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PROSPECTS FOR IMPROVING HUMAN CAPITAL AND LABOUR RELATIONS IN THE SMALL BUSINESS SECTOR

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Abstract

The paper applies scenario analysis to assess the prospects for improving human capital and labour relations in the small business sector of Uzbekistan up to 2030. Three scenarios inertial, moderate and accelerated are constructed, differentiated by the extent to which the organisational and economic mechanism of human capital development is implemented, and their assumptions and institutional conditions are substantiated. Forecast trajectories are calculated for the share of informal employment, the share of small and medium business in gross domestic product, the share of labour income and value added per employee. The calculations show that under the inertial scenario the officially established targets for 2030 are not attained, and that the decisive variable is the breadth of investment in employee training.

Keywords: Small business, human capital, labour relations, scenario analysis, forecast, informal employment, labour productivity, value added per employee.

Introduction

Decisions taken today in the field of human capital yield measurable results only after several years: a worker trained in 2026 affects productivity in 2029 or 2030, and an institutional rule introduced now changes employer behaviour only once it has become established practice. Under such conditions relying on a single forecast value is methodologically unsound, since the outcome depends less on the



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extrapolation of past trends than on which policy decisions are actually taken. It is therefore more appropriate to compare alternative development paths, each of which corresponds to a defined set of institutional conditions. This is the approach adopted in the present paper.

The forecast calculations combine the extrapolation of existing trends with expert judgement. Baseline values are taken from official data of the National Statistics Committee and the Ministry of Employment and Poverty Reduction for 2024–2026. The upper boundaries of the accelerated scenario are aligned with the targets established by Decree No. PF-50, so that this scenario represents the attainment of the official objectives rather than an arbitrary optimistic assumption. The variable that differentiates the scenarios is the extent to which the organisational and economic mechanism of human capital development is implemented, that is, whether its organisational, financial-economic, institutional-legal and information-monitoring blocks operate in isolation or as a system. The assumptions of the three scenarios are set out in Table 1.

Table 1 Assumptions and institutional conditions of the scenarios

Scenario	Principal assumptions	Institutional conditions
Inertial	Current policy continues without substantial change; no additional state incentive for training is introduced; the pace at which informal employment declines slows down	Only individual elements of the mechanism operate, chiefly administrative supervision instruments
Moderate	The measures of Decree No. PF-50 are partially implemented; incentives for formalising labour relations are introduced; vocational education reform continues	The organisational and institutional-legal blocks become operational; the meso level is partially formed
Accelerated	All four blocks of the mechanism are fully implemented; training vouchers and tax incentives are in force; the branch structure of the sector is diversified	The meso level is fully formed; a unified digital monitoring platform is put into operation



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The forecast trajectories of the two principal indicators up to 2030 are presented in Figure 1.

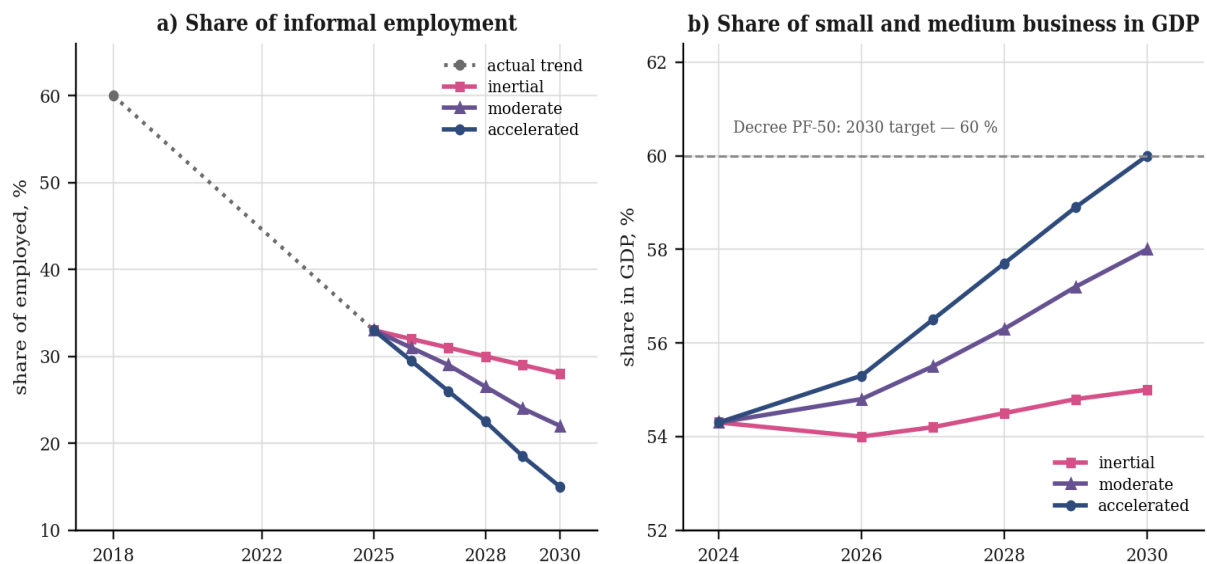


Figure 1. Scenario forecasts of the share of informal employment and of the share of small and medium business in GDP, 2025-2030

The first panel shows that the pronounced contraction of informal employment over the past seven years, from 60 to 33 per cent of the employed, was achieved primarily through administrative measures of formalisation. That resource is gradually being exhausted: under the inertial scenario the indicator falls only to 28 per cent by 2030. Further reduction depends on economic instruments that make formal status advantageous to both parties to the employment relationship access to social insurance and pension entitlements for the worker, and tax relief together with the legal capacity to recover training costs for the employer.



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The second panel indicates that under the inertial scenario the share of small and medium business in gross domestic product stabilises at around 55 per cent, so that the 60 per cent target set by Decree No. PF-50 is not attained. This is not primarily a consequence of an insufficient number of firms: the number of active entities has continued to grow. It reflects the slower growth of labour productivity in the sector compared with capital-intensive branches. The target can therefore be reached only under the accelerated scenario, in which productivity growth is driven by a broad expansion of investment in skills. The final outcomes of the scenarios for 2030 are summarised in Table 2 and Figure 2.

Table 2 Indicators forecast for 2030 under the three scenarios

Indicator	Baseline value	Inertial	Moderate	Accelerated
Share of informal employment, %	33.0 (2025)	28.0	22.0	15.0
Share of formal employment (of employed), %	55.0 (2025)	62.0	70.0	78.0
Share of small and medium business in GDP, %	54.3 (2024)	55.0	58.0	60.0
Share of labour income in household income, %	62.8 (2024)	63.0	66.0	70.0
Share of small firms that train employees, %	not measured	22.0	40.0	58.0
Value added per employee, 2025	100.0	118.0	141.0	165.0

The comparison shows that the widest divergence between the scenarios occurs in two indicators: the share of firms that train their employees, which ranges from 22 to 58 per cent, and value added per employee, which ranges from 118 to 165 relative to the 2025 base.



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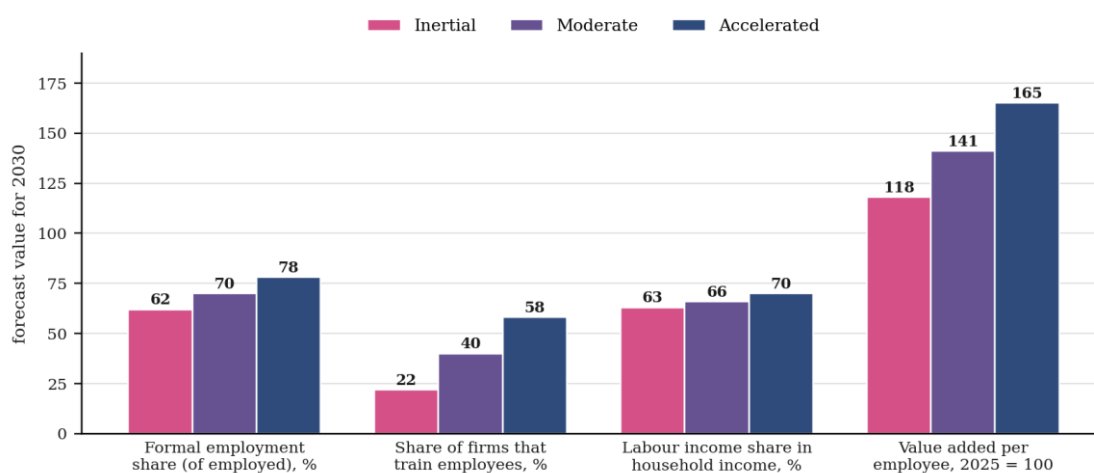


Figure 2. Comparison of the indicators forecast for 2030 under the three scenarios

These two indicators are directly related, which supports the proposition that investment in human capital is the principal source of productivity growth in the sector. By contrast, the divergence in the share of labour income is comparatively narrow, between 63 and 70 per cent, because this indicator is also shaped by macroeconomic factors the structure of the economy, the relative price of capital and the exchange rate that lie outside the scope of sectoral policy.

A methodological reservation should be noted. The share of firms engaged in employee training is not currently subject to regular statistical observation, so its baseline value could not be established and the scenario values for it are expert estimates rather than extrapolations. This limitation is itself indicative: an indicator that the scenarios identify as decisive is not being measured, which means that the effectiveness of policy in this area cannot at present be evaluated.



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Conclusions

First, the calculations indicate that under the inertial scenario the targets set for 2030 are not attained: the share of small and medium business in gross domestic product remains at approximately 55 per cent, and informal employment does not fall below 28 per cent.

Second, the administrative resource for reducing informal employment is approaching exhaustion. At the next stage administrative measures must be replaced by economic incentives – tax relief, training vouchers and social guarantees — that alter the calculation of both parties to the employment relationship.

Third, the realisation of the accelerated scenario depends on the breadth of investment in human capital: value added per employee increases by a factor of 1.65 only if the share of firms that train their employees reaches 58 per cent.

Fourth, the introduction of regular statistical observation of enterprise training activity is a precondition for evaluating policy in this field, since the indicator identified by the analysis as decisive is not currently measured.

Fifth, the scenario projections presented here do not constitute an official forecast but an analytical basis for decision-making. Improving their accuracy will require the construction of a firm-level database, which is the intended direction of further research.

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