



## Development Increase Investment Of The Private Sector In Uzbekistan

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**Annotation.** The article looks in the conditions of the modern crisis, having a balanced economy becomes a condition of effective regulation of social-economic processes in the region. One of the factors of economic development becomes activation of market mechanisms of private sector self-regulation. Flexibility and high adaptiveness of the private sector are important advantages and predispositions of having a balanced economy. This manuscript attempts to consider different points of view on the process of achieving balance in the economy of the region, determining the role of the private sector in this process.

**Keywords.** Investments, industry, investment activity, competition, production, enterprises, investment policy, strategy, investment risks, capital investments, tax regime, legal sector.

Based on the principle “From the Action Strategy to the Development Strategy”, the Development Strategy of New Uzbekistan for 2022-2026 (hereinafter referred to as the Development Strategy) and the State Program for its implementation in the “Year of Ensuring Human Interests and Development of the Mahalla” (hereinafter referred to as the State Program) according to including the following seven priority areas:

- building a humane state by raising the honor and dignity of a person and further developing a free civil society;
- the transformation of the principles of justice and the rule of law into a fundamental and necessary condition for the development of the country;
- accelerated development of the national economy and ensuring high growth rates;
- carrying out a fair social policy, development of human capital;
- ensuring spiritual development and raising this sphere to a new level;
- approach to global problems based on national interests;
- strengthening the security and defense potential of the country, maintaining an open, pragmatic and active foreign policy

It has believed that the concept of "harmony" has replaced by the concept of "balance" - this is a state of the system in which its key parameters have an optimal ratio that promotes existence and development. Researchers often identify the concept of “balanced development” with such categories as “sustainable”, “viable”, “self-sustaining”, “sustainable, balanced development”, “sustainable development”, etc.

Balanced regional development, according to one of the experts, is a comprehensive development of the region as a socio-ecological and economic system, in which a balance maintained between economic growth, an increase in living standards and a decrease in the harmful



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impact on the environment. A balanced regional development as based on a dynamic balance between the economic, social and natural subsystems, maintaining scientifically based proportions (ratios) between the economic, social and environmental parameters of the regional system, providing improving the quality of life in the long term [1].

According to another point of view, a balanced developing subject is understood as a region that provides a progressive improvement in the welfare of the population and the development of the economy within the framework of the structural, functional, resource and temporal balance of the reproduction cycle [2, 3]. There is an opinion that the balanced development of the region as a socio-economic system is a systematic and qualitative change in its subsystems, which ensures an increase in the stability of the territory by balancing opposite flows (migration, financial, material), as well as a continuous increase in the standard of living and well-being of the population living on this territory [3, 4].

The balanced development of the region is also understood as an integrated development, which is based on the balance of the use of economic, environmental, social, innovative and other resources in order to maintain the social stability of the region as a system. Balanced regional development is seen as a continuous process of meeting the needs of present and future generations, which is possible only based on a balanced development of economic potential. It is important to investigate the factors influencing the balance of the region. Often experts do not find differences between balanced and sustainable development. So, for example, L.P. Vasilyeva refers to the most important factors of sustainable and balanced development of the regional socio-economic system:

- factors associated with natural resources, i.e. with the conservation of the biosphere;
- factors related to human potential;
- factors related to entrepreneurial capital;
- factors related to finances [5, 9].

Uzbekistan has embarked on very important reforms to create a competitive and inclusive market economy. Key reforms include exchange rate liberalization, lower import duties, liberalization of prices types of goods and services, and the creation of an antimonopoly committee. These first measures to develop a market economy are an important step in strengthening the private sector, creating new and well-paid jobs. However, much remains to be done. The Economic Memorandum on Uzbekistan, published by the World Bank in 2021, outlines some areas that require further work. Competition in the Bertelsmann Transformation Index the assessment of the development of market competition in Uzbekistan in 2020 has improved compared to 2016, but this indicator is still lower than in several other countries in the Europe and Central Asia region, such as Tajikistan, Ukraine, Poland and Russia.

The level of entrepreneurial development remains limited. Density of entry of new legal enterprises, i.e. the number of newly registered legal entities per 1,000 working-age population (15-64 years old) - a standard indicator of entrepreneurial development - has increased in the past few years, but is still well below the regional averages and below than would be predicted by per capita income in Uzbekistan.

Legal private enterprises do not expand over time. According to an analysis of the 2019 World Bank business surveys, legal private enterprises, especially in manufacturing and services, are not growing as fast as in other transition economies such as Vietnam and Russia. In addition, such enterprises remain small over time: private enterprises that have been operating in the legal sector



of Uzbekistan for less than 10 years have an average of 20 employees, while the number of employees in comparable enterprises in Vietnam is 33.6, a difference of 13.6 workers. For enterprises that have existed for more than 20 years, this gap increases to 78.6 employees. All this leads to a common conclusion: the stagnation of the private sector indicates a distorted business environment that does not stimulate the development of enterprises with growth potential and prevents the allocation of resources in favor of more efficient companies. There are many reasons for this. One of the important factors is the limited competition in product markets, which is typical for countries with economies in transition. Indeed, unequal conditions persist due to discriminatory measures and regulation, especially in markets where state-owned enterprises compete with private ones. Business surveys conducted by the World Bank in 2019 also identified other business environment factors hindering private sector development, including tax rates, informal sector activity, access to electricity and finance (see chart below).

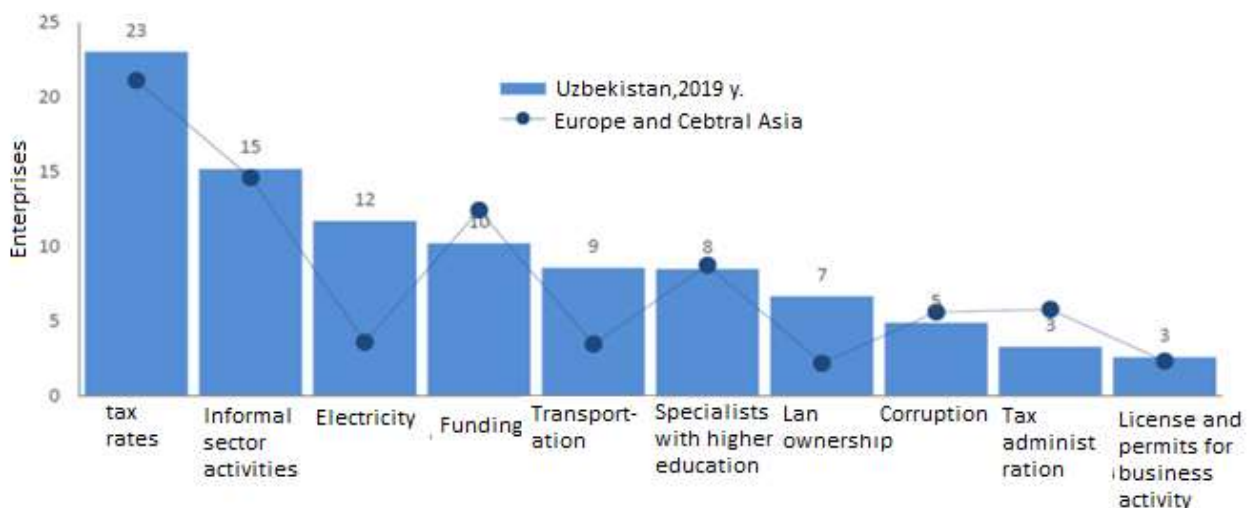


Figure1. Top ten factors hindering the development of the business environment in Uzbekistan in comparison with the average indicators for the Europe and Central Asia region

The results obtained indicate the need for a comprehensive state policy to improve the business environment and develop the private sector in Uzbekistan. Urgent reforms and policies are needed in seven main areas: Further strengthening of competition and the creation of favorable conditions for the competition of private enterprises is no less important than the privatization and restructuring of state-owned enterprises. Therefore, it is necessary to further reduce discriminatory measures and regulations that distort the conditions for competition, especially in markets where state-owned enterprises compete with private ones. It is essential to strengthen competitive neutrality as well as to control state aid in order to avoid favoritism and minimize competition distortions.

The tax regime should promote the growth of enterprises. It is necessary that the tax system stimulate the growth of enterprises, ensuring a balance between tax rates and administrative



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burdens. The tax system should aim to gradually increase tax rates as enterprises grow in size so as not to impede their growth, and lower marginal rates to encourage investment and employment in growing and large enterprises.

Reduction of the informal sector. In order to limit the size of the informal economy and redirect resources to the most efficient enterprises, public policy should be aimed at increasing labor market flexibility, reforming social protection, streamlining the tax system, improving the legal framework and the justice system. At the same time, conditions are needed to create jobs with proper working conditions in the legal sector in order to reduce the scale of the informal sector in the future. Improving access to finance for micro, small and medium enterprises. To do this, it is necessary to stimulate competition in the banking sector, reduce state participation in commercial banks, reduce the volume of targeted state lending, improve the efficiency of bank management and develop human capital in the banking system. In addition, further strengthening of institutions will ensure that the risks of rapid credit growth are adequately managed and funds are reallocated to the most productive projects.

Advancing reforms in the electricity sector is essential to upgrade outdated infrastructure and improve the quality and reliability of services. The Government of Uzbekistan is pursuing reforms in the sector to support its transition to a market economy that will boost productivity and modernize infrastructure. Effective regulation of competition and pricing is also important. Implement active policies to support entrepreneurship. In the process of implementing these transformations, it is important to pursue an active policy aimed at eliminating the problems hindering the growth of entrepreneurship. Business support measures should follow two important principles. First, they must be geared towards the growth and productivity of enterprises, and not just support for their survival. Secondly, it is necessary to combine financial and non-financial support measures aimed at increasing the management and production potential of enterprises, which will allow them to effectively manage production, identify new market opportunities, develop new projects, introduce new technologies and expand activities. Eliminating skills gaps as a condition for private sector growth. Prior to the COVID-19 crisis, many businesses cited a lack of skills as a significant barrier to business development in Uzbekistan. The pandemic situation estimated to have resulted in a loss of knowledge for schoolchildren equivalent to two years of schooling, which will affect the potential productivity of the future workforce. Therefore, skills development in the education sector requires urgent attention. Uzbekistan faces the difficult task of developing the private sector, moving away from the legacy of a centrally planned economy.

**Conclusion.** The only sustainable solution for the future is to make private enterprises the main form of business and the economic future of the country. This will require the coordination of all stakeholders and government agencies, the achievement of a broad consensus, and the creation of reliable mechanisms for monitoring the coordination and implementation of reforms. In order for Uzbekistan to achieve its development goals by 2030 and improve the quality of life for the entire population of the country, it is essential fully use the potential of the private sector and entrepreneurship. Therefore, in the Partnership Program with Uzbekistan has being developed, the development of the private sector will become one of the main areas of work for the next five years.



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