



Article

## The Role of Benefits and Preferences in The Development of Small Business and Entrepreneurship

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**Abstract:** Currently, economic reform is being carried out in Uzbekistan, one of the main directions of which is the stimulation and development of small and medium-sized businesses. Based on this, the article discusses the role of benefits and preferences in developing small businesses and entrepreneurship. The role and significance of this issue in increasing competitiveness are considered. The article analyses the factors and risks associated with the main directions of benefits and preferences in developing small businesses and entrepreneurial activity against the backdrop of a new system of economic processes inherent in a modern market economy. Priority tasks of state mechanisms for stimulating small business and entrepreneurship as an important factor of innovative development are defined. As the main task of the transition to a digital economy, it is proposed to create a system of benefits and preferences that ensure the development of the activities of small businesses and entrepreneurship.

**Keywords:** : small business, small business support, small business entities, entrepreneurship, economic development, economic system, state support system, tax benefits, innovative development, competitive market, creation of new jobs

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### 1. Introduction

Small business and private entrepreneurship are an active factor in the competitive market. The main principle of small business and private entrepreneurship is the search for and satisfaction of needs. Creating this need and stimulating the growth of active factors of a competitive market is one of the main goals of public administration based on any market economy. The role of benefits and preferences in this is invaluable. That is, benefits and preferences are not only a way to support business, but also one of the ways to ensure the development of the country's economy. At the same time, deep reforms are being carried out in Uzbekistan in this area, as an example of which we can cite the Decree of the President of the Republic of Uzbekistan "On Additional Measures to Improve the Procedure for Providing Subsidies, Benefits, and Preferences to Business Entities." [1]. At the same time, it should be especially noted that President Shavkat Mirziyoyev constantly pays attention to comprehensive support for business and entrepreneurship, for example, at the videoconference meeting dedicated to the results of 2024 and the main plans for 2025, he noted: "From the first days of our large-scale reforms, I have always emphasized one thought: the development of entrepreneurship is a strategic task for us. Our support, our backing, our greatest strength - all this is in this sphere. Therefore, supporting entrepreneurs should be the daily task of all managers - from the centre to the lowest level"[2]. From all of the above, it can be concluded that in the context of the economic turmoil that we are witnessing in the modern world, one of the key aspects of the state's economic security strategy is to support small businesses and entrepreneurship. Small

business and entrepreneurship are important elements of the economy that influence its growth and structure. They contribute to an increase in the gross regional product and gross domestic product. In addition, their development plays a significant role in the socio-economic development of the region. This, in turn, increases the competitiveness and sustainability of the region, which is an important factor in ensuring economic security at the regional level [3]. Small businesses and entrepreneurship are powerful resources that can significantly contribute to meeting the needs of society. Therefore, government policy aimed at financial support for small businesses and entrepreneurship is an important tool in managing the country's economy. The activities of small enterprises are primarily aimed at meeting their own needs. It is important for a small business to ensure maximum profit from its activities. However, the state also pursues its own economic goals and therefore collects part of the entrepreneur's income in the form of taxes and other mandatory payments. Ideally, a balance of interests should be achieved between the participants in economic relations. This will make it possible to effectively apply economic methods in managing the country's economy.

Issues of small business development and its regulation have been and are being actively studied by many scientists. Uzbek scientists R. Qosimjonov, X.P. Abulqosimov, Sh. Hasanov, B.R. Sanakulova, M.R. Boltaboev, M.S. Kosimova, Sh.J. Ergashkhodzhaeva, B.K. Goyibnazarov, A.N. Samadov, R. Khodzhaev, A. Mutalov, D. Mytalova, B.Yu. Khodiev, Kh.O. Rakhmonov, Z.Ya. Khudoyberdiev, A.N. Samadov, G.N. Ostanakulova, Z. Sadullaev, and others. A great contribution to the study of entrepreneurship was made by such foreign economists as K. Vesper, J.K. Galbraith, P. Drucker, D.S. McClelland, A. Marshall, A. Smith, J.-B. Say, A. Shapiro, J.A. Schumpeter. Russian scientists also pay great attention to the development of small business and entrepreneurship in modern conditions. Among them are V.N. Afanasyev, L.V. Babaeva, A.V. Vilensky, A.R. Gorbunov, A.N. Kolesnikova, D.N. Kuzin, M.G. Lapusta, Yu.M. Osipov, L.N. Prilsky, V.V. Radaev, Yu.A. Rovensky, F.I. Shamkhalov, and others. In the scientific research of the above-mentioned scientists, as well as in other regulatory documents, definitions of the concepts of business, small business, entrepreneurship, and private entrepreneurship are given, in particular, one of the scientists of our country, R. Kasimdzhanov, writes: "Entrepreneurship is a completely new type of management based on the innovative behavior of business owners, the ability to find and use ideas, and translate them into specific business projects. This is, as a rule, a business that meets the demand, but a person who does not take risks will not ultimately succeed"[4]. In the textbook "Taxation of Small Business and Private Entrepreneurship" authored by A.Mutalov and D.Mytalova, it is emphasized that "Small business entities are no different from small businesses and are enterprises, organizations, and microfirms that differ from them only in scale (size), or when we say small businesses, we do not mean any other enterprises, but rather ordinary enterprises based on all forms of ownership, differing from them only in scale" [5].

## 2. Materials and Methods

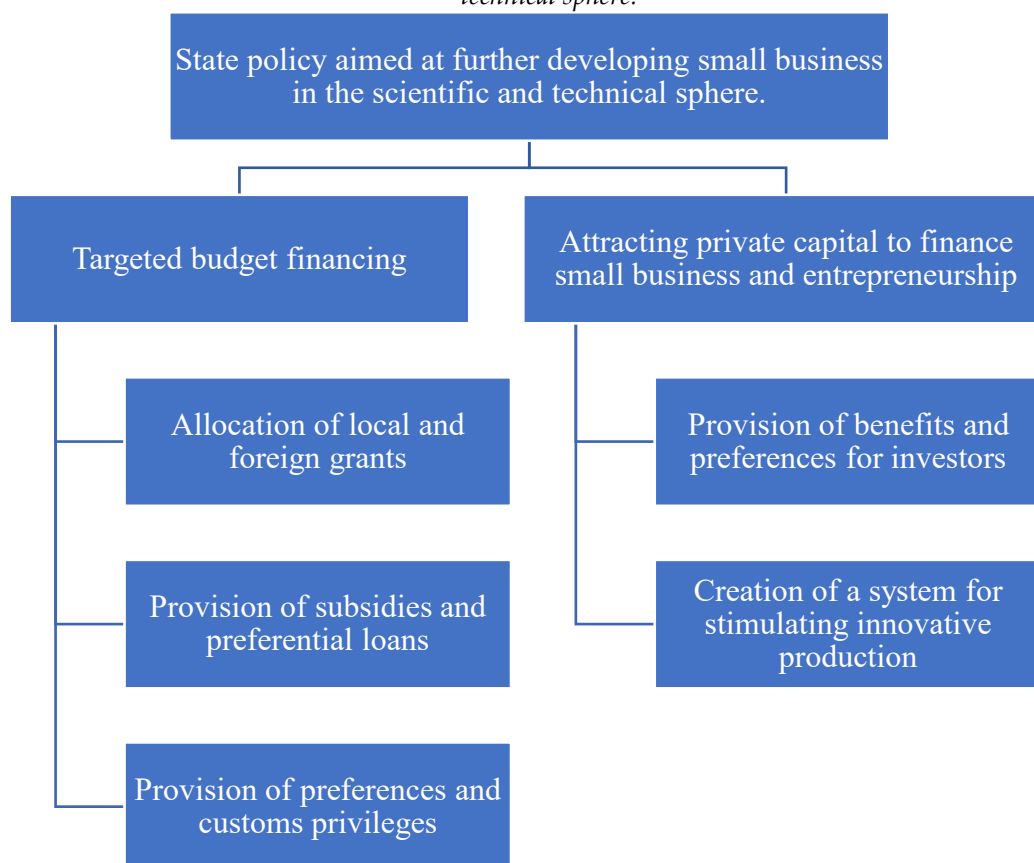
Also, when we talk about the role of benefits and preferences in the development of small business and private entrepreneurship during our research, it is impossible not to dwell on tax benefits. In this regard, numerous scientific studies have been conducted, including on the problem of applying tax benefits in small business and private entrepreneurship, where V. G. Panskov, in his article "Some Theoretical Aspects of the Concept of Tax Benefits," asserts that "tax benefits are a taxation method applied in the theory of tax justice to entities with low tax capacity" [6]. On the one hand, such an approach seems logical. However, if a person has problems with paying taxes, they should carefully consider the tax system before starting their business. M.A. Abramova, in her work "Money and Credit Methods of Financial and Economic Regulation," notes that "the application of tax benefits must be developed based on the state's current policy and goals. Although small business entities are considered as an element in a large system of entities engaged in entrepreneurship in the country, by applying tax benefits to them, we strengthen the foundation of entrepreneurship" [7]. Indeed, the application of tax benefits is a powerful way to stimulate the activities of small businesses, which means additional

responsibility for regulatory and supervisory bodies of the state and a revision of the budget. Based on the foregoing, it can be noted that before developing the mechanism for applying tax benefits, it is advisable to clarify in relation to whom or in which area these benefits are necessary. The methodological basis of the study was comparative analytical, functional, and managerial analyses applied to the role of benefits and preferences in the development of small business and entrepreneurship, as well as general scientific methods: abstraction, induction, and deduction, quantitative and qualitative methods in their interrelation.

### 3. Result

Supporting and developing small businesses and private entrepreneurship is one of the key tasks of state economic management. In this regard, in most countries, this sphere of activity is traditionally considered an integral part of the state economic strategy (Fig. 1). This is because small business and private entrepreneurship perform several important functions that contribute to improving the structure of the economy, accelerating economic growth, expanding production and the service sector, creating new jobs, and creating conditions for fair competition.

**Figure 1.** State policy aimed at further developing small business in the scientific and technical sphere.



*Compiled by the author.*

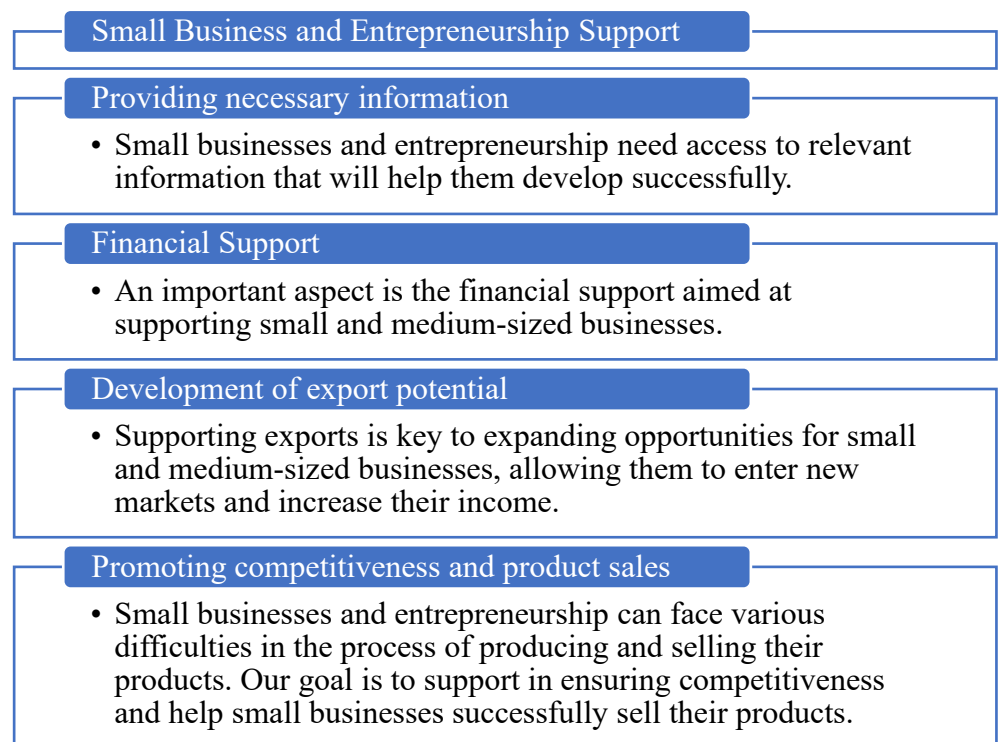
The state's strategy aimed at the further development of small business in the scientific and technical sphere includes a number of key aspects:

1. Financing from the budget: support for scientific research and innovative developments is carried out at the expense of state funds.
2. Grants: both domestic and international grants stimulate innovative activity and contribute to the development of small businesses.
3. Subsidies and preferential loans: starting entrepreneurs are provided with opportunities to finance their projects.

4. Tax preferences and benefits: favourable conditions are being created for small businesses to operate, including a reduction in the tax burden and other restrictions.

In the future, it is planned to attract private investments to support small businesses and entrepreneurship. Investors will receive privileges and benefits, which will increase their interest in participating in innovative projects. A system of measures aimed at stimulating and developing innovative production will be developed [8]. To achieve this goal, there are special organisations in the management systems of developed countries that are engaged in supporting and developing small businesses and private entrepreneurship. Thus, in 1953, the Small Business Administration was established in the USA, which is subordinate to Congress. Territorial committees were formed in each state, consisting of 30-40 people. Their task is to provide comprehensive assistance to small businesses and private entrepreneurship in the country [9]. In addition to this, special legislative acts were created, establishing the legal basis for the activities of small businesses and individual entrepreneurs. Between 1970 and 1973, the slogan "Small is beautiful" was put forward, and large companies began to split into smaller ones [10]. In Great Britain, administrative tools were actively used to regulate the activities of small businesses and individual entrepreneurs. In the Republic of Korea, a number of laws aimed at supporting small business and individual entrepreneurship have also been adopted. The purpose of these laws was to bring these sectors out of an uncontrolled state and ensure their stable development. In France, the government has identified key areas for the development of small businesses and individual entrepreneurship, as shown in the graph below. In 2019, 3.13 million small and medium-sized enterprises (SMEs) were registered in France, which is 99.9% of the total number of companies. SMEs account for 55.8% of the added value and 64.1% of the total employment in the country. This is slightly lower than the average for the European Union (EU) - 56.4% and 66.6%, respectively [11]. The number of employees in SMES in France is also slightly lower than the EU average - 3.4 people versus 3.9. However, French SMES demonstrate higher productivity: the added value per employee in France is 21.2% higher than the EU average - 54,000 euros versus 44,600 euros [12](see figure 2).

*Figure 2. How small businesses and private entrepreneurship are developing in France.*



*Compiled by the author*

In Japan, about 90% of companies belong to the category of small and private enterprises, which play a key role in the development of the country's economy. To support this sector, numerous legislative acts aimed at strengthening the legal framework for small and medium-sized businesses have been developed. Among these legislative acts, we can distinguish:

1. Documents defining the main directions of state policy about small and medium-sized businesses;
2. Measures aimed at modernising these sectors of the economy;
3. Mechanisms that ensure the management and support of small enterprises.

In light of the above, we can consider small businesses and entrepreneurship as an effective solution to social problems. One of the clear examples is the employment of the population. In our opinion, the level of state support for small businesses and self-employed citizens depends on many factors, including the economic, social, and political climate in the country. Although there are no universal recommendations on this issue, we believe that several key areas of state support can be highlighted:

1. Financial support from the state budget.
2. Funds of various organisations and associations.
3. Creation of favourable conditions in the field of finance and lending.
4. Regularly informing and supporting of entrepreneurs.

Significant work has already been done in the Republic of Uzbekistan in this direction. Since gaining independence, the legal foundations for the development of small businesses and private entrepreneurship have been laid in Uzbekistan. Within this process, the Oliy Majlis adopted several fundamental laws, such as:

1. Law "On Enterprises in the Republic of Uzbekistan";
2. Regulation "On Private Entrepreneurship in the Republic of Uzbekistan";
3. Law "On Stimulating the Development of Small and Private Entrepreneurship in the Republic of Uzbekistan."

Although these legal acts and regulations no longer have legal force, they had a significant impact on the establishment and development of small businesses and entrepreneurship in Uzbekistan during the initial period after gaining independence. In the legislation of the Republic of Uzbekistan regulating entrepreneurial activity, the rights and obligations of entrepreneurs are clearly defined, and guarantees ensuring their economic and legal independence are provided [13, 14]. This law regulates relations between entrepreneurs, their interaction with other companies and organisations, as well as with state institutions [15, 16]. The law establishes the legal basis for the development of entrepreneurship and regulates the activities of citizens in this area. It promotes the free choice of forms of ownership and methods of management, as well as the equality of these forms and the creation of conditions for their interaction and fair competition. The system of state support for small businesses represents a set of measures aimed at stimulating and developing this important sphere of the economy. It includes several key elements:

1. Normative-legal framework: A set of laws and regulations that regulate the activities of small businesses and create favourable conditions for their growth.
2. State apparatus: Government bodies responsible for implementing state policy in the field of supporting small businesses. They regulate the activities of small businesses and manage support infrastructure.
3. Support infrastructure: Non-profit and commercial organisations established with or without state participation. Their activities are aimed at the effective functioning of the state support system for small businesses.

#### **4. Discussion**

The role of small businesses in the economy is not limited to quantitative indicators. It also plays an important role in the functioning of the economic system. In developed countries, small businesses traditionally perform several key functions. Firstly, it helps



stabilize the economic situation by creating a mechanism that maintains the balance between supply and demand. Small companies can be compared to the foundation upon which the entire economy is built. Their activities largely determine the structure of the economic system. The integrating role of small companies, which unite the economy into a single whole, is especially important. In a market economy, the supply of goods must correspond to the demand. However, it is not always economically feasible to organise efficient production. Large companies focus on the mass market and produce large batches of standard products. They are not engaged in small-batch production. Small businesses are ready to use every opportunity to develop their business. Specialised production, which can be profitable with small volumes of output, arises only when there are special and long-term needs. Venture capital is ready to take risks and invest in various projects if they promise a surplus profit. Small businesses do not strive to displace large companies from the market; they occupy free niches that arise between goods offered by large players. In modern markets, the number of consumers is usually hundreds and thousands of times greater than the number of suppliers. Due to this, the individual needs of each client cannot be fully satisfied. Large companies offer average goods and services, resulting in a portion of the demand remaining unsatisfied or partially satisfied. It is these "niches" that small businesses occupy. Without small businesses, the economy would be like a patchwork blanket: some market needs would be fully satisfied, while others would be ignored. However, small businesses are constantly searching for new public needs and flexibly adapting to them, which is the foundation of their strategy. Secondly, small enterprises play an important role in the development of competition in the economy. For a single small enterprise, a collision with a monopoly often fails. However, in the interaction of small businesses with large capital, the roles change. Usually, many small firms become the attacking party. Let us consider in more detail two modern forms of this process. Thus, small businesses play an important role in preventing price monopolisation. In the modern economy, there is a tendency towards a decrease in the degree of product processing. In large monopolistic structures, one can often see the combination of efficient mass production with areas of small-scale production where labour productivity is lower. If some monopolies abandon their auxiliary production and start purchasing cheaper and higher-quality components from smaller companies, their costs will decrease, and they will be able to sell their products at lower prices. Essentially, small independent manufacturers compete with subsidiaries of large companies and successfully displace them from the market. Small businesses can be compared to a surgical instrument that eliminates inefficient divisions of large companies. Small business entities play an important role in the formation of market conditions. In the absence of constant competition from major players, the latter could come to an agreement on joint price increases, the use of outdated technologies, etc. However, small businesses successfully counteract this trend by effectively preventing large players from pursuing stagnation. Thirdly, competition creates a powerful incentive for more effective use of people's knowledge, skills, energy, and diligence. This, in turn, allows for more efficient use of existing resources - material, personnel, organisational, and technological. Fourthly, the ability of small businesses to quickly adapt to market changes contributes to the stabilisation of macroeconomic processes in the country. Small businesses operate successfully in narrow market niches, while large companies increase overall economic efficiency through economies of scale. Small businesses make the economy more flexible and mobile. Fifthly, the modernisation of technologies and the transformation of the structure of individual industrial sectors contribute to accelerating the process of capital outflow from outdated directions to the most promising and rapidly growing ones. Sixthly, the creation of an effective system of consumer, organisational, and production services contributes to the formation of market relations and stimulates the development of more flexible and mobile organisational and production structures. Seventh, the active development of the innovative potential of the economy opens up new prospects for economic growth and development. Small businesses demonstrate a high susceptibility to new ideas. On average, one employee of a small enterprise innovates 2.5 times more innovations than an employee of a large company. Small businesses are characterised by

flexibility and are capable of faster adaptation to the development, testing, and production of new goods, which large companies often refuse due to high risks. Small businesses master new types of products or services 30% faster, and their efficiency is 8 times higher at much lower costs. According to estimates by the US National Science Foundation, small firms produce 6 times more innovations per employee than large companies. Small businesses need an average of 2.2 years to bring their product to market, while large companies need 3.5 years. In addition, small businesses have relatively low production costs at the initial stage of the innovation process, as it is precisely the duration of this stage that can influence the development and production of new products. Eighth, small businesses play a key role in increasing tax revenues for budgets at all levels. In the world, small businesses account for a significant portion of tax revenues. Ninth, small businesses are actively attracting investments. One of the most rapidly developing forms of investment activity is leasing, which is especially attractive for small and medium-sized companies. Leasing allows for solving the equipment problem, therefore it is these enterprises that become recipients of leased equipment and, thus, invest in fixed assets. Thus, small business makes a significant contribution to the economy due to its ability to quickly introduce innovations, the mobility of technological changes, the active development of the service sector, as well as fierce price and non-price competition, which, on the one hand, leads to a decrease in prices, and on the other hand, to an improvement in the quality of products and services for consumers. In addition, the state receives substantial tax revenues, which is also an important aspect.

## 5. Conclusion

In conclusion, we would like to note that small companies and business projects play a significant role in solving social and economic problems, as well as in the overall development of society. They contribute to the creation of new jobs in the sphere of production, performance of work, and provision of services, which, in turn, ensures employment and reduces unemployment. Small business entities play a significant role in the life of society. They become a source of income for many people who independently organize and run their own businesses. These people - owners and employees of small businesses - ensure a decent life and contribute to the development of the economy. They become the foundation for the formation of a strong and just state. Doing one's business is not only a way to earn money, but also an opportunity to show your talents. Small business creates new jobs, which reduces unemployment and makes life more stable. For people who have lost their jobs or can no longer serve in the military, small business becomes a real salvation. He helps them find a job and start a new life. Entrepreneurs working in small business are not always dependent on the state. They can develop their business and help other people, which helps fight unemployment. In addition, small businesses provide young people with employment opportunities. Unfortunately, some young people may find themselves in a criminal environment, which can negatively affect their future. The development of the regions is a key task. In those places where infrastructure is not sufficiently developed, where the distance to large cities is large, and the economy is based on raw material extraction rather than the production of finished products, there are economic and social problems. To solve these problems, it is necessary to develop such regions, creating new industries. Small businesses, especially in small towns and villages, play an important role in strengthening the economy. They contribute to improving the standard of living in the provinces, allowing people in the provinces to live and work at a level comparable to large cities. For the further development of small business and private entrepreneurship in the country, it is necessary to provide them with comprehensive support. It is important that these industries become stable and competitive in both domestic and international markets. Only in this way can we ensure the stable production of high-quality goods and services, which, in turn, will lead to an improvement in the quality of life of citizens. In this regard, the development of small business and private entrepreneurship remains a priority for all of us. This direction contributes to solving pressing problems in the life of the state. It is necessary to use all available resources and actively participate in the development of the economy.

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