

SMALL BUSINESS IN UZBEKISTAN: SITUATION, PROBLEMS AND MODERNIZATION POSSIBILITIES

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Abstract. Currently, the market relations are actively and comprehensively developing and implementing in harmonious way around the world. The main tasks of accelerating the development of small business and entrepreneurship and ensuring explicit coordination of activity of government economic and other social structures in creating a favorable business environment are: introduction of the great amount of population to the market; maintaining suitable conditions for effective market development and infrastructure in rural areas, the development of competitive condition the creation of new jobs in rural areas for employment of people released in connection with the reconstruction of agriculture; a sharp increase in services, especially in high technology related to banking, auditing, consulting, brokering activities; the introduction of flexible production of small, small and private businesses that provide more efficient management, commodity saturation of the domestic market and export oriented production; Ensuring sustainable development of small business. In this paper, based on the study of foreign and domestic experience in small business development, authors show current status, major challenges and opportunities of modernization, analyze the formation and development of small businesses and to justify the direction of enhancing the development of small business in the Republic of Uzbekistan. The authors emphasize the special role of the family business in creating new jobs opportunities in the economy and, especially, in social service sectors, the development of domestic business as the form of cooperation with big business. The authors highlight the increasing role of training of modern professionals through educational reform and improvement of legal framework in the republic of Uzbekistan.

Keywords: small business, foreign experience, economic development, support, Uzbekistan.

Jel classification: O52, O53

1. Introduction

Towards the second half of the 20th century, the world economy witnessed global changes that have led to a quality demand leap in its development. Among which the first place goes to knowledge as the major factor of economic growth, and the second place goes to structural reorganization of economy on the basis of abundance of small enterprises. These directions are interconnected. Scientific and technical progress has opened way to new technologies that provide effective manufacture at small enterprises. In turn small enterprises became favorable environment for realization of scientific achievements. Small business has big hand on importance in development of productive forces of a society, in solving the social issues, in acceleration of scientific and technical progress. This proved in USA, England, Germany, Japan and other developed countries that have had long

term experiences oriented to market economy. Through elaborate scientific and research centers of support of small business, in these countries in small-scale business sphere it is concentrated on from 45 % to 80 % hands and small enterprises make more than 90 % of all enterprises, they create to 50 % of total national product.

Small business is the basis of modern archetypal of economy. It provides the basic competitive advantages of economy of market type, giving necessary flexibility to a market mechanism, forming support to competitive environment, creating basic innovations. The small companies are capable of operative response to the changes of consumer demands and provide necessary balance in the consumer market. Small business brings the essential contribution to formation of the competitive environment which for our economy has the major value.

However, formation and development of small business is one of the basic problems of economic policy in terms of transition from command economy to market one. Small business, as one of the leading sectors, in many respects defines rates of economic growth, a condition of employment of the population, structure and quality of a total national product. Development of small business highlights universal tendencies to formation of mixed flexible economy, a combination of different patterns of ownership and model of economy adequate to their model of house holding. Dissemination of small business is the real sustainability lever of economic growth.

2. General characteristic of small business

Small business is a major element of market economy without which a state cannot harmoniously develop. Small business in many respects defines rates of economic growth, structure and quality of total national product, small enterprises form a healthy competitive market environment, of which the middle class is a support in public system, and they solve many social problems of the state quickly and effectively. (Frequently, along with the term business is used English analogue - business) in is understood as business initiative activity of citizens and legal bodies, irrespective of the pattern of ownership, directed on reception of a net profit by satisfaction of demand for the goods, services and etc. based on a private property (private business) or on the right of economic conduct of state enterprises (the state business). Enterprise activity is carried out under risk of and under property responsibility of the businessman.

The small enterprise is a small enterprise of any pattern of ownership characterized, first of all, by limited number of workers and occupying smallest share in general on the country, region in volume of the activity which is profile for the enterprise; this share is defined at cost of created and realized production. To the small carry also, except industrial, commercial, consulting firms, many enterprises of retail trade, sphere of services.

Basically, most of the general criteria indicators on which basis subjects of economic activities concern subjects of small business, is the number of the personnel (the occupied workers), the size of an authorized capital stock, size of actives, volume of a turn (profit, income). According to the World Bank, the total number of indicators on which the enterprises concern subjects of small business (business), exceeds the number of 50. However, most often applied criteria is as follows: the average number of the workers occupied at the enterprise, the annual turn received by the enter-

prise, as a rule, for the year, and the size of actives. But in all most developed countries the first criterion of reference of the enterprises of small business is the number working personnel. It is necessary to recall the fact of recent decades or even in recent years greatly changes in the structure of products and services in small businesses.

3. Foreign experience of support of small business

As of experiences of developed countries, small and medium business plays significant impact on economy, its development influences on economic growth, through the acceleration of scientific and technical progress, on saturation of the market with quality goods, creation of new additional workplaces solves many actual economic, social and other problems. In all highly developed countries the development of the small business is greatly supported. The more and more work-labile part of the population starts to engage in small business. For economy as a whole activity of the small companies appears the important factor of increasing its flexibility. On a level of development of small business experts judge ability of the country to adapt to changing economic conditions.

Small enterprises became today an integral part of economy of the majority of industrially developed states. In the EU countries on their share it is necessary – 63–67 % of gross national product and over 70 % of the working population, in the USA – 50–52 % and 54 %, in Japan – 52–55 % and 78 % respectively. Each state has developed own approaches and criteria of definition of subjects of small business. The main thing that lays in their basis is the maintenance from the state of advantage of functioning of small economic structures in the conditions of dynamical environment. As a rule, as criteria of reference of subjects of enterprise activity to number of the small and medium such indicators, as number of hired workers, the size of an authorized capital stock, actives, turn volume (profits, the income) are used. In the different countries various combinations of the given indicators (usually not less than two) are applied.

In the European Union following standard criteria for the small and medium enterprises, enjoying have been accepted by the state support:

- average enterprises – up to 250 employees, an annual turnover – up to 4 million euro, balance – up to 27 million euro;
- small enterprises – up to 50 employees, an annual turnover – up to 7 million euro, balance – up to 5 million euro;
- microenterprises – not more than 10 employees.

In EU of the enterprise with less than 10 employees provide employment of the efficient population at level of 37 %. No their considerable quantity (to 50 % of an aggregate number) have employees at all, employing only to businessmen-owners and, to probably, some members of their families. A sphere of action of these the enterprise – building, trade, hotel and other business services. In trade and services it is occupied more than 70 % working on these enterprises. As a whole they provide a quarter of a cumulative turn of the EU countries. About 1 million small enterprises (10–49 employees) give about 19 million workplaces (11% of total occupied). On the medium at one enterprise of this class work 20 persons. More than half of all working at small enterprises (55 %) are occupied in trade and services. The others of 45 % work in building and various industries. The enterprises of the given group provide about 25 % of a total turnover of community. The medium enterprises on which works from 50 to 249 employees, make nearby 1% of total number of economical entities in Western Europe (about 11 % of all involved in economy) and give the fifth part of a total turnover. The average size of the enterprise of the given class – 100 employees. The large enterprises (55 thousand subjects) give 55 million workplaces. Their total – 0.2 % of number of all enterprises of the Western Europe. On them 40% of commas in EU Member States work approximately, they make third of total turnover.

There are some distinctions between EU Member States: in Greece, Finland, Sweden, Italy, and Spain the enterprise it is much less than Portugal in the sizes, than on the average on EU (6 employees). In other countries on the average the enterprises are larger, their size fluctuates from 7 (Belgium and France) to 15 employees (Austria). Thus it is necessary to mean that the sector of small business in any country, despite the large number, is rather dynamical, subject to constant updating owing to mass bankruptcies. So, from again organizes small enterprises in a year remains about 50 %, in 3 years – 7–8 %, in 5 years – not more than 3 %. Nevertheless, total number of small enterprises, as a rule, grows in the developed countries of the world or remains invariable thanks to government art. In the EU countries realization of a policy concerning the small and medium enterprises is distributed, as a rule, between the several ministries or between special branches in the ministries. Usually it enters into problems of the Ministries of Economics, the industries, trade or employment. So, in Germany and the Netherlands departments of small and medium business are in structure of the Ministry of Economics, in France the corresponding department is created in the

industry Ministry, and in Great Britain there is a special Ministry of small business. (Dyachkina 2006) In the presence of certain specificity in the majority of the EU countries there are similar private institutes of support:

- the chambers of commerce operating, mainly, in the field of training and tutoring, technological consultation, support of export, certification, cooperation adjustment between the enterprises;
- financial institutions (banks, societies of the venture capital, building societies), providing access to small and medium business to the capital and financing;
- the private consulting and legal firms which are carrying out consultation of management and administration, technological, marketing consultation, etc.

Characteristic feature of a policy of the European Union countries concerning small business is increase of a role of regions. Here two groups of the countries are allocated:

- The countries where policy formation is carried out mainly at government level, as, for example, in Denmark, Greece, Ireland, Luxembourg, the Netherlands, Portugal and Great Britain. In these countries only the government has legislature in the field of development of strategy and measures of support of small business.
- The countries where regions possess imperious powers at formation of an independent policy concerning SME. It takes place in Belgium, France, Germany, Italy and Spain where both central, and the regional authorities can develop legal conditions of activity of businessmen. Though such questions as a tax policy, employment regulation, environment protection, remain in sphere of powers of the central government.

However, despite distinctions in details, in the EU countries the general approaches to formation of a policy of support of small and average business are developed:

- Administrative and regulating business environment - simplification of system of the taxation, reduction of the statistical and tax reporting, simplification of an order of reception of licenses, etc. the Majority of the countries have created committees on the situation analysis in this area and development of measures on decrease in administrative burden. As a result in France financial declarations, for example, have been simplified and their quantity is reduced. In Greece the quantity of licenses for realization of investments and their issuance is concentrated in one institution (instead of 14). In Italy the quantity of licensed kinds of activity is reduced with 88 to 8. In Great Britain the requirement of annual audit of small enterprises is cancelled;

- Financial conditions basically are applied such measures of the state support, as granting of guarantees of the loans used for modernization of the equipment, or expansions of manufacture with increase in number of the occupied;
- Formation of special reserves of support of small and medium business, and also application of fiscal privileges and grants. Such countries as Great Britain, the Netherlands, and the basic attention give to maintenance of guarantees of a loan. In Germany according to the regional program “Renaissance of Europe” the special budgetary fund which means is listed to private specialized banks is generated and then is used on long-term investment crediting of small firms under preferential interest rates (Dyachkina 2006).

In Belgium, France, the Netherlands granting practice to small and medium business of the status of the brave capital is applied. In particular, the governments guarantee indemnification of possible losses of venture funds. Besides, the investment of means in fixed capital of small and medium business is especially stimulated.

The European Union also supports to the countries which can't allocate from own budget of means for small business development. So, in the beginning of 90th of XX century Portugal has received the direct financial help through special structures of EU: fund of industrial investments, regional system of encouragements, system of encouragements of small investment projects and innovations in information technology. These measures promoted overcoming of technological rupture and financial deficiency of small enterprises of Portugal in comparison with the all-European level. (Tempan 2001) for the purpose of improvement of professional skill of employees and managers of small enterprises practice of the subsidized trainings (Germany, Ireland) or grants of privileges at realization of programs of training of employees (Belgium, France), and also opening of special free courses of training and adult population training (Denmark, Great Britain) is applied. Active support of small and medium business by the western states speaks not their charitable intentions, and what the small economic structures providing formation of the competitive environment and promoting reduction of unemployment, are considered now as the locomotive of economic development of the majority of the countries of the world. (Germanovich 2003).

4. Situation, problems and modernization possibilities of small business in the context of international experience in Uzbekistan

Overall objective of economic reforms in Uzbekistan is construction of a strong democratic lawful state and a civil society with the steady socially-focused market economy open by foreign policy. Each country, choosing the way of development, the model of transition to the market, constantly improves, fills with its new ideas and positions.

In the conditions of deepening of market reforms by an important condition of achievement by the enterprise of success and a condition of its development. There is a business and enterprise style of activity.

Business organizations, as entities are an integral part of the country's economy, and entrepreneurs as members of society can't ignore their interests. In addition, the socio-economic and political stability of society is one of the most important prerequisites for effective functioning of business organizations. They are therefore interested in its development.

The development of entrepreneurship in particular small business in Uzbekistan was based on the above principles. Also take into account national characteristics and cultural values of the republic the experience of previous generations. Prior to 1917 developed by a private cottage industry, and in the cities there was a significant development of various crafts. Some of the small and medium-sized businesses were observed in the years of NEP (New Economical Plans), but in the 30s focused on the development of the state of large enterprises. Private business has been completely eliminated. Since gaining Independence, the republic's leadership paid special attention to the revival of the private small business. The President of the Republic of Uzbekistan in January 1994 marked the beginning of the development of private sectors of the economy. May 25, 1994 in Namangan, the first auction of real estate exposed to 17 objects. That was the beginning of practical steps towards the support of the private sector (Abdullaev 2008).

With a view of involving industrial activities of the unoccupied population, increase in incomes of family budgets, increase of efficiency of industrial activity of the large industrial enterprises at the expense of the organization of manufacture of separate kinds of accessories, finished goods and services with use on the house work the Decree of the President Republic of Uzbekistan Nr. 3706 from 5th January 2006 “About on measures to stimulate the expansion of cooperation between large industrial enterprises and production services

on the basis of home work". By the primary goals of development on the home work are defined: creation of favorable conditions for wide involving of the population at home labor activity, development of cooperation between the industrial enterprises and the citizens who are carrying out production and services under their orders in-home, first of all, in sewing, notions, silk, processing, furniture, of electronic industry, and also in telecommunications and various branches of services and the service, allowing to raise efficiency of industrial production. As a result of the spent works in 2010 it has been created 940 thousand new workplaces, from them two thirds are created in countryside, about 65 % it is necessary on small business and sphere of service, and more than 20% on sphere on the house work. We can see following table the basic macroeconomic indicators of growth of small business in Republic of Uzbekistan.

Table 1. The basic macroeconomic indicators of growth of small business in Republic of Uzbekistan

Indicators	Years			
	2007	2008	2009	2010
Number of subjects playing a role in small business (thousand pieces)	391.9	398.6	422.9	450.5
Number occupied in small business (thousand person)	7762.8	8024.1	8402.3	8639.3
Share occupied in small business from the basic share of employment to economy (%)	72.3	72.7	74.2	74.3
Number occupied in the economic subject (thousand person)	2055.6	2164.3	1956.1	1972.8
-In small enterprises	485.6	525.5	561.2	573.6
- In microfirms	1570.0	1638.8	1394.9	1399.2

This direction of development of manufacture on the one hand gives to businessmen possibility of attraction of labour without expansion of floor spaces, and on the other hand serves increase of employment and a standard of living of the population. Social efficiency of business, thereby, raises. In 2011, the marked President Republic of Uzbekistan year «Small business and private entrepreneurship» one of priority problems is the further support of the small business which devel-

opment promotes creation of new workplaces, to reproduction of manufacture and in the conditions of modernization of economy forms incomes more than 70 % of the occupied population. Results of social and economic development of republic for 2010 show high macroeconomic indicators that carefully testify thinking over and weighing the policy of maintenance of high rates of increase of economy and an exit of Uzbekistan on new boundaries of development in the conditions of modernization and globalization of economic relations. In particular, for 2010 of gross national product of Republic has made 8.5 %, growth of volume of the industrial industry of 8.3 %, manufacture of the agricultural industry of 6.8 %, volume of civil work has exceeded 8.1 %. The state budget is executed with proficiency of 0.3 %. The rate of inflation hasn't changed in comparison with last year. In this connection the President Republic of Uzbekistan plans the major problems in the field of the further development of small business and entrepreneurship in Uzbekistan:

- reduction of intervention of the state and supervising bodies in financial and economic activity of subjects of business;
- creation of a maximum of favorable conditions, privileges and preferences on tax and other payments for sphere of small business and private entrepreneurship, perfection and unification of system of the reporting and the mechanism of delivery of reports in financial, tax and statistical bodies;
- wide attraction and a direction on development of small business of foreign investments, first of all soft loans of the international financial institutions and direct investments;
- the further development of system of information support and the advisory help to subjects of small business and private entrepreneurship, and also in questions of preparation, retraining and improvement of professional skill of shots;
- expansion of possibility reception by subjects of small business of bank credits, a source of raw materials, and also increase in 2011 of volume of credits in small business sphere to 1.3 %.

For this reason in the anti-crisis program the special attention is given stimulation of development of small business and entrepreneurs. These measures include both tax and credit privileges, and the further deepening of institutional reforms with a view of creation of more favorable business climate for development of small business and private entrepreneurship.

In particular, with a view of support again created small and private enterprises the double increase in resource base of fund of preferential crediting is provided. In result of it every year the

sizes allocated to subjects of small business of credits considerably increase. Along with it, period of validity of the given privileges prolonged, the maximum term of delivery of credits under replenishment of circulating assets with 12 till 18 months is increased. Since 1st January 2010 of the rate of uniform tax payment for the small enterprises working in sphere of the industry, micro firms and the small enterprises rendering financial, household and other services are lowered with 8 % to 7 %, and, released from payment of uniform tax payment for a period of 3 years. Thus dividends of founders of micro firms and small enterprises, nongovernment managing subjects regarding the means directed on the investment and calculations for earlier obtained credits, are released from the taxation for a period of 5 years. The state for performance of the regulating functions by development of small business should use effectively both organizational and economic mechanism components. Thus the organizational–economic mechanism of stimulation of development of small business should function on macro and micro levels. As a whole across Uzbekistan during the last years the quantity of small enterprises and individual businessmen, and also number occupied in the given sphere steadily increases. However, the small business level of development is still insufficient from the point of view of necessity of formation of rational structure of national economy. Development of small business is focused mainly on realization of quickly paid back projects which are not demanding great volumes of investment. Thus rates of development of branches of real sector and innovative activity slightly more low, owing to market conditions, profitability etc. Results of a measure of introduction in 2010, which contribution of subjects of small business to increase in the rough income of the state has lifted to 52.5 % before it 2000 their contribution, has made 31 %. 2011 this indicator has reached 54 %. Such decision, first of all, was received from for increases and supports of small sector of business (Fig. 1).

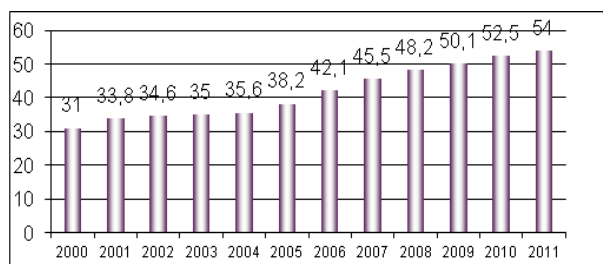


Fig.1. Small business share in gross national product, in percentage

It is necessary to notice that entrepreneurial functions in specific conditions of Uzbekistan, in particular in the conditions of overcoming of consequences of world financial and economic crisis, get a number the general economic signs and the properties defining their universal, integrated and backbone value in construction of effective structure of national economy. Universality as the general property of business is filled with the new maintenance as it connects in a single whole the diverse structural formations belonging to various patterns of ownership, possessing a various set of ways, forms and housekeeping methods.

The volume of commercial bank loans to small businesses and private enterprises amounted to over 3.1 trillion soums, (the soum – Uzbekistani currency) including 613.3 billion soums micro-or 1.5-fold higher than in the corresponding period last year. Of the total businesses in remote regions, and labor surplus 20.9 billion soums granted soft loans to graduates of professional colleges to build their businesses – 20.3 billion soums to develop the scope of services – 251.9 billion soums. During the reporting period as a result of ongoing work to implement and transfer facilities for lease to small businesses and private enterprises realized 76 units of state assets worth 80.3 billion soums and 67.9 million dollars, leased 13 820 vacant state-owned facilities.

It is represented to us that on each of stages of realization of market transformations the state should observe parity concerning forms and methods of regulation and liberalization of economy by timely preparation and acceptance legislative and the regulatory legal acts stimulating home producers to formation of the competitive environment and growth of competitiveness of their production on internal and foreign markets. A basis of social efficiency and harmonization of interests of businessmen, the states and societies as a whole, the generality of perspective interests of a society and the state, as spokesman of public interests and civilized businessmen is. The generality of their interests consists that businessmen, as well as the state, are interested in creation of highly effective economy, in political and social stability in a society, strengthening of positions of Uzbekistan on the world scene.

5. Conclusions

The scientific research allowed to fully explore small business in Uzbekistan; its status, challenges and opportunities of development in the context of international experience.

Results of research allow drawing the following conclusions:

1. Small business is the integral element of market economy without which the state cannot harmoniously develop. The major role of small business consists in maintenance with a significant amount of new workplaces, saturation of the market by the new goods and services, satisfaction of numerous needs of the large enterprises, release of the special goods.

2. Small enterprises have become today an integral part of economy in a majority of industrially developed states. In the EU countries on their share it is necessary 63–67 % of gross national product and over 70 % of the working population, in the USA – 50–52 % and 54 %, in Japan – 52–55 % and 78 % accordingly.

Such successes small business of foreign countries has reached thanks to system support from the state in the most different areas. It is obvious that active support of small business by the western states speaks not their charitable intentions, and what the small economic structures providing formation of the competitive environment and promoting reduction of unemployment, are considered now as the locomotive of economic development in the world.

The specialists of our country are especially interested in the experience of EU countries, China, the USA, Japan and South Korea in the development of SMEs. Over the past 20 years thousands of young citizens of Uzbekistan have been educated at leading universities of the developed world, many of whom were able to get a literary command in business education.

3. Small business of the Republic Uzbekistan represents today the perspective developing sector gradually increasing the role and value in security of the general economic growth of the country.

Small enterprises can bring the considerable contribution to the decision of problems of economic growth and employment. In the conditions of market economy they are considered flexible and effective from the point of view of expenses, they quickly adapt to wishes of clients, and not only in the spheres close to consumers, such, as retail trade or certain types of service. But small enterprises are effective only under certain conditions. That is, the competent economic policy which would allow is necessary and in Uzbekistan completely to realize potential of small enterprises. However in practice small enterprises face a number of barriers and the barriers which are not allowing them effectively to develop and influencing their low survival rate. Private sector development restrains the general complexity of

business dealing, including the difficult tax system, insufficiently protected rights of the investor, absence of the mechanism of guarantees and the guarantees connected with financing of subjects, complexity of carrying out of procedure of certification and standardization of the goods and services, etc.

4. For activating small business in Uzbekistan it is necessary to eliminate the factors interfering in its development, to give higher level of its state support. Processing, rendering of household services, especially in the countryside, scientific and innovative activity should become priority directions of development of small business manufacture of consumer goods, agricultural production. Nowadays there is still variety of possibilities that the contribution of small and medium business to gross national product has considerably increased. Still there are questions demanding steadfast attention, such as, price control cancellation, antimonopoly law perfection, reduction of number of taxes, reduction of the sizes of penal sanctions, document circulation simplification, privatization acceleration, simplification of certification of the goods and services, maintenance of availability of credit resources, a transparency in economic policy. And, nevertheless, the vector on liberalization is set, there are hopes that the government will undertake the further steps on improvement of operating conditions of business, the business climate in Republic considerably will improve also small business remain at the advanced positions.

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