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STRATEGIC DIRECTIONS FOR DEVELOPING HUMAN CAPITAL AND LABOUR RELATIONS IN THE SMALL BUSINESS SECTOR

Ulugmuradova Nodira Berdimuradovna

Associate Professor, Sharof Rashidov Samarkand State University

nodi_79.79@mail.ru

Abstract

The paper substantiates the strategic directions for developing human capital and labour relations in the small business sector of Uzbekistan. Drawing on official statistics for 2024-2026, a SWOT analysis of the sector is carried out, and the resulting combinations of internal and external factors are interpreted in order to identify priorities. A matrix linking existing problems, strategic directions and measurable outcomes is developed. Six priority directions with target indicators for the period up to 2030 are proposed, three of which correspond to officially approved targets while three are substantiated by the author. The implementation of the directions is structured as a three-stage roadmap in which the institutional foundation precedes financial incentives.

Keywords: Small business, human capital, labour relations, strategic direction, SWOT analysis, roadmap, informal employment, target indicator, vocational training.

Introduction

Presidential Decree No. PF-50 of 19 March 2025 sets out the principal targets for the sector: raising the share of small and medium business in gross domestic product to 60 per cent by 2030, creating more than two million new jobs and increasing exports beyond 20 billion US dollars. Whether these targets are met



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depends far less on the number of newly registered firms than on how productively the sector uses the labour it already employs. Human capital and labour relations must therefore be addressed as a coherent strategy rather than as a set of isolated support measures.

The reason why the required investment in skills does not occur spontaneously is well established in the economic literature. Becker's distinction between general and firm-specific human capital implies that an employer has little incentive to finance general training, since a trained worker may move to a competitor and the returns cannot be fully appropriated. In small firms this externality is amplified by three circumstances: the firm employs few people and therefore cannot spread the fixed costs of designing a training programme; it operates in segments with high labour turnover; and it frequently engages workers without a formal contract, which removes any legal basis for recovering training costs. Market mechanisms alone cannot resolve this configuration, which is why the problem is institutional in nature and requires a strategic response.

The study applies SWOT analysis, systems and programme-target approaches, and the method of constructing a problem-direction-outcome matrix. The empirical basis comprises data of the National Statistics Committee of the Republic of Uzbekistan for 2024-2026, reports of the Ministry of Employment and Poverty Reduction, analytical studies of the United Nations Development Programme and the Center for Economic Research and Reforms, and the relevant legal acts. Target values are aligned, where officially established, with Decree No. PF-50.

Identifying strategic directions requires a prior assessment of the internal and external position of the sector. The results of the SWOT analysis are presented in Table 1.



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Table 1 SWOT analysis of human capital and labour relations in the small business sector

Strengths (S)	Weaknesses (W)
• A young and growing labour force • High contribution of small business to total employment • Large number of active entities 1,208.3 thousand as of 1 April 2026 • Substantial state resources allocated to entrepreneurship support	• High informal employment 33 % in October 2025 • Absence of in-house training systems in small firms • Concentration of the sector in low-technology branches (21.8 % share in industry) • Declining share of labour income 62.8 % in 2024
Opportunities (O)	Threats (T)
• Target indicators established by Decree No. PF-50 • Reform of the vocational education system (Decree No. PF-190) • Digital platforms enabling low-cost distance training • Demonstrated results of the policy of formalising employment	• External labour migration of skilled workers 1.8 million people, or 12 % • Deepening skills mismatch • Contraction of low-skilled jobs through automation • Risk of renewed expansion of the informal sector

The interpretation of these combinations is instructive. The most productive pairing is that of weaknesses and opportunities: the weaknesses of the sector are institutional rather than resource-related, and the opportunities created by the 2025 decrees are themselves institutional instruments, which means the two can be matched directly. The most dangerous pairing is that of weaknesses and threats. If informal employment is not reduced while skilled workers continue to emigrate, the sector risks settling into a self-reinforcing low-skill equilibrium in which firms do not demand qualified labour because they operate in low value-



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added segments, and workers do not acquire qualifications because there is no demand for them.

Accordingly, each identified problem should be paired with a specific direction of action and with an outcome that can be measured (Figure 1).

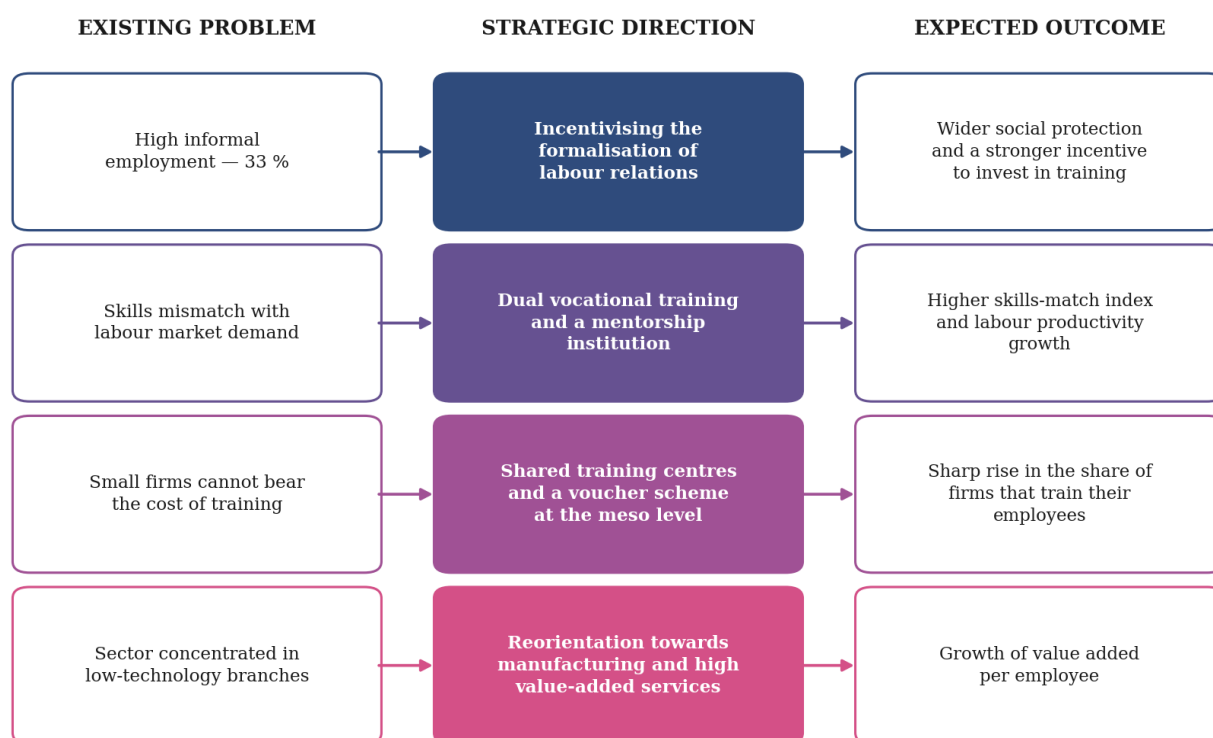


Figure 1. Matrix of problems, strategic directions and expected outcomes

The logic of the matrix rests on the interdependence of the problems. Under informal labour relations an employer has no guarantee of recovering the cost of training, and an untrained worker cannot be employed in higher value-added branches; conversely, as long as the sector remains concentrated in low-technology activities, the demand for qualifications stays weak. The directions must therefore be implemented in parallel rather than sequentially, since progress



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along any single one of them is constrained by the others. The baseline position and the targets for 2030 across the identified directions are summarised in Table 2.

Table 2 Strategic directions and target indicators for 2030

Nº	Strategic direction	Baseline position	Target for 2030
1	Incentivising the formalisation of labour relations	informal employment 33 % (2025)	reduction to 15-20 %
2	Aligning vocational education and skills with labour market demand	reform launched (Decree No. PF-190)	full introduction of the national qualifications framework
3	Diversifying the branch structure of the sector	share in industry 21.8 % (Q1 2026)	34 % (Decree No. PF-50)
4	Strengthening the role of small business in the economy	share in GDP 54.3 % (2024)	60 % (Decree No. PF-50)
5	Expanding employment and creating new jobs	employment share target – 75 % (2025)	more than 2 million new jobs (Decree No. PF-50)
6	Raising the share of labour income	62.8 % (2024)	increase to 68-70 %*

Two features of Table 2 deserve comment. First, the target for the first direction is deliberately ambitious relative to the inertial trend: on the current trajectory informal employment would fall to roughly 28 per cent by 2030, so a reduction to 15-20 per cent presupposes a change of policy instruments rather than a continuation of existing ones. Second, the sixth direction is included because the share of labour income functions as an indirect measure of the return on human capital: if skills improve while the labour share continues to decline, the gains accrue to capital rather than to workers, and the incentive for individuals to invest in their own qualifications weakens.



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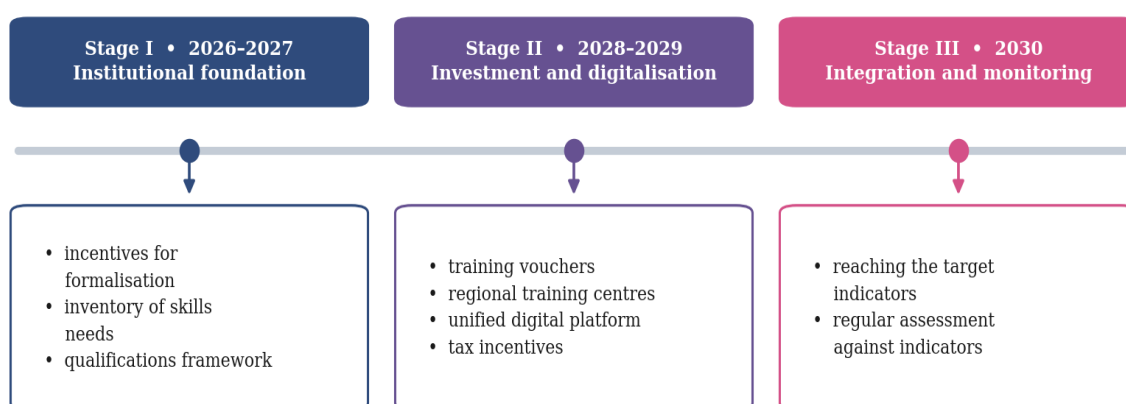


Figure 2. Roadmap for implementing the strategic

The implementation of the directions should be organised as a staged roadmap (Figure 2). The sequencing principle is that financial incentives introduced before the institutional foundation is in place tend to be absorbed without producing durable results: training subsidies disbursed in the absence of a qualifications framework and of a register of skills cannot be verified against any standard, and the funds are spent without measurable effect.

Conclusions

First, the SWOT analysis indicates that the principal obstacle to developing human capital in small business is not a shortage of resources but a set of institutional factors, namely the informality of labour relations and the absence of training systems within firms.

Second, the six strategic directions are mutually dependent, and implementing them separately will not produce the expected effect. Vocational education reform



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pursued without the parallel formalisation of labour relations will simply channel newly trained workers into the informal sector.

Third, the target of reducing informal employment to 15-20 per cent cannot be achieved by administrative means alone, since the potential of that instrument is gradually being exhausted. The next stage requires economic incentives that make formal status advantageous for the worker and for the employer alike.

Fourth, evaluating the strategy requires a system of intermediate indicators. Relying only on final targets for 2030 would leave no basis for corrective decisions during the intervening period.

Fifth, preserving the sequence of the roadmap institutional foundation, then financial incentives, then monitoring is a necessary condition for the efficient use of the resources allocated to the sector.

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