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INSTITUTIONAL FOUNDATIONS FOR THE DEVELOPMENT OF SOCIAL ENTREPRENEURSHIP IN UZBEKISTAN

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Abstract

The development of social entrepreneurship has become an increasingly important direction of socio-economic policy in Uzbekistan. Social entrepreneurship combines entrepreneurial activity with the solution of social and environmental problems, thereby creating an additional mechanism for employment generation, social inclusion, poverty reduction and sustainable local development. The formation of an effective institutional environment is particularly important because social enterprises operate at the intersection of market mechanisms, public policy and social interests. This article examines the institutional foundations for the development of social entrepreneurship in Uzbekistan and identifies the major components of the emerging institutional framework. The study uses legal and institutional analysis, comparative analysis, systematisation and generalisation methods. Particular attention is given to recent amendments to Uzbekistan's legislation that establish a specific framework for state support of social entrepreneurship. The findings indicate that Uzbekistan is moving from a predominantly general entrepreneurship-support model toward a more differentiated institutional approach that recognises social entrepreneurship as a distinct area of economic activity. The article argues that further development requires clear criteria for identifying social enterprises, effective mechanisms for public procurement and subsidies, preferential financing, social impact measurement, intersectoral cooperation and stronger institutional coordination.

Keywords

social entrepreneurship, institutional framework, social economy, entrepreneurship, state support, social innovation, employment, poverty reduction, Uzbekistan, social impact.

INTRODUCTION. Contemporary socio-economic development requires mechanisms capable of combining economic efficiency with the solution of social and environmental problems. Traditional forms of entrepreneurship primarily focus on the production of goods and services and the generation of profit, whereas social entrepreneurship seeks to integrate economic sustainability with a clearly defined social mission. The International Labour Organization defines the broader social and solidarity economy through economic, social and environmental activities serving collective or general interests, with people and social objectives taking precedence over capital [1]. The OECD similarly emphasises that social enterprises trade goods and services while pursuing societal objectives and reinvesting resources to sustain those objectives [2]. The relevance of social entrepreneurship is particularly significant for developing economies, where employment creation, poverty reduction, social inclusion and regional development remain interconnected policy priorities. International practice demonstrates that social enterprises may operate in areas such as employment integration, education, healthcare, social services, environmental protection, recycling and local development [3].

In Uzbekistan, the development of entrepreneurship has become one of the important components of economic reforms. The country's long-term development agenda combines economic growth with poverty reduction, employment creation, improvement of social protection and development of private-sector activity. The updated Uzbekistan–2030 Development Strategy continues to establish measurable objectives and institutional mechanisms for implementing these priorities [4]. The institutional foundations of social entrepreneurship, however, require a more specific approach than general entrepreneurship policy. Social enterprises have a dual mission: they must remain economically viable while generating measurable social value. Therefore, their development depends not only on access to finance and markets but also on legal recognition, institutional coordination, preferential support, public procurement mechanisms, human capital development and systems for measuring social impact. A particularly important development occurred in 2026 with the adoption of Law No. ZRU-1168, which introduced provisions specifically addressing state support for social

entrepreneurship. The law defines social entrepreneurship as entrepreneurial activity aimed at solving social or environmental problems or mitigating their consequences and establishes several forms of state support [5]. Against this background, the purpose of this article is to examine the institutional foundations of social entrepreneurship in Uzbekistan, identify the emerging institutional mechanisms and formulate proposals for their further improvement.

Materials And Methods. The research is based primarily on the analysis of legislative and strategic documents of the Republic of Uzbekistan, as well as international approaches to social entrepreneurship and the social economy. The following methodological approaches were applied:

1. Institutional analysis. This method was used to examine the legal, organisational and policy institutions that determine the conditions for establishing and developing social entrepreneurship in Uzbekistan.

2. Comparative analysis. International approaches developed by the OECD, ILO and European Union were compared with the emerging Uzbek institutional framework in order to identify common principles and country-specific characteristics.

3. Systematisation. The identified institutional mechanisms were classified into several interconnected dimensions: legal regulation, financial support, market access, human capital, institutional coordination and social-impact assessment.

4. Content analysis of legal documents. Relevant provisions of Uzbek legislation and strategic policy documents were analysed to determine the direction of institutional changes concerning entrepreneurship, employment, poverty reduction and social entrepreneurship.

5. Generalisation. The findings of the legal and comparative analysis were synthesised to formulate proposals for improving the institutional environment of social entrepreneurship.

The study is qualitative in nature and focuses on institutional development rather than estimating the financial performance of individual social enterprises.

Results

Formation of a legal basis for social entrepreneurship. One of the most significant institutional developments in Uzbekistan is the emergence of a direct legal framework for social entrepreneurship. Previously, enterprises producing social goods or employing socially vulnerable groups could generally rely on broader entrepreneurship, employment, social protection or non-governmental organisation regulations. Such a fragmented approach made it difficult to identify social enterprises as a distinct category. Law No. ZRU-1168 of 17 August 2026 represents an important step toward overcoming this institutional gap. The law introduces a specific provision on state support for social entrepreneurship and recognises entrepreneurial activity aimed at addressing social and environmental problems as social entrepreneurship [5].

The new framework provides for several forms of state support, including:

- privileges and preferences;
- subsidies for social projects;
- state social orders;
- financial support;
- training, retraining and professional development;
- consulting, methodological and information support [5].

This development is important because institutional recognition creates the basis for moving from a generalised entrepreneurship policy toward a targeted policy for enterprises generating both economic and social value.

At the same time, the effectiveness of this framework will depend significantly on the secondary regulatory mechanisms. The law assigns the Cabinet of Ministers responsibility for establishing the criteria for recognising entities as social enterprises and determining the procedures for their support [5]. Therefore, the next institutional priority should be the development of transparent, measurable and administratively simple criteria for social-enterprise status.

Institutional relationship between social entrepreneurship and national development priorities. Social entrepreneurship is closely connected with several priorities of Uzbekistan's development policy.

First, it can contribute to employment creation. Social enterprises can create employment opportunities for young people, women, persons with disabilities and other groups experiencing difficulties in entering the labour market.

Second, social entrepreneurship can support poverty reduction. The Uzbekistan–2030 framework includes poverty reduction and employment among important national development objectives. [6] Social enterprises can complement conventional employment programmes by creating economically sustainable sources of income rather than relying exclusively on social transfers.

Third, social entrepreneurship can contribute to local and regional development. The European experience shows that social enterprises can play an important role in disadvantaged territories, rural areas and community-based development. [3] This approach is particularly relevant for Uzbekistan because local economic conditions differ considerably across regions.

Thus, social entrepreneurship should not be treated solely as a narrow business-policy instrument. It can function as an institutional bridge connecting entrepreneurship policy with social protection, employment policy, poverty reduction, environmental policy and regional development.

State support as a core institutional mechanism. An effective institutional framework requires a combination of regulatory and economic instruments.

The recently adopted Uzbek legislation identifies several such instruments. Particularly important are subsidies for social projects and state social orders [5]. These mechanisms can reduce the market risks associated with activities where social benefits are greater than the direct commercial return. For example, a social enterprise providing employment and training for vulnerable groups may face higher operational costs than a conventional enterprise. If the market price of its products or services does not fully compensate for these additional costs, targeted public support can help maintain its financial sustainability. The legislation also provides for preferential treatment in areas such as taxation and customs, simplified financial and tax reporting, preferential leasing of state property and direct procurement of social goods and services by state customers

[5]. Consequently, the emerging institutional model can be represented as a combination of:

legal recognition → preferential conditions → financial support → market access → capacity building → social impact assessment.

The effectiveness of this chain depends on the consistency of all its components.

Institutional coordination and the social entrepreneurship ecosystem. Social entrepreneurship cannot be developed effectively by one government institution alone. Its ecosystem includes state bodies, local authorities, entrepreneurs, financial institutions, educational institutions, civil society organisations, development partners and consumers.

The OECD recommends developing social-economy frameworks supported at different levels of government and encouraging cross-sector partnerships, networks and knowledge sharing [2].

This principle is relevant to Uzbekistan because social problems often require cooperation across institutional boundaries. For example, a project aimed at integrating persons with disabilities into employment may simultaneously involve employment authorities, local government, vocational education institutions, financial organisations and private businesses.

Therefore, the institutional environment should move beyond a fragmented administrative approach toward an ecosystem model based on coordination and partnership.

The importance of financial institutions. Access to finance is one of the critical conditions for the sustainability of social enterprises. Social enterprises may have difficulties obtaining conventional commercial financing because their financial returns can be lower or slower than those of traditional businesses, while their social benefits are not always reflected in conventional financial indicators.

International practice recognises the importance of diversified financing mechanisms for the social and solidarity economy, including revenues from economic activity, public support and other financing instruments [7]. The Uzbek framework provides an institutional basis for financial support of social entrepreneurship. The

newly adopted legislation allows state subsidies for social projects and includes social entrepreneurship among areas eligible for state support and grants [5]. However, a sustainable system should avoid excessive dependence on direct budget transfers. A long-term institutional model should combine public support with commercial revenues, concessional finance, impact-oriented investment and partnerships with financial institutions.

Human capital and institutional capacity. Social entrepreneurship requires specialised competencies that differ partly from conventional business skills. Social entrepreneurs must understand business planning and financial management while also identifying social problems, working with vulnerable groups and measuring social outcomes. The Uzbek legislation explicitly includes training, retraining and professional development among forms of state support for social entrepreneurship [5]. This is an important institutional element because the absence of qualified managers can limit the effectiveness of financial and regulatory support.

Universities and vocational education institutions could therefore play a greater role in developing educational programmes in social entrepreneurship, social innovation, impact measurement and social project management.

Discussion. The analysis demonstrates that Uzbekistan is entering a new stage in the institutional development of social entrepreneurship. The key change is the transition from indirect support through general entrepreneurship and social-policy instruments toward the legal recognition of social entrepreneurship as a specific area of state policy. This transformation corresponds to international trends. The OECD recommends that governments establish social-economy frameworks and create conditions enabling social enterprises to develop and scale their impact [2]. The European Union similarly emphasises legal, financial and administrative conditions that enable social enterprises to operate effectively, while recognising that social enterprises may use different legal forms depending on national circumstances [3]. The Uzbek model has several distinctive features. First, it is closely linked to national objectives concerning poverty reduction, employment and private-sector development. This means that social entrepreneurship in Uzbekistan can become an instrument for achieving broader socio-economic policy

goals. Second, the institutional framework places considerable emphasis on direct state support. Subsidies, social orders, financial assistance, preferential conditions and training are explicitly identified as support mechanisms [5]. Third, the framework is still institutionally developing. The criteria for recognising social enterprises and detailed procedures for their support are to be established through subsequent regulatory acts [5]. This creates both an opportunity and a challenge: poorly designed criteria could create administrative barriers or allow enterprises without genuine social impact to receive preferential treatment.

Therefore, the next stage should focus on **quality rather than simply expanding the number of recognised social enterprises**.

A particularly important issue is the introduction of social-impact measurement. Financial indicators alone cannot adequately evaluate a social enterprise. Institutional assessment should consider indicators such as:

- number of disadvantaged persons employed;
- number of beneficiaries receiving social services;
- sustainable jobs created;
- income generated for vulnerable groups;
- number of people receiving training;
- environmental effects;
- geographical coverage;
- proportion of revenue generated through market activity;
- sustainability of the social project.

Such indicators would make state support more transparent and performance-oriented. Another important issue is the development of public procurement mechanisms. State social orders can create a stable market for social enterprises, but procurement procedures should remain transparent and competitive. Otherwise, social procurement could become overly dependent on administrative decisions rather than social value and service quality.

The institutional framework should also distinguish between **social entrepreneurship and traditional charity**. Charity generally relies on donations and

voluntary contributions, whereas social entrepreneurship seeks to create a sustainable economic model around a social mission. The European Commission similarly describes social enterprises as entities that provide goods or services through entrepreneurial activity while primarily pursuing social impact [3].

Therefore, social entrepreneurship should not be understood simply as "business that helps people". It is better conceptualised as an institutional model in which **economic activity is systematically connected to a defined and measurable social purpose**.

Based on the analysis, the following institutional improvement priorities can be proposed:

1. Establish clear criteria for social-enterprise status.

The criteria should combine the existence of a clearly defined social or environmental mission, economic activity and measurable social impact.

2. Introduce a transparent social-enterprise registry. A digital registry could improve access to support programmes and increase transparency.

3. Develop social-impact assessment mechanisms. State support should increasingly depend on measurable outcomes rather than solely on organisational status.

4. Expand social procurement. Public procurement can become an important market-creation mechanism for social enterprises.

5. Develop specialised financial instruments.Concessional loans, guarantees, grants and impact-investment instruments should complement traditional commercial financing.

6. Strengthen educational infrastructure. Universities, business-support organisations and vocational institutions should introduce practical programmes in social entrepreneurship and social innovation.

7. Encourage regional social entrepreneurship ecosystems. Local authorities, businesses, educational institutions and civil society organisations should cooperate to identify local social problems and develop market-based solutions.

8. Develop cross-sector coordination. The institutional framework should ensure cooperation between entrepreneurship, employment, poverty-reduction, social-protection, education and environmental policy institutions.

These measures would allow Uzbekistan to move from a support-oriented model toward a more mature ecosystem in which social enterprises can become financially sustainable and socially impactful.

Conclusion

The development of social entrepreneurship represents a promising direction for strengthening the connection between economic growth and social development in Uzbekistan. The analysis shows that the country's institutional framework is undergoing an important transformation, particularly through the introduction of specific legal provisions concerning state support for social entrepreneurship.

The adoption of Law No. ZRU-1168 constitutes an important institutional milestone because it formally recognises entrepreneurial activity aimed at solving social and environmental problems and establishes a range of state-support mechanisms, including subsidies, social orders, financial assistance, preferential conditions and capacity-building measures [5].

At the same time, legal recognition alone is insufficient to guarantee the effective development of social entrepreneurship. The practical impact of the new framework will depend on the quality of secondary legislation, clarity of eligibility criteria, accessibility of financial instruments, transparency of public procurement and the introduction of reliable social-impact measurement.

The institutional development of social entrepreneurship in Uzbekistan should therefore be based on a comprehensive ecosystem approach. Such an approach should combine legal regulation, financial mechanisms, market access, human-capital development, institutional coordination and social-impact assessment.

In the long term, a well-designed institutional framework can enable social enterprises to contribute simultaneously to employment creation, poverty reduction, social inclusion, environmental sustainability and regional development. Consequently, social entrepreneurship should be considered not merely as a supplementary form of

entrepreneurship, but as an important institutional mechanism for achieving inclusive and sustainable socio-economic development in Uzbekistan.

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