

Insurance as a Risk Management Tool in the Transit Economy in the Context of Small and Private Entrepreneurship (The Case of Uzbekistan)

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Abstract: In the context of a transitional economy, characteristic of modern Uzbekistan, the development of effective mechanisms for managing economic risks becomes particularly important. The most vulnerable segment of the economy to external and internal shocks is the small and private entrepreneurship (SPE) sector, which plays a key role in forming the gross domestic product and ensuring employment. In this context, insurance is viewed as one of the most important tools for reducing uncertainty and ensuring the sustainability of economic activity. This article aims to comprehensively study insurance as an element of the risk management system in Uzbekistan, focusing on its impact on the sustainability and development of SPE. Based on the analysis of statistical indicators and institutional conditions of the insurance market, key trends and problems are identified, and measures are proposed to improve insurance mechanisms to enhance their role in supporting entrepreneurial activity amid economic transformations.

Keywords: transit economy, insurance, risk management, small business, Uzbekistan.

I. Introduction

Transitional economies, including Uzbekistan, are characterized by institutional instability, the simultaneous coexistence of planned and market system elements, and a high degree of economic uncertainty. The instability of the regulatory environment, limited access to financing, inflationary and currency risks, imperfections in property rights protection mechanisms, and a low level of maturity of financial institutions all increase the vulnerability of the entrepreneurial sector.

The small and private entrepreneurship (SPE) sector is particularly sensitive to these risks, which, despite its high share in gross domestic product (over 60% in 2023), faces resource limitations, low diversification of activities, and weak development of risk management systems. In such conditions, insurance becomes a crucial institutionalized mechanism for risk transfer, providing entrepreneurs with predictability of financial losses, maintaining liquidity, and resilience to external shocks.

As of February 1, 2025, Uzbekistan registered 431,500 active enterprises, of which 363,600 belong to the category of small businesses and micro-firms, reflecting an increase of 365.8% compared to the year 2000. One of the main indicators of success in this sector is its contribution to the national GDP. In 2000, small businesses accounted for approximately 31% of GDP, whereas by 2024, this figure had risen to 54.3%. Such positive dynamics illustrate the growing importance of entrepreneurial activity in the country's economy (Figure 1).

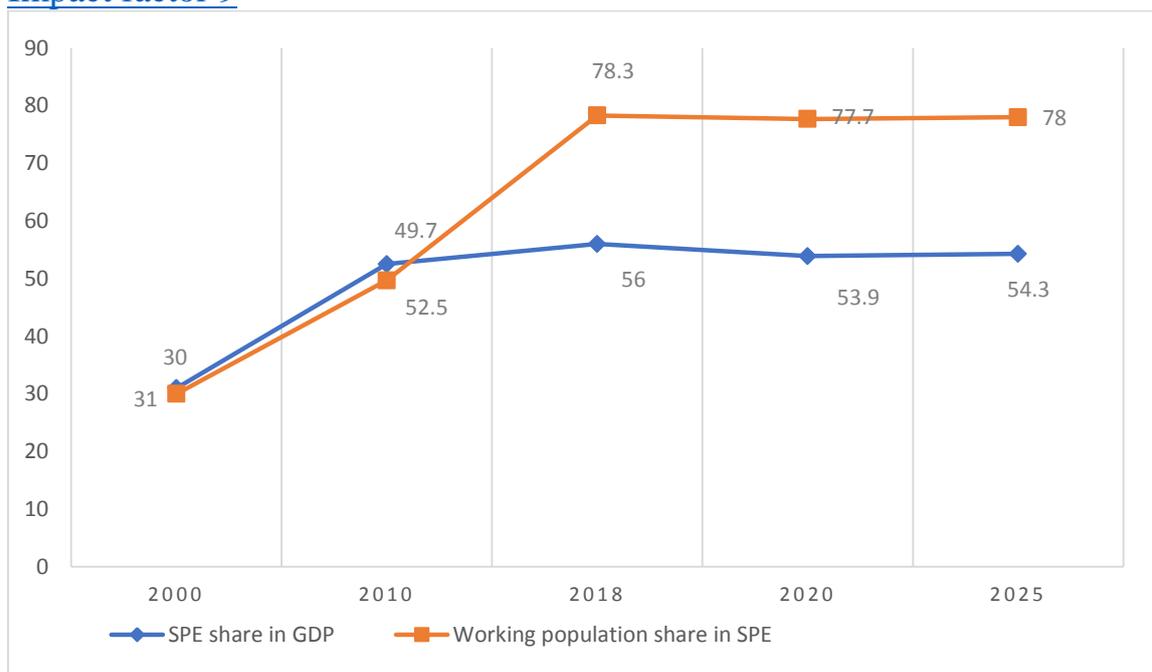


Figure 1. Share of Small Business and Private Entrepreneurship (SBPE) in Uzbekistan’s GDP and Employment (2000–2025).

Table 1. Average Share of SBPE in Uzbekistan’s GDP and Economic Sectors (2000–2025)

| Indicator | 2000–2005 | 2006–2010 | 2011–2020 | 2021–2025 |
|------------------|-----------|-----------|-----------|-----------|
| GDP (%) | 34.7 | 51.5 | 63.4 | 56.2 |
| Industry (%) | 12.1 | 18.6 | 37.8 | 28.8 |
| Construction (%) | 43.5 | 54.7 | 68.1 | 73.1 |
| Services (%) | 56.1 | 72.9 | 87.3 | 95.2 |
| Exports (%) | 7.9 | 14.3 | 23.7 | 25.3 |

Table 1 demonstrates the dynamics of small business and private entrepreneurship (SBPE) participation across various sectors of Uzbekistan's economy over four consecutive periods: 2000–2005, 2006–2010, 2011–2020, and 2021–2025. The data covers both macroeconomic indicators (contribution to GDP) and key industries such as manufacturing, construction, services, and exports.

The analysis of Table 1 reveals a substantial expansion of the role of SBPE across all key economic sectors of Uzbekistan between 2000 and 2025. The most pronounced progress is observed in the services and construction sectors, indicating a diversification of economic activities. Despite certain fluctuations, particularly in manufacturing and overall GDP contribution, the general trend remains positive. Sustaining this trajectory will require continued institutional reforms, enhanced access to financing, and technological advancement, particularly in export-oriented industries.

Transitional economies, such as Uzbekistan, are characterized by institutional instability, the coexistence of planned and market elements, and heightened economic uncertainty. Regulatory inconsistencies, limited access to financial resources, inflationary and currency risks, weak property rights protection, and underdeveloped financial institutions increase the vulnerability of the entrepreneurial sector.

The small business and private entrepreneurship sector (SBPE), despite its significant contribution to GDP (over 54% in 2025), remains particularly susceptible to these risks due to resource constraints, low activity diversification, and underdeveloped risk management systems. In

this context, insurance becomes a critical institutional mechanism for risk transfer, providing entrepreneurs with greater predictability of financial losses, maintaining liquidity, and enhancing resilience to external shocks.

Table 2. Dynamics of Insurance Services for Small Business and Private Entrepreneurship in Uzbekistan (2000–2025)

| Year | Insurance Premiums (UZS billion) | SBPE Share in Export Insurance (%) | Insurance Payouts (UZS billion) |
|-------|----------------------------------|------------------------------------|---------------------------------|
| 2000 | 50.0 | 5.0 | 12.5 |
| 2005 | 100.3 | 7.75 | 25.1 |
| 2010 | 201.9 | 10.5 | 75.0 |
| 2015 | 680.2 | 23.0 | 111.0 |
| 2020 | 1200.5 | 28.5 | 180.0 |
| 2025* | 2000.0 | 35.0 | 250.0 |

The data in Table 2 illustrates the steady growth and institutional development of the insurance sector for SBPE in Uzbekistan between 2000 and 2025. The increase in both insurance premiums and payouts, alongside the growing share of SBPE in export insurance, highlights the strengthening role of small businesses in the national economy and their increasing reliance on insurance protection. The 2025 forecast suggests continued positive dynamics, contingent on stable economic and regulatory conditions.

Significant progress has been made in the application of InsurTech solutions for SBPE risk insurance, notably:

- As of 2024, 70% of SBPE insurance policies were issued online;
- Mobile applications (e.g., UzInsurance, Gross Insurance) enable policy purchase within five minutes;
- AI-driven underwriting is actively used by insurers for expedited SBPE risk assessment.

For instance, by the end of 2024, the Export-Import Insurance Company "Uzbekinvest" JSC, leveraging modern technologies, provided insurance coverage for SBPE risks amounting to over UZS 63 billion, collected more than UZS 41 million in insurance premiums, and paid out approximately UZS 7 million in claims.

However, in Uzbekistan, insurance still only partially realizes its potential in the SPE sector. The level of insurance coverage remains low, which is explained by both institutional barriers (insufficient trust in insurers, fragmented regulation, weak protection of policyholders' rights) and behavioral factors—limited financial literacy and insufficient understanding of insurance functions. Thus, despite the objective need for the development of insurance tools, their application in managing small business risks remains limited, requiring systemic analysis, institutional reforms, and stimulating measures to activate the insurance market in a transitional economy.

II. Research Methodology

The study is based on the application of quantitative and qualitative analysis methods to assess the role of insurance in managing risks of small and private entrepreneurship in Uzbekistan from 2020 to 2024.

The empirical base included:

- Official statistical data from the National Committee of the Republic of Uzbekistan on Statistics;
- Analytical reports from insurance companies "O‘ZBEKINVEST" JSC, "APEX INSURANCE" JSC, "GROSS SUG‘URTA KOMPANIYASI" JSC, etc.;

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- International databases (World Bank, OECD, IMF);
- Regulatory legal acts governing the insurance market.

The following analytical approaches were applied:

- Descriptive statistics for analyzing the dynamics of the number of SPE entities, volumes of insurance premiums, and payouts;
- Calculation of key insurance indicators, such as:
 - Insurance density;
 - Insurance penetration;
- Comparative analysis of the regional structure of SPE insurance;
- Content analysis of regulatory acts regarding insurance regulation in the small business sector;
- Qualitative analysis of barriers based on the comparison of institutional factors and empirical data.

Research limitations are associated with limited data availability on SPE insurance and insufficient transparency in certain segments of the insurance market. Additionally, the lack of a uniform classification of insurance products for small businesses complicates the complete comparison of data at the international level..

III. Risks of Small and Private Entrepreneurship (SPE)

Since 2017, Uzbekistan has demonstrated accelerated rates of institutional and market reforms. However, the transition from a centralized to a market economy is accompanied by a number of problems, including weak legal protection for entrepreneurs, high inflation, currency fluctuations, imperfect financial infrastructure, and unstable business regulations.

Risk in economic theory is interpreted as the probability of an adverse or uncertain event that can cause actual economic results to deviate from expected parameters. It is an inherent characteristic of entrepreneurial activity, especially in conditions of market uncertainty, competition, and an unstable external environment.

For small and private entrepreneurship (SPE), risks become particularly significant, as limited resources and weak institutional support substantially reduce their ability to mitigate the consequences of adverse events.

Among the most common types of risks faced by small and private enterprises, the following categories can be highlighted:

1. Financial risks related to macroeconomic fluctuations, including inflationary processes, changes in exchange rates, interest rate fluctuations, and access to credit resources. Such risks directly affect the cost of production, liquidity of assets, and stability of financial flows of enterprises.

2. Production risks arising in the process of direct economic activity, such as equipment breakdowns, disruptions in technological processes, and interruptions in the supply of raw materials and materials. These factors can lead to downtime, reduced product quality, and increased costs.

3. Market risks caused by demand and supply dynamics, changes in consumer preferences, increased competition, and price instability. For SPEs, which do not have significant reserves or stable market positions, such risks can be critical.

4. Legal risks associated with changes in the regulatory framework, including tax, labor, environmental legislation, and administrative procedures. Often, for small enterprises, legal uncertainty becomes a barrier to development.

5. Environmental and force majeure risks, including natural disasters (fires, floods, earthquakes), technological accidents, and other emergencies. Given the limited insurance and reserve mechanisms of most SPEs, these risks can cause significant damage to their operations and even lead to complete cessation of activities.

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Despite the significant potential of the private sector in Uzbekistan, numerous factors affect the sustainability and development of SPE amid economic reforms. Institutional uncertainty, low levels of trust in state institutions, and insufficient maturity of financial mechanisms create risks that require special attention from both the state and businesses to ensure further growth and development of entrepreneurial activity. Thus, risks in the entrepreneurial environment of SPE act as a systemic factor requiring a comprehensive approach to management, including identification, analysis, assessment, and development of strategies to minimize potential losses.

IV. Risk Management in Entrepreneurial Activity

The risk management model within entrepreneurial activity represents a systematic approach to preventing or minimizing negative consequences arising from uncertainty and potential threats. It includes several key stages that allow for effective identification, analysis, and management of risks at various levels of the organization. Risk management can be represented as a sequence of logical steps:

Risk Management = Identification + Analysis + Assessment + Response.

Each of these stages plays its role in the risk management process, starting from the initial identification of threats and ending with making specific decisions on how to respond to the emerging danger. In this context, "Response" refers to strategies aimed at reducing the impact of risks, including several possible approaches:

1. Risk Avoidance - a strategy where the organization takes actions aimed at eliminating the risk or preventing its occurrence. For example, refusing high-risk business operations or changing strategies to eliminate sources of risk. This approach is most effective when the risk has a high probability and potentially catastrophic consequences.

2. Risk Reduction - involves implementing measures aimed at reducing the likelihood of negative events occurring or their impact on the organization. Examples include the introduction of innovative technologies, improving process quality, and enhancing control. The effectiveness of these measures is assessed using a methodology that analyzes the probability of an event occurring and the magnitude of its damage.

3. Risk Acceptance - when the risk cannot be significantly reduced or its consequences are considered acceptable for the business, the company may choose a risk acceptance strategy. This includes awareness of the potential threat and readiness to live with possible consequences if they are within acceptable limits. This approach is often used in situations where the cost of minimizing the risk significantly exceeds the potential damage.

4. Risk Transfer - the most common strategy among business entities, involving the use of external mechanisms such as insurance or outsourcing. Insurance represents a mechanism for transferring financial responsibility for risk from the organization to the insurer for a certain premium. In the event of an insured event, the organization compensates for its losses through payments from the insurance company, thereby limiting its financial risk.

V. Specifics of Uzbekistan's Transit Economy and the Role of SPE

Since early 2017, Uzbekistan has entered a phase of active economic reforms aimed at liberalization, development of market institutions, and support for entrepreneurship. These reforms cover a wide range of areas, including currency liberalization, tax system reform, improvement of the business climate, strengthening privatization and deregulation, as well as support for small and medium-sized businesses, which play a key role in the country's economy. Special attention is given to improving infrastructure, ensuring access to financial resources for entrepreneurs, and simplifying administrative procedures. However, despite the desire to improve macroeconomic stability and create favorable conditions for business, the processes of institutional reform are accompanied by a high degree of uncertainty and vulnerability for small and private enterprises (SPE). The difficulties faced by such enterprises include insufficient maturity of market institutions, weak legal regulation, instability of financial markets, and increased risks associated with the

introduction of new, sometimes not fully developed legislative initiatives. Moreover, in a transitional economy like Uzbekistan, risks for SPE significantly increase due to changes in the economic environment, frequent revisions of tax policy, and weak institutional support. Institutional uncertainty, the absence of effective dispute resolution mechanisms, and a lack of competencies in state bodies can significantly reduce entrepreneurs' trust and complicate their activities. Small and medium-sized enterprises also face challenges in obtaining long-term financing, high costs of borrowed funds, and instability in the macroeconomic situation. In such conditions, entrepreneurs are forced to adapt their strategies to the rapidly changing economic landscape, which increases their vulnerability to external and internal risks.

A comparison of key characteristics of Uzbekistan's economy as of 2024 allows for a deeper understanding of the scale of institutional challenges:

Table 1.
Key Characteristics of Uzbekistan's Transit Economy (as of 2024)

| Indicator | Value |
|-------------------------------|--------------|
| Share of SPE in GDP | 56% |
| Share of SPE in Employment | 75% |
| Insurance Premium per Capita | ~15 \$ |
| Number of Insurance Companies | 39 |

The share of small and private entrepreneurship in GDP (56%) and employment (75%) underscores the important role of this sector in the country's economy. However, it is also necessary to note that the high share of SPE is associated with existing challenges, such as limited access to financing, weak protection of property rights, and imperfections in the institutional environment.

The level of insurance premiums per capita, amounting to about 15 US dollars, indicates a relatively low level of involvement of the population and businesses in financial risk protection systems. This may be related to the underestimation of the importance of insurance in the business environment and insufficient awareness of its benefits. At the same time, the presence of 39 insurance companies in the market may indicate the initial stage of development of this sector, which needs further reform to enhance its efficiency and accessibility for small and medium-sized enterprises.

Despite the existence of a regulatory framework and a developing institutional infrastructure in Uzbekistan, the level of insurance penetration among small and private enterprises (SPE) remains extremely low. This phenomenon is particularly associated with a number of barriers that hinder the use of insurance services and impede their widespread adoption in the SPE segment. Currently, despite active attempts by the government to stimulate the insurance market, these barriers limit the availability and effectiveness of insurance products for small businesses, negatively affecting their ability to protect against risks and ensure long-term financial stability.

One of the main barriers is the low level of financial literacy among entrepreneurs. Most representatives of small businesses in Uzbekistan do not possess sufficient knowledge about the principles of insurance operation, its advantages, and ways to optimize risks through the use of insurance products. Financial illiteracy leads to a limited understanding of how insurance can be integrated into risk management and asset protection strategies, which reduces demand for insurance services. This, in turn, is confirmed by the absence of a culture of long-term planning and risk management among small enterprises, as well as a lack of specialized educational programs and consulting services.

Distrust in insurance companies, caused by a number of factors, is also an important barrier to the growth of demand for insurance products. Weak judicial protection of clients' interests, ineffective payout systems, and frequent cases of unscrupulous practices by insurers significantly undermine entrepreneurs' trust in the insurance industry. Low transparency of insurance processes and uncertainty regarding damage compensation issues enhance the perception that insurance is not a reliable protection tool. As a result, small enterprises prefer not to take risks, avoiding insurance

or opting for other risk minimization methods, such as creating internal reserves or relying on their own resources.

Another significant problem is the limited availability of insurance products tailored to the needs of small businesses. Currently, many insurance companies in Uzbekistan offer standard and universal products that do not always meet the specifics and needs of SPE. This may be due to insufficient market segmentation and a weak understanding of the challenges faced by small enterprises, such as unstable incomes, limited financial resources, and high vulnerability to external risks. Consequently, small enterprises often do not see insurance as a suitable tool for effectively protecting their business.

The insufficient level of digitalization and accessibility of insurance services also plays a key role in the low level of insurance penetration in the SPE segment. Modern digital technologies, such as online insurance and process automation, significantly enhance the accessibility and convenience of insurance products for businesses; however, in Uzbekistan, this process is developing slowly. Few small enterprises have access to digital platforms that allow them to quickly obtain information about insurance products, compare offers from different companies, or purchase policies online. As a result, many entrepreneurs do not utilize the opportunities that digitalization offers, preferring traditional channels that may be inconvenient and less effective.

Currently, less than 8% of small enterprises regularly use insurance products, which is a concerning indicator for economists and policymakers focused on increasing resilience and reducing risks in the SPE sector. Entrepreneurs primarily resort to mandatory auto insurance and property insurance, which are among the limited options within existing insurance offerings.

To increase the level of insurance among small and private enterprises, a number of measures need to be taken aimed at improving entrepreneurs' financial literacy, increasing trust in insurance companies, and developing specialized and flexible products that better meet the needs of small businesses. Additionally, accelerating digitalization processes and improving the accessibility of insurance services through online platforms will be important steps towards increasing SPE involvement in the insurance system.

To enhance the effectiveness of the risk management system and strengthen the role of insurance in Uzbekistan's entrepreneurial environment, a comprehensive implementation of targeted institutional, legal, and technological measures is required. Modern practices in countries with developed insurance markets demonstrate that sustainable development of the small and private entrepreneurship (SPE) sector is impossible without accessible and reliable insurance protection mechanisms. In the context of economic transformation characterized by a high degree of uncertainty, insurance should become not just a formal requirement but an important tool for ensuring business resilience and preserving its assets.

VI. Key Directions for Strengthening the Role of Insurance in Risk Management of SPE in Uzbekistan

1. One of the top priorities is the formation of insurance products tailored to the specifics of small businesses. This includes:

- Microinsurance designed for individual entrepreneurs and microenterprises, with low premiums and simplified application procedures;
- Agricultural insurance aimed at protecting farmers and agricultural cooperatives from risks related to climatic and biological factors;
- Income loss insurance, especially relevant in the context of supply chain disruptions, economic shocks, or emergencies. Such products should be developed considering the local risk profile and operational specifics of SPE, which will enhance their attractiveness and practical usefulness.

2. Creation of public-private partnership (PPP) mechanisms in risk insurance. An effective tool for stimulating demand for insurance services among SPE may be the participation of the state in the form of:

- Subsidizing insurance premiums for vulnerable categories of entrepreneurs;
- State guarantees for certain types of insurance (e.g., for exporters or startups);
- Establishing reinsurance funds with state participation aimed at reducing risk for insurers

when working with small businesses. This approach has already proven effective in several countries (e.g., India and Mexico) and helps expand insurance coverage to previously inaccessible categories of entrepreneurs.

3. Implementation of digital insurance platforms. Increasing the accessibility of insurance requires the introduction of innovative digital solutions, such as:

- Online platforms for policy issuance and administration;
- Mobile applications with features for premium calculation, filing claims, and tracking payouts;

• Electronic integration with tax and banking systems for automatic data verification. Digitalization is particularly significant in the context of regional development, where physical access to insurance offices may be limited.

4. Increasing the legal protection level of policyholders. A deep reform of the insurance dispute resolution system is necessary, including:

- Establishing specialized arbitration or mediation bodies for insurance cases;
- Enhancing the transparency of insurance companies' operations through mandatory disclosure of information on payouts, refusals, and complaints;
- Developing pre-trial dispute resolution mechanisms (insurance ombudsman).

Strengthening the legal environment will increase trust in insurance and stimulate SPE participation in the insurance market.

5. Enhancing insurance culture and financial literacy among small business entities. A comprehensive public-private program is needed to improve insurance culture and financial literacy among SPE, focusing on:

- Understanding insurance not as an expense but as an investment in business resilience;
- Training on risk assessment principles and rational selection of insurance products;
- Integrating educational modules into SPE support programs, business incubators, and accelerators.

The comprehensive implementation of these measures will not only increase the level of insurance penetration in the SPE sector but also transform insurance into a key tool for sustainable economic development and adaptation of entrepreneurship to risks amid ongoing institutional reforms.

VIII. Conclusion

In the context of institutional transformation characteristic of Uzbekistan's transitional economy, the development of effective mechanisms for managing entrepreneurial risks becomes an integral element of sustainable economic growth. In this context, insurance serves not only as a financial tool for risk redistribution but also as an important factor in strengthening entrepreneurial activity, ensuring predictability in the business environment, and enhancing the investment attractiveness of the small and private sector.

The analysis shows that despite the existence of a regulatory framework and positive reform dynamics, the level of insurance service penetration in the SPE segment remains extremely low. The main barriers include low financial literacy, weak digitalization of the insurance market, limited availability of specialized insurance products, and institutional distrust of insurance organizations. As a result, insurance is perceived by entrepreneurs as a formal obligation rather than a strategic risk management tool.

To enhance the effectiveness of insurance protection and its integration into the support system for SPE, the following priority directions need to be implemented:

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- Development of targeted insurance products tailored to sectors with a high degree of vulnerability (agriculture, crafts, microenterprises);
- Formation of public-private partnership mechanisms, including subsidizing insurance premiums, guaranteeing risks, and creating reinsurance funds with state participation;
- Digitalization of the insurance sector, expanding SPE access to online insurance, mobile platforms, and automated services;
- Massive financial literacy programs aimed at fostering a culture of conscious risk management.

Insurance can become a key element of the infrastructure for sustainable development of small and private businesses in Uzbekistan. Its integration into the national entrepreneurship support system will ensure the formation of a more stable, inclusive, and resilient economic model capable of withstanding both internal and global challenges. Further research may focus on developing econometric models to assess the impact of insurance on the survival of small and medium-sized enterprises (SMEs), as well as comparative analysis of the effectiveness of insurance programs in other transitional economies.

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