

INSTITUTIONAL AND METHODOLOGICAL CHALLENGES OF BUSINESS ENTITY CLASSIFICATION IN UZBEKISTAN

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Introduction

The classification of business entities into micro, small, medium, and large categories represents a fundamental institutional mechanism of economic policy. Such classification determines enterprises' access to tax incentives, state support programs, and regulatory obligations. In many countries, clear and coherent classification systems serve as an important tool for stimulating entrepreneurial development and ensuring effective statistical monitoring of economic activity.

In Uzbekistan, the system of business entity classification has undergone several reforms since the early 1990s. Despite these changes, the current framework continues to demonstrate methodological inconsistencies and institutional fragmentation. These shortcomings limit the effectiveness of entrepreneurship support policies and create barriers to business expansion.

The objective of this study is to analyse the practical and methodological challenges of the existing classification system in Uzbekistan and to propose directions for its improvement in line with international best practices.

The research employs a combination of comparative and analytical methods. Legislative documents regulating business classification in Uzbekistan were analysed and compared with international standards, particularly the European Union SME definition framework. In addition, statistical data from national institutions were examined to identify discrepancies in enterprise classification.

Empirical insights were also obtained through a survey of 120 business entities operating in the Tashkent, Samarkand, and Fergana regions. The survey aimed to evaluate how existing classification criteria correspond to the real economic capacity of enterprises.

Contradictions in Classification Criteria. The current classification criteria in Uzbekistan are primarily based on the number of employees, annual revenue, and charter capital. However, different legislative acts establish inconsistent thresholds for the same enterprise categories. Presidential Decree PD-3213 (2017), the Law on Entrepreneurship

(2012), and the Tax Code (2020) contain divergent criteria that may lead to contradictory classifications across government institutions.

For example, enterprises employing between 51 and 100 workers may be classified differently depending on the regulatory framework applied. Such inconsistencies complicate administrative procedures and reduce transparency for entrepreneurs.

Research by professor Gafurov (2017) highlights another aspect of the problem through the concept of “functional staffing.” In several sectors, legal thresholds for employee numbers are lower than the minimum staffing levels required for effective operation. This discrepancy forces entrepreneurs to either limit operational efficiency, refuse available incentives, or rely on informal employment practices.

Survey results support this conclusion: 67.5% of respondents indicated that existing classification criteria do not adequately reflect the real economic capacity of their enterprises, while 43.2% of small businesses reported operating with resource bases comparable to medium-sized enterprises.

One of the most significant consequences of the current classification system is the emergence of the so-called “growth inhibition trap.” This phenomenon occurs when enterprises intentionally limit expansion in order to avoid reclassification into a higher category that entails heavier tax obligations.

In Uzbekistan, the difference between preferential taxation for small businesses and the general tax regime applied to larger firms creates a strong disincentive for growth. As a result, many enterprises choose to remain below the established thresholds.

According to survey data, 38.7% of respondents admitted that they deliberately restrain business expansion despite having the capacity to grow beyond the established employment limits.

Another important challenge is the fragmentation of statistical monitoring systems. The databases of the State Statistics Committee, the Tax Committee, and the Ministry of Entrepreneurship contain differing information on the number and classification of business entities.

By the end of 2022, discrepancies between these databases reached 12.3%, which undermines the reliability of official statistics and complicates evidence-based economic policymaking.

In contrast, many developed economies operate unified digital business registries. For example, Germany’s Handelsregister and France’s SIRENE system provide integrated databases that allow government institutions to access consistent enterprise information in real time.

The rapid development of digital platforms and e-commerce has further complicated the application of traditional classification criteria. Online businesses may operate with

relatively small numbers of employees while generating economic activity comparable to much larger companies.

In 2022, the volume of Uzbekistan's e-commerce market reached 8.2 trillion UZS, yet many participants remain formally classified as micro or small enterprises solely because of their limited workforce size. This situation illustrates the need to expand classification criteria to account for the specific characteristics of digital economic activity.

Policy Recommendations

Based on the analysis, several strategic directions for improving the classification system can be proposed:

1. Introduce automatic indexation of financial classification thresholds to account for inflation and economic growth.
2. Establish a unified national digital registry of business entities accessible to all regulatory institutions.
3. Gradually harmonise Uzbekistan's classification standards with international frameworks such as EU Recommendation 2003/361/EC.
4. Implement a transitional mechanism that allows enterprises to retain certain incentives for a limited period after reclassification.
5. Develop additional classification indicators for digital economy businesses, including transaction volume, digital asset value, and platform user base.

Conclusion

The current system of business entity classification in Uzbekistan is characterised by institutional inconsistencies, regulatory fragmentation, and methodological limitations. Contradictory legislative criteria, the growth inhibition effect, statistical monitoring problems, and the inability of traditional indicators to capture the realities of the digital economy all reduce the effectiveness of entrepreneurship support policies.

Addressing these challenges through regulatory harmonisation, improved statistical coordination, and the introduction of modern classification criteria will enhance the entrepreneurial environment and contribute to more sustainable economic development.

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