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THE ROLE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE DEVELOPMENT OF A MARKET ECONOMY IN UZBEKISTAN

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Abstract

Small and medium-sized enterprises (SMEs) are one of the most significant institutional elements of a market economy and link together entrepreneurship, employment, competition, innovation and local economic development. The shift from a centrally planned economy to a market-oriented economy in Uzbekistan has fostered a growing space for the private sector. The private sector has developed in a wider space in Uzbekistan due to transition from a centrally planned economy to a market-oriented economy. Since 2017, the reform process has been rapid and has involved the liberalisation of currency, tax reforms, changes of business climate, privatisation programs, the increase in the use of digitalisation, and measures in order to increase access to finance. However, the impact of SMEs on the gross domestic product (GDP) is still low compared to many transition and developed economies, leaving a large potential to be tapped. This thesis first analyzes the role of SMEs in the development of the market economy in Uzbekistan, then provides an identification of the main factors that affect SME development, and finally examines the situation in different regions and creates a scenario for the development of SMEs until 2030. The empirical part relies on 2018-2025 annual data, and posits an ordinary least squares (OLS)



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model in which the growth of SMEs is the dependent variable, while the explanatory variables are availability of credit, tax burden, inflation, and digital penetration. Based on the draft empirical findings, the credit availability and tax reduction variables have the strongest positive influence on the development of SMEs: the coefficients of $\beta = 0.42$ and $\beta = 0.35$ respectively, and with R^2 close to 0.89. These should be recalculated using final verified data set prior to submission.

The thesis contends that the future success of SMEs will be determined by the productivity, survival, formalisation, access to finance, adoption of technology, export capabilities and regional inclusiveness as well as a number of enterprises. To illustrate development options, three scenarios are created for 2030: an optimistic, a baseline and a pessimistic scenario. The study suggests that simplified tax regime, low costs for long-term financing, digital services, improved regional infrastructure, incubation and export assistance would significantly boost the contribution of SMEs to the market economy of Uzbekistan.

Keywords: Market economy in Uzbekistan, the role of SMEs ,development, the problem of entrepreneurship, the effect of digitalisation ,country's economy.

One of the most vital and significant structural transformations in the history of modern Uzbekistan's economy is its shift from a centrally planned economy to a market economy. After independence in 1991, the nation had a challenging imperative to develop market institutions in parallel with assuring macroeconomic stability and social protection and productive capacity. In a transition economy, in addition to the formation of private businesses, legal, financial, administrative and institutional frameworks need to be established that



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enable private businesses to compete. SMEs play a special role in this process, as they are able to adjust quickly to fluctuations in demand, a capacity to enter markets where the total amount of capital invested is relatively small and they are able to provide employment opportunities in both urban and rural areas.

Important limitations are also noted in the literature. It is common to see access to finance cited as a big constraint, as small businesses have limited cash flows, or may not have collateral. Smaller businesses are thus viewed more as a risk than bigger ones. Credit rationing may occur even in the case of an economically viable project if there is information asymmetry. This is a market failure which can be mitigated by public credit guarantees, by targeted lending programmes and better credit-information systems, but in conjunction with good risk-management.

There's also another theme which comes up regularly, and that's taxation. The presence of high effective tax rates can have a negative impact on investment incentives, and complex tax filing rules can create an investment cost that particularly impacts small companies. Therefore, the tax rate is not all that's important, simplification is as well. Digital Tax Systems have the potential to lower transaction costs, enhance transparency and minimize the opportunities for discretionary administrative interactions.

In this regard, there are various ways in which the inflation impact on SMEs. Inflation can push up input prices, and decrease the purchasing power of households and add to uncertainty. Small companies are not in as strong a position as larger businesses with their suppliers or when it comes to price risk management. Meanwhile, inflation can impact the actual expenses of working capital. Stable macroeconomic conditions thus provide an important basis for the development of SMEs.



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One of the growing critical factors is digitalisation. E-commerce, online banking, digital accounting and digital government services can boost transaction cost reduction and market access. However, it comes with the condition of digital literacy, cyber security, affordability, and trust. This implies that not only should digital penetration be seen as availability of infrastructure, but as successful business adoption.

The economic transition in Uzbekistan has been a step-by-step reform of the institutional framework. In early post-independence, the policy was to ensure stability and to fit into the existing production framework. With time the role of private enterprise grew more and more significant. Private businesses altered the nature of commerce, services and production and provided new jobs.

Following 2017, the reform agenda was stepped up. The reforms of currency and foreign-exchange, enhanced the situation of foreign transactions. There was a tax reform to eliminate distortions and expand the formal business base. Privatisation and restructuring programmes aimed at boosting the private sector's share. Some administrative costs were reduced over time as a result of the digital government services and electronic tax administration. These measures reinforced the institutional underpinnings of a market economy.

The number of SME entities in the working dataset suggests that in 2018 there were around 245,000 SME entities, rising to 412,000 in 2025. The additional improvement – around 68 percent – is significant. It implies that entrepreneurship has spread in times of institutional change. The number of registered entities should be taken with a pinch of salt however. Being registered is not necessarily a sign that an enterprise is considered to be economically active, productive or growth oriented. Going forward, statistical activities should, therefore, differentiate between registered companies, active companies and high growth companies provided data is available.



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Based on the working figures, the contribution of SMEs to GDP went up from around 28 per cent in 2018 to 35 per cent in 2025. It's an important step forward, but the number also shows the potential that has yet to be realized. Greater SME participation would be reflected in a bigger SME contribution, which would also reflect a more diversified productive structure. A higher share is desirable, however, if it is a reflection of genuine productivity and value creation and not fragmentation of firms into small, low productivity ones.

The main statistical sources are the official statistical system of Uzbekistan (State Statistics Committee and other successor institutional structures). Policy information is from official government documents. If definitions are sufficiently comparable, World Bank and other recognised international data may be included in comparisons. Since there is no standard methodology for defining SMEs across countries all comparative indicators should include methodological notes in the final version.

By 2030, the success of SME policy should be assessed using a balanced set of indicators: SME value added, productivity per worker, formal employment, enterprise survival, investment, exports, digital adoption, access to finance and regional inclusion. A higher GDP share alone should not be treated as the sole measure of success.

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