ORCID 0000-0003-1751-3630

THE RISE OF FAMILY-OWNED BUSINESSES IN UZBEKISTAN: GOVERNMENT SUPPORT AND POLICY IMPACTS

Vafokulova Mekhruza
Westminster International University
Silk Road International University of Tourism and Cultural Heritage
https://doi.org/10.5281/zenodo.15035134

Abstract. *This article gives general overview of family-owned business in Uzbekistan as an emerging type of entrepreneurship. Through a qualitative analysis, it investigates the development of family-owned businesses in Uzbekistan, focusing on governmental regulations and policies that have influenced their emergence and growth of family-run businesses in Uzbekistan. The key findings include the significance of government supports to promote and develop this type of entrepreneurship in Central Asian country, Uzbekistan. The paper concludes with discussion of future potential of family businesses in Uzbekistan.*
Keywords: *family entrepreneurship, Uzbekistan, government, regulatory framework.*

Introduction

Tourism and family entrepreneurship are the key contributions of governments' economy in not only Uzbekistan but also all around the world. The development of family business in tourism initially started with some changes in governmental regulations in the government of Uzbekistan. Based on international world experience, Uzbekistan has chosen its own way of development based on free democratic pricing system and market laws. Uzbekistan has decided to manage the market reforms gradually unlike dramatic reforms. Still Uzbekistan is considered a new sphere for scholars as family entrepreneurship spheres of Uzbekistan has not been researched yet. The transition from a centrally planned to a market-oriented economy has been a major challenge for many countries in the post-Soviet era including Uzbekistan to start and develop family business in many sectors including Uzbekistan. Uzbekistan, like many other former Soviet republics, has experienced significant changes in its economic structure since the collapse of the Soviet Union. One of the most notable changes has been the emergence of family-owned businesses as a new force in the country's economy. The family-owned businesses has been a topic of interest in the context of Uzbekistan, which has undergone significant economic reforms since gaining independence in 1991. Previously state-owned firms in Uzbekistan have traditionally been characterized by bureaucratic and centralized management structures, with little regard for market forces or competitive pressures. However, since the early 2000s, the Uzbek government has implemented a series of economic reforms aimed at liberalizing the economy and improving the performance of state-owned firms. Since then the number of family – owned businesses have increased notably.

Currently as the government of Uzbekistan has created more opportunities for privatization in many sectors a new type of management – family-owned business is being emerged in Uzbekistan. Furthermore, the family-owned businesses are considered one of the new, unsearched

spheres in Uzbekistan, which is very significant for the researchers. Family-owned businesses in Uzbekistan have traditionally played an important role in the economy, particularly in the areas of agriculture and trade and of course mainly in Tourism sphere. Especially small family businesses usually understand their local culture well. They use this knowledge to give visitors a unique and real experience. They share local cuisine, traditional ways, and practices. Non-family enterprises might find this difficult to do. What is more family-run tourism businesses, they tend to be more flexible in responding to changing market demands and shifts as well as consumer preferences. This adaptability management skill allows them to quickly adjust services, offerings, and experiences, staying relevant in the dynamic tourism industry, which experienced much during Covid-19 pandemic and post-pandemic period due to many changes in Tourism all over the world.

Nowadays as family businesses are very important in Uzbekistan, it has significant influence on Uzbekistan economy. As Uzbekistan is still in transformation period, private firms or individuals have owned not all sectors. Especially, most large sectors including transport, telecommunication and manufacturing are still regulated and owned by a government. However, the government of Uzbekistan is working on a new policy regarding to minimizing the share of government in businesses. The economy of Uzbekistan has been influenced a lot during past decades and most probably, it is going to remain in near future. However, it is planned to reduce the percentage of the state owned enterprises in Uzbekistan up to 30% by 2021, 65% by 2023 and 75% by 2025 (Dunyo.info May 28, 2021). By reducing the share of the government, it pushes to have more family enterprises in Uzbekistan. According to May, 2023 there are 47813 registered family-owned firms in Uzbekistan. These numbers are expected to grow in near future as the number of state-owned companies are decreasing (https://stat.uz/uz/. 2024).

Family-owned businesses are mostly funded by own finance or by combining family banks. In Uzbekistan to support family-owned businesses in all spheres, Uzbekistan Government provide preferential bank loans for business owners with reduced percentage of interest rate and 6-month period at an interest-free rate. To run family business in Uzbekistan bank loans are provided with the maximum amount of 300 million sum (according to current currency rate $24000) up to 3 years including interest-free rate period.

Research objectives:

- To analyze the growth and trends of family-run businesses in Uzbekistan over the past five years.
- To review some presidential decrees and governmental policies about family-run businesses
- To assess the effectiveness of the “each family – an entrepreneur” program and its funding
- To evaluate the role of the law “about family businesses” in sustainability and development of family-run enterprises.

METHODOLOGY

On this study of family entrepreneurship in tourism in Uzbekistan, a qualitative method was employed to gather some data about family-run businesses in Uzbekistan. To gather exact data, I contacted to statistics agency to get updated numbers about the research topic and scope. Moreover, some presidential decrees were reviewed towards the support of family businesses in Uzbekistan in different sectors and in tourism field. In addition, the number of registered family-run businesses in Uzbekistan in five years was retrieved from the statistics and provided in results. The overall registered family-owned business, their distributions according to Uzbekistan regions

is reviewed, and statistical numbers are given. For deeper understanding of the topic some essential data are taken from the book "Small and family business: creation and development" by I.LPugach (2012).

RESULTS

After reviewing and studying the materials, cases, laws and decrees, some information was retrieved about the family business in Uzbekistan. When comparing enterprises registered in our republic by organizational and legal form, after limited liability companies (LLC) and private enterprises, the third place is occupied by family enterprises, which as of June 1, 2023 made up 10.9 percent of the total number of business entities. The periodic changes of this data are following: The number of enterprises registered in this field in the corresponding periods of the last five years is as follows (https://stat.uz/uz/. 2024). As 2024 January 1st 67 778 businesses are registered as a family business however 44 935 family companies are functioning (https://stat.uz/uz/ 2024).

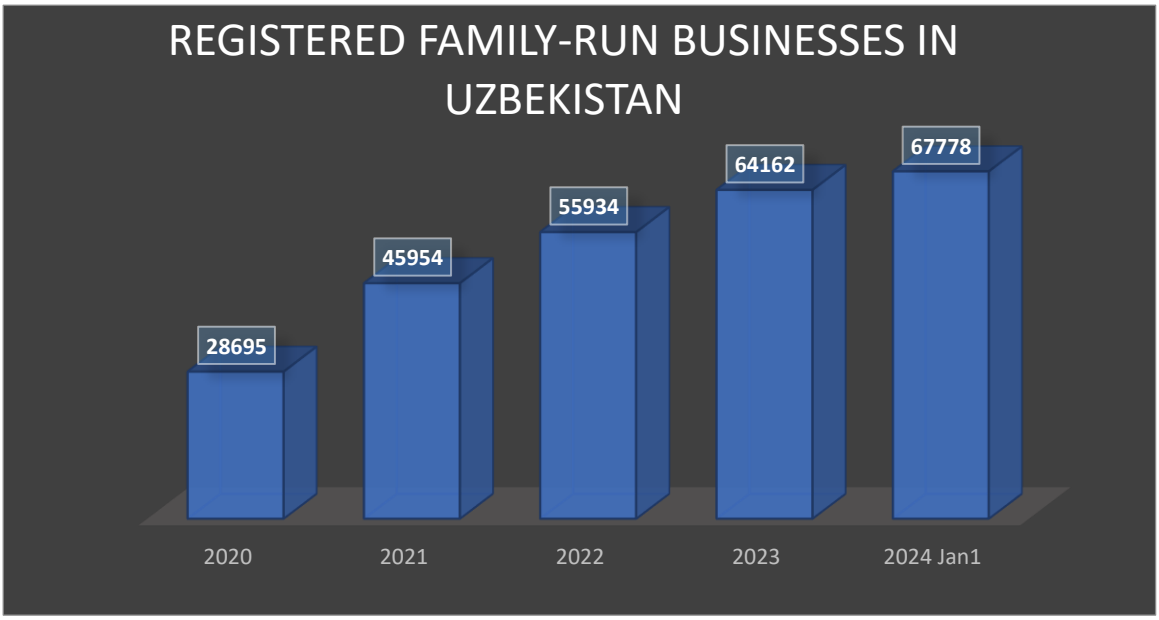


Figure 1. Number of registered family-run businesses in Uzbekistan in five years (Source**:** https://stat.uz/uz/)

Below number of functioning family businesses are presented according to 12 regions and some cities of Uzbekistan. The distribution of family-owned businesses across Uzbekistan shows a concentration in certain regions, highlighting their regional importance.

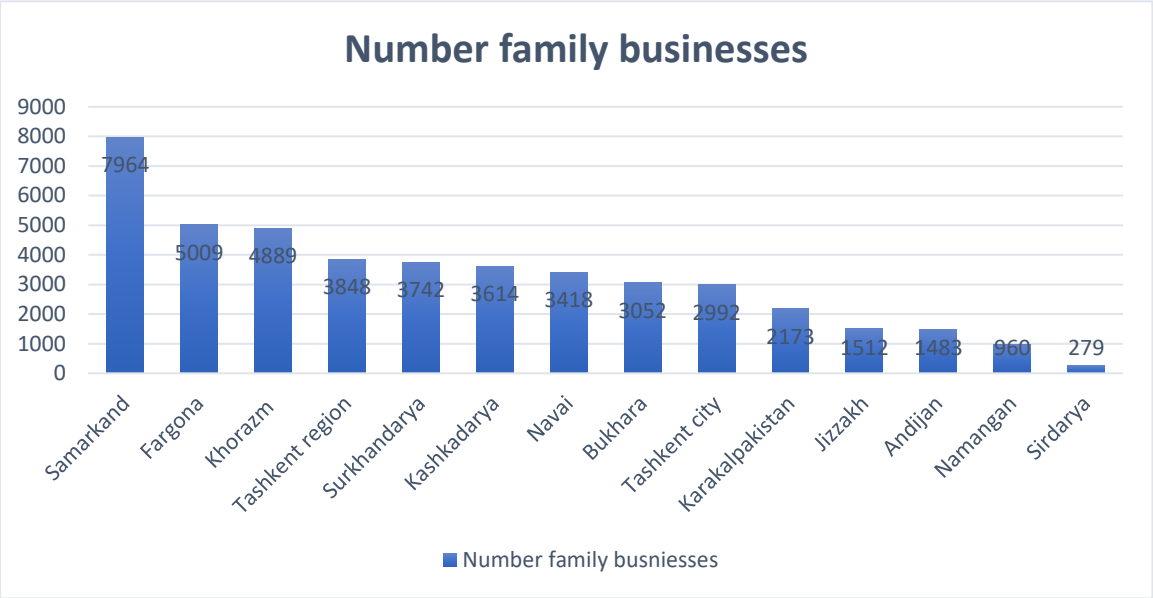


Figure 2. Family businesses according to regions of Uzbekistan

(Source**:** https://stat.uz/uz/)

Known for its colorful history and varied traditions, Uzbekistan has gone through many economic changes that shaped its business world. The government's past impact on business activities is clear, as moving from a controlled to a free market brought big changes to the government's role in business (Smith, J. Economic reforms and the changing role of the state in Uzbekistan. Journal of Central Asian Studies. 2010. p. 32-48). Government rules greatly help in creating a suitable environment for family businesses. New plans, like tax breaks and rule changes are made to boost the rise of family firms (https://daryo.uz/2019/01/21/o%CA%BBzbekistonda-oilaviy-tadbirkorlik-qay-darajada-yo%CA%BBlga-qo%CA%BByilgan) in different sections and industries in Uzbekistan. For example, Government policies have been pivotal in fostering this growth. Key initiatives include the 2018 presidential decree on the "Each Family – An Entrepreneur" program, which allocated $200 million in funding to promote family entrepreneurship. Concessional loans with interest rates as low as 3% per annum have further incentivized growth. This program aims to popularize family entrepreneurship, crafts and other types of business activities, to create conditions for each family to have a stable source of income and eliminate unemployment (https://daryo.uz/2019/01/21/o%CA%BBzbekistonda-oilaviy-tadbirkorlik-qay-darajada-yo%CA%BBlga-qo%CA%BByilgan).

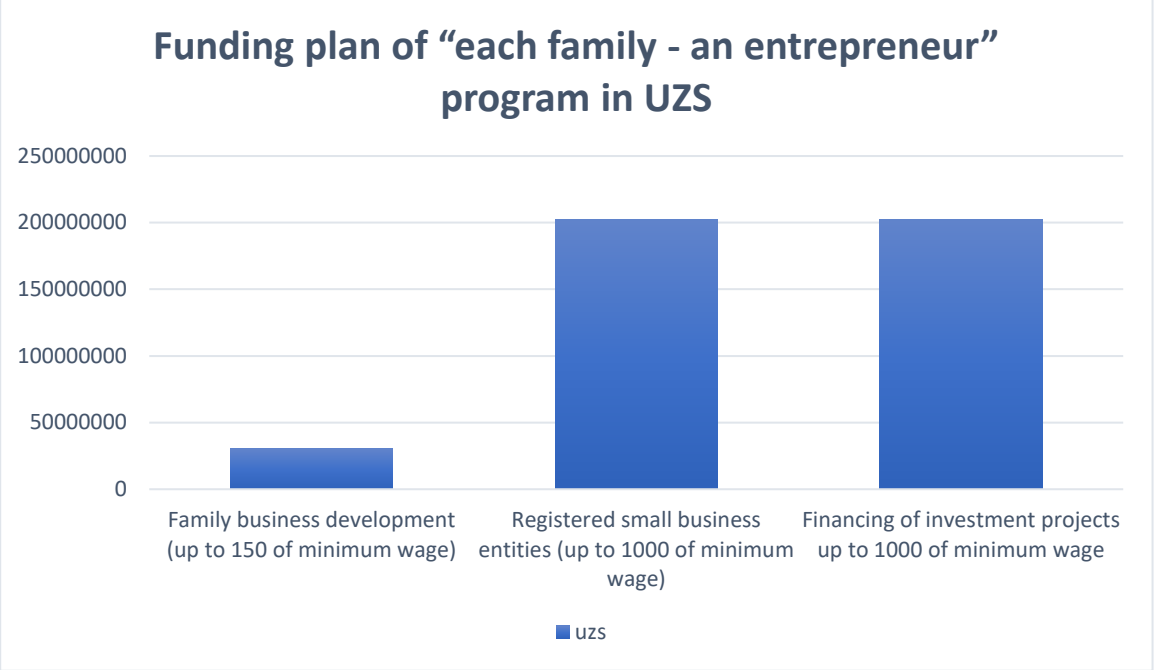


Figure 3. Funding plan of “each family - an entrepreneur” program.

(Source**:** https://stat.uz/uz/)

The Republic of Uzbekistan adopted a law “about family-business” on April 27 in 2012 which explains the fundamentals of family business improvements in Uzbekistan. This law includes 5 chapters:

1. First chapter is devoted to the fundamentals of small sized family-run enterprises, strong and weak sides of this type of business.
2. Second chapter is about studying contracts inside the business with its members.
3. Third chapter includes all information about juridical questions about starting and registering family businesses.
4. Fourth chapter is devoted to the benefits and payments for the study of the system of government regulations and small businesses support.
5. The final fifth chapter is devoted to the activities of small family businesses in conditions of financial difficulties.

Additionally, the 2012 law "About Family Business" has laid the legal foundation for family enterprises, addressing key aspects like business registration, legal contracts, and government support mechanisms. This legal framework has been instrumental in formalizing family businesses and guiding them through financial challenges.

CONCLUSION

The findings of this study highlight the significant role of family entrepreneurship in shaping the tourism landscape of Samarkand, Uzbekistan. Government support mechanisms play a crucial role in facilitating the growth and sustainability of these businesses, although further improvements in accessibility and effectiveness are needed.

Moving forward, developing a safe environment for family entrepreneurship through targeted policies, streamlined regulations, and enhanced access to finance will be essential for unlocking the full potential of Uzbekistan family-business sector. By capitalizing on their cultural heritage and collaborative spirit, family-run businesses can continue to succeed and contribute to the

economic and social development of the region. Family business in Uzbekistan is newly developing sphere and there some lacks as well which are not here mentioned in this article. However, through governmental supports this sphere can be developed in near future. In conclusion, Uzbekistan's family-owned businesses have grown substantially due to government-backed initiatives and legal reforms, positioning them as a crucial component of the country's economic landscape. The sector's future growth is expected to continue as more state-owned enterprises are privatized and additional regulatory support is introduced.

REFERENCE LIST

1. Daryo.uz. (2019, January 21). O‘zbekistonda oilaviy tadbirkorlik qaysi darajada yo‘lga qo‘yilgan [How family entrepreneurship is developed in Uzbekistan]. https://daryo.uz/2019/01/21/o%CA%BBzbekistonda-oilaviy-tadbirkorlik-qay-darajada-yo%CA%BBlga-qo%CA%BByilgan
2. Dunyo.info. (2021, May 28). Uzbekistan's economic transformation and family businesses. https://dunyo.info
3. Law of the Republic of Uzbekistan "About Family Business." (2012, April 27). https://lex.uz
4. Presidential Decree of Uzbekistan. (2018, June 8). On the "Each family – an entrepreneur" program. https://lex.uz
5. Pugach, I. L. (2012). *Small and family business: Creation and development*. Publishing House.
6. Smith, J. (2010). Economic reforms and the changing role of the state in Uzbekistan. *Journal of Central Asian Studies*, 32-48.
7. State Committee of the Republic of Uzbekistan on Statistics. (2024). Family businesses statistics. https://stat.uz/uz/