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THE ROLE OF SMALL ENTERPRISES IN PROMOTING ECONOMIC GROWTH AND SOCIAL WELFARE

ABSTRACT

The objective of this study was to identify the ways in which small businesses influence the socio-economic development of a country, and to develop recommendations for promoting such development using the Republic of Kyrgyzstan as a case study. The recommendations and the conducted analysis were based on the study of statistical data reflecting the functioning of Kyrgyzstan's economy, the state of the labour market, and the situation of small businesses in the country. The recommendations were also informed by the experiences of India, Malawi, and Zimbabwe. The research found that Kyrgyz small businesses contribute to the country's economic development through their involvement in sectors such as trade, agriculture, hospitality, and contracting services, collectively accounting for approximately 9% of national output. Furthermore, small enterprises generate employment (approximately 2% of total employment), thereby increasing job availability and consequently reducing both poverty (29.8%) and extreme poverty (5.1%) across the country. The study identified two major challenges facing small businesses in Kyrgyzstan: limited access to finance and a low level of finan-

cial literacy among the population. These challenges significantly impact the capacity of small enterprises to contribute to the country's socio-economic development. As a result, addressing these issues has emerged as a priority for the government in its efforts to enhance the efficiency of national economic operations and improve the social welfare of the population. In practical terms, the implementation of programmes to promote social entrepreneurship, with components aimed at improving the financial literacy of small business personnel, is essential. It is also advisable to introduce measures for establishing collective financing clusters and systems of mutual guarantees between large and small enterprises. These findings are of both academic and practical value, as the measures proposed serve as direct policy recommendations for the Government of Kyrgyzstan.

KEYWORDS: national economy, employment, social resilience, financing, financial literacy

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1. Introduction

Following the declaration of independence by the Republic of Kyrgyzstan, the country's socio-economic situation significantly deteriorated. Despite government efforts aimed at national development, the situation continues to necessitate intervention to simultaneously address social and economic challenges. The issues of continued economic development and the improvement of social welfare can be addressed through the development and enhancement of the small business sector in Kyrgyzstan. The relevance of this study lies in the exploration of strategies for economic growth and the improvement of the population's well-being in Kyrgyzstan, based on the successful experiences of other nations facing similar challenges.

The Republic of Kyrgyzstan, located in Central Asia, had a population of 7.1 million as of 2024¹. All post-Soviet countries began with similar initial conditions after the dissolution of the Soviet Union in 1991; however, their trajectories diverged significantly, resulting in varying levels of economic development and standards of living². Among former Soviet republics in Central Asia, Kyrgyzstan was the most proactive in reforming its national economy. Since gaining indepen-

¹ NATIONAL STATISTICAL COMMITTEE OF THE KYRGYZ REPUBLIC, *Population*, 2025b.

dence, the Kyrgyz government has pursued active policies aimed at attracting foreign direct investment and promoting the development of agriculture, industry, and the mining sector to achieve sustainable economic growth³. In 2024, Kyrgyzstan's gross domestic product (GDP) reached USD 15.77 billion, compared to USD 1.24 billion in 1999⁴. Inflation over the period from 1999 to 2024 fell from 35.9% to 5.1%, respectively⁵. However, despite these governmental efforts and the corresponding economic activity, Kyrgyzstan has not emerged as a leader in economic development within Central Asia or the post-Soviet space. Moreover, the social welfare of its population has declined⁶. In 2023, 29.8% of Kyrgyz citizens were living below the poverty line, and 5.0% were experiencing extreme poverty, meaning they were unable to afford an adequate level of food consumption. By contrast, in 2019, only 0.5% of the population fell into the category of extreme poverty⁷.

The impact of small enterprises on the economic and social development of nations has attracted considerable international scholarly attention. In an analysis of the influence of small and medium-sized enterprises (SMEs) on the economies of 28 countries – most of them EU member states – Batrancea et al.⁸ concluded that SMEs constitute the backbone of the economy regardless of a country's development level. Empirical evidence confirms that stimulating SME activity and improving working conditions through government policy can lead to increased economic growth. For instance, researchers Ozturk et al.⁹, examining the role of small businesses in China between 1998 and 2020, found that SMEs

2 T. HIROYUKI, E. ABDULLAEV, *Premature deindustrialization in post-Soviet economies*, MPRA Paper, 2022, No. 114413.

3 E. LEE, J.S. MAH, *Industrial policy and economic development of Kyrgyzstan*, *Asian Social Science*, 2020, 41–55.

4 STATISTA, *GDP in current prices in Kyrgyzstan (1992–2030)*, 2025a.

5 STATISTA, *Average inflation rate in Kyrgyzstan (1993–2030)*, 2025b.

6 STATISTA, *Growth in real GDP in Central and Eastern Europe and Central Asia (2023–2026)*, 2024.

7 NATIONAL STATISTICAL COMMITTEE OF THE KYRGYZ REPUBLIC, *Standard of Living of the Population... 2019–2023: Annual Publication*, 2024a.

8 L.M. BATRANCEA, M.A. BALCI, L. CHERMEZAN, O. AKGULLER, E.S. MASCA, L. GABAN, *Sources of SMEs financing and their impact on economic growth across the European Union*, *Sustainability*, 2022, 15318.

9 I. OZTURK, O. ALQASSIMI, S. ULLAH, *Digitalization and SMEs development in the context of sustainable development: A China perspective*, *Heliyon*, 2024, e27936.

facilitated the sustainable development of the Chinese economy. Analysing China's business environment and economic progress, Liu et al.¹⁰ observed that, following the SARS-CoV-2 pandemic, it was SMEs in the hospitality sector that contributed to an increase in national GDP. This was achieved through a revised credit policy and improvements in tax legislation.

In their study on Turkey, Erdin and Ozkaya¹¹ established that SMEs not only contribute to short-term economic growth but also ensure sustainable socio-economic development in the sectors where they operate. In the context of Saudi Arabia, Naushad¹² concluded that entrepreneurial leadership plays a vital role in SME productivity, with leadership development among entrepreneurs being a key factor. From a systematic review of the literature, Endris and Kassegne¹³ found that in Ethiopia, the active development of SMEs helped create jobs, reduce poverty, and improve living standards. Accordingly, SMEs are identified as a critical sector for sustainable national development. When examining the impact of SMEs on poverty levels in Indonesia, Nursini¹⁴ determined that micro- and small enterprises had a greater influence in alleviating poverty compared to small and medium enterprises. The reason lies in the capacity of micro and small businesses to reduce both the number of poor individuals and the poverty gap. Similar findings were reported by Manzoor et al.¹⁵ in their analysis of Pakistan. Notably, the most significant improvements in social welfare were observed in rural areas of developing countries.

There remains a significant gap in the development of targeted recommendations to improve SME operations and maximise their economic contributions in Kyrgyzstan. Considering the successful experience of other countries, Kyrgyz-

10 Y. LIU, A. DILANCHIEV, K. XU, A.M. HAJIYEVA, *Financing SMEs and business development*, *Economic Analysis and Policy*, 2022, 554–567.

11 C. ERDIN, G. OZKAYA, *Contribution of SMEs to economic development and quality of life in Turkey*, *Heliyon*, 2020, e03215.

12 M. NAUSHAD, *Investigating determinants of entrepreneurial leadership among SMEs*, *Journal of Asian Finance, Economics and Business*, 2021, 225–237.

13 E. ENDRIS, A. KASSEGNE, *The role of MSMEs to the sustainable development of sub-Saharan Africa and its challenges*, *Journal of Innovation and Entrepreneurship*, 2022, 20.

14 N. NURSINI, *Micro, small, and medium enterprises and poverty reduction: Evidence from Indonesia*, *Development Studies Research*, 2020, 153–166.

15 F. MANZOOR, L. WEI, N. SAHITO, *Role of SMEs in rural development*, *PLoS ONE*, 2021, e0247598.

stan has an opportunity to improve the current situation and raise the population's standard of living, which in turn will directly affect the country's overall economic development.

The aim of the present study was to analyse the impact of SMEs on the economic and social development of Kyrgyzstan and to develop measures to promote national development through the functioning of small businesses. The research pursued the following key objectives: to identify the main ways in which SMEs influence socio-economic development; to analyse principal statistical indicators characterising Kyrgyzstan's economic and social development; to identify the challenges faced by small businesses in the country that hinder social welfare improvements and economic progress; and to formulate recommendations for enhancing the operations of Kyrgyz small enterprises and their role in stimulating socio-economic growth.

2. Material and Methods

The methodology of this study was based on a combination of qualitative and quantitative approaches to maximise the synergistic effect of their integration. The qualitative component involved an analysis of the topic based on previous research – such as that of Abisuga-Oyekunle et al.¹⁶; Amoah et al.¹⁷; Patra and Muchie¹⁸ – and the experiences of other countries (India, Malawi, Zimbabwe). The quantitative component involved the examination of key statistical indicators. To address the research objectives and achieve the stated aim, the study was conducted in three stages.

At the first stage, statistical data were analysed to characterise the functioning of small businesses in Kyrgyzstan. This included: the number of small enterprises and the share of their gross value added in the country's GDP

16 O.A. ABISUGA-OYEKUNLE, S.K. PATRA, M. MUCHIE, *SMEs in sustainable development: Their role in poverty reduction and employment generation in sub-Saharan Africa*, African Journal of Science, Technology, Innovation and Development, 2020, 405–419.

17 J. AMOAH, J. BELAS, R. DZIWORNU, K.A. KHAN, *Enhancing SMEs contribution to economic development: A perspective from an emerging economy*, Journal of International Studies, 2022, 63–76.

18 S.K. PATRA, M. MUCHIE, *Science and technological capability building in Global South*, Innovation, Regional Integration, and Development in Africa, 2019, 303–338.

over the period 2001-2024^{19,20}; the sectoral distribution of small business contributions to GDP; as well as the percentage of exports and imports accounted for by small enterprises in the overall national trade during 2001-2024²¹. These data were essential for understanding the real impact of small businesses in the country, the dynamics of this impact over time, and the potential of small enterprises to foster economic development. Microsoft Excel was used to create graphical representations of the number of small businesses and their share of gross value added in GDP over time.

The second stage involved the analysis of key indicators of social development in Kyrgyzstan, including: the size of the resident population from 2011 to 2024²²; poverty levels from 2021 to 2023; and unemployment rates from 2019 to 2023²³. These indicators were necessary for assessing the potential influence of small enterprises on the population's social welfare. For a more detailed analysis, additional indicators were considered, such as the number of people employed in small businesses and the proportion of these employees within total national employment for the period 2002-2024. The analysis of these statistical data enabled an understanding of the contribution of small businesses to the national labour market and their potential to improve employment conditions.

Both single-year and time-series indicators were used in the analysis. To assess trends over time, the growth rate formula was applied (formula 1):

$$TPR = \frac{C_t}{C_b} \times 100\% - 100\%,$$

(1)

where C_t – indicator values for the current period, C_b – indicator values for the base period, TPR – the rate of indicator growth.

19 NATIONAL STATISTICAL COMMITTEE OF THE KYRGYZ REPUBLIC, *Key indicators of small and medium-sized businesses by territory in January–September, 2024b*.

20 NATIONAL STATISTICAL COMMITTEE OF THE KYRGYZ REPUBLIC, *Number, number of employees and gross added value of SMEs, 2025c*.

21 NATIONAL STATISTICAL COMMITTEE OF THE KYRGYZ REPUBLIC, *Main economic indicators of SMEs (percentage of total volume), 2025d*.

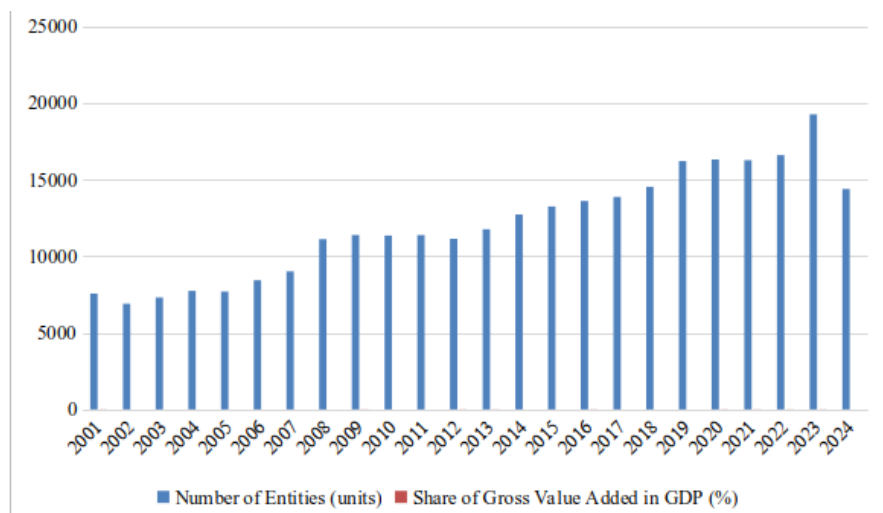
22 NATIONAL STATISTICAL COMMITTEE OF THE KYRGYZ REPUBLIC, *Number of permanent population by sex and age groups, 2022*.

23 NATIONAL STATISTICAL COMMITTEE OF THE KYRGYZ REPUBLIC, *Unemployment rate (in percent), 2025a*.

Following the assessment of the potential impact of small businesses on the socio-economic development of Kyrgyzstan, the third stage of the analysis involved an in-depth examination of the key issues hindering entrepreneurial activity in the country. Based on the identified challenges, a set of measures was proposed to improve the prevailing situation in Kyrgyzstan. The study also analysed the principal strategies considered appropriate for small Kyrgyz enterprises to operate effectively from the perspective of governmental economic development and improvements in population welfare. Due to the unavailability of official statistical data for 2024, the research utilised partial data from 2023 to ensure analytical reliability and continuity.

3. Results

In Kyrgyzstan, the classification of enterprises by size is based on the number of employees and the enterprise's operational turnover. According to the Law of the Kyrgyz Republic No. 73 "On State Support for Small Business"²⁴, a small enterprise is defined as one employing between 25 and 75 individuals (depending on the sector) with annual gross revenue not exceeding 8 million soms²⁵. Figure 1 depicts the dynamics of the number of small enterprises in Kyrgyzstan from 2001 to 2024, alongside the share of gross value added (GVA) in GDP.



24 KYRGYZ REPUBLIC, Law No. 73 "On State Support for Small Business", 2007.

25 KYRGYZ REPUBLIC, *Tax Code of the Kyrgyz Republic*, 2022.

Figure 1. Dynamics of small business entities and their contribution to GDP in Kyrgyzstan, 2001-2024

Note: the data on the number of entities for the period from 2001 to 2023 are presented for the full calendar year, while the data for 2024 cover the period from January to September.

Source: compiled by the authors based on National Statistical Committee of the Kyrgyz Republic (2024b, 2025c).

As shown in Figure 1, over the analysed period, the number of small business entities in the country has increased by 1.9 times. Notable upward trends in the number of operating small businesses were observed during 2002-2004 (growth rate of 12.12%), 2005-2009 (47.92%), and 2012-2020 (46.51%), followed by a further increase in 2021-2023 (18.41%). The highest number of small enterprises in Kyrgyzstan was recorded in 2023, reaching 19,245 units.

Figure 1 further illustrates that the gross value added by small enterprises in Kyrgyzstan increased more than 19.5-fold over the 2001-2023 period, from 5,982.8 million soms in 2001 to 116,944.8 million soms in 2023.

In many countries, the promotion of SMEs has proven to be an effective economic development strategy, subsequently becoming an essential mechanism for contributing to national GDP²⁶. For example, in 2024, the contribution of SMEs to GDP in India was 30.0%, in Zimbabwe 60% (2023), and in Malawi 27%^{27,28}. In Kyrgyzstan, this figure stood at 9.5% in 2023, marking a 1.4% increase since 2001.

Between January and September 2024, small enterprises in Kyrgyzstan were predominantly active in contract-based services. The volume of industrial output produced by small businesses increased by 17.1% compared to 2023, reaching 38,936.0 million soms in 2024. However, the share of small businesses in total industrial output decreased from 11.8% in 2023 to 11.6% in 2024, indicating a 0.2% reduction despite absolute growth. Compared to 2001, however, this represents a 1.6% increase.

26 M. SPANOV, K. NURGALIEVA, A. USSENOVA, *Theoretical and methodological bases of formation of petrochemical clusters*, Espacios, 2019, 40(14).

27 D. BATIZANI, N.R. NAYEJA, *Access to entrepreneurial finance in Malawi: Challenges and opportunities for start-ups*, Inverge Journal of Social Sciences, 2024, 45–62.

28 INTERNATIONAL TRADE CENTRE, *Promoting SME competitiveness in Zimbabwe*, ITC, 2023.

The growth rate of wholesale and retail trade volumes, including the repair of motor vehicles and motorcycles, was 22.1% in 2024 relative to 2023, reaching 340,635.0 million soms. The share of small enterprises in this sector also increased by 0.2%, totalling 32.8% in 2024. Compared to 2001, however, this share declined by 2.4%.

The volume of services rendered by small enterprises in the hotel and restaurant sector grew to 5,236.7 million soms in January-September 2024, compared to 4,166.7 million soms in 2023. Small businesses accounted for 18.2% of the total services in this category in 2024, up from 17.6% in 2023 – an increase of 0.6%, representing the largest gain in the sectoral share among all categories. Between 2001 and the first three quarters of 2024, this share grew by 13.9%.

The agricultural output of small Kyrgyz enterprises increased by 60.7% in 2024 compared to 2023, when it amounted to 3,258.3 million soms. Despite significant growth, their share of total agricultural production rose only modestly, from 1.2% in 2023 to 1.7% in 2024 – a 0.5% increase. Compared to 2001, this represents a 0.9% rise. These findings suggest that in Kyrgyzstan, small businesses primarily impact the trade, hospitality, and construction sectors, with a moderate influence on agriculture and industry. This statistical evidence supports the conclusion that SMEs play a vital role in the Kyrgyz economy and have the potential to significantly enhance the country's socio-economic standards.

Economic development remains both a challenge and a priority for governments in developing and developed nations alike. Economic development entails the accumulation of national wealth, which subsequently affects the economic, political, and social welfare of the population²⁹. Besides the government, SMEs are also deeply invested in this process, as such enterprises have become the foundation of development in many countries through poverty reduction, GDP growth, job creation, the supply of goods and services, innovation promotion, and corporate social responsibility.

29 K. LAVRUKHINA, V. TYTOK, A. BILOSHCYTSKYI, R. TORMOSOV, O. KALININ, O. MOSTOVENKO, *Research on the prospects and risks of digital economic transformation: Positive impact, key threats, and the role of clusters in the transformation of Ukraine's national economy*, SIST 2025 – 2025 IEEE 5th International Conference on Smart Information Systems and Technologies, Conference Proceedings, 2025.

Small enterprises are drivers of economic development through their capacity to generate employment and raise living standards³⁰. Increased employment leads to greater consumer spending, positively impacting national revenue. In such circumstances, imports tend to decline while exports grow due to rising domestic production levels³¹. The share of exports by small enterprises in Kyrgyzstan rose from 19.2% in 2001 to 30.7% in 2023 – a 59.9% growth. Meanwhile, their share in national imports increased from 42.0% in 2001 to 47.1% in 2023 – a growth rate of 12.1% over the same period.

The permanent population of Kyrgyzstan has been increasing annually. From 2011 to 2024, the population grew by 28.9%, reaching 3.6 million in 2024. However, the share of the working-age population declined from 63.6% in 2011 to 60.4% in 2024. This demographic trend presents a dual challenge: on the one hand, it creates pressure to expand labour production, while on the other, it fosters the risk of a growing unemployed population, adversely affecting overall living standards.

One of the central issues in Kyrgyzstan's development is the low standard of living. In 2023, the poverty rate was 29.8%, with 5.0% of the population living below the poverty line. In 2021, these figures stood at 20.1% and 0.5%, respectively (National Statistical Committee of the Kyrgyz Republic, 2024a). Job creation is a fundamental prerequisite for the country's economic development. Small enterprises have greater flexibility in generating employment opportunities than larger firms, as they can be established across diverse sectors of the national economy. SMEs, due to their labour-intensive nature, tend to create more jobs while requiring significantly lower capital investment compared to large corporations. This trend is particularly important for developing countries and those with high unemployment rates. As a result of SME activity, unemployment and poverty levels tend to decrease³². Between 2019 and 2023, the unemployment rate in Kyrgyzstan fell from 5.5% to 4.1%.

30 B.R. REXHEPI, *Impact of remittances on Kosovo's economic development and poverty reduction*, *Quality – Access to Success*, 2023, 24(195), 347–359.

31 G. MYSLIMI, K. KACANI, *Impact of SMEs in economic growth in Albania*, *European Journal of Sustainable Development*, 2016, 151–158.

32 B.A. MAOW, *The impact of SMEs on economic growth and job creation in Somalia*, *Journal of Economic Policy Researches*, 2021, 45–56.

The dynamics and structure of employment in small enterprises in Kyrgyzstan from 2002 to 2024 are presented in Table 1.

Table 1. Dynamics and structure of employment in small businesses in Kyrgyzstan, 2002-2024

Indicator	Year											
	2002	2004	2006	2008	2010	2012	2014	2016	2018	2020	2022	2024
Employment, thousand persons	41.7	41.7	44.8	52.9	50.2	50.0	52.0	52.2	56.6	69.0	58.9	60.0
Share of employed in total economically active population, %	2.3	2.2	2.1	2.4	2.2	2.2	2.3	2.2	2.2	2.8	2.3	-
Growth rate compared to the previous period, %	-	-	+7.4	+18.1	-5.1	-0.4	+4.0	+0.9	+8.4	+21.9	-14.6	+1.8

Note: data for 2001-2023 reflect full calendar years; 2024 data cover January-September.

Source: compiled by the authors.

As shown in Table 1, small enterprises accounted for 1.1 thousand more employed persons in the period from January to September 2024 than in the entire calendar year of 2022. For comparison, the growth rate of this indicator over the period from January 2002 to September 2024 was 43.88%. As illustrated in Table 1, despite this positive trend, the share of employment in small enterprises within the total employed population in the economy increased in 2023 and returned to the level observed in 2002, considering that in 2020 the same indicator was 0.5% higher.

Compared to small businesses, the share of the working population employed in medium-sized enterprises decreased by 2.2% during the period from 2001 to 2023. As of 2023, the share of employed persons in medium-sized enter-

prises was 1.5%, compared to 2.3% in small enterprises. Moreover, the rate of decline in employment in medium-sized enterprises in Kyrgyzstan from 2001 to January-September 2024 reached 43.74%. This once again highlights the crucial role that small business plays in the social dimension of Kyrgyz society, particularly in job creation and unemployment reduction.

Job creation, in turn, directly influences indicators of the population's social welfare, including quality of life, household income levels, and the social status of each citizen. Therefore, increases in household income improve living standards and contribute to poverty reduction. Small enterprises constitute a strategic mechanism for employment generation, poverty alleviation, and the establishment of sustainable employment³³.

In addition to creating jobs, it is important to emphasise that small businesses shape labour market conditions by offering the population opportunities for diverse forms of employment. These more flexible work arrangements encourage the active involvement of new employees. This particularly applies to working time regimes that are more attractive to various social groups, such as students, individuals engaged in multiple jobs simultaneously, or people with relatively low competitiveness in the labour market, including those without higher education. Flexible and diversified forms of labour include part-time employment, temporary work, casual work, as well as secondary employment and supplementary income-generating activities³⁴.

At the international level, researchers have noted that SMEs make a substantial contribution to corporate social responsibility (CSR), thereby fostering improvements in the environment in which they operate. The implementation of CSR practices in small businesses is significantly influenced by the United Nations Global Compact³⁵, one of the most prominent initiatives in the field of corporate sustainability. This document encompasses various CSR principles from

33 A. HAJIYEVA, A. HAJIYEVA, K. KHUDAVERDIYEVA, N. ATAKISHIYEVA, *Small and medium-sized businesses as a factor influencing the level of employment*, *Australasian Accounting, Business and Finance Journal*, 2025, 19(2), 120–143.

34 S. PORKODI, A.M. RAMAN, *Success of cloud computing adoption over an era in human resource management systems: A comprehensive meta-analytic literature review*, *Management Review Quarterly*, 2025, 75(2), 1041–1075.

35 UNITED NATIONS GLOBAL COMPACT, *The Ten Principles of the UN Global Compact*, 2025.

economic, social, and environmental perspectives. By adhering to this compact, enterprises commit to upholding established principles in the conduct of their core activities. The conditions for fulfilling these principles are uniform for all companies, regardless of their size, market significance, or operational experience. Thus, the United Nations Global Compact serves as an accessible guideline for every operating enterprise³⁶. The European Commission defines CSR as a concept by which enterprises voluntarily integrate sustainability principles into their operations while engaging with different stakeholders³⁷.

Each enterprise may choose to focus on one or more of the three pillars of sustainability – environmental, economic, and social – in its practical implementation. Entrepreneurs often combine these aspects into an integrated system. While some view CSR as an ethical issue, others consider it a stakeholder-driven approach based on stakeholder needs. Despite these varying perspectives on CSR adoption among entrepreneurs, a common element is evident: corporate responsibility towards all segments of society, including partners, consumers, employees, and others^{38,39}. Multiple definitions converge on the same core characteristics of CSR: its implementation goes beyond legal requirements; externalities (i.e., side effects of business activities) are controlled and internalised by the enterprise; the interests of a broad range of stakeholders are taken into account; and social and economic responsibilities are harmoniously balanced. Environmental and social values are embedded in the CSR strategy, which should prevail over mere philanthropic activities. Key thematic areas in strategic CSR management include legal, ethical, philanthropic, and economic concerns. In practice, this concept is governed by the ISO 26000:2010 standards⁴⁰.

36 A.M. FET, H. KNUDSON, *Implementing corporate social responsibility*, Encyclopedia of Sustainable Technologies, 2017, 125–130.

37 K. NOTI, F.M. MUCCIARELLI, C. ANGELICI, V. POZZA, M. PILLININI, *Corporate social responsibility and its implementation into EU company law*, Policy Department for Citizen's Rights and Constitutional Affairs, 2020.

38 A. TLEUBAYEV, S. KERIMKHULLE, M. TLEUZHANOVA, A. UCHKAMPIROVA, Z. BULAKBAY, R. MUGAUINA, Z. TAZHIBAYEVA, A. ADALBEK, Y. ISKAKOV, D. TOLEUBAY, *Econometric analysis of the sustainability and development of an alternative strategy to gross value added in Kazakhstan's agricultural sector*, Econometrics, 2024, 12(4), 29.

39 G.G. MAYIS, B.V. SHAHIN, G.T. SHAFI, A.J. YEGANA, O.S. MEHPARE, *Granger causality analysis of foreign trade impact on economic growth and some socioeconomic indicators: Case of Azerbaijan*, WSEAS Transactions on Business and Economics, 2021, 18, 276–283.

The adoption of CSR by small enterprises positively affects their market competitiveness by fostering stronger stakeholder relationships, which in turn leads to increased customer satisfaction and repeat purchases of goods, services, or works. Entrepreneurs not only shape and enhance social entrepreneurship but also promote the sustainable development of their enterprises while developing human capital⁴¹. In other words, small businesses contribute not only to economic growth but also to the accumulation of social wealth. Small enterprises possess the capacity to manage, generate income, and sustain their resources to ensure effective performance⁴².

Kyrgyz small enterprises are no exception in this regard. Given the challenges in Kyrgyzstan's social indicators, entrepreneurs should pay greater attention to the social component of CSR, thereby increasing their responsibility towards employees. This concerns both fair remuneration and professional development opportunities. One of the key challenges for small businesses in Kyrgyzstan is the level of financial literacy. Since knowledge is one of the main determinants of small enterprise development, SMEs should devote more attention to improving this aspect⁴³. Central Asian countries generally exhibit low levels of financial literacy. A large proportion of the population remains uninterested in acquiring information about the financial market, its opportunities, and services, despite the government's 2016-2020 programme to enhance financial literacy⁴⁴. For entrepreneurs who have already started or plan to start a business in the near future, financial literacy is one of the critical components for successful business operation. Therefore, the Kyrgyz government should take measures to minimise this issue and mitigate its impact on the performance of small businesses. Given that

40 ISO, ISO 26000:2010. *Guidance on social responsibility*, International Organization for Standardization, 2010.

41 M.-T. MÉNDEZ-PICAZO, M. GALINDO-MARTÍN, M.-S. CASTANO-MARTÍNEZ, *Effects of sociocultural and economic factors on social entrepreneurship and sustainable development*, *Journal of Innovation & Knowledge*, 2021, 69–77.

42 I.R. MAKSUM, A.Y.S. RAHAYU, D. KUSUMAWARDHANI, *Social enterprise approach to empowering SMEs in Indonesia*, *Journal of Open Innovation*, 2020, 50.

43 K. WACH, *A typology of small business growth modelling: A critical literature review*, *Entrepreneurial Business and Economics Review*, 2020, 159–184.

44 P.J. MORGAN, Y. ZHANG, D. KYDYRBAYEV, *Overview of financial inclusion, regulation, financial literacy, and education in Central Asia and South Caucasus*, ADBI Working Paper, 2018, No. 878.

small entrepreneurs often perform multiple managerial functions simultaneously, they require additional information, skills, and experience to solve business-related problems. Entrepreneurs also need knowledge to make effective decisions regarding accounting, planning, cash flow management, and cost calculation, all of which influence the overall efficiency of business operations⁴⁵. While larger enterprises can provide the necessary resources for staff training and skills development, small enterprises often lack such opportunities or access them to a minimal extent⁴⁶. Therefore, it would be advisable for the Kyrgyz government to develop a targeted programme to address this issue, thus facilitating future economic growth through more effective small business operations.

For the successful operation of SMEs, financial, human, and physical capital are essential, as these resources directly influence the business life cycle⁴⁷. The shortage of such resources results in the closure of approximately 85% of SMEs worldwide within the first five years of operation. This statistic is primarily due to entrepreneurs focusing on day-to-day survival in the market while simultaneously fulfilling multiple managerial roles. Despite their advantages and positive socio-economic impacts, small enterprises in Kyrgyzstan face a major challenge – difficulties in obtaining initial financing, which plays a decisive role in their further development.

In most cases, entrepreneurs launching small businesses rely on their own assets for investment. Unlike large companies listed on stock exchanges, which can issue shares and bonds to raise capital, small enterprises lack this opportunity due to their legal status⁴⁸. Consequently, banks become an essential source of financing for SMEs. However, factors such as the short duration of bank-entrepreneur relationships and low creditworthiness in the early years of operation affect

45 P.M. PANTEGHINI, *Tax evasion and entrepreneurial flexibility*, *Public Finance Review*, 2000, 28(3), 199–209.

46 P. RACHAPAETTAYAKOM, M. WIRIYAPINIT, N. COOHA ROJANANONE, S. TANTHANONGSAKKUN, N. CHAROENRUK, *The need for financial knowledge tools by small entrepreneurs*, *Journal of Innovation and Entrepreneurship*, 2020, 25.

47 V. VOLKOV, *The Russian ethnic minority in the organizational and entrepreneurial culture of Latvia*, *Ethnic Minorities: Cultural Perspectives, Stereotypes and Social Challenges*, 2025, 59–80.

48 S. ABBASOVA, M. ALIYEVA, L. HUSEYNOVA, *Accounting information transparency and business performance: A case of G7 construction companies*, *Problems and Perspectives in Management*, 2022, 20(4), 518–531.

access to credit, especially long-term loans⁴⁹. Although individual strategies for SME financing exist in the country, along with a formulated financial inclusion strategy, their practical impact remains limited. Therefore, both existing and newly registered small enterprises should actively seek additional funding to improve their infrastructure and organisational frameworks. Banks offer long-term loans for working capital, which is critical for business growth.

SMEs also derive substantial benefits from innovation, defined as the practical implementation of new ideas for improving products (services or works), the introduction of new products, new processes, entry into new markets, or the creation of new business models. Innovation is considered one of the key determinants of SME development. Contemporary SMEs focus on attracting and retaining new customers, which enables them to expand their client base and contribute to national economic growth⁵⁰. In pursuit of this goal, small businesses utilise innovation. For example, in Sub-Saharan Africa, innovation served as a launchpad for SME development and national economic advancement. Through continuous innovation, small businesses outperformed close competitors and secured their position in competitive markets⁵¹. Thus, SMEs contribute to sustainable economic development. Rapid digitalisation further accelerates this process. It is imperative that the Kyrgyz government considers this experience and fosters conditions conducive to innovation adoption in small businesses. This can be achieved through effective financing mechanisms. To this end, the Kyrgyz government should not only invest in multiple sources of venture capital for SME financing but also introduce fiscal incentives for investors. On the one hand, this entails developing robust support and motivation programmes for SMEs in their early stages. On the other hand, it is advisable to create conditions under which venture capital becomes more accessible to entrepreneurs.

49 Ş.C. GHERGHINA, M.A. BOTEZATU, A. HOSSZU, L.N. SIMIONESCU, SMEs: *The engine of economic growth through investments and innovation*, Sustainability, 2020, 347.

50 M. ALIYEV, M. GULIYEV, U. ABDULLAEV, L. HUSEYNOVA, G. AZIZOVA, *Strategies for improving the competitiveness of agricultural products and China's trade policy in the world market*, Scientific Horizons, 2024, 27(11), 129–140.

51 K.A. BISENOVNA, S.A. ASHATULY, L.Z. BEIBUTOVNA, K.S. YESILBAYULY, A.A. ZAGIEVNA, M.Z. GALYMBEKOVNA, O.B. ORALKHANULY, *Improving the efficiency of food supplies for a trading company based on an artificial neural network*, International Journal of Electrical and Computer Engineering, 2024, 14(4), 4407–4417.

To implement measures aimed at addressing the problems of SME financing and reducing barriers to accessing financial resources, it is advisable for Kyrgyz small enterprises to consider the experience of African countries in tackling similar challenges. In particular, initiating the strategy should begin with the strengthening of financial institutions, which can subsequently enhance the capacity of microfinance institutions offering services to small businesses⁵². Furthermore, the experience of several Asian countries may also prove useful, where the financial system was initially adjusted to address the financing issues of SMEs. These countries established clusters that support small enterprises in jointly seeking financial assistance. Additionally, such clusters offer the function of mutual guarantee. Owing to these clusters, SMEs gain access to loans with lower interest rates or can receive funding from a centralised agency responsible for the functioning of the cluster system. Another potential solution for accessing financial resources by Kyrgyz small businesses lies in fostering partnerships not with banking institutions but with large enterprises. As large enterprises possess greater capabilities and access to financial resources, the Government of Kyrgyzstan could develop a programme to incentivise large companies to support small businesses. This could be implemented through supplier networks. On the one hand, suppliers can deliver necessary resources, while on the other, they may serve as guarantors for loans provided to SMEs by financial institutions.

To prevent economic recession and rising unemployment, the Kyrgyz government should focus on creating conditions for a more effective SME financing system, on the one hand, and improving the financial literacy of entrepreneurs and the general population, on the other. Importantly, the implemented measures must be aligned with broader national programmes for economic and social development in Kyrgyzstan. In this way, the government can address two key challenges affecting the operation of small businesses and enhance the effectiveness of SMEs' contributions to the country's socio-economic development.

52 A.I. LEONOW, M.N. KONIAGINA, S.V. PETROVA, E.V. GRUNT, S.Y. KERIMKHULLE, V.G. SHUBAEVA, *Application of information technologies in marketing: Experience of developing countries*, Espacios, 2019, 40(38).

4. Discussion

Based on an extensive literature review and analysis of official statistical data, it can be asserted that small businesses in Kyrgyzstan play a pivotal role in the national economy. SMEs significantly impact the Kyrgyz economy as they hold a large share in the output of goods (works and services) in sectors such as trade, hospitality, and contract work, with a somewhat lesser influence in agriculture and industry. The findings also indicate that SMEs have a substantial effect on job creation and employment, thereby contributing not only to the improvement of the national economy but also to the social well-being of the population. Given the issues of high unemployment and poverty in Kyrgyzstan, the development of small business can address these problems and thus contribute to the enhancement of both the national economy and the population's well-being. The findings of the study indicate that, for the successful development of small enterprises in Kyrgyzstan and their subsequent positive impact on the country's socio-economic landscape, two principal challenges act as significant constraints in this process: limited access to financial resources for small entrepreneurs and a low level of financial literacy among the population of Kyrgyzstan.

The study identified two principal challenges that hinder the successful development of small businesses in Kyrgyzstan and their positive impact on the country's socio-economic development: limited access to financial resources for small entrepreneurs and a low level of financial literacy among the population. financial literacy in the population adversely affects the operation of SMEs and hampers the country's socio-economic progress. These findings contradict those of Frimpong et al.⁵³, who, while investigating the relationship between financial literacy and SME performance in Ghana, found that the relationship is indirect rather than direct. According to their research, financial literacy does not significantly influence the development of the national economy or social welfare indicators. However, the authors highlighted that access to digital finance has a direct and positive impact on SME outcomes, specifically enhancing productivity. This suggests that access to digital finance acts as a partial mediator

53 S.E. FRIMPONG, G. AGYAPONG, D. AGYAPONG, *Financial literacy, access to digital finance and performance of SMEs*, Cogent Economics & Finance, 2022, 2121356.

linking financial literacy and the productivity of small and medium-sized enterprises.

This study makes an important contribution to the existing literature, extending the research of Abduzhalieva et al.⁵⁴. Analysing the prospects for SME development in Kyrgyzstan within the green economy sector based on expert surveys, Abduzhalieva et al. concluded that SMEs became a strategic priority for the country's economic development in 2024. Sectors such as trade, hospitality, and agriculture are identified as the primary fields of SME activity in Kyrgyzstan. However, two major barriers reduce the operational efficiency of SMEs: difficulties in capital acquisition and challenges in attracting highly qualified personnel. These results fully align with the findings of the present study and further underscore the necessity of addressing the two main obstacles hindering SME growth – and by extension, the development of the national economy and public welfare.

In a study examining the constraints to SME operations in Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, Nizaeva and Coskun⁵⁵ concluded that access to finance is among the top three challenges faced by small businesses in Central Asian countries. Specifically, 9.4% of surveyed entrepreneurs cited financing as a major impediment. Other leading obstacles included high competition (12.0%), high taxation (10.7%), and corruption (9.7%). These findings partially correspond to those of the current study. However, only 6.7% of respondents identified an unskilled workforce as a significant constraint, whereas in the present study, this factor emerged as one of the primary barriers impeding SME functioning in Kyrgyzstan and its influence on socio-economic development.

To address SME financing challenges, the current study offers several recommendations for proactive government intervention. The most viable measures include developing state mechanisms to ensure access to long-term credit, providing fiscal incentives for investors, creating collective financing clusters, and implementing a system of mutual guarantees⁵⁶. Moreover, it is crucial to promote

54 E. ABDUZHALIEVA, T. DOLONOVA, N. MEYMANKULOVA, S. SAVINA, *Prospects for the development of small and medium-sized businesses in a green economy in Kyrgyzstan*, E3S Web of Conferences, 2024, 04009.

55 M. NIZAEVA, A. COSKUN, *Determinants of the financial constraint and its effects on SME growth in Central Asia*, Eurasian Journal of Business and Economics, 2021, 1–28.

56 I. MUKAMBAEVA, A. SAYAKBAEVA, N. AKYLBKOVA, N. MUKAMBAEV, A. ERMEKOVA, E. SHAMBETOVA, *Influence of the state investment budget on the Kyrgyz agricultural*

collaboration between SMEs and large enterprises by designing incentive schemes for large businesses to support small firms and engaging suppliers as credit guarantors – building on the successful experiences of African and Asian countries.

Other researchers have likewise identified financing difficulties as a principal constraint for SMEs globally. For example, Lam and Liu⁵⁷, investigating potential solutions to financial access issues, highlighted that access to financial resources remains a key problem for Chinese SMEs. Rajamani et al.⁵⁸, analysing challenges faced by micro, small, and medium-sized enterprises in India, reached similar conclusions, noting that financial constraints negatively affect SME operations and national economic growth. Comparable findings were reported by Zarrouk et al.⁵⁹ in the context of the United Arab Emirates (UAE) and by Chilembo⁶⁰ in his study of Lusaka, Zambia's capital.

In their examination of SME financing issues, Lam and Liu concluded that access to finance remains one of the most significant gaps for SMEs on a global scale. The authors noted that enhancing financial accessibility in combination with preventative measures – especially in rural areas – could partially resolve financing issues. Developing a robust financial infrastructure, including a unified credit registry, could improve SME lending⁶¹. These conclusions partially align with the findings of the present study, though this research did not distinguish between SMEs in urban and rural areas. Additionally, Lam and Liu advocate for expanding funding sources through the use of technology and indirect guarantees to improve SME access to finance.

sector through data analysis, SIST 2024 – 2024 IEEE 4th International Conference on Smart Information Systems and Technologies, Proceedings, 2024, 409–414.

57 W.R. LAM, Y. LIU, *Tackling SME financing in China*, *Annals of Economics & Finance*, 2020, 209–239.

58 K. RAJAMANI, N.A. JAN, A.K. SUBRAMANI, A.N. RAJ, *Access to finance: Challenges for MSMEs in India*, *Engineering Economics*, 2022, 73–85.

59 H. ZARROUK, M. SHERIF, L. GALLOWAY, T. EL GHAK, *Entrepreneurial orientation and SME performance in UAE*, *Journal of Asian Finance, Economics and Business*, 2020, 465–474.

60 T. CHILEMBO, *A study of the factors affecting small and medium enterprises (SMEs) access to finance*, *American Journal of Industrial and Business Management*, 2021, 437–460.

61 M. GULIYEV, H. MURADOVA, L. HAJIYEVA, L. HUSEYNOVA, *Comparative analysis of marketing strategies of global corporations in industrial and innovation clusters in Europe and China*, *Strategic Change*, 2025.

Similar conclusions were drawn by Chilembo, who argued for the utilisation of non-traditional, alternative financing mechanisms for small businesses, citing the numerous barriers associated with conventional financing channels. Zarrouk et al. also reached analogous conclusions in their study of SME effectiveness and access to finance in the UAE. These findings further reinforce the relevance of the present study's policy recommendations for the Kyrgyz government – namely, to broaden financing opportunities for small businesses beyond traditional banking institutions.

5. Conclusions

As a result of the conducted research, it has been established those small businesses contribute to a country's economic development through the production of goods (services, works) across various sectors of the national economy and by contributing to the overall volume of the country's GDP. In exerting such influence, small enterprises have a positive impact on the social dimension of national development, particularly by reducing levels of unemployment and poverty through the creation of jobs.

In the Kyrgyz Republic, small enterprises make a particularly significant contribution to GDP in sectors such as hospitality and catering, trade, agriculture, industry, and construction contracting. Between 2001 and 2023, the share of small businesses in the country's GDP increased by 1.4%. Given the persistently high levels of poverty (29.8% in 2023) and unemployment (4.1% in 2023) in the Kyrgyz economy, the creation of new jobs by small enterprises addresses these pressing issues, as they provide approximately 2% of employment across the entire economically active population.

However, two major challenges hinder the effective operation of SMEs and their potential to facilitate the country's economic and social development through small business activity: limited access to finance for small enterprises and the generally low level of financial literacy among the Kyrgyz population, including both current and prospective entrepreneurs. Addressing these challenges constitutes an urgent task for the Kyrgyz government.

For Kyrgyzstan, the implementation of a comprehensive set of measures to resolve these two issues is both necessary and advisable. Based on an analysis of

successful practices in promoting social welfare and economic growth in African and Asian countries, it has been determined that it is appropriate to enhance access to long-term credit, establish clusters for joint financing, and introduce a system of collective guarantees. Additionally, it is important to incentivise cooperation between SMEs and large enterprises by developing mechanisms to encourage the latter's support for small business and to engage suppliers as loan guarantors. Moreover, the development and implementation of programmes to promote social entrepreneurship – with integrated components for improving the financial literacy of small business employees – should be regarded as one of the government's policy priorities. The practical implementation of such measures could enhance the performance of small businesses in Kyrgyzstan and strengthen their role in driving the country's socio-economic development.

The prospects for future research lie in incorporating the experiences of other Central Asian or post-Soviet countries into the analysis in order to examine and compare successful approaches for addressing the challenges faced by Kyrgyz small enterprises. However, this particular study draws exclusively on the experiences of Asian and African countries when formulating recommendations, which constitutes a limitation of the current research.