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Improving the Mechanisms for Attracting Local and Foreign Investment to Small Business (On the Example of Surkhandarya Region)

Bolliyev Shamsiddin Tursunmamatovich

1. Denov Institute of Entrepreneurship and Pedagogy

* Correspondence: shamsiddinbolliyev@gmail.com

Abstract: This article examines the current state of, and the organizational and economic mechanisms for, attracting local and foreign investment to small business entities in the Surkhandarya region of the Republic of Uzbekistan. Based on official statistical data for 2019–2025, the study analyzes the dynamics of investment in fixed capital, the inflow of foreign direct investment, and the contribution of small business to the gross regional product and employment of the region. The research applies a combination of statistical, comparative, correlation and SWOT analysis, supplemented by a questionnaire survey of small business entities. The results reveal a structural mismatch between the high share of small business in regional output and its low share in total investment inflow, as well as institutional, financial, infrastructural and informational barriers that constrain investment attraction in a border region. On this basis, the author proposes an improved organizational and economic mechanism comprising six interrelated blocks — institutional, financial, information-digital, infrastructural, human capital and risk-mitigation — coordinated through a regional council for investment and small business. The scientific novelty of the study lies in the substantiation of a regionally adapted investment attraction mechanism that takes into account the border location, agro-industrial specialization and transit potential of Surkhandarya region.

Keywords: small business, private entrepreneurship, local investment, foreign direct investment, investment climate, organizational and economic mechanism, regional economy, Surkhandarya region, Uzbekistan.

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1. Introduction

In the world economy, small business is recognized as one of the principal drivers of economic growth, innovation and employment. According to international estimates, small and medium-sized enterprises account for about 90 percent of all firms and more than half of employment worldwide, and in developing economies they generate up to 40 percent of gross domestic product. At the same time, the ability of small enterprises to grow, modernize and integrate into value chains critically depends on their access to investment resources. In the context of increasing global competition for capital, the improvement of mechanisms for attracting local and foreign investment to the small business sector has become a priority task of economic policy in most countries, and particularly in transition economies where regional disparities in investment distribution remain significant.[1][2]

In the Republic of Uzbekistan, the development of small business and private entrepreneurship is defined as a strategic direction of economic reforms. The Development Strategy of New Uzbekistan for 2022–2026 and the "Uzbekistan – 2030" Strategy set the tasks of increasing the share of the private sector in GDP to 80 percent, doubling the volume of foreign direct investment, and reducing interregional disparities in investment activity. A number of legislative and program documents — the Law of the Republic of Uzbekistan "On Investments and Investment Activity" (2019), the Law "On Special Economic Zones" (2020), as well as annual state programs and presidential decrees on improving the business environment — have created a substantially more favorable legal framework for investors. Nevertheless, the distribution of investment across regions remains uneven: the bulk of foreign investment is concentrated in the city of Tashkent, Tashkent region and several industrial regions, while southern regions, including Surkhandarya, attract a disproportionately small share of investment relative to their demographic and resource potential.[3][4]

Surkhandarya region occupies a special place in the economy of Uzbekistan. It is the southernmost region of the country, bordering Afghanistan, Tajikistan and Turkmenistan, and possesses considerable agro-climatic resources for the production of subtropical crops, significant mineral reserves, and a unique transit position on the routes connecting Central and South Asia through the Termiz transport hub. The share of small business in the gross regional product of the region exceeds two thirds, and its share in total employment approaches four fifths, which is above the national average. However, the investment supply of this sector remains insufficient: small business entities face constrained access to long-term credit, a shortage of prepared investment projects, weak collateral capacity, and limited awareness of foreign investors about regional opportunities. This contradiction between the high economic and social role of small business and its low investment endowment determines the relevance of the present study.[5][6][7]

2. Materials and Methods

The methodological basis of the study is formed by a systematic approach to the analysis of regional investment processes, according to which the mechanism of investment attraction is considered as a set of interrelated institutional, financial, infrastructural and informational elements functioning in a specific regional environment. The study combines quantitative and qualitative methods, which makes it possible to verify statistical conclusions with the assessments of economic entities themselves.[8][9]

The information base of the research consists of official data of the Statistics Agency under the President of the Republic of Uzbekistan and its territorial department for Surkhandarya region for 2019–2025; data of the Ministry of Investment, Industry and Trade of the Republic of Uzbekistan; reports of the Central Bank and commercial banks on lending to small business; normative legal acts of the Republic of Uzbekistan regulating investment activity; and analytical materials of international organizations (World Bank, UNCTAD, ADB). In addition, in 2025 the author conducted a questionnaire survey of 214 small business entities operating in Termiz city and the districts of Surkhandarya region, selected by stratified random sampling in proportion to the sectoral structure of the regional small business sector (agriculture and food processing — 34 percent, trade and services — 29 percent, industry and construction — 24 percent, transport and other activities — 13 percent).[10][11]

The following methods were used in the research process: statistical analysis of time series (growth rates, structural shares, base and chain indices) to assess the dynamics of investment and small business development; comparative analysis to juxtapose the indicators of Surkhandarya region with the national average and with neighboring regions; correlation analysis to measure the closeness of the relationship between investment inflow and the output of small business; SWOT analysis to systematize the strengths, weaknesses, opportunities and threats of the regional investment environment; the questionnaire survey method to identify barriers as perceived by entrepreneurs; and the method of logical-structural modeling to design the improved organizational and

economic mechanism. Data processing was carried out using spreadsheet and statistical software; the results are presented in the form of analytical tables and figures.[12]

3. Results

Small business plays a decisive role in the economy of Surkhandarya region. As of the beginning of 2026, more than 38 thousand small business entities were registered in the region, and over the analyzed period their number increased by almost one third. The main indicators of small business development in the region are presented in Table 1.

Table 1. Key indicators of small business development in Surkhandarya region, 2019–2025*

Indicator	2019	2020	2021	2022	2023	2024	2025
Number of operating small business entities, thousand units	29.1	30.4	32.2	34.1	35.8	37.2	38.4
Share of small business in gross regional product, %	72.4	71.8	70.9	69.7	68.8	68.1	67.5
Share of small business in total employment, %	81.2	80.6	80.1	79.4	78.9	78.3	77.8
Share of small business in industrial output, %	58.3	57.1	55.9	54.6	53.8	53.0	52.4
Share of small business in exports of the region, %	31.5	28.7	30.2	32.8	34.5	36.1	37.4
Small business entities per 1,000 population, units	11.4	11.7	12.2	12.7	13.1	13.4	13.6

*Compiled by the author on the basis of data of the Statistics Agency under the President of the Republic of Uzbekistan (stat.uz).

The data in Table 1 indicate two important tendencies. On the one hand, the small business sector of Surkhandarya region demonstrates stable extensive growth: the number of entities and their density per 1,000 population increase every year, and the export share of small business has grown noticeably since 2021, reflecting the expansion of fruit and vegetable exports and cross-border trade. On the other hand, the share of small business in the gross regional product and in employment is gradually declining, which is explained by the accelerated implementation of large investment projects in the energy, chemical and mining sectors of the region. This structural shift is natural for an industrializing region, but it also signals that the investment endowment of the small business sector is growing more slowly than that of large enterprises.[13][14]

The dynamics of investment in fixed capital and of foreign direct investment in the region are shown in Figure 1.

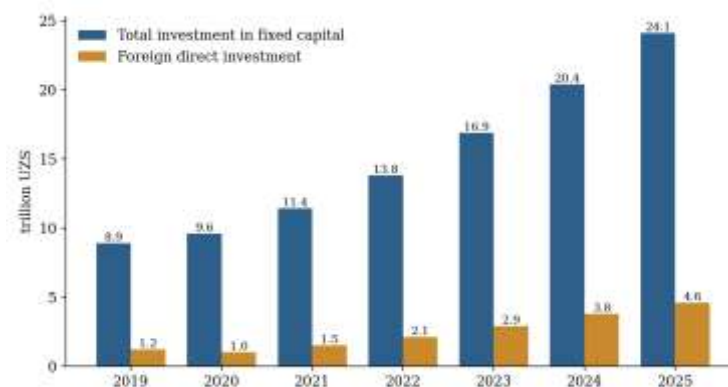


Figure 1. Investment in fixed capital and foreign direct investment in Surkhandarya region, 2019–2025, trillion UZS (compiled by the author on the basis of stat.uz data)

Over 2019–2025, total investment in fixed capital in the region increased approximately 2.7 times in nominal terms, and foreign direct investment grew almost fourfold, with a temporary decline in 2020 caused by the pandemic. However, the regional share in the national investment inflow remains modest: Surkhandarya region, with about 7.5 percent of the country's population, attracts an estimated 4–5 percent of total investment in fixed capital and less than 4 percent of foreign direct investment. Moreover, the sectoral analysis shows that more than 60 percent of foreign investment is concentrated in a small number of large projects, while the share of small business entities in the total volume of attracted foreign investment does not exceed an estimated 12–14 percent. Thus, a structural mismatch is observed: the sector that produces about two thirds of the regional product receives a disproportionately small part of investment resources.[15]

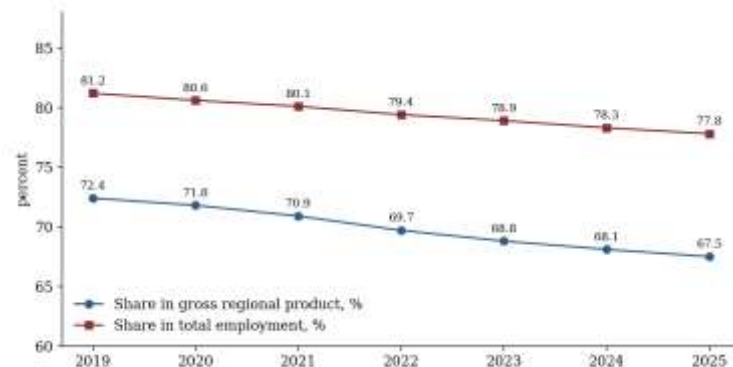


Figure 2. Share of small business in the gross regional product and employment of Surkhandarya region, 2019–2025, percent (compiled by the author on the basis of stat.uz data)

Correlation analysis of the time series confirms the close relationship between investment and the development of the small business sector: the coefficient of correlation between the volume of credit and investment resources allocated to small business and the output of the sector for 2019–2025 amounted to $r = 0.94$, and between total regional investment and the number of newly created small enterprises $r = 0.89$. Although the short length of the series requires caution in interpretation, these values are consistent with the theoretical premise that the growth of the regional small business sector is investment-constrained rather than demand-constrained.[16]

The structure of financing sources of small business investment in the region is presented in Table 2.

Table 2. Structure of investment financing sources of small business entities in Surkhandarya region, 2025, % of total*

Source of financing	Share, %	Reference: national average, %
Own funds of enterprises and entrepreneurs	54.8	47.5
Credits of commercial banks (including preferential programs)	27.6	31.9
State programs and funds (Entrepreneurship Development Fund, etc.)	9.1	9.6
Foreign direct investment and credits	5.2	7.8
Leasing, microfinance and other sources	3.3	3.2

*Author's calculations based on data of the Statistics Agency and the Central Bank of the Republic of Uzbekistan.

As Table 2 shows, more than half of small business investment in the region is financed from own funds, which exceeds the national average and indicates limited access to external capital. The share of foreign sources in the financing of regional small business (5.2 percent) is one third lower than the national average, despite the presence of the Termiz free economic zone, small industrial zones and the cross-border trade infrastructure. These data quantitatively confirm the existence of a regional "financing gap" of small business.

The questionnaire survey of 214 small business entities conducted by the author made it possible to identify the subjective hierarchy of barriers to investment attraction. The distribution of responses is presented in Table 3.

Table 3. Main barriers to attracting investment as assessed by small business entities of Surkhandarya region (share of respondents who named the barrier among the three most significant), 2025*

Barrier	Share of respondents, %
High collateral requirements and shortage of acceptable collateral	63.1
High cost and short maturity of credit resources	58.9
Lack of prepared investment projects and business plans of "bankable" quality	46.7
Insufficient information of foreign investors about regional opportunities	41.6
Shortage of production premises, land plots and engineering infrastructure	38.3
Complexity of permit procedures and frequent changes in regulation	29.4
Shortage of qualified personnel for investment projects	24.8
Perceived risks of the border location of the region	18.7

*Compiled by the author on the basis of the questionnaire survey ($n = 214$, multiple choice).

The survey results show that financial barriers (collateral, cost and maturity of credit) dominate, but they are closely followed by competence-related and informational barriers: almost half of the entrepreneurs are unable to prepare investment projects of the quality required by banks and investors, and more than 40 percent consider the region insufficiently visible to foreign investors. It is noteworthy that only 18.7 percent of respondents regard the border location as a risk factor, whereas in in-depth interviews the majority of exporting entrepreneurs assess the proximity to the markets of Afghanistan, Tajikistan and Turkmenistan as a competitive advantage.

Generalization of the statistical and sociological analysis in the form of a SWOT matrix demonstrates that the strengths of the region (agro-climatic resources, labor surplus, transit position of the Termiz hub, functioning free economic zone) and external opportunities (growth of regional trade in Central and South Asia, national programs of small business support, digitalization of public services) are counterbalanced by weaknesses (low collateral capacity of small business, underdeveloped project preparation infrastructure, weak international visibility) and threats (geopolitical instability in the neighboring region, competition of other regions for investment, climate-related water risks in agriculture). The mechanism of investment attraction should therefore be designed so as to convert the identified strengths and opportunities into actual investment inflow while systematically removing the internal weaknesses.

On the basis of the conducted analysis, the author proposes an improved organizational and economic mechanism for attracting local and foreign investment to small business in Surkhandarya region, the structure of which is presented in Figure 3.

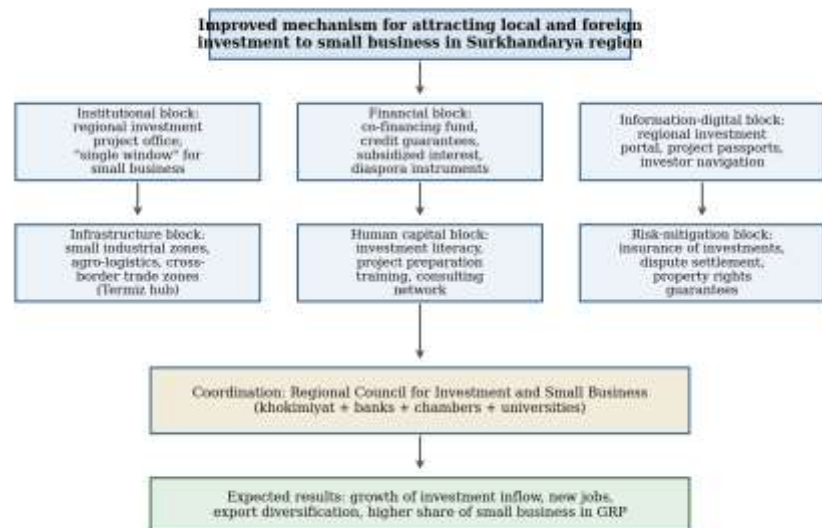


Figure 3. The improved organizational and economic mechanism for attracting local and foreign investment to small business in Surkhandarya region (developed by the author)

The proposed mechanism comprises six interrelated blocks. The institutional block provides for the creation of a regional investment project office operating on the "single window" principle for small business, which accompanies the investor and the entrepreneur from the initiation of the project to its commissioning. The financial block includes a regional co-financing fund formed with the participation of the state budget, banks and international financial institutions; the expansion of credit guarantee instruments to compensate for the collateral deficit; interest rate subsidies for priority sectors (food processing, textiles, tourism, logistics); and special instruments for attracting the funds of labor migrants and the diaspora into small business projects. The information-digital block envisages a regional investment portal with a continuously updated register of "project passports" of small business, interactive maps of vacant premises, land plots and infrastructure, and targeted promotion of the region at international investment forums. The infrastructure block covers the development of small industrial zones in districts, agro-logistics centers and cross-border trade zones based on the Termiz transport hub. The human capital block includes mass training of entrepreneurs in investment project preparation with the participation of regional universities and the formation of a network of accredited consultants. Finally, the risk-mitigation block combines investment insurance instruments, transparent dispute resolution procedures and guarantees of property rights, which are of particular importance for a border region.

The functioning of the mechanism is coordinated by a Regional Council for Investment and Small Business, which unites the khokimiyat, territorial departments of economic ministries, commercial banks, the Chamber of Commerce and Industry, and universities. Scenario calculations performed by the author show that the full implementation of the proposed mechanism would make it possible to increase the annual inflow of investment into the small business sector of the region by an estimated 1.6–1.8 times by 2030, to raise the share of foreign sources in the financing of small business from 5.2 to 9–10 percent, and to create over 25 thousand new permanent jobs.

4. Discussion

The results obtained are consistent with the international literature on the "financing gap" of small enterprises and at the same time reveal its specific regional configuration. As in the cross-country studies of Beck and co-authors, financial constraints in

Surkhandarya region affect small firms disproportionately; however, the survey demonstrates that in the regional context these constraints are inseparable from competence-related barriers: the low quality of project preparation reduces the effective demand of small business for available credit and investment products. This finding implies that purely financial instruments (preferential credit lines, subsidies), which have dominated national support programs, are necessary but not sufficient; they must be complemented by project preparation infrastructure and consulting, which is reflected in the human capital block of the proposed mechanism.[17]

The study also contributes to the discussion on the investment role of border regions. Contrary to the widespread perception of border location as predominantly a risk factor, the empirical data show that entrepreneurs of Surkhandarya region increasingly perceive proximity to the markets of South Asia as an opportunity, especially in the context of the development of trans-Afghan transport corridor projects and the growth of trade through the Termiz hub. This supports the conclusions of the new economic geography and place marketing literature that peripheral position can be converted into competitive advantage if it is supported by adequate infrastructure, institutions and targeted promotion. The proposed mechanism operationalizes this conversion through the infrastructure and information-digital blocks.[18]

At the same time, certain limitations of the study should be acknowledged. First, the statistical series covers only seven years, which limits the possibilities of econometric modeling and requires cautious interpretation of the correlation coefficients as indicators of association rather than proof of causality. Second, the questionnaire survey reflects the perceptions of entrepreneurs, which may deviate from objectively measured barriers. Third, the scenario estimates of the effects of the proposed mechanism are based on assumptions about the continuation of the current macroeconomic policy and regional stability. These limitations outline the directions of further research: the extension of the analysis to panel data of districts, the econometric evaluation of the effectiveness of individual support instruments, and the comparative study of investment attraction mechanisms in other border regions of Central Asia.[19]

5. Conclusion

The conducted research allows the following conclusions to be drawn. First, small business is the backbone of the economy of Surkhandarya region, producing about two thirds of the gross regional product and providing almost four fifths of employment; however, its investment endowment lags substantially behind its economic role: the sector receives an estimated 12–14 percent of attracted foreign investment, and more than half of its investment is financed from own funds. Second, the key barriers to investment attraction are of a complex nature and combine financial constraints (collateral deficit, cost and maturity of credit), competence-related constraints (shortage of "bankable" projects) and informational constraints (weak international visibility of the region), while the border location is increasingly perceived by entrepreneurs as an advantage rather than a risk. Third, the removal of these barriers requires not isolated measures but an integral organizational and economic mechanism adapted to the specific features of the region.

Proceeding from these conclusions, the following practical suggestions are substantiated: (1) to establish, under the khokimiyat of Surkhandarya region, a regional investment project office operating on the "single window" principle for small business, with branches in the districts; (2) to form a regional co-financing fund and to expand the coverage of credit guarantee instruments so as to reduce the collateral burden on small enterprises by at least one third; (3) to launch a trilingual regional investment portal with a register of project passports of small business and interactive maps of investment sites, integrated with national platforms; (4) to accelerate the creation of small industrial zones and agro-logistics centers in the districts and cross-border trade infrastructure based on the Termiz hub; (5) to organize, jointly with regional universities, a permanent program of training entrepreneurs in investment project preparation and to form a network of accredited consultants; and (6) to introduce regional instruments of investment risk insurance and to ensure transparent mechanisms for the protection of investors' rights.

The implementation of these suggestions within the framework of the proposed mechanism will make it possible to increase the investment inflow into the small business sector of Surkhandarya region by 1.6–1.8 times by 2030 and to transform the region's geographical position into a sustainable source of investment attractiveness.

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