy. In contrast, the industry has undergone structural change and continues to be a major player in services and agriculture. Although its share in industry and construction remains relatively low, these sectors are largely dominated by enterprises requiring larger capital investments.

Overall, the tax policy reforms implemented between 2018 and 2024 created more stable conditions for small businesses. Nevertheless, the presence of a significant informal sector and persistent financing constraints have contributed to the observed decline in the overall share. Therefore, in order to increase the role of small businesses in the future, it is crucial to strengthen financial support mechanisms and further enhance digital tax administration.



Tax Policy and Key Changes in 2024–2025

Major changes were made to Uzbekistan's tax system between 2019 and 2025. First of all, with the adoption of the new Tax Code, tax rates, exemptions, and calculation procedures were revised. In particular, a number of significant changes were introduced regarding Value Added Tax (VAT) and turnover tax. During this process, some tax benefits were abolished, while new ones were introduced.

In 2024–2025, these reforms went even further. E-commerce operators' taxation was governed by new regulations. For instance, the procedures for taxing digital service providers and online marketplaces were outlined in government resolutions, specifically Resolution No. 885. International consulting firms such as EY and PwC have also analyzed these developments and regularly published tax alerts on what changes to expect in 2024–2025.

One of the key aspects is that, starting from 2025, certain tax incentives will either be completely abolished or tied to new conditions. Small businesses will be forced to become more competitive and more open about their operations as a result of this. In addition, the proliferation of electronic tax services, such as the SOLIQ mobile app and e-services platforms, has made it much simpler for business owners to pay taxes online, submit reports, and manage

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invoices. These innovations not only simplified the taxation system but also increased its transparency.

Tax Administration Reform (World Bank) and Practical Outcome Indicators

In Uzbekistan, tax administration reform is being carried out through international cooperation. One of the major initiatives in this area is the World Bank's Tax Administration Reform Project (P173001). The project focuses on improving the skills of tax officials, introducing modern information technologies, and enhancing analytical modules related to Value Added Tax (VAT). These reforms began to produce tangible results by 2024–2025. World Bank reports say that tax officers received regular training, e-services systems were expanded, and new modules were launched to find and close VAT gaps. It is anticipated that these measures will result in a decrease in the size of the informal economy and an increase in tax revenues.

The Informal Economy and Its Impact

The informal sector still holds a significant share in Uzbekistan's economy. Its size is estimated to be between 30 and 35 percent of GDP, according to various international and local sources. Informal activities are most often found among small business entities, as formal registration, full tax compliance, and adherence to legal obligations can sometimes entail additional costs and challenges.

The tax base shrinks as a result, and tax collection efficiency suffers as a result. The informal economy's estimated size was slightly revised in 2023 by recalculations, and new measures to reduce it were developed in collaboration with the World Bank. This procedure, on the other hand, is being implemented gradually and necessitates a long-term strategic strategy.

SME Financing — International Aid and Bank Projects

Financing for small businesses remains one of the most pressing issues in Uzbekistan. Due to high interest rates, stringent collateral requirements, and insufficient credit resources in the local financial market, many entrepreneurs struggle to obtain funding.

Uzbekistan has received additional funding from international financial institutions like the IFC, the Asian Development Bank (ADB), and the OPEC Fund as a result. For example, the IFC has provided several credit lines ranging from $10–20 million, while the ADB and other institutions have supported small business entities through commercial banks like Ipak Yuli Bank.

Nevertheless, the existing support is insufficient to fully close the financing gap. According to international reports, the SME financing gap in Uzbekistan—representing the shortage of financial resources for small businesses—stands at approximately $11.7 billion. This emphasizes the urgency of expanding funding sources to further encourage the growth of small businesses.

DISCUSSION

Although the tax policy and small business support reforms implemented in Uzbekistan between 2018 and 2024 have produced noticeable results, their effectiveness has varied under the influence of several factors. The proportion of small businesses in GDP has remained relatively stable, according to research; however, additional conditions are required for this indicator to rise to a higher level.

First, entrepreneurs received significant relief from changes to the tax system. For example, the revision of VAT and turnover tax rules, the expansion of simplified tax regimes, and the introduction of electronic tax services have facilitated the integration of small business entities into the formal economy. SOLIQ Mobile and other e-services, in particular, accelerated accounting procedures, alleviated administrative burdens, and increased tax transparency.

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However, these opportunities have not been fully utilized due to a lack of digital infrastructure in some regions.
International financial cooperation is the second essential aspect. Small businesses have benefited greatly from the IFC and ADB's credit lines and the Tax Administration Reform Project of the World Bank. At the same time, research shows that a significant financing gap remains in Uzbekistan's SME market—approximately $11.7 billion—highlighting the need to further expand access to financial resources.
Third, the informal economy continues to be a pressing issue. Accounting for roughly 30–35% of GDP, this sector narrows the tax base and negatively affects government revenues. Informal activity is particularly common among small enterprises, meaning that tax incentives must be sufficiently effective to encourage their formalization. Small businesses may be more motivated to enter the formal sector if specific tax reductions, simplified reporting, and preferential lending policies are implemented.
International experience also shows that increasing the share of small businesses in the economy requires not only favorable tax policies but also a supportive business environment. Therefore, tax policy should be coordinated with other reforms—reducing bureaucracy, simplifying licenses and permits, and expanding digital services.
Overall, these discussions suggest that Uzbekistan's recent tax policy has laid an important foundation for small businesses. However, in order to achieve better outcomes in the future, you will need:
1. Reducing the share of the informal economy;
2. Expanding financing opportunities;
3. Ensuring equal development of digital infrastructure across regions;
4. Making tax incentives more effective and targeted.

Small businesses' contributions to the nation's economic expansion will rise as a result of this, making their development more sustainable.

CONCLUSION

According to the aforementioned analyses, the tax policy of Uzbekistan provided significant opportunities for small businesses between 2018 and 2024. Supporting this sector has seen notable outcomes as a result of changes made to the Tax Code, digital services implemented, and programs implemented in collaboration with international financial institutions. The positive developments in this field are confirmed by the fact that the proportion of small businesses in GDP has remained constant at an average of 40-55%. However, the research also brought to light a few obstacles. In particular, the high share of the informal economy limits the potential for expanding the tax base. Additionally, the substantial financing gap in the SME market—roughly $11.7 billion—impedes the steady expansion of small businesses. Inadequate regional development of digital infrastructure has also contributed to significant disparities in the utilization of electronic services included in the tax system.
On this basis, a number of practical conclusions can be drawn:
1. The administrative burden on small businesses has been reduced by simplifying and digitizing tax policy, which has aided in their transition to the formal sector.
2. Cooperation with international financial institutions has strengthened the financial stability of small businesses; however, broader mechanisms are needed to close the financing gap in the market.
3. Combating the informal economy is still a top priority for maintaining tax revenues and increasing economic transparency.

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4. Tax relief and incentives can be more effective if they are targeted.

Fiscal policy should be coordinated with other reforms, such as reducing bureaucracy, improving the business environment, and expanding digital and financial services across regions, in the future to strengthen the role of small businesses in the national economy. Only then can small businesses become a key driver of economic growth and play a more active role in Uzbekistan's long-term development strategies.

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