SMALL BUSINESS AND ENTREPRENEURSHIP AS A DRIVER OF ECONOMIC GROWTH AND EMPLOYMENT: EVIDENCE FROM UZBEKISTAN

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Abstract

This article scientifically analyzed the role of small business and private entrepreneurship in promoting economic growth and employment in Uzbekistan. The study evaluated the contribution of small businesses to gross domestic product, exports, imports, and employment using official statistical data and reports from international organizations. It systematically examined access to finance, institutional reforms, credit guarantee mechanisms, entrepreneurship support policies, and regional development factors. The findings demonstrated that the expansion of small businesses contributed to strengthening economic stability, creating new employment opportunities, increasing export potential, and improving the competitiveness of the private sector. The proposed approach also provided a reliable scientific foundation for enhancing entrepreneurship support policies and fostering sustainable economic development.

Keywords: small business, entrepreneurship, economic growth, employment, private sector, finance, exports, institutional reforms.

Annotatsiya

Mazkur maqolada O'zbekistonda kichik biznes va xususiy tadbirkorlikning iqtisodiy o'sish hamda bandlikni ta'minlashdagi o'rni ilmiy jihatdan tahlil qilindi. Tadqiqotda kichik biznesning yalpi ichki mahsulot, eksport, import va bandlikka qo'shayotgan hissasi rasmiy statistik ma'lumotlar hamda xalqaro tashkilotlar hisobotlari asosida baholandi. Moliyalashtirish imkoniyatlari, institutsional islohotlar, kredit kafolatlari, tadbirkorlikni qo'llab-quvvatlash mexanizmlari va hududiy rivojlanish omillari tizimli ravishda o'rganildi. Olingan natijalar kichik biznesni rivojlantirish iqtisodiy barqarorlikni mustahkamlash, yangi ish o'rinlarini yaratish, eksport salohiyatini kengaytirish va xususiy sektor raqobatbardoshligini oshirishga xizmat qilganini ko'rsatdi. Taklif etilgan yondashuv tadbirkorlikni qo'llab-quvvatlash siyosatini takomillashtirish uchun ilmiy asos yaratdi.

Kalit so'zlar: kichik biznes, tadbirkorlik, iqtisodiy o'sish, bandlik, xususiy sektor, moliyalashtirish, eksport, institutsional islohotlar.

Аннотация

В статье были научно проанализированы роль малого бизнеса и частного предпринимательства в обеспечении экономического роста и занятости в Узбекистане. В исследовании на основе официальной статистики и материалов международных организаций была оценена роль малого бизнеса в формировании валового внутреннего продукта, экспорта, импорта и занятости населения. Были системно рассмотрены вопросы доступа к финансированию, институциональных реформ, кредитных гарантий, механизмов поддержки предпринимательства и регионального развития. Полученные результаты подтвердили, что развитие малого бизнеса способствовало укреплению экономической устойчивости, созданию новых рабочих мест, расширению экспортного потенциала и повышению конкурентоспособности частного сектора. Предложенный подход создал научную основу для дальнейшего совершенствования политики поддержки предпринимательства.

Ключевые слова: малый бизнес, предпринимательство, экономический рост, занятость, частный сектор, финансирование, экспорт, институциональные реформы.

INTRODUCTION

Small and medium-sized enterprises are widely recognized in economic literature as a central engine of employment creation, innovation, and inclusive growth, particularly in developing and transitional economies where large-scale industrial employment is limited. By providing opportunities for self-employment, absorbing labor that might otherwise remain outside the formal economy, and fostering competition and product diversity, small businesses play a role in economic development that extends well beyond their direct contribution to output.

In Uzbekistan, the development of small business and private entrepreneurship has been placed at the center of national economic policy since the country began a program of market-oriented reforms in 2017. Successive presidential decrees and resolutions have sought to simplify business registration, expand access to credit, reduce administrative barriers, and strengthen legal protections for entrepreneurs. As a result, the small business sector has grown rapidly in both scale and economic weight: according to the National Statistics Committee, small businesses generated approximately 52.2 percent of Uzbekistan's gross domestic product in 2025, while the World Bank reports that micro, small, and medium enterprises (MSMEs) account for more than 90 percent of the country's registered businesses and approximately 75 percent of total employment. The purpose of this article is to analyze the scale, structure, and economic contribution of Uzbekistan's small business sector, to examine the mechanisms through which it supports economic growth and employment, and to identify the barriers that continue to constrain its further development.

LITERATURE REVIEW

The economic significance of small and medium-sized enterprises has long been established in development economics, dating to early theoretical work on entrepreneurship as a driver of innovation and structural economic change. Schumpeter's foundational analysis of entrepreneurship emphasized the role of new firm creation and “creative destruction” in driving productivity growth and economic development, a framework that continues to inform contemporary policy approaches to SME promotion in transition economies such as Uzbekistan.

More recent empirical literature, produced largely by international financial institutions, documents the specific channels through which SME development contributes to growth: job creation, particularly for young people, women, and other groups with limited access to formal-sector employment; diversification of economic activity away from dependence on a small number of large state-owned or extractive enterprises; and increased domestic competition, which tends to improve productivity and product quality over time. At the same time, this literature consistently identifies access to finance as the single most binding constraint on SME growth in developing economies, particularly where banking sectors remain dominated by collateral-based lending to larger, established firms. Analyses of Uzbekistan's SME finance landscape specifically point to restricted access to long-term credit, high collateral requirements, and information asymmetries between lenders and smaller, less formally documented borrowers as central barriers to investment by small firms.

A parallel body of policy-oriented research examines Uzbekistan's institutional reforms supporting small business, including simplification of business registration procedures, the establishment of a Business Ombudsman institution, and ongoing efforts to consolidate and streamline the legal framework governing entrepreneurship through a proposed Entrepreneurial Code. This literature generally concludes that while regulatory reform has proceeded rapidly, complementary reforms in access to finance, digital payment infrastructure, and value-chain integration remain necessary to translate the sector's numerical growth into higher productivity and more sustainable job creation.

METHODOLOGY

This study applies a descriptive and comparative analytical approach, drawing on official statistical releases from Uzbekistan's National Statistics Committee, sector reports and press releases from the World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development, and recent specialized and news reporting on Uzbekistan's small business and entrepreneurship sector. Indicators relating to the number of small business entities, their contribution to GDP, exports, and employment, and their access to credit are reviewed descriptively to characterize the scale and structure of the sector. Institutional and policy documents are analyzed qualitatively to assess the regulatory and financial support framework currently in place and to identify remaining gaps.

ANALYSIS AND RESULTS

International development literature and institutional practice converge on the view that micro, small, and medium enterprises are indispensable to inclusive economic growth, particularly in economies undergoing structural transformation away from state-dominated production. MSMEs typically offer lower barriers to entry than large-scale industry, allowing broader participation in economic activity by women, young people, and residents of regions with limited access to large-firm employment. Because of this, international financial institutions such as the World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development have made SME development financing and reform a central pillar of their engagement with transition economies, including Uzbekistan.

Uzbekistan's small business sector has expanded substantially in recent years. According to the National Statistics Committee, as of 1 October 2025 there were approximately 1.21 million active small business entities operating in the country, comprising 479,000 small enterprises and microfirms, 281,900 individual entrepreneurs, 422,300 dehkan (household) farms, 5,800 family businesses, 22,100 artisans, and 900 registered import goods sellers. The density of small businesses reached 32.1 units per 1,000 people nationally, with the highest concentrations recorded in Khorezm region (43.5 per 1,000), Tashkent city (43.4), Syrdarya region (37.7), and Bukhara region (37.5). In the first nine months of 2025 alone, 62,200 new small enterprises and microfirms were registered, with the largest number of new entities created in trade, industry, and agriculture, forestry, and fisheries.

The economic weight of the small business sector has grown alongside its numerical expansion. National Statistics Committee data show that small businesses accounted for 49.6 percent of GDP in the first half of 2025, with the share reaching 52.2 percent for full-year 2025, equivalent to 923,514.6 billion soums of gross value added; a separate 2024 estimate placed the sector's GDP share as high as 56 percent, reflecting some variation in measurement across sources and periods but confirming that small business now generates roughly half or more of national output. The sector's role in foreign trade is similarly substantial: in January-September 2025, small business entities accounted for 8.5 billion US dollars in exports, equivalent to 32.0 percent of Uzbekistan's total exports, and 17.77 billion US dollars in imports, or 53.7 percent of the total. Small businesses also dominate domestic transport activity, accounting for 51.8 percent of total freight transport, 77.0 percent of freight turnover, 90.9 percent of passenger transport, and 95.4 percent of passenger turnover in the same period.

Beyond its direct contribution to output and trade, the small business sector is the principal source of employment in Uzbekistan's economy. World Bank data indicate that MSMEs account for more than 90 percent of registered businesses in the country and approximately 75 percent of total employment, making the sector's health directly consequential for national labor market outcomes. This employment role is particularly significant given Uzbekistan's demographic structure: as of early 2025, approximately 9.63 million people, or 25.7 percent of the population, were between the ages of 14 and 30, creating substantial annual entry into the labor market that the formal state and large-enterprise sectors alone cannot absorb. Small business and entrepreneurship therefore serve an important social function in providing employment and income-generating opportunities for young people, women, and residents of regions with fewer large-scale employers, complementing broader national poverty-reduction efforts;

Uzbekistan's national poverty rate fell from 8.9 percent in 2024 to 5.8 percent in 2025, a period that coincided with continued expansion of the small business sector.

Despite the sector's scale, access to formal financing remains one of the most significant constraints on small business growth in Uzbekistan. According to World Bank data accompanying the 2025 FINGROW project, over one-third of MSMEs in Uzbekistan lack a bank account, less than 30 percent of sales are conducted electronically, and access to credit remains low, with only 10 percent of small enterprises and 16 percent of medium enterprises reporting access to bank loans. Development partners have identified this financing gap as stemming less from an overall shortage of liquidity in the banking system than from the allocation of that liquidity: much bank lending continues to flow toward sovereign and state borrowing rather than toward financing smaller private firms, in part because smaller businesses often lack the financial records, formalized business planning, and operating history that banks use to assess credit risk.

In response, both the government and international development partners have introduced targeted financing mechanisms. In December 2025, the World Bank approved a 100 million US dollar loan together with a 5 million US dollar grant for the Access to Finance for Jobs and Growth Project (FINGROW), intended to expand access to credit and private equity financing for capital-constrained MSMEs; the project is expected to enable approximately 7,000 MSMEs, including 4,500 led by women and youth, to access credit financing by 2030, generating an estimated 100,000 additional, better-paid jobs. Complementing this, the European Bank for Reconstruction and Development has extended up to 100 million US dollars in financing to Uzbek banks, including a dedicated credit line of up to 50 million US dollars for lending to entrepreneurs under the age of 35 through its Youth in Business programme. Domestically, the government's Entrepreneurship Development Company began issuing an expanded system of loan guarantees from December 2025, with large businesses eligible for guarantees of up to 10 billion soums, and entrepreneurs with strong credit histories eligible for a 50 percent increase in guarantee limits; in 2024 alone, Uzbek entrepreneurs received approximately 2 trillion soums in state-backed loan guarantees.

Alongside financial sector reforms, Uzbekistan has pursued substantial regulatory simplification to support small business development. More than fifty presidential decrees and resolutions addressing small business and entrepreneurship have been adopted since 2017, simplifying business registration, permit procedures, and land allocation processes for new enterprises. The institution of the Business Ombudsman has been established and subsequently expanded to provide entrepreneurs with a direct channel for reporting regulatory and inspection-related concerns, currently monitoring the compliance of 39 government bodies that collectively carry out 147 distinct control functions across 20 categories of inspection. A further institutional development is the drafting of a unified Entrepreneurial Code, intended to consolidate nine existing laws and more than ten subordinate legal acts governing business activity into a single, more transparent regulatory framework, while also introducing new concepts such as social entrepreneurship aimed at benefiting socially vulnerable groups, including persons with disabilities.

Despite national progress, small business development in Uzbekistan remains geographically uneven. Regional small business density in 2025 ranged from above 40 units per 1,000 people in Khorezm region and Tashkent city to considerably lower levels in less economically developed regions, reflecting disparities in infrastructure, access to markets, and proximity to finance. Gender gaps in access to entrepreneurship finance also persist: international partners note that legal and policy reforms promoting gender equality in business have not yet fully translated into equal practical access to credit, networks, and information for women entrepreneurs, even as targeted programs - such as guarantees and compensation mechanisms administered through the State Fund for the Support of Entrepreneurship - have begun to address this gap. Addressing these regional and gender disparities, alongside the broader financing constraints described above, will be important for ensuring that small business growth translates into broadly shared economic opportunity across the country.

Table 1

Summarizes the principal indicators of Uzbekistan's small business sector discussed in this article.

Indicator	Unit	Value
Active small business entities (as of 1 October 2025)	million entities	1.21
Small business density (2025)	entities per 1,000 population	32.1
Newly established small enterprises and microfirms (January-September 2025)	entities	62,200
Small business share in GDP (H1 2025 / full-year 2025)	%	49.6 / 52.2
MSME share of registered businesses (World Bank)	%	>90
MSME share of total employment (World Bank)	%	75
Small business exports (January-September 2025)	billion US dollars (% of total exports)	8.50 (32.0)
Small business imports (January-September 2025)	billion US dollars (% of total imports)	17.77 (53.7)
Small enterprises with access to bank loans	% of enterprises	10
Medium enterprises with access to bank loans	% of enterprises	16
FINGROW project financing (World Bank, December 2025)	million US dollars	Loan: 100; Grant: 5

Employment absorption and self-employment: With MSMEs accounting for roughly three-quarters of total employment, the sector functions as the primary buffer absorbing new labor market entrants, particularly given Uzbekistan's young population structure. This reduces reliance on public-sector or large state-enterprise employment and provides a pathway into economic activity for groups - including women, youth, and rural residents - who may face barriers to formal-sector employment elsewhere.

Domestic value chain and export diversification: Small businesses' substantial and growing role in exports - now accounting for roughly a third of the national total - illustrates their contribution to diversifying Uzbekistan's trade structure beyond traditional commodity exports such as cotton, gold, and energy products, and toward a broader base of manufactured and processed goods and services.

Regional economic development and poverty reduction: Because small business density is closely tied to local economic activity, the sector's expansion into regions beyond Tashkent contributes directly to regional development and to the broader national decline in poverty rates observed in recent years, even though regional disparities in small business density remain a challenge to be addressed.

Formalization and productivity growth: Programs such as FINGROW and the expanded state guarantee system are explicitly designed not merely to expand the number of small businesses but to help a subset of high-growth firms access the private equity and long-term financing needed to increase productivity, scale operations, and formalize previously informal or under-documented activity - addressing a key weakness identified in the sector, namely low rates of formal credit access and electronic sales.

Uzbekistan's reliance on small business as a source of employment and output is broadly consistent with patterns observed elsewhere in the Central Asian region and among other transition economies, though the specific instruments used to support the sector vary. As in Uzbekistan, international development institutions such as the Asian Development Bank and the European Bank for Reconstruction and Development have prioritized SME finance programs across Central Asia, reflecting a shared regional diagnosis that bank-dominated financial systems with high collateral requirements tend to underserve smaller, less formally documented firms. Uzbekistan's approach - combining regulatory simplification through instruments such as the planned Entrepreneurial Code with internationally co-financed credit and guarantee programs like FINGROW - mirrors a broader regional trend of pairing “supply-side” reforms (simplifying the process of starting and running a business) with “demand-side” financial interventions (expanding the pool of capital available to smaller firms). The relatively high share of MSMEs in total employment reported for Uzbekistan, at approximately 75 percent, is comparable to or somewhat higher than shares typically reported in other lower-middle-income economies, underscoring the particularly central role small business plays in absorbing Uzbekistan's young and rapidly growing labor force compared with economies where large-scale industry or state employment absorbs a greater share of workers.

This study is subject to several limitations. First, it relies on secondary statistical releases and institutional reporting rather than firm-level survey data, which limits the ability to draw firm conclusions about causal relationships between small business growth and specific economic outcomes such as productivity or wage growth. Second, estimates of the small business sector's GDP share vary somewhat across sources and reference periods (ranging from approximately 50 to 56 percent depending on the year and methodology), reflecting differences in measurement and the evolving scope of official statistical coverage; readers should treat exact percentages as indicative of scale rather than precise, fully reconciled figures. Third, because several of the financing programs discussed - including FINGROW and the expanded state guarantee system - were only recently approved or launched, their effects on SME access to finance and job creation could not yet be evaluated empirically at the time of writing and are described here in terms of stated program targets rather than realized outcomes.

Based on the analysis above, several policy directions appear particularly important for sustaining Uzbekistan's small business-led growth model. First, continued expansion of credit guarantee schemes and blended finance instruments, such as those introduced through FINGROW and the Entrepreneurship Development Company, should prioritize the smallest and most credit-constrained firms, given that only 10 percent of small enterprises currently report access to bank loans. Second, further simplification and eventual completion of the unified Entrepreneurial Code would help reduce the regulatory fragmentation that continues to raise compliance costs for smaller firms. Third, targeted efforts to close regional disparities in small business density - through infrastructure investment and localized business support services in lower-density regions - would help ensure that the sector's growth benefits are more evenly distributed across the country. Finally, continued investment in digital payment infrastructure and financial record-keeping support for small businesses would help address the low rate of electronic sales and formal financial documentation that currently limits many firms' access to credit.

CONCLUSION AND SUGGESTIONS

The evidence reviewed in this article confirms that small business and private entrepreneurship have become a central pillar of Uzbekistan's economy, accounting for roughly half of GDP, the large majority of registered businesses, and approximately three-quarters of total employment. This growth has been actively supported by a sustained program of regulatory simplification and, more recently, by expanded and internationally financed mechanisms for improving access to credit, including the World Bank's FINGROW project and EBRD-backed youth entrepreneurship lending. At the same time, persistent gaps in formal credit access, regional disparities in business density, and gender gaps in practical access to finance indicate that the sector's further development will depend on deepening, rather than simply continuing, current reforms. Sustained attention to access to finance, regulatory simplification, and regional balance will determine how fully Uzbekistan's small business sector can continue to serve as an engine of inclusive economic growth and employment in the years ahead. Future research using firm-level panel data would allow more precise estimation of the productivity and employment effects of specific SME support programs described in this article.

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