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THE IMPACT OF SMALL AND MEDIUM-SIZED ENTERPRISE FINANCING ON ECONOMIC GROWTH AND JOB CREATION

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Abstract. Using Uzbekistan as a case study, this article examines the relationship between the volume and forms of financing for small and medium-sized enterprises (SMEs) and both economic growth and job creation. Drawing on data from the National Statistics Committee, the Central Bank and regulatory documents, it analyses trends in the SME share of GDP and employment over 2019–2026, the growth of credit resources and their efficiency. An indicator of the credit resources required to create one job is calculated, and scientific recommendations for improving the SME financing system are substantiated.

Keywords: small and medium-sized enterprises, financing, credit, economic growth, job creation, employment, microfinance, Uzbekistan.

INTRODUCTION

Small and medium-sized enterprises are the most dynamic segment of a market economy and play a decisive role in ensuring economic growth, employment and household incomes. At the same time, limited access to finance is recognised worldwide as one of the main factors constraining SME growth [5; 8]. A lack of collateral, short credit histories and information asymmetry compel banks to adopt a cautious lending policy towards small borrowers [10].

In Uzbekistan, SME development is one of the priorities of state economic policy. The Strategy for the Development of Small and Medium-Sized Businesses for 2025–2030, approved by Presidential Decree No. PF-50 of 19 March 2025, sets the targets of raising the SME share of GDP to 60 percent by 2030, increasing the sector's exports to more than USD 20 billion and creating over 2 million new jobs [1]. The efficiency of the financing system is critical to achieving these goals.

The aim of this study is to assess, on the basis of statistical data, the impact of SME financing on economic growth and job creation in Uzbekistan and to develop scientific recommendations for improving the financing system. The research hypothesis holds that growth in credit resources directed to SMEs has a positive effect on employment, but that the strength of this effect depends on the sectoral and regional structure of financing and on the size of the informal sector.

LITERATURE REVIEW

D. Birch was the first to systematically substantiate the role of small firms in job creation, showing that the bulk of new jobs in the US economy was generated by small businesses [6]. J. Haltiwanger, R. Jarmin and J. Miranda subsequently refined this conclusion, demonstrating that firm age — newly established and rapidly growing firms — matters more for job creation than firm size [9]. Using data from 99 countries, M. Ayyagari and co-authors found that in developing countries small firms account for the largest share of employment and new job creation [4].

The theory of financial constraints rests on the credit rationing model of J. Stiglitz and A. Weiss: under information asymmetry, banks prefer to limit the volume of credit rather than raise interest rates, which affects small borrowers first and foremost [10]. A. Berger and G. Udell

developed the concept of the "financial growth cycle" of small business finance, according to which firms move from internal and informal sources towards bank credit and capital markets as they grow [7]. T. Beck and A. Demirguc-Kunt showed that access to finance is a key constraint on SME growth and that credit guarantees, leasing and factoring are effective instruments for easing it [5].

Studies of SME financing in Uzbekistan have focused mainly on describing state programmes and the practice of concessional lending. The quantitative assessment of the impact of credit resources on employment and the development of indicators of financing efficiency have received insufficient attention; this gap defines the scientific novelty of the present study.

METHODOLOGY

The study employs statistical and dynamic analysis, comparative analysis, the index method, an economic and mathematical approach, and logical generalisation. The information base comprises data from the National Statistics Committee of the Republic of Uzbekistan, the Central Bank and the Ministry of Economy and Finance, regulatory and legal acts, and reports of specialised banks. The period of analysis is 2019–2026.

To assess the efficiency of financing in terms of its employment effect, the indicator of credit resources spent per job created is used:

$$K_j = C_{SME} / \Delta L, \quad (1)$$

where K_j is the volume of credit per job; C_{SME} is the volume of loans extended to SMEs; and ΔL is the number of jobs created with these loans. To characterise the effect of credit resources on business activity, an elasticity coefficient defined as the ratio of the growth rate of the number of SMEs to the growth rate of credit was also calculated:

$$E = \%\Delta N_{SME} / \%\Delta C, \quad (2)$$

where $\%\Delta N$ is the growth rate of the number of SMEs and $\%\Delta C$ is the growth rate of the volume of credit.

RESULTS

The analysis shows that small business and entrepreneurship have become the mainstay of Uzbekistan's economy. Table 1 presents trends in the key macroeconomic indicators of SMEs.

Table 1. Share of small business and entrepreneurship in Uzbekistan's economy, %

Indicator	2019	2021	2022	2024	2025*
Share of GDP	56.5	55.0	51.6	54.3	49.6
Share of employment	78.2	74.4	…	…	…
Share of industry	45.3	…	…	32.4	…
Share of exports	…	…	…	33.3	…

Source: compiled by the author based on data from the National Statistics Committee, the Ministry of Economy and Finance and Decree No. PF-50 [1; 2; 3; 11]. *January–June 2025, share of gross value added.

As the table shows, the SME share of GDP declined from 56.5 percent to 51.6 percent over 2019–2022 and recovered to 54.3 percent in 2024. This decline cannot be explained solely by weaker SME activity: large investment projects, rapid growth in the mining and energy sectors, and changes in the criteria for classifying business entities all played a significant role during this period. Nevertheless, achieving the strategy's 60 percent target will require raising the share by at least 5.7 percentage points by 2030.

By sector, in 2024 small businesses accounted for 95.8 percent of agriculture, forestry and fisheries, 78.4 percent of construction, 49.8 percent of services and 25.9 percent of industry [2]. This indicates that SMEs are concentrated mainly in labour-intensive sectors with relatively low value added.

The number of enterprises is also growing. As of 1 January 2026, 474.9 thousand enterprises and organisations were operating in the country, of which 403.8 thousand were small enterprises and micro-firms (compared with 424.8 thousand and 358.1 thousand, respectively, a year earlier) [3]. The number of small enterprises and micro-firms thus increased by 12.8 percent in one year.

Financing volumes grew rapidly (Table 2).

Table 2

Key indicators of lending and SME financing in Uzbekistan

Indicator	2024	2025	Growth, %
Loans extended in national currency, UZS trillion	193.3	276.4	43.0
of which to enterprises, UZS trillion	…	108.8	…
Loans to individual entrepreneurs, UZS trillion	…	10.8	…
Number of small enterprises and micro-firms, thousand	358.1	403.8	12.8
GDP, UZS trillion (real growth, %)	1,412.1*	1,849.7 (7.7)	…

Source: author's calculations based on data from the Central Bank and the National Statistics Committee [3; 12; 13]. *Expected figure for 2024.

According to the calculations using formula (2), the elasticity of the number of small enterprises with respect to credit growth is E = 12.8 / 43.0 ≈ 0.30. In other words, a 10 percent increase in the volume of credit was accompanied by an increase of roughly 3 percent in the number of small enterprises. This suggests that part of the credit resources was directed not towards establishing new firms but towards the working capital of existing enterprises and consumption purposes.

Data from a specialised bank were used to assess the efficiency of job creation. In the first half of 2026, Microcreditbank extended a total of UZS 6.8 trillion in loans, of which UZS 5.3 trillion went to SMEs, contributing to the creation of nearly 100,000 new jobs [14]. Using formula (1), the volume of credit per job is Kj ≈ UZS 5.3 trillion / 100,000 ≈ UZS 53 million. Compared with the collateral-free loan limit of up to UZS 150 million introduced for entrepreneurs in 2025, this indicates that a single small project has the potential to create two to three jobs on average [15].

The microfinance sector is also expanding rapidly within the financing structure: according to the Central Bank, the microfinance market nearly doubled in 2025, and 70 percent of loans issued by microfinance organisations were disbursed online [16]. This points to a diversification of the channels through which small entrepreneurs access financial services.

DISCUSSION

The findings are consistent with the conclusions of international studies: wider access to finance has a positive effect on the number of SMEs and on employment [4; 5]. However, a number of factors constrain this effect in Uzbekistan.

First, the large share of the informal sector. At the end of 2024, the unobserved economy accounted for 34.8 percent of GDP, including 26.4 percent attributable to the informal economy [17]. Entrepreneurs operating informally lack official financial statements and therefore cannot access bank credit, so the growth effect of financing is not fully realised.

Second, the structure of financing. A significant portion of loans is directed to trade and services and to short-term working capital. While this raises employment quickly, its impact on long-term labour productivity and export potential is limited. As Haltiwanger and co-authors emphasise, sustainable jobs are created mainly by young, fast-growing firms [9]; financing policy should therefore be geared towards selectively supporting enterprises with high growth potential.

Third, enterprise sustainability. According to the Strategy, the share of SMEs operating for more than three years has reached 76 percent [1]. Although this is a positive indicator, the instability of the remainder increases credit risk. It is therefore important to combine financing with business training, advisory services and mentoring mechanisms.

Fourth, regional imbalances. A large share of small enterprises is concentrated in the city of Tashkent, while financial infrastructure remains weak in peripheral regions. The mechanism for compensating part of the interest costs on loans to entrepreneurs in remote and hard-to-reach areas is designed to ease this problem [18]. Linking such mechanisms to job-creation indicators at the mahalla level would enhance their effectiveness.

The limitations of the study include the scarcity of continuous official statistical series on the SME loan portfolio and the fact that job-creation data are based on the reports of individual banks. Future research should undertake econometric estimation based on regional panel data.

CONCLUSIONS AND RECOMMENDATIONS

The study leads to the following conclusions. First, SMEs account for more than half of GDP and about three-quarters of employment in Uzbekistan. Second, in 2025 the volume of lending grew by 43 percent while the number of small enterprises increased by 12.8 percent; the elasticity coefficient (≈0.30) indicates that there is scope to use credit resources more efficiently for expanding entrepreneurship. Third, according to data from specialised banks, creating one job currently requires credit resources of around UZS 53 million on average.

On the basis of these conclusions, the following scientific recommendations are put forward:

1. Introduce a system for monitoring financing efficiency: include the indicators “credit per job created” and “enterprise survival within two years after the loan” in mandatory reporting for banks and state programmes.

2. Expand the credit guarantee system: to compensate for the lack of collateral, share risk with banks while raising the proportion of state guarantees for production- and export-oriented projects.

3. Diversify sources of financing: develop leasing, factoring, crowdfunding and venture financing, and simplify procedures for fast-growing enterprises to access capital markets.

4. Link the formalisation of informal entrepreneurs to financial incentives: grant officially registered entities that submit financial statements priority access to concessional loans and advantages in credit scoring.

5. Strengthen the regional and mahalla-level approach: channel concessional credit resources as a priority to regions and mahallas with high unemployment, and provide financing as a package together with business training and mentoring services.

6. Develop digital scoring and online lending: reduce transaction costs for small borrowers through automated assessment based on tax, customs and payment system data.

Implementing these recommendations will help shift SME financing from a model driven by quantitative growth to one based on quality and efficiency, and contribute to achieving the strategic targets set for 2030.

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