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Article

In The Shadow of Financial Illiteracy: The Decline of Small Businesses and The Growing Debt Burden

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Abstract: In Uzbekistan, the development of small and medium-sized enterprises plays a crucial role in state economic policy. However, insufficient financial knowledge and skills, inefficient use of credit resources, and improper risk assessment have led to a decline in the number of entrepreneurial entities and an increasing debt burden. This article analyzes these challenges and proposes solutions aimed at improving financial literacy based on the experiences of South Korea and Germany. High dependence on credit, a lack of personal savings, and a weak culture of financial planning among the population are identified as key factors hindering economic activity and the development of entrepreneurship.

Keywords: financial literacy, financial illiteracy, small business, entrepreneurship, credit risks, financial stability, economic activity, debt burden, financial education, financial behavior, public policies

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1. Introduction

Ongoing analyses and observations indicate a sharp increase in demand for credit among the population. In particular, according to data from the Central Bank, the share of individuals holding three or more loans doubled between 2020 and 2025. However, borrowed funds are primarily used to meet consumption needs, while income and financial resources are not managed in a targeted and efficient manner. The lack of financial knowledge and skills leads to inefficiencies in key areas such as financial planning, budget management, and risk assessment [1].

As a result, the population-especially young people-tends to allocate borrowed funds to daily consumption rather than investing them in entrepreneurial or income-generating projects. This, in turn, leads to the absence of personal savings, increasing dependence on credit, and the failure to establish a solid financial foundation necessary for starting a business. Such factors contribute to a decline in the number of small businesses, the inability of existing enterprises to operate sustainably, and an overall increase in financial risks within the national economy [2].

This article examines the economic problems arising from the low level of financial literacy among the population, including the growing debt burden, the inability to accumulate personal savings, shortcomings in financial planning, and errors in risk assessment. The main objective of the study is to develop practical and academic solutions that promote entrepreneurship, enhance economic activity, and support the sustainable development of small businesses by improving financial knowledge and skills among the population. In addition, the article explores the experiences of countries such as South

Korea and Germany in the areas of financial education and risk management and proposes recommendations adapted to the conditions of Uzbekistan [3].

2. Materials and Methods

The study employs comparative-analytical, systematization, inductive and deductive reasoning, and empirical analysis methods. Official data on the financial knowledge, credit activity, and income sources of the population of Uzbekistan were analyzed. Particular attention was paid to the level of financial literacy among youth, women, and small business entities. Based on international experience, practical recommendations were developed to address the identified challenges [4].

Literature Review

Financial literacy has increasingly emerged as a cornerstone of personal financial stability and entrepreneurial activity in the modern economy. In the context of Uzbekistan, fully realizing the entrepreneurial potential of the population-particularly in fostering the development of small businesses-requires, first and foremost, the formation of personal financial knowledge and skills [5].

Financial literacy is defined as a combination of an individual's financial knowledge, skills, and attitudes that enables effective planning of personal and household finances, efficient management of resources, rational use of financial instruments such as credit and investment, assessment of financial risks, and the maintenance of financial stability.

The relationship between financial literacy and entrepreneurial activity has been extensively examined through comprehensive theoretical analyses and empirical studies conducted by international organizations, global scholars, and local researchers [6].

The Organisation for Economic Co-operation and Development (OECD), in its 2020 and 2022 reports, emphasizes the critical importance of financial literacy for entrepreneurs. According to the OECD definition, "financial literacy is the combination of awareness, knowledge, skills, attitudes, and behaviors necessary to make sound financial decisions and ultimately achieve individual financial well-being [7], [8].

David L. Remund (2010) defines financial literacy as "a measure of the degree to which individuals understand key financial concepts and possess the ability and confidence to manage personal finances through appropriate short-term decision-making and long-term financial planning, while taking into account real-life circumstances and economic conditions.

Lusardi, A., and Mitchell, O. S. provide an in-depth analysis of the role of financial literacy among the economically active population in entrepreneurial activities. The authors argue that individuals with low levels of financial literacy are more likely to encounter financial difficulties, which, in turn, leads to poor decision-making in entrepreneurial ventures.

Findings from international studies conducted by OECD/INFE indicate that financial literacy extends beyond merely enhancing consumers' legal awareness. It also serves as a crucial factor in developing and realizing entrepreneurial potential among low-income population groups. Financial knowledge and skills enable individuals to make informed financial decisions, use resources efficiently, and adopt a responsible approach to risk. In this regard, financial literacy plays a strategic role in ensuring the sustainable development of entrepreneurship [9].

U. Tokhtamurodov emphasizes that improving the financial literacy of the population enables small businesses to more accurately assess financial risks and use financial resources efficiently.

Similarly, A. Qodirov notes that when small business owners possess adequate financial knowledge, they are better equipped to make sound decisions regarding credit, taxation, and investment issues.

According to survey results conducted by the Asian Development Bank and the Central Bank of the Republic of Uzbekistan, a significant portion of the population lacks sufficient knowledge of financial planning, which constitutes a serious barrier to initiating entrepreneurial activities [10].

In our view, the insufficient level of financial knowledge among small business representatives and the general population increases the likelihood of incorrect decisions related to borrowing and investment during the entrepreneurial process, ultimately leading to financial instability and potential crises. Therefore, enhancing financial literacy, encouraging the formation of personal savings, and reducing excessive dependence on credit resources should be regarded as essential conditions for creating a stable and efficient environment for entrepreneurial activity.

International Experience

International experience demonstrates that the development of entrepreneurship among the population cannot be achieved solely through the provision of financial resources; rather, sustainable entrepreneurial growth requires the formation of entrepreneurs' financial knowledge and skills. Empirical studies conducted in several developed countries, including South Korea and Germany, indicate that improving financial literacy is one of the decisive factors in enhancing the effectiveness and sustainability of entrepreneurial activity.

An analysis of South Korea's experience shows that microfinance has emerged as a key economic instrument for supporting small and medium-sized enterprises. In particular, an empirical study conducted by Toyun Kim Kratzer, Cheong Gim Liu, and Hajun Choi Heo entitled "The Impact of Microfinance on Entrepreneurial Sustainability in South Korea" examined data from Seoul and Daegu and found that microfinancial services have a positive effect on the financial stability of entrepreneurs.

Within the scope of the study, the majority of participating entrepreneurs were able to expand their businesses, diversify income sources, and achieve greater economic stability through access to microloans. However, the authors emphasize that the impact of microfinance on entrepreneurial sustainability is closely linked not only to the availability of financial resources but also to the level of financial literacy among entrepreneurs. As noted in the study, "the mere availability of microfinance is insufficient if entrepreneurs lack the essential financial management skills required to manage debt and reinvest profits effectively [11]."

Accordingly, the study identifies the introduction of specialized training and advisory programs aimed at improving financial literacy within microfinance institutions as a critical component of entrepreneurship development. Such programs have been shown to improve not only loan repayment rates but also the long-term sustainability of businesses. As highlighted by the authors, "the implementation of basic financial education programs led to significant improvements in timely loan repayment and the long-term viability of businesses."

Furthermore, the research conducted in Seoul and Daegu reveals that many young entrepreneurs, due to insufficient financial knowledge, mismanaged borrowed funds and faced business failure within a short period. The study reports that "entrepreneurs with low levels of financial literacy were more likely to mismanage debt and face a higher risk of short-term business failure."

Although Germany exhibits relatively high levels of financial literacy by international standards, the OECD's 2024 report identifies substantial disparities among different population groups. In particular, low-income households, women, young people, and owners of small and medium-sized enterprises were found to have lower levels of financial stability and financial knowledge [12], [13].

The report emphasizes that improving financial literacy has been designated as a priority area of public policy in Germany. It underscores the importance of developing financial education programs tailored to all age groups, especially youth and entrepreneurs. Recommendations include integrating financial literacy into mandatory school curricula and fostering financial skills related to personal budgeting, debt management, and financial security from an early age. As stated in the report, "integrating financial literacy into school curricula can foster a culture of responsible financial behavior from a young age."

Germany also places particular emphasis on specialized training and advisory programs designed for young entrepreneurs and low-income populations. According to the report, insufficient financial knowledge among entrepreneurs negatively affects business sustainability. Therefore, the implementation of comprehensive financial education programs through public–private partnerships is considered essential. Targeted financial education for young entrepreneurs is highlighted as a key factor in enhancing financial stability and supporting informed decision-making [14].

Overall, the international experiences analyzed demonstrate that higher levels of financial literacy facilitate the effective use of microfinancial services and contribute to the sustainable development of entrepreneurial activity. The case of South Korea illustrates that entrepreneurs with adequate financial knowledge are able to manage financial resources efficiently and achieve long-term stability through the targeted reinvestment of income. In Germany, comprehensive policies aimed at integrating financial literacy into formal education and developing specialized programs for youth and low-income groups have been implemented to foster financial responsibility among the population. Consequently, a comprehensive approach to improving financial literacy plays a crucial role not only in enhancing individual financial well-being but also in ensuring the stability of the entrepreneurial ecosystem and, ultimately, supporting national economic development.

3. Results and Discussion

Despite ongoing reforms aimed at improving the level of financial literacy and increasing public participation in economic activity in Uzbekistan, challenges such as credit dependence, insufficient personal savings, and low awareness of financial risks persist. In particular, due to the inadequate formation of financial knowledge, borrowed funds are often directed toward consumption needs rather than productive purposes. As a result, the financial foundation necessary for starting a personal business-namely, the accumulation of savings-fails to develop.

The findings of the study indicate that during the process of establishing small businesses, the population demonstrates weak financial decision-making capacity, insufficient knowledge and skills related to risk assessment, and an underdeveloped culture of financial planning. Under such conditions, even microfinance services tend to be ineffective. Credit provided without adequate financial literacy is frequently mismanaged, leading to an increasing debt burden and a decline in the number of small business entities.

At the same time, low real income levels and the inability to objectively assess economic risks hinder public participation in economic activity. This situation negatively affects not only individual financial stability but also the overall pace of national economic growth. The analysis clearly demonstrates the necessity of supporting small businesses through the enhancement of financial literacy.

Population Credit Dependence: Trends and Analysis

In recent years, the use of bank credit among the population of Uzbekistan has expanded significantly. On the one hand, this trend reflects increased trust in financial institutions and improved access to banking services; on the other hand, it highlights persistent shortcomings in financial knowledge and skills related to managing financial resources.

According to official data from the Central Bank as of June 1, 2025, more than 5.18 million individuals in Uzbekistan have obtained loans from commercial banks, accounting for approximately one-third of the economically active population. Nearly 27 percent of borrowers-around 1.4 million citizens-hold two or more credit obligations. This situation indicates that a substantial portion of the population is facing excessive debt burdens and that financial discipline and responsible borrowing practices remain insufficiently developed [15].

Regulatory data further show that approximately one in three employed individuals in Uzbekistan-over 5 million citizens-holds at least one bank loan. Particularly concerning is the increase in the share of borrowers with three or more loans, which rose from 5 percent to 11 percent since 2020. This twofold increase clearly illustrates the growing level of credit dependence among the population and underscores the lack of adequately developed financial discipline and personal financial management skills (Figure 1).

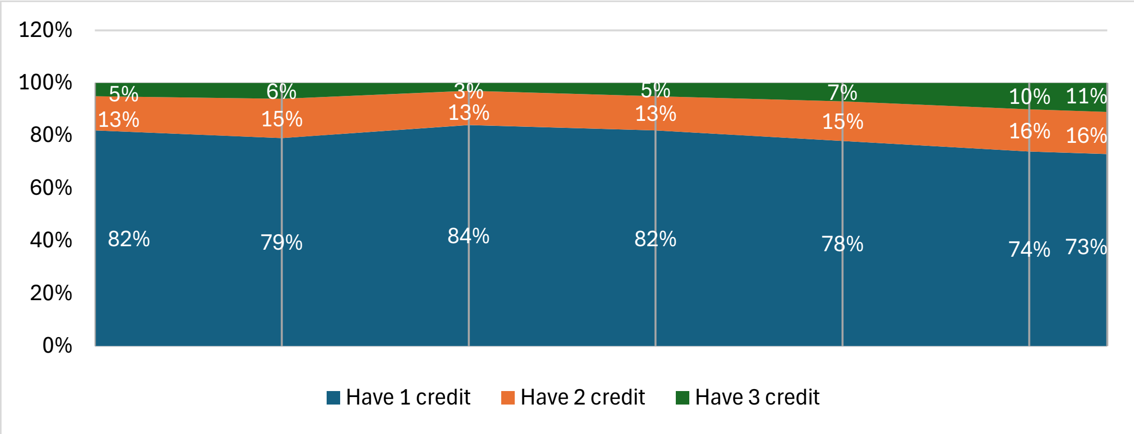

Figure 1. Level of Credit Ownership among the Population

Based on the table data, notable dynamic changes in the level of credit ownership among individuals were observed during the period 2020–2025. In particular, the share of individuals holding only one loan declined significantly. While this indicator stood at 84 percent in 2022, it decreased to 73 percent as of June 1, 2025. At the same time, the proportion of the population holding two or three loans increased steadily. For instance, in 2020, individuals with three loans accounted for 5 percent of all borrowers, whereas by June 1, 2025, this figure had risen to 11 percent.

This trend indicates an increase in the population's engagement with financial resources; however, it simultaneously reflects a growing debt burden. Such dynamics further highlight the importance of financial literacy, as rational use of credit products and informed financial decision-making are essential for minimizing financial risks.

Under these conditions, borrowing is increasingly perceived by the population not as a long-term financial obligation, but rather as a means of achieving short-term income or consumption goals. In many cases, borrowing decisions are made without comprehensive financial analysis or forecasting, which subsequently leads to serious difficulties in loan repayment. This situation negatively affects not only individual financial stability but also the overall balance and resilience of the financial market [16].

In recent years, a sharp increase has been observed in both the number and volume of loans extended to individuals, despite the relatively stable size of the economically active population. Specifically, as of January 1, 2024, the economically active population numbered 15,038.0 thousand people, increasing only marginally to 15,096.0 thousand by January 1, 2025-an annual growth of merely 58.0 thousand individuals. During the same period, however, the number of loans granted to individuals increased from 47.2 million to 67.0 million, representing a 42 percent rise. The outstanding loan balance also increased significantly, by 19.4 percent (Table 1).

Table 1. Loans Extended to the Population

Date	Loans allocated to individuals				Economically active population
	Number (thousand)	Change (%)	UZS (billion.sum).	Change (%)	
01.06.2025	74 780	39%	193 733		
01.01.2025	67 082	42%	177 532	19,4%	15096
01.06.2024	53 937	14%			
01.01.2024	47 208		148 621		15038

The data presented in the table indicate a growing level of financial dependence on credit among the population. Due to the lack of sufficient personal financial reserves required to engage in entrepreneurial activities, individuals increasingly resort to external financial resources, particularly bank loans.

This trend also reflects an insufficient level of financial literacy among the population. If a culture of saving were adequately developed, the ability to finance entrepreneurial activities through personal funds would be significantly enhanced. Excessive reliance on credit may lead to a tightening of the "debt trap," where interest payments reduce net income and ultimately pose a threat to business sustainability.

Moreover, a considerable share of individuals with multiple loans allocate borrowed funds to consumption purposes-such as purchasing mobile phones, household appliances, or covering wedding expenses-rather than using them for business development or income-generating activities. As a result, the likelihood of loan repayment decreases, increasing the risk of falling into a cycle of accumulating larger debts to service existing obligations.

Therefore, one of the key pathways to ensuring the sustainable development of entrepreneurship among the population lies in improving financial literacy, fostering a culture of saving, and promoting sound personal financial management skills [17].

Real Income Levels of the Population: Growth and Concerns

The financial stability of the population and its readiness to engage in entrepreneurial activity are directly dependent on income levels. Income growth not only enables households to meet daily consumption needs but also creates opportunities for savings accumulation and investment activity. Therefore, the rate of income growth and changes in its real value under inflationary conditions are of critical importance.

According to data from the State Statistics Committee of the Republic of Uzbekistan, nominal incomes have increased in recent years. However, due to relatively high inflation rates, real income growth has not affected all population groups equally. In particular, for low-income households and unemployed individuals, income growth has been barely perceptible when adjusted for inflation [18], [19].

For example, in 2023, average nominal incomes increased by 17.6 percent, while the inflation rate stood at approximately 12 percent. This implies a real income growth of around 5–6 percent. Nevertheless, such growth does not necessarily indicate an overall improvement in the financial well-being of the population. A significant share of real income continues to be allocated to consumption expenditures, leaving insufficient resources for long-term objectives such as savings accumulation or business start-ups.

Moreover, the level of social inequality further differentiates the population's real financial capacity. A large proportion of rural residents are engaged in informal employment and lack stable income sources, which makes them particularly vulnerable to financial risks.

In many cases, individuals lack adequate skills in financial planning and in allocating income between consumption needs and investment objectives. As a result, instead of accumulating savings to start a business, reliance on credit has become increasingly common.

Although nominal incomes are rising, real income growth remains constrained by inflationary pressures. The predominant allocation of income toward consumption, combined with insufficient financial planning skills, prevents individuals from accumulating sufficient capital to initiate entrepreneurial activities. Consequently, providing education on effective income management and the formation of sound financial behavior has become a pressing priority [20], [21].

The table below presents data on the average nominal monthly income of the population in Uzbekistan between 2020 and 2024, along with corresponding indicators of real income growth (Table 2).

Table 2. Monthly income and Real income growth rate of the population

Year	Per Capita Total Income (million UZS)	Nominal Growth Rate of Per Capita Income (%)	Real Growth Rate of Per Capita Income (%)
01.01.2025	24,1	116,1	105,9
01.01.2024	20	112,6	102,4
01.01.2023	17,8	119,8	107,5
01.01.2022	14,8	121,8	109,9
01.01.2021	11,7	113,7	100,7

During the period 2020–2024, the dynamics of per capita total income in Uzbekistan demonstrated a stable positive trend. In particular, per capita income amounted to 11.7 million UZS in 2020 and increased to 24.1 million UZS by 2024, reflecting more than a twofold growth over the period. At the same time, the nominal growth rate of income varied across years, reaching its highest level in 2021 (121.8 percent) and its lowest level in 2020 (113.7 percent).

When adjusted for inflation, the real growth rate of income peaked at 109.9 percent in 2021, while in 2022 it declined to 100.7 percent, indicating relatively modest real growth. Overall, the observed real income growth during this period reflects the effectiveness of socio-economic reforms implemented in the national economy.

The Importance of Personal Capital for Starting Entrepreneurship

One of the most critical prerequisites for successfully launching small businesses and private entrepreneurship is the availability of initial financial resources, namely personal capital. Individuals who lack sufficient personal savings are often compelled to rely on credit instruments, which may place entrepreneurial activity at risk even before it begins.

The availability of personal capital provides entrepreneurs with several key advantages:

1. **Financial independence:** Entrepreneurs can implement business plans without excessive dependence on credit institutions.
2. **Risk reduction:** In the event of business failure, reliance on personal funds reduces exposure to debt-related financial stress.
3. **Avoidance of interest payments:** High interest rates on bank loans significantly increase operating costs and reduce profitability.
4. **Enhanced investor confidence:** Initiating a project with personal capital signals commitment and responsibility to potential investors or business partners.

Unfortunately, a significant proportion of individuals starting entrepreneurial activities in Uzbekistan do not possess sufficient personal capital. According to data from the Central Bank and the State Statistics Committee, a large share of the population carries existing debt obligations, while most income is allocated to daily consumption needs. As a result, entrepreneurship is often initiated through borrowed funds.

For example, some studies indicate that more than 60 percent of new entrepreneurs obtained additional loans to start a business without fully repaying previous credit obligations. Such practices demonstrate the instability of businesses operating under a “debt-on-debt” mechanism.

Therefore, financial literacy programs focused on savings accumulation, economic planning, cost reduction, and the creation of financial reserves are critically important for individuals planning to start entrepreneurial activities.

Personal capital constitutes the fundamental financial foundation for entrepreneurship. Its availability protects individuals from credit-related risks and enables independent and sustainable business development. Consequently, expanding education and practical initiatives aimed at financial planning, savings accumulation, and investment preparedness is essential.

The development of small business and private entrepreneurship is a priority direction of state policy in Uzbekistan. However, insufficient financial preparedness among individuals entering this sector continues to generate significant challenges. To effectively launch and sustain entrepreneurial activities, individuals must possess a certain level of personal capital, as well as adequate knowledge and skills in financial planning, risk analysis, and cost control.

When establishing a small business, initial capital typically comprises the following key components:

a well-developed business plan;

short- and medium-term financial plans;

and the formation of reserve funds to account for potential risks that may arise during the start-up and operational phases of the business.

A business plan clearly defines the main directions of entrepreneurial activity, market conditions, the competitive environment, the dynamics of revenues and expenses, and the expected level of profitability. Reserve funds, in turn, play a crucial role in mitigating unforeseen financial difficulties during the initial stage of business operations. Such reserves should generally be sufficient to cover operating expenses for the first three to six months.

Financial planning, accurate cost calculation, risk assessment, and the development of risk mitigation measures are among the primary tasks when launching an entrepreneurial venture. At this stage, the level of financial literacy directly influences the sustainability of entrepreneurial activity [22], [23].

Unfortunately, in many cases entrepreneurial activities are initiated through borrowed funds. Starting a business on the basis of credit significantly increases the risk of failure due to interest expenses, repayment schedules, and financial pressure. This risk is particularly high when the size of the loan is not adequately analyzed and the borrower’s repayment capacity is not properly assessed. Under such circumstances, entrepreneurs may lose their ability to meet financial obligations, leading not only to business bankruptcy but also to the deterioration of personal financial stability.

Therefore, it is advisable to initiate entrepreneurial activity primarily on the basis of personal funds rather than relying on credit. Such an approach reduces financial risks, enables greater flexibility in planning and management, and protects entrepreneurs from excessive debt burdens even in the event of business failure.

Effective initiation and sustainable management of entrepreneurial activity require a high level of initial financial preparedness. This preparedness is determined not only by the availability of personal capital but also by knowledge and skills related to proper planning, risk assessment, and informed financial decision-making [24].

The table below summarizes the key elements of financial preparedness required for successfully starting an entrepreneurial venture and highlights their practical significance (Table 3).

Table 3. Key Financial Preparedness Elements Required for Successful Entrepreneurship and Their Significance

№	Elements of Financial Preparation	Importance
1	**Personal Funds**	Reduce dependence on credit and create opportunities for independent economic activity.
2	**Business Plan**	Defines areas of activity, market conditions, and estimates of income and expenses.
3	**Financial Plan**	Enables the planning of short- and medium-term financial expenditures.
4	**Reserve Funds**	Provide protection against unforeseen financial risks.
5	**Expense Control**	Improves the efficiency of economic and business activities.
6	**Risk Analysis**	Allows for early assessment of business risks and the implementation of preventive measures.
7	**Financial Literacy**	Supports the adoption of stable, informed, and sustainable financial decisions.

Identified Problems and Their Underlying Causes

The challenges faced by the population when initiating entrepreneurial activities are closely linked not only to economic constraints but also to issues related to knowledge, experience, and financial behavior. Although interest in entrepreneurship has been growing in Uzbekistan, the process is accompanied by a number of barriers and structural problems. Analyzing these challenges provides a foundation for developing effective solutions in the future.

1. Financial Illiteracy

Although the level of financial literacy in Uzbekistan has shown some improvement, practical financial literacy and effective money management skills remain insufficiently developed. According to survey results conducted in 2024 by the Central Bank of Uzbekistan in cooperation with the Asian Development Bank, 39 percent of the population did not accumulate any savings over the previous year. Despite the fact that 59 percent of the population holds a bank account, only 7.4 percent actively maintain savings in these accounts.

Table 4. Financial literacy and money management skills

Indicator	Share (%
Population without savings (during the past year)	39.0
Population with a bank account	59.0
Population holding savings in bank accounts	07.апр

At the same time, a large share of the population prioritizes daily consumption needs when using financial resources. In particular, more than half of respondents immediately convert incoming funds-such as remittances-into cash and do not retain them as savings. This tendency is explained by the lack of basic skills in personal financial planning, budgeting, and financial risk assessment. Although interest in forming personal savings remains relatively high, insufficient financial awareness prevents the population from translating this intention into practice, thereby limiting opportunities to initiate entrepreneurial activities [25].

2. Excessive Borrowing Practices

Recent analyses indicate a sharp increase in the number of loans held by the population. According to data from the Central Bank, approximately 33 percent of the economically active population-around 5 million individuals-hold at least one bank loan, while more than 27 percent of borrowers have two or more loans. This situation increases the risk that individuals rely heavily on credit rather than personal funds and initiate business projects without comprehensive financial analysis.

In many cases, loans are obtained without a well-developed business plan or proper risk assessment, resulting in significant interest burdens and financial difficulties at the early stages of entrepreneurship. Reports from the Central Bank indicate a growing debt burden among citizens, particularly due to the expansion of microcredit and informal lending, which reinforces "debt-on-debt" mechanisms within the banking system. Such dynamics may lead to improperly launched entrepreneurial activities and a loss of business sustainability.

3. Insufficient Financial Planning

In Uzbekistan's small and medium-sized enterprise sector, shortcomings in financial planning, maintaining a balance between revenues and expenses, and accurately determining capital requirements often lead to operational challenges. According to the World Bank Enterprise Surveys, a substantial share of entrepreneurial entities in Uzbekistan commence operations with business plans that lack detailed calculations and substantiated assumptions, resulting in liquidity constraints and difficulties related to capital recovery [26].

Failure to Assess Entrepreneurial Risks: Consequences and Empirical Evidence

Due to insufficient financial literacy, entrepreneurs often fail to identify and mitigate risks in advance, which contributes to an increasing number of business closures. Notably, in 2024 alone, nearly 115,000 small business entities exited the market in Uzbekistan, representing a decline of more than 20 percent compared to 2023. This trend constitutes a significant loss not only for entrepreneurs themselves but also for employment, tax revenues, and local economic development.

Inadequate and delayed risk assessment is considered one of the key factors contributing to the vulnerability and crisis of small businesses in Uzbekistan. According to the results of the National Survey on Financial Inclusion and Literacy conducted by the Central Bank and the Asian Development Bank (ADB), 62 percent of respondents reported insufficient consideration of market conditions and risks when making financial decisions. This finding indicates that entrepreneurs frequently overlook factors such as changes in market demand, competitive dynamics, and customer indebtedness.

In recent years, the development of small businesses has become one of the priority directions of state economic policy in Uzbekistan. Small enterprises play a vital role in economic growth, employment generation, and the activation of local markets. In this context, analyzing changes in the number of small business entities during the period 2020–2025 is essential for understanding the dynamics of ongoing economic processes (Table 4).

Table 4. Number of small business entities operating

№	Regions	2020	2021	2022	2023	2024
1	**Republic of Karakalpakstan**	14677	18288	19998	22863	22066
2	**Andijan Region**	25807	31683	34999	39038	24381
3	**Bukhara Region**	19981	24809	27690	30082	27594
4	**Jizzakh Region**	14011	17725	19463	22474	16677
5	**Kashkadarya Region**	20304	25297	31152	36421	27980
6	**Navoi Region**	14885	17931	20472	22844	19539
7	**Namangan Region**	21461	26531	28949	32305	23136

№	Regions	2020	2021	2022	2023	2024
8	**Samarkand Region**	25643	33114	40724	47943	37398
9	**Surkhandarya Region**	15509	21563	24395	27368	20589
10	**Syrdarya Region**	11026	13360	13808	15036	11217
11	**Tashkent Region**	32602	40223	44156	49145	38953
12	**Fergana Region**	29300	36117	40403	46350	36238
13	**Khorezm Region**	15453	18875	21984	25616	23854
14	**Tashkent City**	74108	85687	94641	106071	87458
	Total	334767	411203	462834	523556	417080

Based on the presented table, the dynamics of the number of active small business entities in Uzbekistan during 2020–2024: a regional analysis

During the period from 2020 to 2023, the number of small business entities in Uzbekistan demonstrated a stable growth trend nationwide. In particular, while 334,767 small business entities were registered in 2020, this figure increased to 523,556 by 2023, representing a growth of 56% over three years. However, in 2024, the number declined to 417,080, indicating a noticeable decrease.

Regional dynamics. A regional breakdown shows that Tashkent City consistently maintained a leading position throughout the analyzed period. In 2020, 74,108 small business entities were recorded in the city, and by 2023 this number had increased to 106,071. Nevertheless, in 2024 the figure declined to 87,458.

Significant growth was also observed in Samarkand (from 25,643 in 2020 to 47,943 in 2023), Fergana (from 29,300 in 2020 to 46,350 in 2023), and Andijan regions (from 25,807 in 2020 to 39,038 in 2023). However, these regions likewise experienced a decline in the number of small business entities in 2024. In particular:

in Kashkadarya region, the number of entities decreased from 36,421 in 2023 to 27,980 in 2024;

in Bukhara region, the figure fell from 30,082 in 2023 to 27,594 in 2024;

in Namangan region, a reduction was observed from 32,305 in 2023 to 23,136 in 2024.

In some regions, the decline reached 30–40%, which may be associated with challenges in the regional business environment, external shocks, and changing market conditions.

Overall, although a steady increase in the number of small business entities was observed nationwide during 2020–2023, the decline recorded in 2024 indicates the presence of certain structural and institutional challenges in this sector. This trend highlights the need for a more in-depth analysis, the implementation of measures aimed at improving the business environment, the enhancement of financial support mechanisms, and the introduction of region-specific, tailored policy approaches. In the long term, optimizing state policy based on empirical analytical results is essential to ensure the sustainable development of small businesses.

The aforementioned challenges continue to hinder the sustainable development of the entrepreneurial environment. They are largely rooted in key factors such as insufficient financial literacy, excessive borrowing, inadequate planning, and the failure to properly assess risks. Addressing these issues requires the implementation of systematic measures aimed at improving financial literacy among the population, fostering a sound credit culture, and promoting rational planning in entrepreneurial activities.

4. Conclusion

The conducted analysis, together with a review of international practices, demonstrates that insufficient financial literacy constitutes a significant barrier to the sustainable development of small businesses. It contributes to an increasing debt burden among the population, inadequate control over financial risks, and the underutilization of entrepreneurial potential. In particular, recent years have witnessed a noticeable decline in the number of active small business entities in Uzbekistan. At the same time, the growing demand for credit among the population has further exacerbated the situation. The fact that a substantial share of borrowed funds is directed toward consumption purposes, while personal savings remain insufficiently accumulated, represents one of the key indicators of a low level of financial literacy.

The experience of South Korea, Germany, and other developed countries suggests that the widespread implementation of financial education among the population serves not only to enhance individual financial stability but also to ensure overall macroeconomic resilience.

The research findings indicate that improving financial literacy should be viewed not merely as a means of raising the population’s economic awareness, but as a fundamental guarantee of national economic security and sustainable long-term development. Therefore, the formulation and implementation of a systematic, long-term, and innovation-driven state policy in this area is of critical importance.

Based on the problems analyzed above, enhancing financial literacy-particularly among young people and individuals intending to engage in entrepreneurial activity-along with reducing financial risks and developing sound financial planning skills, emerges as a pressing priority. To this end, the following systemic and practical policy recommendations are proposed:

1. Integrating financial education into the school and higher education systems

Empirical studies confirm that financial knowledge has a direct impact on individuals’ life and economic decisions. Accordingly, it is advisable to introduce mandatory courses such as *Personal Finance*, *Household Budgeting*, and *Investment and Risk Management* within secondary and higher education curricula. Such educational initiatives would foster financial responsibility, savings behavior, and strategic planning skills among the younger generation.

2. Organizing practical training programs for the general population

To promote financial knowledge among a broader audience, practical seminars and training programs play a crucial role. Training modules should be widely implemented in the following areas:

1. *Household finance and budgeting* - methods for planning and optimizing household expenditures;
2. *Small business planning* - practical skills in developing business plans for start-up entrepreneurs;
3. *Debt and risk management* - analysis of credit-related risks and strategies for their mitigation.

These training programs would contribute to the development of financial discipline among the population and enhance the ability to anticipate and manage risks in entrepreneurial activities.

3. Public awareness campaigns through mass media and social networks

In the contemporary information environment, social networks have become an effective tool for engaging with the population, particularly young people. Therefore, organizing large-scale media campaigns on financial literacy is of significant importance. This may be achieved through:

1. video-based educational content featuring financial experts;
2. the dissemination of infographics, quizzes, and practical financial tips;
3. the development of interactive content focused on personal finance issues.

Such initiatives can effectively attract public attention to financial matters and promote responsible financial behavior.

4. Grant and mentoring programs for youth and women

Enhancing entrepreneurial potential among the population, especially among young people and women, requires the provision of additional financial support and knowledge. For this purpose, initiatives such as:

1. *Youth Entrepreneurship Startup Programs*,
2. *Grants for Supporting Women's Businesses*,
3. *Mentorship Clubs*,

can be implemented to provide both financial and non-financial support. Mentors-experienced entrepreneurs or banking professionals-can offer guidance, practical advice, and leadership to aspiring entrepreneurs, thereby increasing the effectiveness and sustainability of entrepreneurial initiatives.

5. Expanding financial literacy through cooperation with banks and financial institutions

Commercial banks and financial institutions should become active participants in the promotion of financial education. In this regard, they may undertake the following measures:

1. Organizing open webinars for the public;
2. Developing simplified brochures explaining credit terms and conditions;
3. Introducing *financial advisory services* for clients.

Through financial education initiatives, banks not only enhance the creditworthiness of their clients but also reduce their own operational and credit risks by fostering more informed and responsible financial behavior.

Improving financial literacy among the population constitutes a fundamental prerequisite for initiating entrepreneurial activities and ensuring financial stability. A comprehensive approach that integrates education, practical training, mass media engagement, social programs, and the active involvement of banks can yield effective and sustainable outcomes. Through such systemic measures, a culture of financial responsibility can be cultivated, leading to a more stable and efficient entrepreneurial environment.

The analysis indicates that excessive reliance on debt, low income levels, inadequate financial planning, and the initiation of entrepreneurial activities without proper risk assessment frequently result in business failure. Addressing these challenges requires a systemic and integrated policy approach.

In this context, cooperation among government institutions, educational organizations, commercial banks, civil society institutions, and mass media plays a decisive role. By implementing a nationwide financial literacy strategy, targeted educational programs, large-scale training initiatives, and mentoring mechanisms, it is possible to foster a culture of economic independence and financial responsibility within society.

Ultimately, the formation of a cohort of financially literate and strategically oriented entrepreneurs will lay a solid foundation for the sustainable growth of the national economy.

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