

THE ECONOMIC SIGNIFICANCE OF DEVELOPING SMALL BUSINESS AND PRIVATE ENTREPRENEURSHIP IN UZBEKISTAN

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Abstract

Small business and private entrepreneurship play a decisive role in the economic modernization of Uzbekistan. In the context of market reforms, employment growth, regional development, poverty reduction, innovation, and export diversification, the expansion of small business activity has become one of the key priorities of national economic policy. Small enterprises and private entrepreneurs are not only sources of income for households but also important actors in creating competitive markets, improving the quality of goods and services, and increasing the flexibility of the national economy. In Uzbekistan, the economic importance of this sector is especially high because small business connects urban and rural economies, absorbs labor resources, stimulates domestic demand, and creates opportunities for self-employment. According to the National Statistics Committee, in January–December 2025, small business entities generated 923,514.6 billion soums in GDP and their share in total GDP reached 52.2 percent. Their largest sectoral contribution was observed in agriculture, forestry and fisheries, construction, services, and industry. This shows that small business is not a secondary element of the economy, but one of its structural foundations. However, the further development of this sector requires better access to finance, stronger institutional support, digitalization, fair competition, and regional policy differentiation.

Keywords: small business, private entrepreneurship, Uzbekistan, economic growth, employment, GDP, investment, regional development, private sector.

Introduction

The development of small business and private entrepreneurship is one of the most important economic tasks for Uzbekistan. A modern economy cannot rely only on large state enterprises, natural resources, or centralized investment programs. Sustainable growth requires a broad private sector that can quickly respond to market demand, create jobs, introduce innovations, and increase the competitiveness of goods and services. In this sense, small business performs a strategic function: it makes the economy more flexible, more inclusive, and less dependent on a narrow group of large enterprises.

In Uzbekistan, small business and private entrepreneurship have become particularly important due to demographic pressure and the need to create stable employment for a growing labor force. Every year, many young people enter the labor market, and the state alone cannot provide enough jobs for

them. Small firms, family businesses, individual entrepreneurs, farms, craft producers, service providers, and microfirms help solve this problem by creating income opportunities in both cities and rural areas. This is especially relevant for regions where large industrial enterprises are limited and household incomes depend heavily on local economic activity.

The World Bank notes that micro, small and medium enterprises in Uzbekistan account for more than 90 percent of businesses, around 75 percent of total employment, and about 55 percent of GDP. At the same time, many of these enterprises still face serious financing constraints, including limited access to loans and underdeveloped digital payment practices. Therefore, the issue is not whether small business is important, but how to make it more productive, more innovative, and more capable of competing in domestic and foreign markets.

Main Body

The first major economic significance of small business in Uzbekistan is its contribution to GDP formation. The data for 2025 clearly show that small business entities produced more than half of national GDP, reaching a 52.2 percent share. This figure proves that small business is not merely a social support mechanism or a temporary employment solution. It is a major productive force that directly influences macroeconomic growth, national income, and the structure of the economy.

The second important function is employment creation. In countries with a young and growing population, job creation is not just an economic issue but also a social stability issue. Small enterprises usually require less initial capital than large companies, can be opened faster, and are able to operate in many sectors: trade, agriculture, transport, construction, catering, education, tourism, repair services, handicrafts, and digital services. Because of this, small business can absorb labor resources more quickly than large industrial projects. The World Bank's assessment that MSMEs provide about 75 percent of employment in Uzbekistan confirms the sector's role as a key labor market stabilizer.

The third economic importance of small business is regional development. Uzbekistan's regions differ in natural resources, infrastructure, population density, industrial potential, and access to markets. Large enterprises are usually concentrated in specific industrial zones or major cities, while small businesses can develop in every district and mahalla. They help transform local resources into economic value. For example, in rural areas, small business supports farming, food processing, livestock production, greenhouse activity, handicrafts, and local trade. In urban areas, it develops retail, services, logistics, tourism, information technology, and professional services.

This regional role is confirmed by sectoral statistics. In 2025, the share of small business was especially high in agriculture, forestry and fisheries, where it accounted for 93.1 percent of GDP in that activity. In construction, the share was 75.6 percent, while in services it was 47.2 percent and in industry 28.5 percent. These numbers show that small business is particularly strong in sectors that are closely connected with regional livelihoods and everyday economic activity.

The fourth significance is the development of competition. A healthy market economy needs many participants. If production, trade, and services are dominated by a few large enterprises, prices may remain high, product quality may remain weak, and consumers may have fewer choices. Small businesses increase competition by offering alternative goods and services. This pressure forces other firms to reduce costs, improve quality, and become more customer-oriented. In this way, small business indirectly improves the efficiency of the whole economy.

The fifth economic function is investment mobilization. Small business development encourages citizens to use their savings, skills, property, and family resources productively. This is important because not all economic development can be financed by the state budget or foreign investment. Domestic entrepreneurship turns local capital into productive activity. According to official data, in January–December 2025, small business entities used 362,910.0 billion soums of investments in fixed assets, accounting for 61.4 percent of total fixed capital investment. This means that small businesses are not only consumers of support but also active investors in economic development.

The sixth major contribution is the expansion of services. In modern economies, the service sector becomes increasingly important because it creates jobs, improves living standards, supports business activity, and strengthens urban development. In Uzbekistan, small businesses produced services worth 595,090.5 billion soums in 2025, which accounted for 56.7 percent of total services. This indicates that entrepreneurship is becoming a major driver of service-sector modernization, including trade, food services, logistics, transport, education, health-related services, tourism, and digital platforms.

The seventh significance is export development and integration into external markets. Small businesses may not always export large volumes like major corporations, but they are important for diversifying export structure. They can export textiles, agricultural products, processed food, handicrafts, tourism services, IT services, and other niche products. In 2025, small business exports reached 12.4 billion US dollars and accounted for 36.6 percent of total exports. This is economically important because export diversification reduces dependence on a limited number of raw materials or large exporters.

Table 1.

Key Economic Indicators of Small Business in Uzbekistan, January–December 2025

Indicator	Volume	Share in Total Indicator	Growth Rate Compared with 2024
Value added created in GDP	923,514.6 billion soums	52.2%	—
Industrial production	383,886.1 billion soums	34.9%	114.8%
Construction works	230,926.9 billion soums	73.6%	112.2%
Fixed capital investment	362,910.0 billion soums	61.4%	129.9%
Agriculture, forestry and fisheries	495,445.2 billion soums	91.9%	101.9%
Retail trade turnover	400,503.2 billion soums	83.0%	109.6%
Services	595,090.5 billion soums	56.7%	114.3%

Indicator	Volume	Share in Total Indicator	Growth Rate Compared with 2024
Exports	12.4 billion US dollars	36.6%	—
Imports	25,390.3 million US dollars	53.6%	—

The eighth economic role is poverty reduction and income growth. Small business creates income sources for households that may not have access to formal high-paying jobs. Family entrepreneurship, individual entrepreneurship, craft activity, small farming, and home-based production allow people to participate in the economy even with limited capital. This is especially important for women, youth, and rural residents. However, this potential is not automatic. It depends on whether entrepreneurs have access to affordable credit, training, infrastructure, digital tools, and market information.

Table 2.

Dynamics of Small Business Development in Uzbekistan, 2021–2025

Indicator	2021	2022	2023	2024	2025
GDP contribution, trillion soums	455.7	533.1	646.8	789.5	923.5
Industrial production, trillion soums	124.9	143.9	177.9	307.8	383.9
Construction, trillion soums	77.9	93.6	176.0	194.5	230.9
Fixed capital investment, trillion soums	109.2	127.6	176.6	265.7	362.9
Agriculture, forestry and fisheries, trillion soums	308.8	350.2	411.8	454.9	495.4
Retail trade turnover, trillion soums	186.8	229.2	287.1	345.4	400.5
Services, trillion soums	231.5	294.2	378.0	477.9	595.1
Exports, billion US dollars	3.3	6.2	6.9	9.3	12.4

A serious weakness remains access to finance. The World Bank reports that only 10 percent of small enterprises and 16 percent of medium enterprises in Uzbekistan reported access to loans, while the estimated MSME credit demand reached 13 billion US dollars, leaving a 6 billion dollar financing gap. Women-led businesses face an even sharper constraint: although they own nearly one-third of registered MSMEs, they receive only about 14 percent of MSME loans. This is a major failure point. If financing remains limited, many small firms will stay small, informal, technologically weak, and unable to scale.

The ninth significance is innovation and digital transformation. Small firms are often faster than large bureaucratic organizations in adopting new business models. Online trade, delivery services, mobile payments, digital marketing, remote services, and platform-based entrepreneurship can help small businesses reduce costs and reach wider markets. But digitalization must be practical, not decorative. Entrepreneurs need affordable internet, simple tax and reporting systems, digital payment acceptance, e-commerce logistics, and cybersecurity awareness. Without these, digital transformation becomes a slogan rather than a productivity tool.

The World Bank's 2025 Country Economic Memorandum for Uzbekistan emphasizes the need to improve SME access to finance, strengthen banking sector reforms, expand alternative funding options, reduce regulatory burdens, simplify licensing and permitting procedures, and improve the business environment. These recommendations are important because small business development cannot be achieved only by opening more firms. The main issue is whether these firms survive, grow, formalize, innovate, and become productive.

Discussion

The development of small business and private entrepreneurship in Uzbekistan has clear advantages, but it also has risks. One risk is low productivity. A large number of small enterprises does not automatically mean strong economic development. If small firms operate only in low-value trade, simple resale, or survival-level self-employment, their contribution to long-term growth remains limited. Therefore, policy should not focus only on increasing the number of entrepreneurs. It should focus on increasing productivity, technological capacity, financial literacy, export readiness, and management quality.

Another risk is regional inequality. Tashkent and other economically active regions may attract more entrepreneurs because they have better infrastructure, higher purchasing power, better logistics, and easier access to finance. Less developed regions may remain dependent on agriculture and low-income activities. Therefore, regional entrepreneurship policy must be differentiated. The same support mechanism cannot work equally in Tashkent city, Surkhandarya, Navoi, Karakalpakstan, or mountain and border districts. Each region needs support based on its economic specialization, labor resources, infrastructure gaps, and market access.

A third risk is informality. When tax procedures, licensing rules, finance access, or reporting requirements are too complicated, small firms may avoid formalization. This reduces tax revenues, weakens labor protection, and limits access to credit. The state should make formal entrepreneurship more attractive than informal activity. This means simple registration, predictable taxes, transparent inspections, digital reporting, and protection of property rights.

A fourth risk is excessive dependence on state support. Subsidies and preferential loans can help, but they can also create weak businesses that survive only because of privileges. The better approach is to build a competitive ecosystem: fair access to finance, strong infrastructure, business education, legal protection, digital platforms, and export support. The state should not replace entrepreneurs; it should remove barriers that prevent them from growing.

Conclusion

Small business and private entrepreneurship are economically significant for Uzbekistan because they contribute to GDP growth, employment creation, regional development, investment mobilization, competition, service-sector expansion, export diversification, and poverty reduction. Official statistics show that small business generated more than half of Uzbekistan's GDP in 2025, played a dominant role in agriculture and construction, accounted for a large share of fixed capital investment, and made a substantial contribution to services and exports. These indicators prove that small business is one of the central pillars of the national economy.

However, the future development of this sector depends on quality, not only quantity. Uzbekistan needs not just more small enterprises, but stronger, more productive, more innovative, and more export-oriented businesses. The main barriers are limited access to finance, regional inequality, informality, weak management skills, and insufficient digital integration. To solve these problems,

policy should focus on affordable credit, alternative financing, simplified regulation, entrepreneurship education, digital infrastructure, women and youth entrepreneurship, regional specialization, and fair competition.

In conclusion, developing small business and private entrepreneurship is not simply a social policy tool. It is a strategic economic necessity for Uzbekistan. If properly supported, this sector can become the foundation of inclusive growth, private-sector-led modernization, and long-term national competitiveness.

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