



Factors Affecting the Growth of Small and Medium Sized Enterprises in Uzbekistan

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ARTICLE INFO ABSTRACT

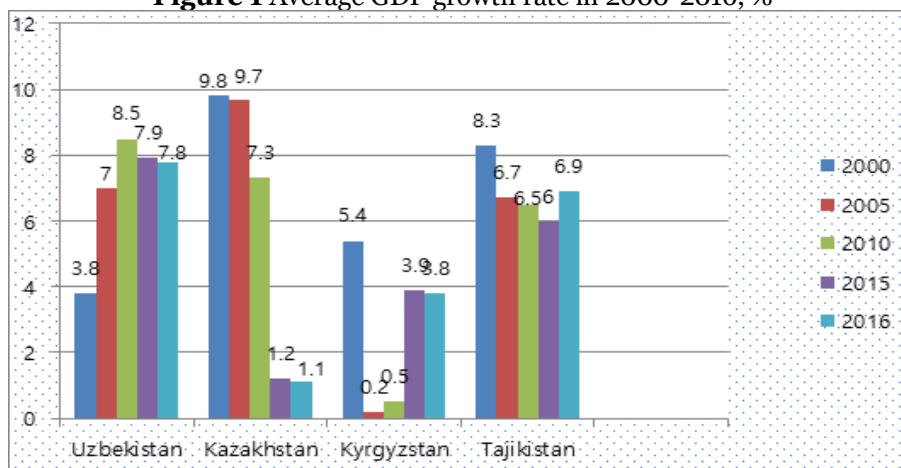
Small and medium sized enterprises play important role in the development of all countries: both developed and developing. This kind of enterprises are flexible than large enterprises. They are better able to use the opportunities created by the environment. However, small and medium sized enterprises face many challenges in the course of their activity. The purpose of this research is to identify the opportunities created and existing challenges in the development of SMEs in Uzbekistan in recent years. Factors such as poor infrastructure, lack of education, corruption, tight regulations, a lack of finance and etc. were measured.

Introduction

Small and medium enterprises (SMEs) have numerous benefits to their owners and the economy (Brodzinski et al., 2020, p. 107). The role of these entities is very important in Uzbekistan economic growth. Uzbekistan's economy has undergone a period of transitional adjustment to market economy since 1991. In September 2017 the country has moved into the next economic stage and many new manufacturing firms have emerged during the economic life of Uzbekistan. As of January 1, 2019, the total number of operating enterprises compared with the previous year increased 38 thousand units (13.3%) and reached 323.5 thousand units. The number of small-medium enterprises (SMEs) is 276.2 thousand units and its share to the total is 85.3%. Especially, this SMEs' growth is remarkable, 50.6 thousand units increase (22.4%) from 2017.

As Figure 1.1 shows, the GDP growth rate in Uzbekistan has been relatively high and stable relative to other Central Asian countries over the past fifteen years. The average annual growth rate of GDP in 2000-2016 was approximately 7%, while the average annual growth rates of the GDP in Kazakhstan, Kyrgyzstan and Tajikistan were 5.8%, 2.5%, and 6.8%, respectively. Since 2017 the economic growth has slowed down to 4.5% in 2017 and 5.4% in 2018 and inflation rate during 2017-19 (14-15%) has become higher compared to that before 2016 (5-7%). While during the early 2000s the country enjoyed export-import trade surplus except 2004 (2.5 billion US dollars, annual average during 2010-2015), the trade balance became negative in 2017 and has been deteriorated (-6.4 billion US dollars in 2019), thus resulted in depreciation of Uzbek currency (from 2095 som/USD in 2013 to 8070 som/USD in 2018).

Figure 1 Average GDP growth rate in 2000-2016, %



Source: Interstate statistical committee of CIS countries http://cisstat.com/eng/frame_macro.htm

In recent years Uzbekistan has been paying great attention to the development of SMEs. The government has made many decisions and decrees in last years. For example, the position of Business Ombudsman was introduced, the Prime Minister's Representative in all provinces to assist entrepreneurs, the State Fund for Entrepreneurship Development (200 billion, 50 million Uzbekistani som, which is equivalent to approx. USD 20,000,000) and the Agency for Entrepreneurship Development were established (Uzbekistan National News Agency, 2019). However, there are many problems hinder the development of SMEs in Uzbekistan: poor development of the market infrastructure and a lack of specialists in the field of SMEs (OECD, 2017, p. 1-45). Although Uzbekistan government has been trying to create more opportunities for small and medium sized enterprises there are still many challenges, which have not been precisely identified. The author aims to identify existing challenges in the development of SMEs in Uzbekistan in recent years.

Small and medium sized enterprises in Uzbekistan

Latest statistics show that small and medium sized enterprises are important part of economy of Uzbekistan and are expected to generate many opportunities future employment. SMEs play pivotal role on creating jobs for less educated and unskilled workers in both rural and urban areas. Along with the fact that Uzbekistan is the largest country in Central Asia in terms of population, nearly 800 thousand young people join the labor market annually. That is why the government of Uzbekistan has set up SME's promotion and development as a priority during the last two decades and tried to ease and remove burdens which hindered the development of private sector. One of the most influential and important recent measures is the establishment of the Agency for the Development of Small Businesses and Private Entrepreneurship (the agency was built based on President's decree No 5789 dd August 13, 2019 and President Resolution No PP-4525 dd November 20, 2019) for further improvement of the business environment and entrepreneurship support system.

The criteria for small and medium sized enterprises are different from international classification. International standard is classified with the number of employees and financial asset or turnover by industry. In international practices, SMEs should also include annual turnover and characteristics of the industry along with the number of employees (Tadjibaeva, 2019, p. 2). This study follows the definition of SMEs based on the criteria set by the Uzbekistan government.

Table 1. SME criteria in Uzbekistan

Category	Number of Employees
Individual	1–3 employees
Micro-firms	<25 employees
Small enterprises	<100 employees
Medium enterprises	<250 employees

Source: Decree of the President of the Republic of Uzbekistan No PD639 dated Sep. 22, 2018, "On measures to further stimulate the expansion of small businesses and private entrepreneurship in order to create competitive companies

According to the Statistics Committee of Uzbekistan, the number of operating small and medium sized enterprises increased to 417.000 in 2024 from 334767 SMEs in 2020. In the following sectors: there are 37.178 SMEs in agriculture, 64.750 SMEs in industry, 157.344 SMEs in wholesale and retail trade; repair of motor vehicles and motorcycles, 17.716 SMEs in transportation and storage, 34.272 SMEs in construction etc.

Literature review

Defining small and medium sized enterprise is quite difficult it is because of that many scholars have defined it differently all around the world (Sitharam & Hoque, 2016). Baumbach (1983) stated that SMEs are different from one another according to employees' number, size of the enterprise, type of industry, and country. Jasra et al. (2011) told that "SMEs are a business but not a public limited company, having more than 250 workers in manufacturing and service industries including trading businesses". According to Alarape (2008) SMEs are an enterprise consists of from 11 to 100 employees or a total cost more than N50 million, including working capital but exclusive of cost of land.

There are many literatures about the performance of small and medium sized enterprises. These studies divided factors which affect the performance of SMEs across the globe into two parts: internal and external factors. According to Jahur & Quadir (2012), ability to enter international markets, good customer relationship, and good supply chain system as the main external factors affecting the performance of small and medium sized enterprises while managerial qualities, technology, and lack of skilled labor are identified as internal factors affecting the performance of SMEs by Noreen & Junaid (2015) and Clegg (2018).

Research has highlighted various opportunities for SMEs in different countries. For instance, in the Asian context, Rahadi (2016) identifies several opportunities for SMEs in Indonesia, such as market potential,

innovation, export possibilities, and strong local market knowledge. The study notes that the primary strength of Indonesian SMEs lies in their creativity, which allows them to produce unique and innovative products, giving them a competitive advantage. According to Soonae et al. (2020), this advantage can be further amplified when government diagnostic and support services are coupled with government loan financing, leading to increased growth in annual assets and sales for these businesses.

Despite the opportunities available, SMEs in Asia face significant challenges that hinder their growth. Key issues include the absence of a comprehensive database, underdeveloped sales channels, asymmetrical information between fund suppliers and seekers, and high bank loan interest rates, which slow down SME expansion (Yoshino & Taghizadeh-Hesary, 2016, 2018). Wang (2016) identifies five major challenges for SME managers, with the most critical being "access to finance." The study found that high interest rates, complicated application processes, and substantial collateral requirements are the most severe barriers to obtaining external funding. Similarly, Petković et al. (2016) highlight obstacles such as difficulties in debt collection, high taxes, and challenges in securing bank loans as key factors impeding SME development. Aliyev (2019) also notes that while bank loans can be beneficial, limited financial literacy among entrepreneurs and high taxes restrict SME financing opportunities. Many researchers agree that financial barriers, particularly the lack of access to finance, are a significant hindrance to SME innovation and growth. Several factors impede the growth of SMEs, including a shortage of skilled labor, high interest rates (Eravia et al., 2015), inadequate food hygiene practices, and a lack of sustainability initiatives (Noor Hasnan et al., 2014). Additional challenges include insufficient management skills for continuous improvement, low employee motivation (Maarof & Mahmud, 2016), high costs for raw materials, and substantial initial investment expenses (Musa & Chinniah, 2016). Moreover, external financing for SMEs remains limited (Eniola & Entebang, 2015). In developing countries, SMEs face additional obstacles such as restricted access to long-term, affordable finance and a shortage of institutions to nurture a skilled entrepreneurial and labor force (Hansjörg & Zeynep, 2018).

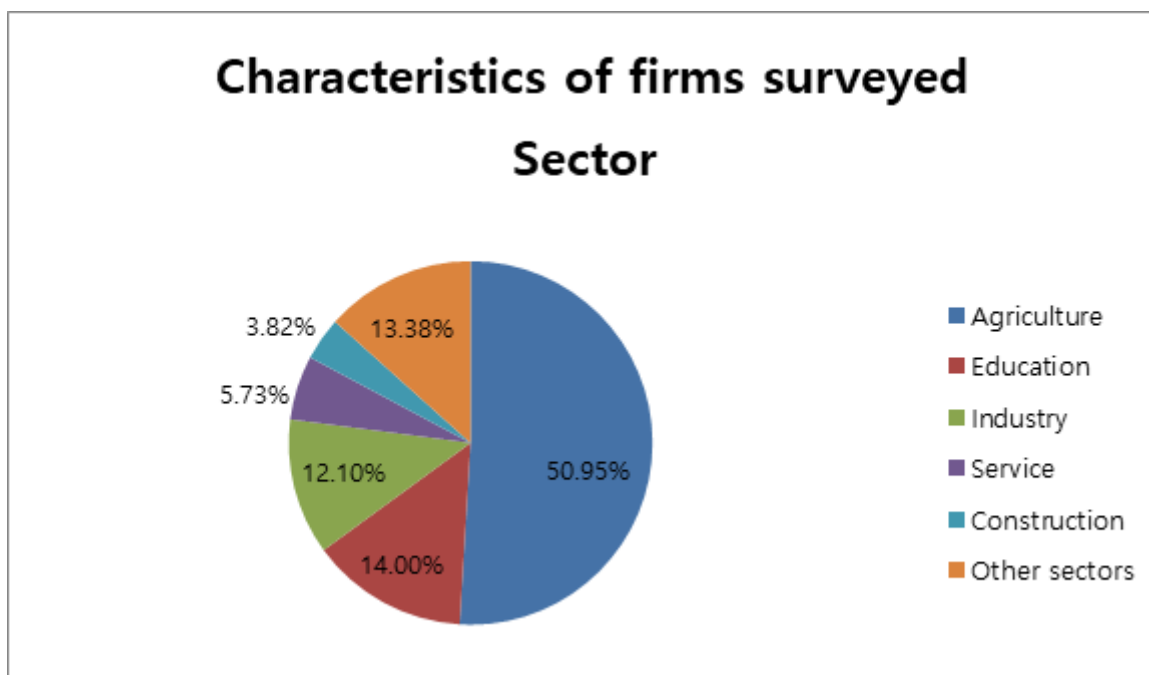
Research methodology

Since the study focuses on the small and medium sized enterprises in Uzbekistan, due to a limitation on collecting information from the entire population a questionnaire was used as a survey instrument to generate primary data. The survey was distributed through online. The created questionnaire was entered into Google Forms and a link was sent to the owners and Top managers of SMEs in Uzbekistan via telegram messenger from May to August 2024. The questionnaire consists of 15 questions to collect general information about SMEs that included their activities, number of workers, workers' salary scale, workers' education level, also opportunities and challenges for SMEs.

Results

According to the results 157 small and medium sized enterprises were sampled. 87 (55.41%) of respondents employed 1-10 workers, 40 (25.48%) SMEs employed 11-50 workers, 15 (9.5%) SMEs employed 51-100 employees and 15 (9.5%) SMEs have 101-200 workers. The results show that the majority (50.95%) of respondents are in agricultural sector. The following figure shows characteristics of firms surveyed by Sector

Figure 2



According to the survey, 52 respondents (33.1 %) are exporting their products.

Figure 3. Characteristics of firms surveyed by Size

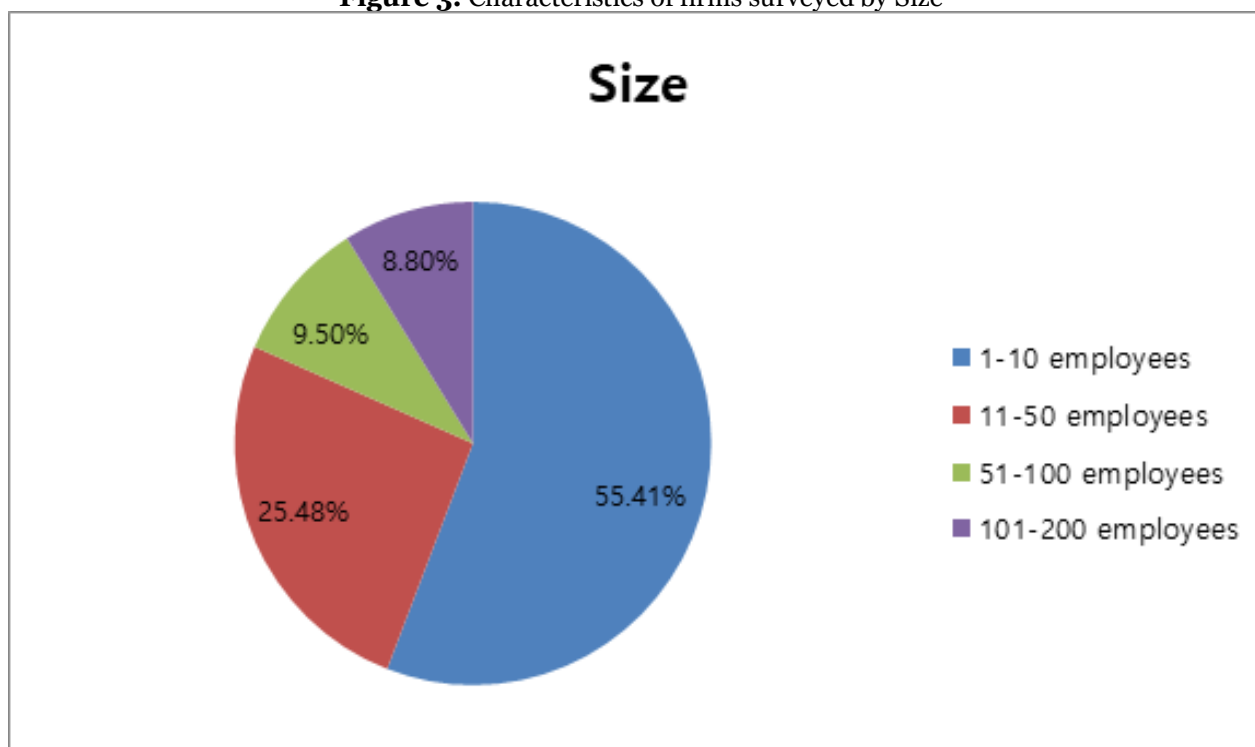
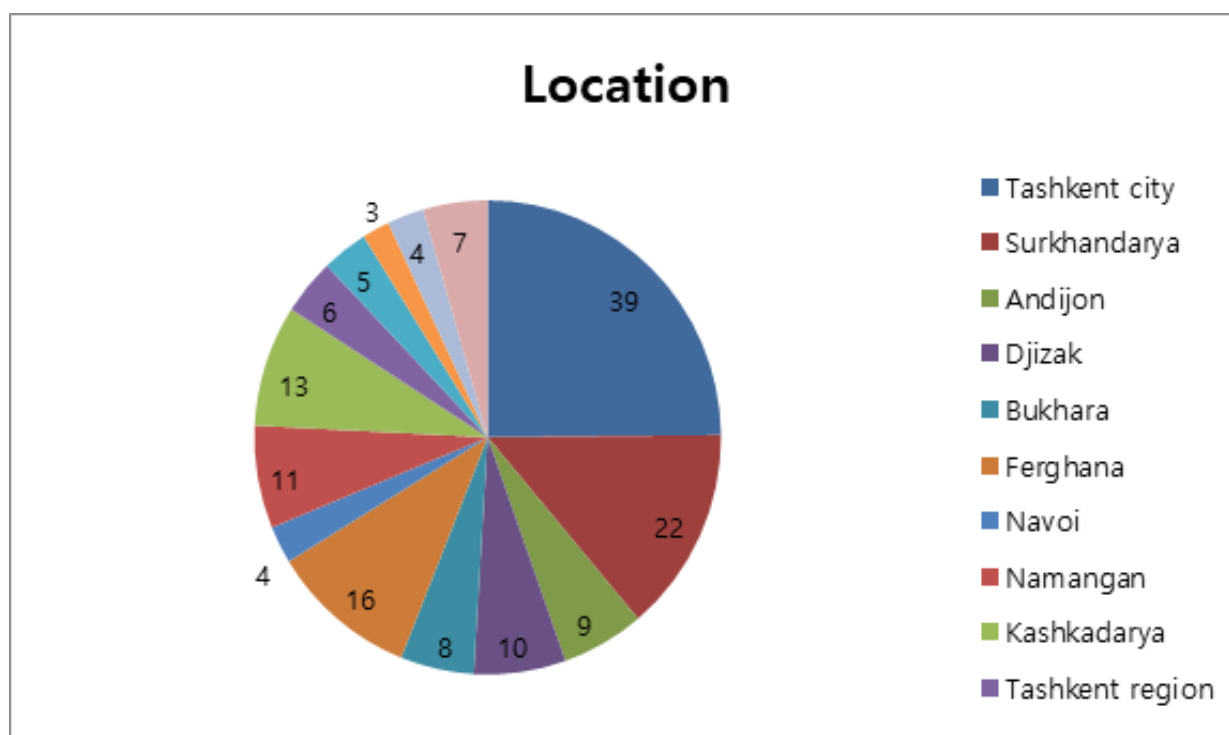
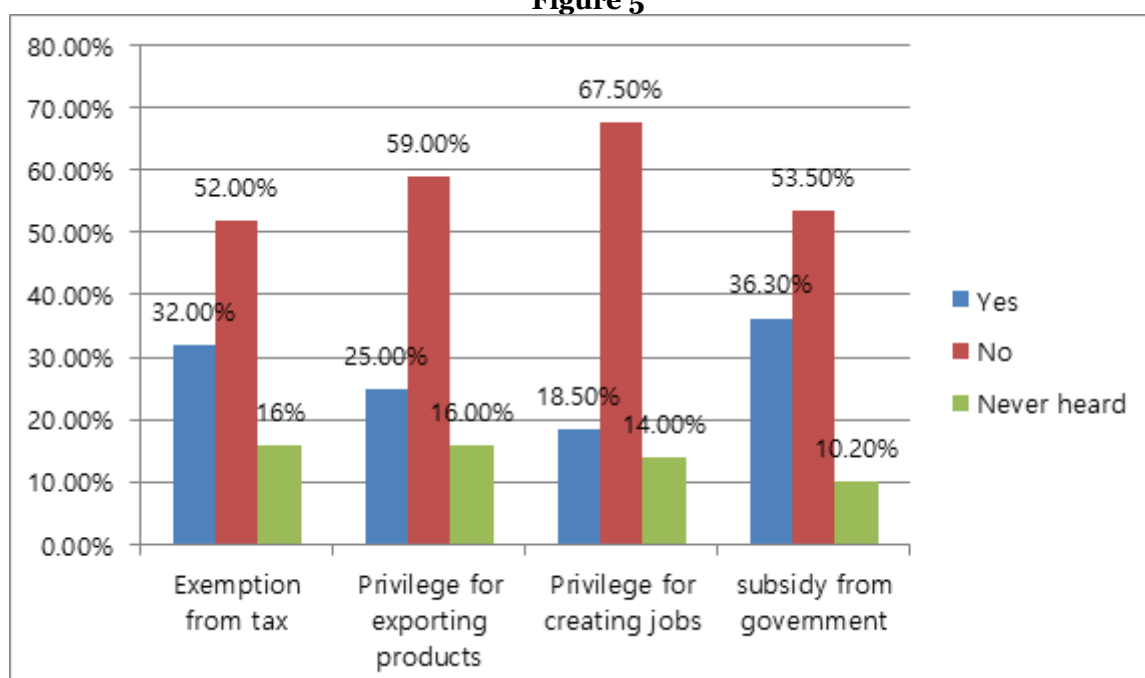


Figure 4. Location



Addressing the challenges faced by SMEs largely relies on the opportunities and support provided by the government (OECD, 2018, p 1-4). The results indicate that 54.8% of respondents have never been exempted from taxes, with 17% unaware of any such exemptions. Additionally, 61.9% of respondents reported never receiving export privileges, while 22.4% confirmed they had. According to the graph, 12.4% of participants received incentives for job creation, but 71.5% did not. Furthermore, 32.4% of respondents confirmed receiving government subsidies.

Figure 5



Source: Own study

According to the survey results, the main constraints small and medium sized enterprises in Uzbekistan facing are high tax rates, lack of capital, legal uncertainty, poor development of market infrastructure and other infrastructures, problems in credit system, only certain groups can use benefits.

Figure 6

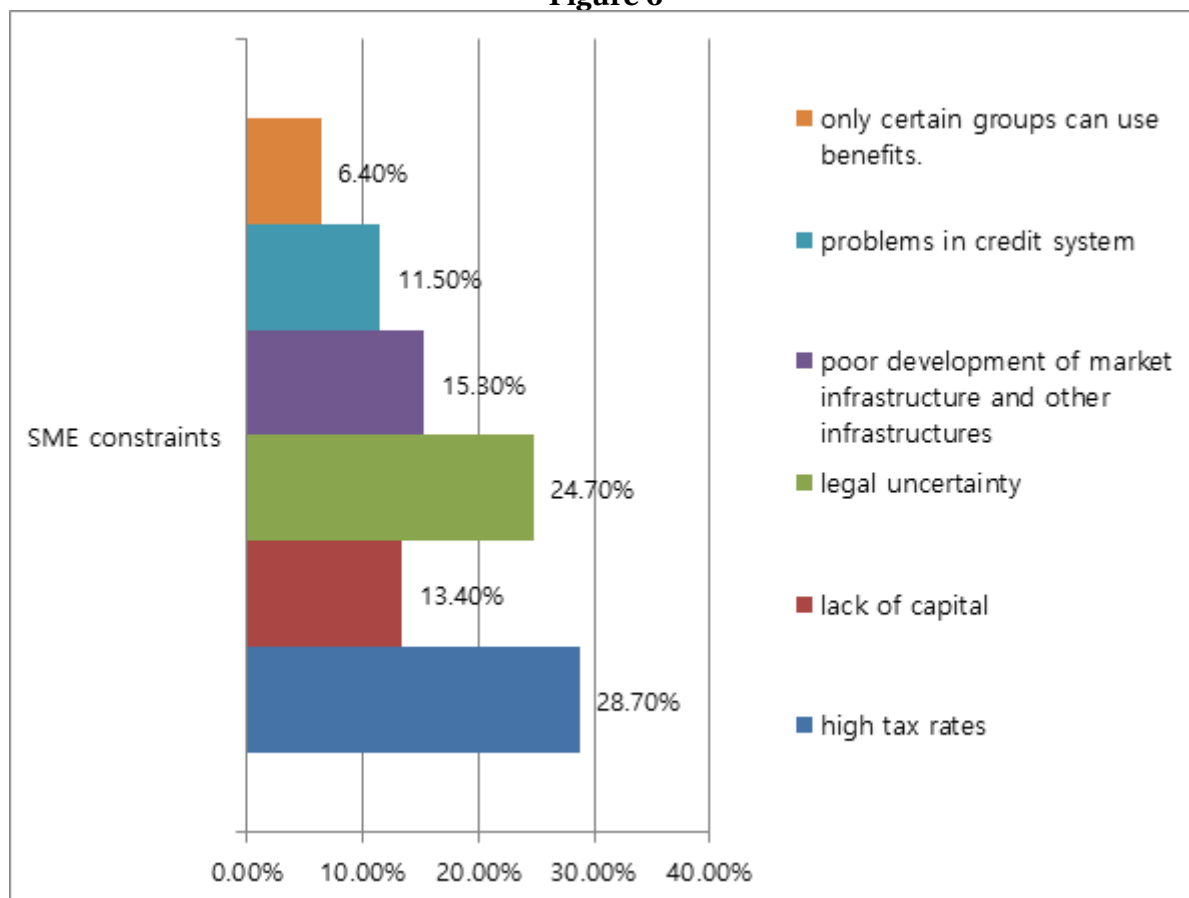
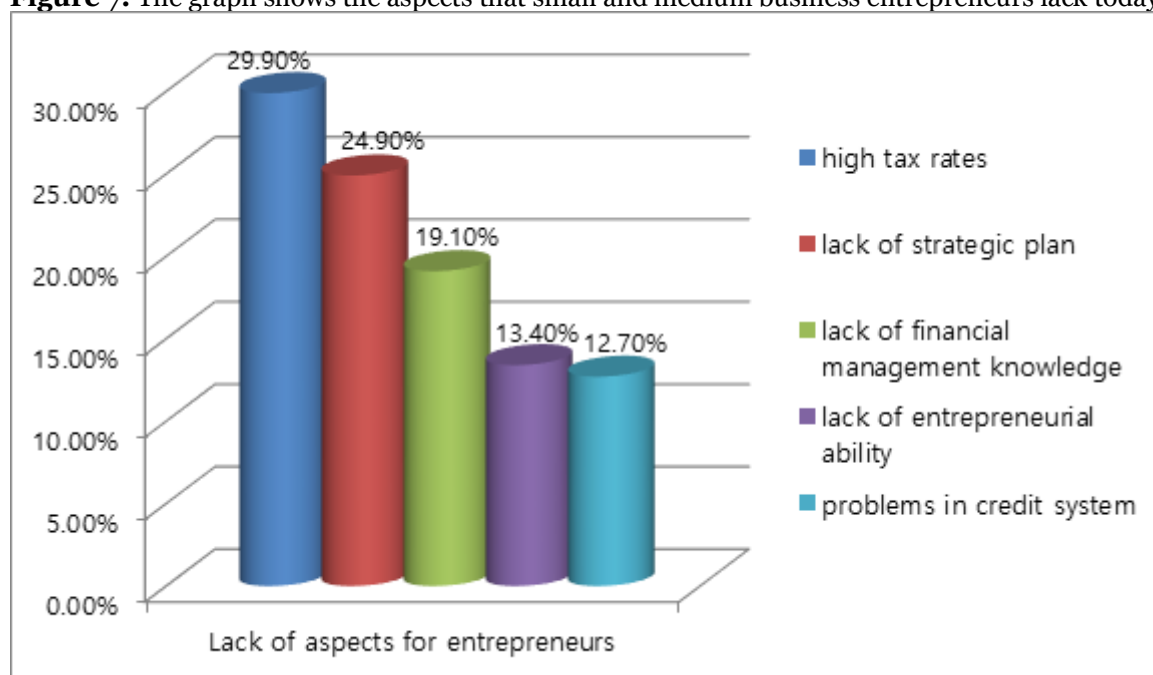


Figure 7. The graph shows the aspects that small and medium business entrepreneurs lack today.



The survey indicates that nearly 55.4% of respondents reported not being asked for a bribe during their business activities, while 44.6% stated that they were asked for a bribe.

Discussion

As it is mentioned above the survey conducted among 157 small and medium-sized enterprises (SMEs) in Uzbekistan reveals critical insights into the sector's dynamics, opportunities, and challenges. The majority of the surveyed firms (55.41%) are micro-enterprises employing 1-10 workers, with a significant portion (50.95%) operating in the agricultural sector. Despite a substantial number of these SMEs (33.1%) engaging in export activities, the results highlight several gaps in the uptake of government-provided incentives.

A significant portion of respondents (52%) reported never having been exempted from taxes, and 16% were unaware of such exemptions. This points to a lack of awareness or accessibility to government benefits that could ease the financial burden on these businesses. Furthermore, a considerable number of SMEs (75%) have never received export privileges, underscoring potential barriers to international market expansion. Additionally, while only 18.5% of respondents received job creation incentives, a striking 81.5% did not, suggesting that these incentives are not reaching the majority of the target population. On a slightly more positive note, 36.30% of respondents acknowledged receiving government subsidies, indicating that some financial support is being accessed, though not uniformly across the sector.

The survey also sheds light on the broader challenges faced by SMEs, including high tax rates, insufficient capital, legal uncertainty, underdeveloped market and infrastructure, and a flawed credit system. These issues are compounded by the fact that only certain groups seem to benefit from available incentives, leaving others without necessary support. Corruption remains a concern, with 40% of respondents indicating that they had been asked for a bribe during their business activities, further complicating the business environment.

In conclusion, while there are clear opportunities for SMEs in Uzbekistan, particularly in the agricultural sector and export markets, the effectiveness of government support and incentives is uneven. Addressing these challenges requires improved accessibility to benefits, enhanced infrastructure, and a more transparent and supportive legal and financial environment. The findings highlight the need for more targeted government interventions to ensure that all SMEs can fully leverage the available opportunities for growth and contribute more robustly to Uzbekistan's economic development.

Conclusion

The growth of SMEs is essential for driving economic development in Uzbekistan. This paper examines the opportunities and challenges that SMEs in Uzbekistan encounter. In recent years, Uzbekistan has made significant strides in fostering SME development, as reflected in the increasing number of SMEs and their expanding contribution to GDP. The findings indicate that the government has been actively supporting entrepreneurs through tax benefits, subsidies, export incentives, and tax breaks for businesses that create new jobs.

Alongside growth opportunities, SMEs encounter various challenges common to established businesses, including inadequate infrastructure, a shortage of skilled professionals, issues with the credit allocation system, high-interest rates, and more. Uzbekistan needs to carefully examine these challenges and explore each contributing factor (Akbaraliyev et al., 2019b, p5.). This would entail implementing various strategies, such as addressing key challenges that hinder the development of infrastructure and the educational system, attracting private sector investors, simplifying the credit system, lowering interest rates, and curbing monopolistic power in certain industries. As with any research, there are certain limitations to consider. Firstly, the original plan was to conduct surveys across all regions, but due to limited resources and difficulty in reaching respondents, the research process faced significant challenges. Secondly, while the study focused on the perspectives of respondents (entrepreneurs, managers), their opinions could be subjective. While they are well-acquainted with their enterprises, future research should be complemented with objective financial data to provide a more comprehensive analysis.

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