

FAMILY BUSINESS DEVELOPMENT IN THE REPUBLIC OF UZBEKISTAN: FEATURES AND CHALLENGES

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ABSTRACT

The article is mainly about the development of family business in the Republic of Uzbekistan. A brief historical perspective on the development of entrepreneurship, the current state, some features of a family business abroad, the main difficulties and opportunities has been provided by the state. Family businesses have a long-standing history in Uzbekistan, with close-knit relationships among family members being a key feature. However, they also face challenges such as limited access to funding and a lack of formalized business structures. The transition to a market economy has also formed new challenges. Nevertheless, family businesses remain to play a significant role in the country's economy, and with the right support, they have the potential to drive growth and create new opportunities.

Keywords: family business, family business, microcredits, benefits, property, inheritance of a family business.

Introduction

Family businesses have played a significant role in the economic development of many countries, including Uzbekistan. The country has a rich history of entrepreneurship, with many businesses being owned and operated by families for generations. In recent years, the Uzbek government has taken steps to promote the development of family businesses, recognizing their potential contribution to the economy and the creation of new jobs.

One of the key features of family businesses in Uzbekistan is the close-knit relationships between family members. This often leads to a strong sense of loyalty and commitment to the business, which can be beneficial for its long-term success. Family businesses also tend to have a more personal touch when it comes to customer service, which can help build a loyal customer base.

However, family businesses in Uzbekistan also face a number of challenges. One of the biggest challenges is the lack of access to financing. Many family businesses are

small and do not have the resources to obtain loans from banks. This limits their ability to expand and grow. Another challenge is the lack of formalized business structures, which can make it difficult to attract outside investment or enter into partnerships with other businesses.

Additionally, the transition from a planned economy to a market economy has created a number of challenges for family businesses in Uzbekistan. Many businesses are struggling to adapt to the new business environment, which requires a greater focus on innovation and marketing. There is also a need to develop new skills and knowledge to compete in the global marketplace.

Despite these challenges, family businesses in Uzbekistan continue to play an important role in the country's economy. With the right support and resources, they have the potential to drive growth and create new opportunities for themselves and the wider economy.

Some statistics and the background of family businesses

Family business and family business are not new concepts for the republic. The historical roots of family business are handicrafts in the era of medieval cities and cottage workshops and manufactories in the period of early capitalism. It was represented by various kinds of handicraft workshops engaged in the production of pottery, jewelry, leather, art, blacksmithing and other types of products. Most often, these workshops were created by family members and functioned for a number of years. The products made by artisans were known far beyond the borders of the republic. For example, in 1867, the products of Turkestan handicraftsmen were presented at the World Exhibition in Paris. In 1870, the Russian Empress ordered a number of gold and ceramic items for the Winter Palace. Even after the October Revolution, until 1929, family businesses existed on legally approved grounds. At that time, the criteria for an enterprise were the presence of power plants or 5 employees, or if the work was carried out by family members and more than 10 people were employed in it.¹

There are more than 5.3 million family businesses in the US, according to the National Association of Family Businesses. They make up about 90% of all enterprises in the country. Family businesses across the country employ 83 million people. This is 59% of the private sector workforce. The family business generates 54% of private sector GDP, \$7.7 trillion.² However, the share of family businesses in different sectors

¹Yuldashev Sh.A. Small business and entrepreneurship. – Tashkent,2001.

²<https://familyenterpriseusa.com/in-the-news/family-business-caucus-holds-2nd-meeting-in-house-budget-committee-room-may-2023/>

of the economy can vary significantly. For example, in the agriculture and forestry sector, up to 97% of enterprises are family-owned, while in the high-tech sector, the share of family-owned enterprises is much lower.

In Japan, the share of family businesses is quite high, accounting for about 90% of all businesses in the country. Family businesses have traditionally been of great importance in the Japanese economy, especially in small and medium-sized businesses. Many large Japanese corporations also started as family businesses and still retain some of the traditions and characteristics of this type of business.

According to the European Commission, about 60% of all businesses in Europe are family-owned. However, the proportion of family businesses may vary by country and sector of the economy. For example, in Italy about 80% of enterprises are family owned, while in Switzerland it is about 90%. In the SME sector, the share of family businesses can reach 85%. Family business in Bulgaria makes up about 42% of all private Bulgarian companies. They provide almost 20% of the value added to the country's GDP and about a third of jobs. Of these, almost 43% is in the service sector, almost 38% in the trade sector, 15% in the manufacturing sector and 4% in the construction sector.¹

After gaining independence in the Republic of Uzbekistan, a new impetus was given to the development of family business. This period can be characterized as the first stage in the development of family business in the republic. In 1991, laws were adopted that laid the foundation for the development of this type and form of entrepreneurship. The Law of the Republic of Uzbekistan "On Property" legally approved the family form of ownership. According to the law family property is the property of family members. It may include means of production and consumer goods, manufactured products to jointly meet the needs of family members, housekeeping and subsidiary farming and other legally permitted activities for the purpose of generating income. During the same period, the Law "On Enterprises in the Republic of Uzbekistan" (now out of force) and the concept of a family enterprise as a type of small enterprise appears. According to the law "On Entrepreneurship in the Republic of Uzbekistan"² This concept has come to refer exclusively to small businesses. Only in 1999, after the adoption of the Law of the Republic of Uzbekistan "On Entrepreneurship and Guarantees for the Activities of Entrepreneurs", the concept of family entrepreneurship appeared as a form of joint individual entrepreneurship. Family entrepreneurship was defined as entrepreneurship carried out

¹Demirova S., Ahmedova S. Analytical study of family business in Bulgaria. *innovations*. 2020;8:18–20. [Google Scholar]

²The Law "On Enterprises in the Republic of Uzbekistan" became invalid on January 20, 2001, the Law "On Entrepreneurship in the Republic of Uzbekistan" - on April 29, 1999.

on the basis of the common property of the spouses, including a dekhkan farm, carried out on the basis of the common joint property of a dekhkan farm. Family business was carried out by individuals without forming a legal entity.

Starting from 2012, with the adoption of the Law of the Republic of Uzbekistan “On Family Business”, family business began to stand out as a special form of legal regulation and state support. Now with Family entrepreneurship can be carried out both with the formation and without the formation of a legal entity. From this moment begins the second stage of development of family business.

Family entrepreneurship has become one of the tools to increase employment and welfare of the population, indicators of its development are included in the forecast parameters of territorial programs for creating new jobs.

The organizational and legal form of family business carried out with the formation of a legal entity is a family enterprise. According to the Law “On Family Business”, a family business is a small business entity created by its participants on a voluntary basis on the basis of common property that is in the shared or joint ownership of the participants in the family business, as well as the property of each of the participants in the family business for the production and sale of goods (works, services). The activities of a family business are based on the personal labor of its members. The minimum number of participants in a family business must be at least two people. Also, a family business must have a name and the words “oilaviy korxonasi” (family business) or OK for short.

For the first time in the republic, the concept of a family enterprise was created, which consists in the following: a) all family members share responsibility for the results of their activities; b) the presence of such family values as trust, respect, respect for elders, mutual support become the basis of family businesses; c) family business can be inherited (although there is no official legislation in the republic yet); d) when creating a family business, its owners rely on a long-term perspective; e) family attitude towards their employees, care, creation of comfortable working conditions.

When comparing the number of enterprises operating in the republic in terms of legal form, the third place was taken by family enterprises, which, as of November 1, 2022, accounted for 11.3% of the total number of business entities. Their growth, on the other hand, was reflected in the context of the last five years as follows (Table 1):

years	2017	2018	2019	2020	2021	2022
units	11409	14989	25151	43122	52495	5911

Source: Agency on Statistics of the Republic of Uzbekistan (data are presented as of December 31 of each year)

As of December 31, 2022, there were 59,110 family businesses operating in the Republic of Uzbekistan.

The number of family enterprises by regions was formed as follows (Table 2).

Region name	2020	2021	2022
Samarkand region	6756	9041	10499
Fergana region	5134	5778	6608
Surkhandarya region	4831	5400	5847
Khorezm region	3578	4682	5488
Kashkadarya region	2306	4235	5226
Tashkent region	3901	4540	5073
Navoi region	3673	4010	4157
Tashkent city	3258	3458	3795
Bukhara region	2867	3320	3450
Andijan region	2560	2919	2962
Republic of Karakalpakstan	1602	1932	2172
Jizzakh region	1357	1661	2140
Namangan region	968	1165	1337
Syrdarya region	331	354	356

Source: compiled by the author according to the Agency of Statistics of the Republic of Uzbekistan

The largest number of family businesses (18% of the total) falls on the Samarkand region. According to the author, this is primarily due to the fact that historically the Great Silk Road passed through the territory of this region, and secondly, since the times of the former Soviet Union, tourism has been developed in this territory, which made it possible to develop various handicraft industries, the service sector (public catering places, hotels, transport services, etc.). Thus, the traditional culture and social values, the accumulated experience, the availability of markets, the availability of resources have allowed the region to create favorable conditions for the development of family business.

In 2022, in terms of types of economic activity, trade accounted for 33.2%, industry - 29.8%, accommodation and food services - 16.1%, agriculture, forestry and fisheries - 10.9%, healthcare and the provision of social services - 1%, construction - 0.9% and other activities - 8.1%.

Family entrepreneurship allows you to combine entrepreneurial activity with housework and raising children, to involve children, elderly family members, and people with disabilities in production activities. Thus, it creates the economic foundations of families, helps to strengthen them, and ensures the growth of family

incomes. Conditions are created for the successful socialization of children. Forming an interest in expanding and strengthening the family business.

Family business secrets are reluctant to be passed on to non-family members, and family business allows for the involvement of all family members, ensuring the transmission (continuity) of the business from generation to generation and ensuring the long-term sustainability of the company. It also increases the interest of family members in the results of their work, which has a positive effect on improving the well-being of the family.

Family entrepreneurship contributes to the development of individual qualities, entrepreneurial skills, innovative and creative thinking, which are key factors for the sustainable development of the economy. Family business owners have personal qualities and an unconventional approach to doing business, which allows them to create new innovative models that have not been applied in practice before.

To open a small family business, huge investments are not needed, all the profits can be reinvested in the business.

In 2009, the EU adopts a single European definition of a family business. Under this definition, a company, regardless of its size, can be classified as a family business when it meets any of the following conditions:

- the majority of votes in the governing body is the property of the natural person (persons) who created the company, or the person (persons) who acquired the authorized capital of the company or their spouses, parents, children or direct heirs of their children;

- the majority of votes in the management body belongs directly or indirectly controlled;

- at least one member of the family is officially involved in the management of the company;

- companies whose shares are traded on the stock exchange meet the definition of a family business if the person who founded or acquired the company (its authorized capital) or his family / heirs owns 25% of the votes in the governing body, depending on their share in the capital of the company.¹

In 2023, the Swiss company Credit Suisse published a sample study of family companies "CS Family 1000"². Family companies of quite large size were also considered here, for example, Alphabet, Tesla, Meta Platforms, Inc, Walmart,

¹https://www.researchgate.net/publication/346717886_Siyka_Demirova_Sibel_Ahmedova_Analytical_study_of_family_business_in_Bulgaria, accessed 1 May 2023.

²<https://www.credit-suisse.com>- The Family 1000: Family values and value creation

Samsung Electronics, L'Oreal, Hermes International SCA, Christian Dior, TCS, ZongMu Technology Auto.

In the Republic of Uzbekistan, family enterprises can only be organized in the form of small enterprises, which is clearly stated in the Law on Family Business. However, the Decree of the President of the Republic of Uzbekistan No. UP-21 "On measures to further improve the criteria for dividing business entities into categories, as well as tax policy and tax administration" dated February 10, 2023, states that if a family business earns from 10 billion soums during the year up to 100 billion soums, then it should be classified as medium, and if it earns more than 100 billion soums, it should be classified as a large enterprise. There is a mismatch in the understanding and definition of family businesses.

The development of family business has been put on the level of state programs. So in 2018, by the Decree of the President of the Republic of Uzbekistan, the program "Every family is an entrepreneur" was implemented. The program was aimed at ensuring a fundamental improvement in material conditions, significant positive changes in the quality and level of the lifestyle of the population.

For the development of family business, the state provides various benefits. For example, the allocation of preferential microcredits; promoting the development of handicrafts by leasing premises, allocating and arranging special places; organization of a network of specialized shops and kiosks for trade in products and goods produced by artisans; providing practical assistance in providing handicrafts with local raw materials, materials, tools and means of small-scale mechanization, holding exhibitions of handicraft products, creating the necessary conditions for teaching young people handicraft skills, etc.

According to the Decree of the President of the Republic of Uzbekistan No. PP-18 "On additional measures to support family business development programs" dated January 25, 2023 from Fund for Reconstruction and Development to finance projects under the family business development programs of JSCB "Agrobank", JSCB "Microcreditbank" and JSC "Hulk Banks" will allocate funds on the basis of a separately approved allocation of funds in the equivalent of 300 million US dollars for a period of 7 years, including a three-year grace period at a rate of 10 percent.

Decrease President Republic Uzbekistan No. PP-39 "On additional measures to raise to a new stage of support for business initiatives of the population in the framework of family business development programs" dated January 31, 2023 provides allocation in 2023 to finance projects within the framework of family business development programs of at least 13 trillion soums. The target parameters of these resources by region are presented in Table 3.

Table 3

Target parameters for financing projects under the family business development program by region in 2023

billion soums

No.	Name of regions	Funds allocated in 2023	Of them:		
			By repaying previously issued loans	At the expense of the Fund for Reconstruction and Development	Due to the resources of authorized banks
	TOTAL:	13000	6900	3381	2719
1	Republic of Karakalpakstan	950	457	342	151
2	Andijan region	1100	596	275	229
3	Bukhara region	1150	570	324	256
4	Jizzakh region	790	364	135	290
5	Kashkadarya region	1100	533	327	240
6	Navoi region	780	396	204	180
7	Namangan region	950	641	159	150
8	Samarkand region	1100	668	231	200
9	Surkhandarya region	1091	572	278	241
10	Syrdarya region	600	319	181	10
11	Tashkent region	1060	494	356	209
12	Fergana region	1100	636	214	249
13	Khorezm region	941	484	266	191
14	Tashkent city	290	171	89	thirty

Moreover, from February 1, 2023:

- Loans are allocated on a priority basis to the population and business entities that have not previously used loans under the programs;

- in order to facilitate the organization of their own business in the agricultural sector, increase the share of dekhkan farms in the production of agricultural products, dekhkan farms and small businesses registered in the prescribed manner, who have taken agricultural land for long-term lease, are provided with an unsecured loan up to 50 million soums;

- the amount of loans allocated on the basis of the recommendations of assistant khokims for projects of business entities aimed at expanding production, the provision of services and handicrafts, as well as cooperation with the population and homework in mahallas, including established microcenters, increases from the current 225 million

soums to 300 million soums At the same time, the initiator must participate in the project with a share of at least 30 percent;

- small businesses that have established their business by effectively using the previously received credit funds under the programs and timely made loan payments are allowed to reuse these loans for further expansion of activities;

- on the recommendation of the khokim's assistant, a part of up to 10 million soums from the loan amount (for artisans up to 20 million soums) is transferred to bank cards (with limited cashing out).

A unified electronic platform has been created and is functioning in the republic for accepting applications for a loan for representatives of family businesses oilakredit.uz.

Family businesses make a significant contribution to the development of employment. Thus, in 2012-2016, the average annual number of employees of family enterprises increased from 754 to 15.8 thousand people, i.e. almost 21 times, incl. in Karakalpakstan - 25 times, in the Bukhara region - 47 times, in the Fergana region - 159 times. In 2016, they sold products worth 679.3 billion soums against 3.4 billion soums in 2012.¹

According to our calculations, on average, there were 159 families per family enterprise in 2022, compared to 745 in 2016²families. These figures testify to the popularization of the family business in our society.

Owners of family businesses form a class of small and medium-sized owners, they are the main force that ensures political, economic and social stability in the country.

However, in the republic, the study of family enterprises is carried out poorly, there is no systematic statistics related to the characteristics of this type of activity.

Family businesses face professional management challenges that will ultimately result in reduced business performance. It is one thing to run a small business and another to run a larger business. This is due to the insufficient level of knowledge of the representatives of the family business. Family businesses are reluctant to improve the skills of their family members in various courses and master classes, as this is associated with additional costs.

Family businesses face challenges in attracting talented employees, as they cannot always offer high wages.

¹Mamadaliyeva H. Family business as a factor in improving the welfare of the family. // Analytical journal "Economic Bulletin of Uzbekistan". - No. 5-6, 2017. URL: <https://evu.uz/arhiv-statey/semeynoepredprinimatelstvo-kak-faktor-povyisheniya-blagosostoyaniya-semi.html>

²Kuvondikov Sh. O. Oilaviy tadbirkorlik: rivozhlanish tendendlarari va istiqbollari. Monograph. - Samarkand: SamISI, 2020. - 66 pages.

Family businesses are interested in increasing profits, improving the quality of their products, long-term existence, but they have low rates of investment in innovative development, and this will lead to business obsolescence and a decrease in its competitiveness, especially in an environment where our republic seeks to join a number of major international organizations .

At present, in the period of development of the digital economy, knowledge of digital technologies is necessary. The pandemic has shown that a transition to hybrid work, virtual operations and automated processes is necessary. To ensure long-term sustainability and realize huge growth potential, family businesses need to leverage not only their core values and traditional management practices, but also digital technologies.

In 2019, Uzbekistan ranked 69th in the Doing Business ranking among 190 countries of the world, which indicates an improvement in the conditions for business. However, in 2019, the World Bank published an economic memorandum on Uzbekistan, where it outlined areas for further work, which include weak competition, still low level of entrepreneurship development, low level of expansion of private enterprises, declining labor productivity, poor development of an innovative environment among private enterprises¹

At the same time, for the further development of family business, it is necessary to pay attention to such aspects as improving the regulatory framework aimed at developing competition in the private sector, the legally approved procedure for inheriting a family business, legislatively securing the right of family businesses to consolidate and classify them as medium and large , training for family business management, organizing courses to improve the skills of family business managers, creating family business associations for closer cooperation between families, organizing various round tables and conferences to exchange information on the domestic and foreign markets, encouraging family businesses to use innovation and digital technologies, improving the business climate, facilitating access to financial resources and qualified personnel, as well as increasing research, publications and statistics in the field of specifics, features and analysis of the development of family entrepreneurship in the republic.

¹Uzbekistan Transition Assessment Country Economic Memorandum - Access
<https://documents1.worldbank.org/curated/en/134461637234506409/pdf/Full-Report.pdf>

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