

# Comparative study of SME development in **Uzbekistan and Kazakhstan**

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# ■ Outline

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1. Background
2. SME development trends (1991-2013)
3. Factors that caused differences in the levels of SMEs  
in KAZ and UZB
4. Factors affecting SME's sustainability
5. Recommendations

# 1 Background

**In late 1991, with the sudden collapse of the Soviet Union, 15 republics of the USSR became independent countries**



## Kazakhstan and Uzbekistan

- Resource-based economies with autocratic regime
- Difference in national strategies for transition from central planned to a market-based economy

**AIM: Describe different economic policies and analyze the outcomes (SMEs)**



# KAZAKHSTAN

**Upper middle income country**



1

Population

**17,693,500**

2

Area

**2,724,900 km<sup>2</sup>**

3

Ethnic Groups

**Kazakh**

4

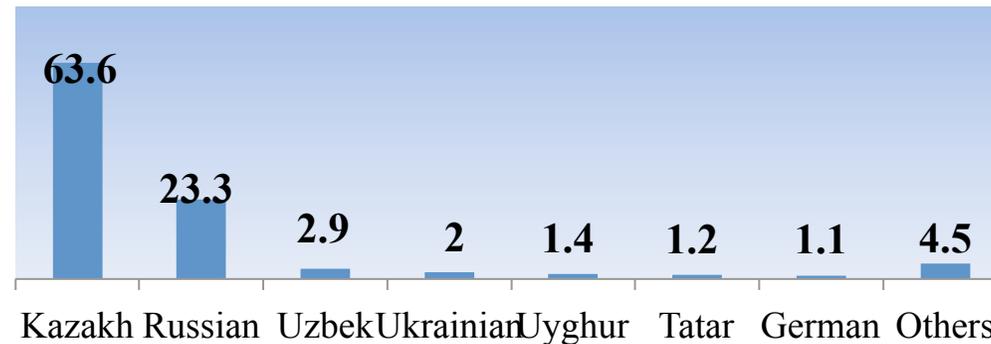
Capital

**Astana**

5

Currency

**Tenge** (1 tenge=0.0029\$, as of 25.08.2016)





# UZBEKISTAN

**Lower middle  
income country**



**1**

Population  
**31,576,400**

**2**

Area  
**448,978 km<sup>2</sup>**

**3**

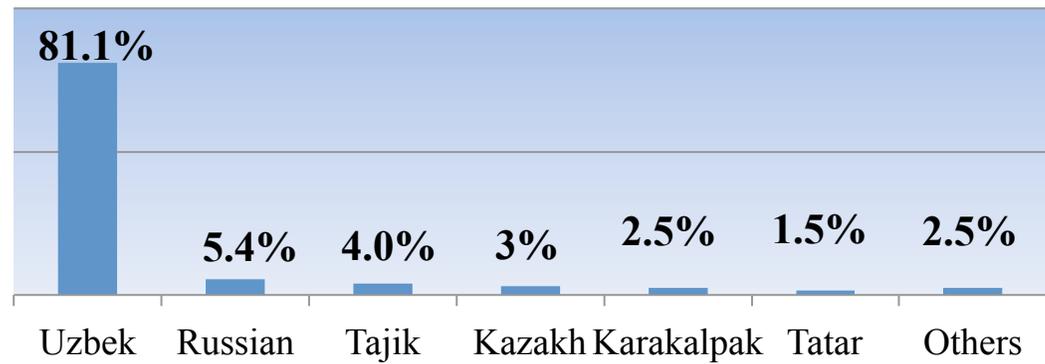
Ethnic Groups  
**Uzbek**

**4**

Capital  
**Tashkent**

**5**

Currency  
**Som** (1 som=0.0003\$,  
as of 25.08.2016)



# **2 SME development trends** **(1991-2013)**

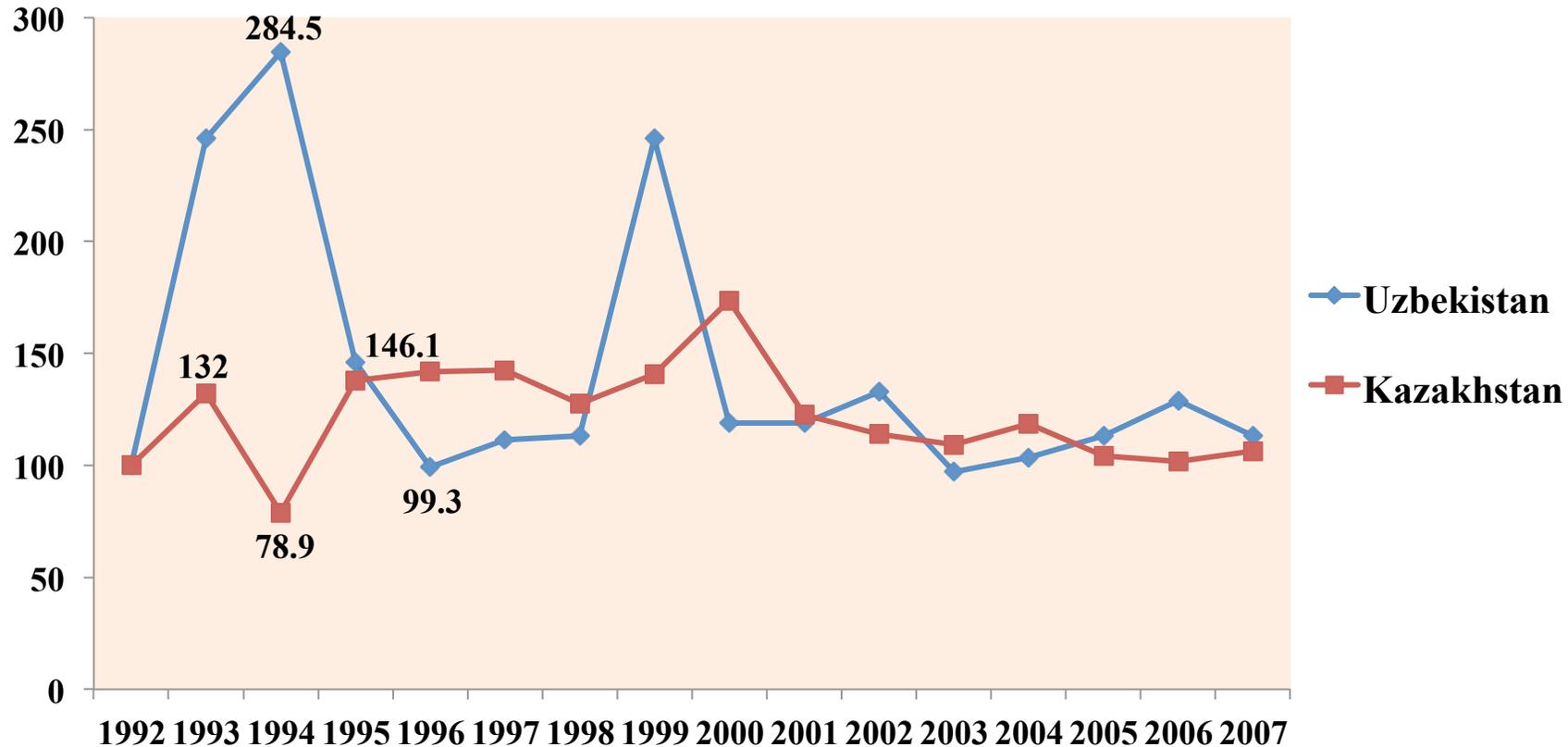
## Differences in definitions of SMEs in UZB and KAZ

Country	Uzbekistan	Kazakhstan
Form of activity	Individual entrepreneur, small and micro enterprise	Individual entrepreneur, small, micro, medium enterprises
Number of employees	<p><b>Small enterprises:</b>                      &lt; 40: mining and manufacturing sectors                      &lt; 20: construction, agriculture, and other production sectors                      &lt; 10: scientific/academic sphere, retail, services and other non-production sectors</p> <p><b>Micro enterprises:</b>                      &lt; 10: manufacturing, agriculture, other production sectors                      &lt; 5: retail, services and other non-production sectors                      &lt; 10: scientific/academic sphere, retail, services and other non-production sectors</p>	< 50: all sectors, excluding such spheres as gambling, show-business, etc.
Annual average income		Micro: annual average income of less than 30,000 times MCI Small: annual average income of less than 300,00 times the MCI Medium: annual average income of more than 300,000 but less than 3,000,000 times the MCI

Note: MCI = Monthly Calculation Index is equivalent to T 1731 tenge

1992-2007

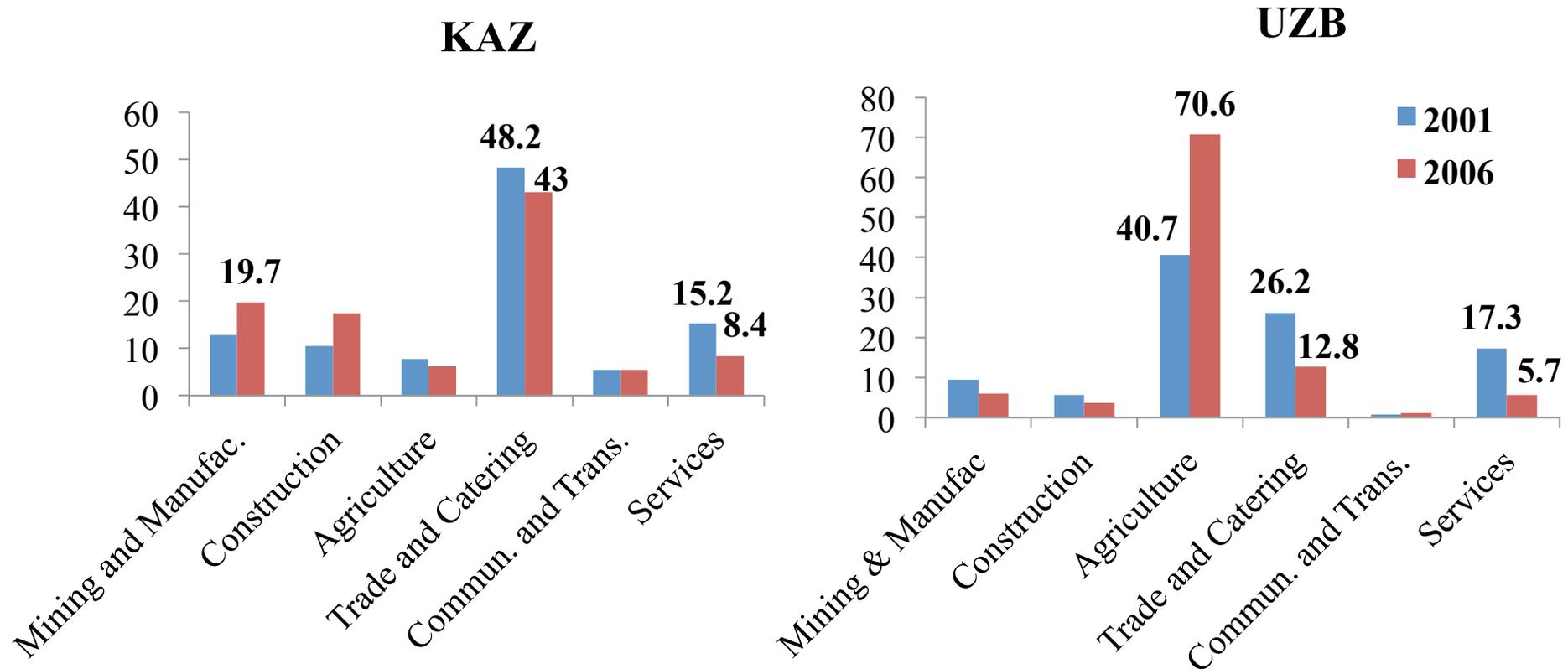
What caused the **decreases in the number of SMEs** in KAZ in 1994 and UZB in 1996?



**Figure 1: Growth rate of the number of SMEs (previous year=100%)**

Source: Created by author, based on data on SMEs from Journal paper “Do initial conditions matter? A comparative analysis of SME Development in Russia, Kazakhstan, and Uzbekistan”, by Viktoriya Kan.

## What caused the differences in composition (%) of SMEs by industry in KAZ and UZB?

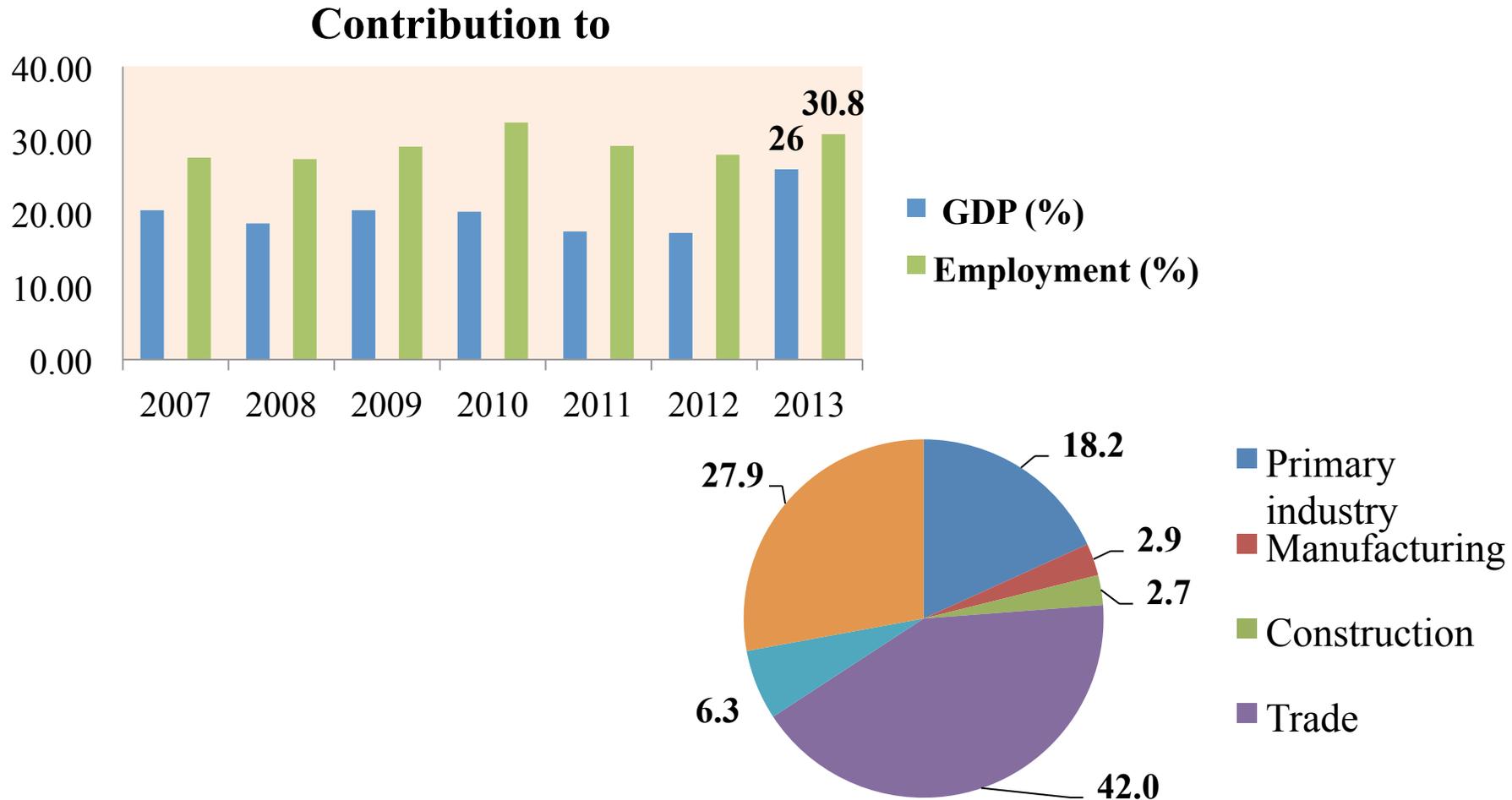


**Figure 2: Composition (%) of SMEs by industry (2001 and 2006)**

Source: Created by author, based on data on SMEs from Journal paper “Do initial conditions matter? A comparative analysis of SME Development in Russia, Kazakhstan, and Uzbekistan”, by Viktoriya Kan.

**2007-2013**

SME contribution to **economic development** in **KAZ**

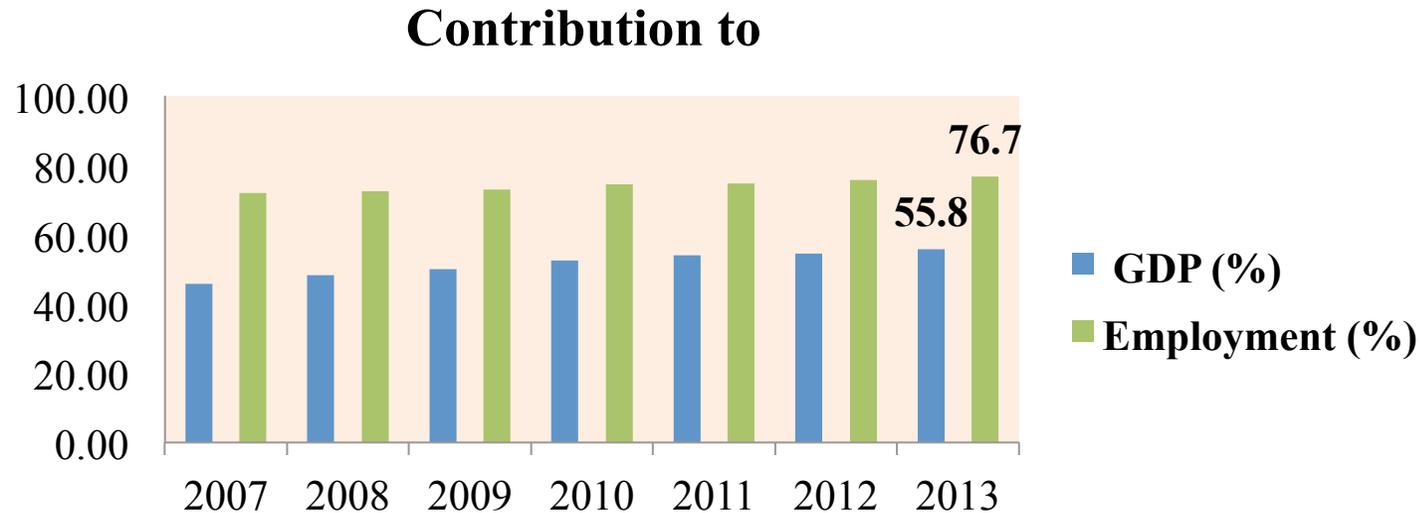


Source: ADB. Sector Assessment (Summary): MICRO, SMALL AND MEDIUM-SIZED ENTERPRISE DEVELOPMENT;

Note: SME= small and medium-sized enterprise

2007-2013

## SME contribution to **economic development** in **UZB**



Small business are important in Agriculture (98% of total output), Construction (70.7%), Retail trade (45.3%), Services (44.7%)

The development of SMEs within two national economies differs significantly: ***UZB demonstrated higher SME sector development than KAZ***

***What are the main factors that caused the differences in the levels of SME development in KAZ and UZB?***

# **3 Factors that caused differences in the levels of SMEs in KAZ and UZB**

*What are the main factors that caused the differences in the levels of SME development in KAZ and UZB?*

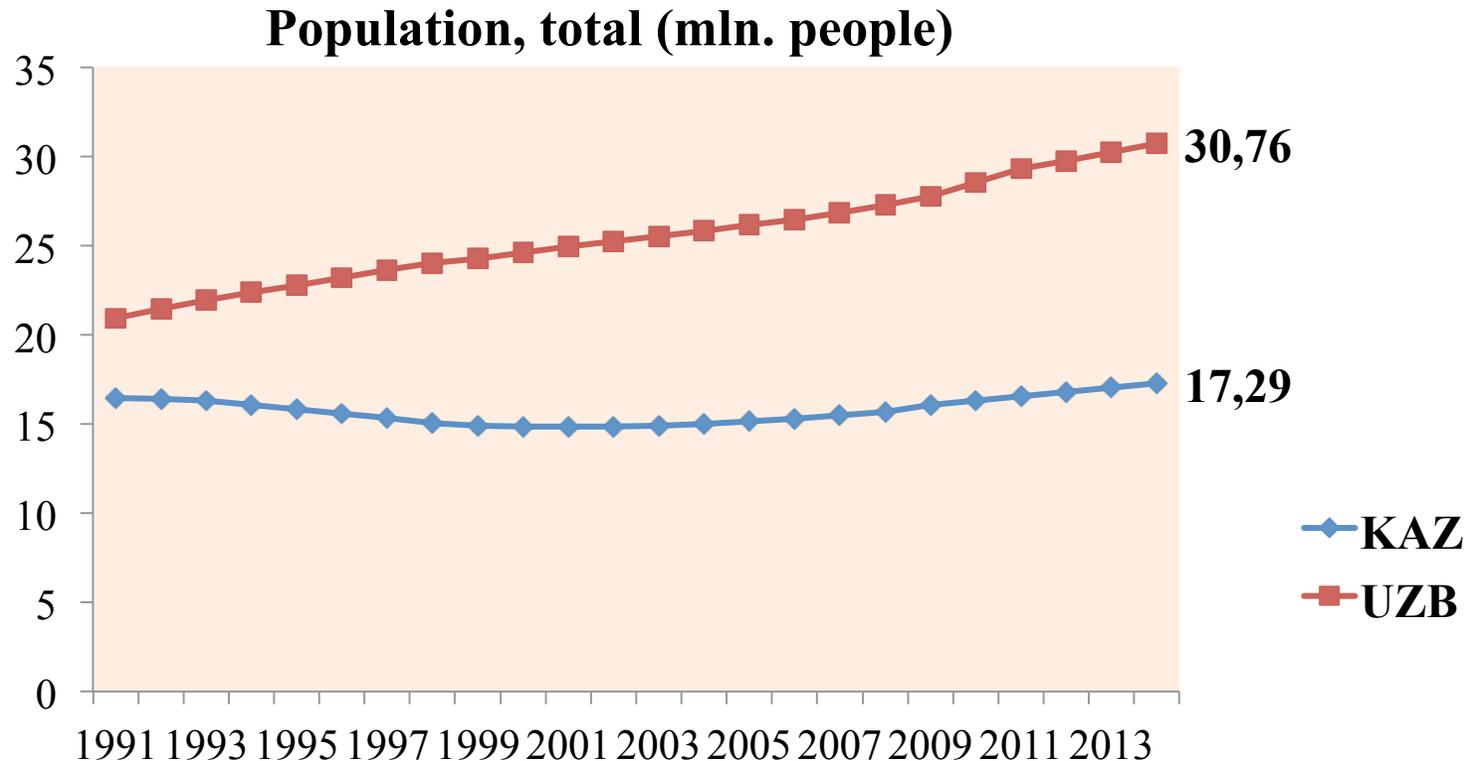
1. Transition policies from a centrally planned to a market-based economy
2. Demographic characteristics

## 1. The impact of **transition policies** on SME development

- Kazakhstan's introduction of its **own currency** (tenge) and its **withdrawal from the ruble zone** starting from 1993  **higher entry barriers, withdrawal of many existing SMEs.**
- Control of the trade  **decrease in percentage of SMEs concentrated in trade and service in UZB.**
- Foreign currency exchange system  **negatively impacted on SMEs in manufacturing industry in UZB**

## 2. Demographic characteristics: **Demand side factors**

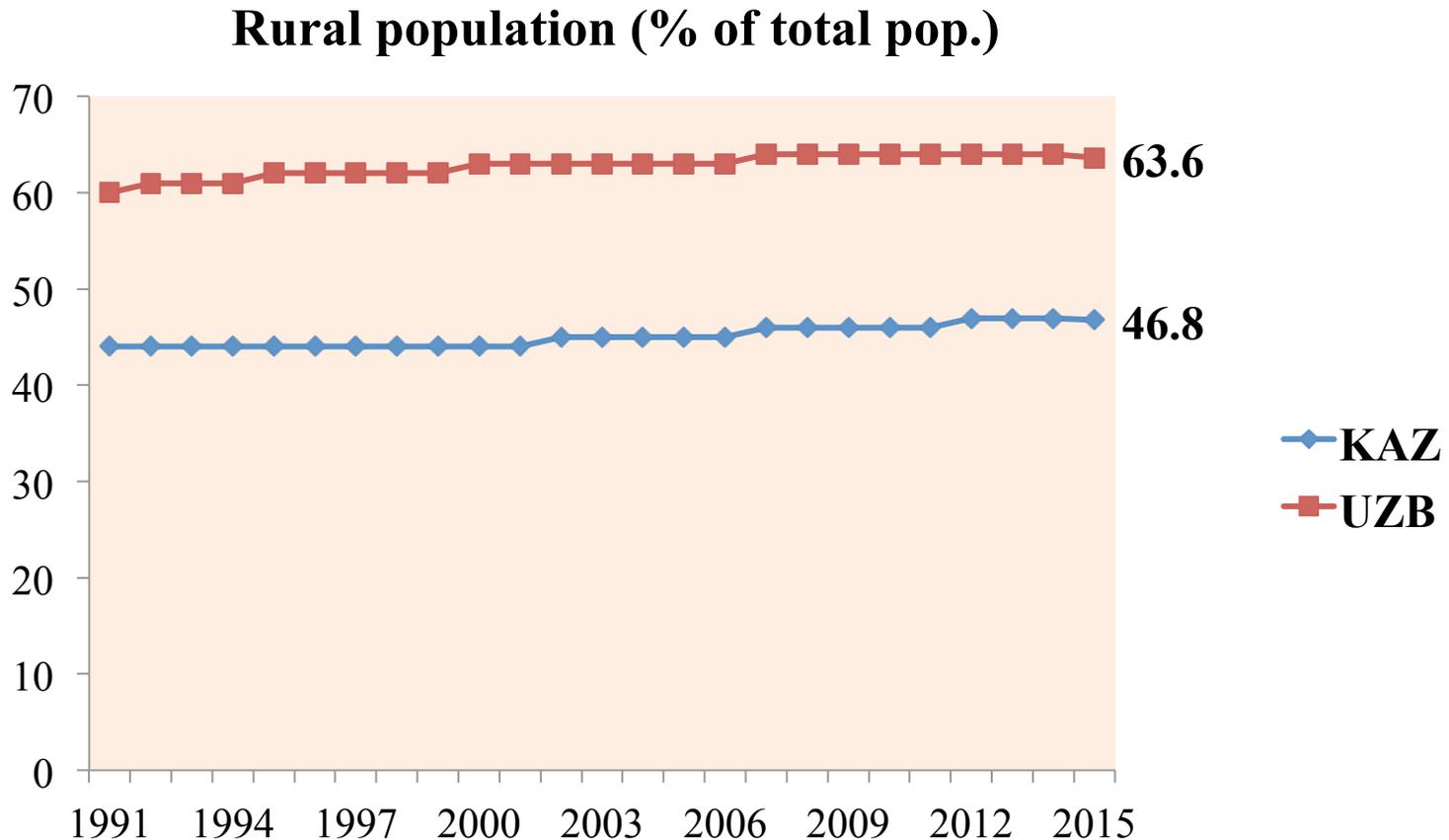
**Expansion of the consumer market** due to **population growth** is a factor in promoting the entry of new business



Source: Created by author, based on statistics on population from TheGlobalEconomy.com, The World Bank

## 2. Demographic characteristics: **Supply side factors**

Share of **rural population** as a potential source of **low labor costs**

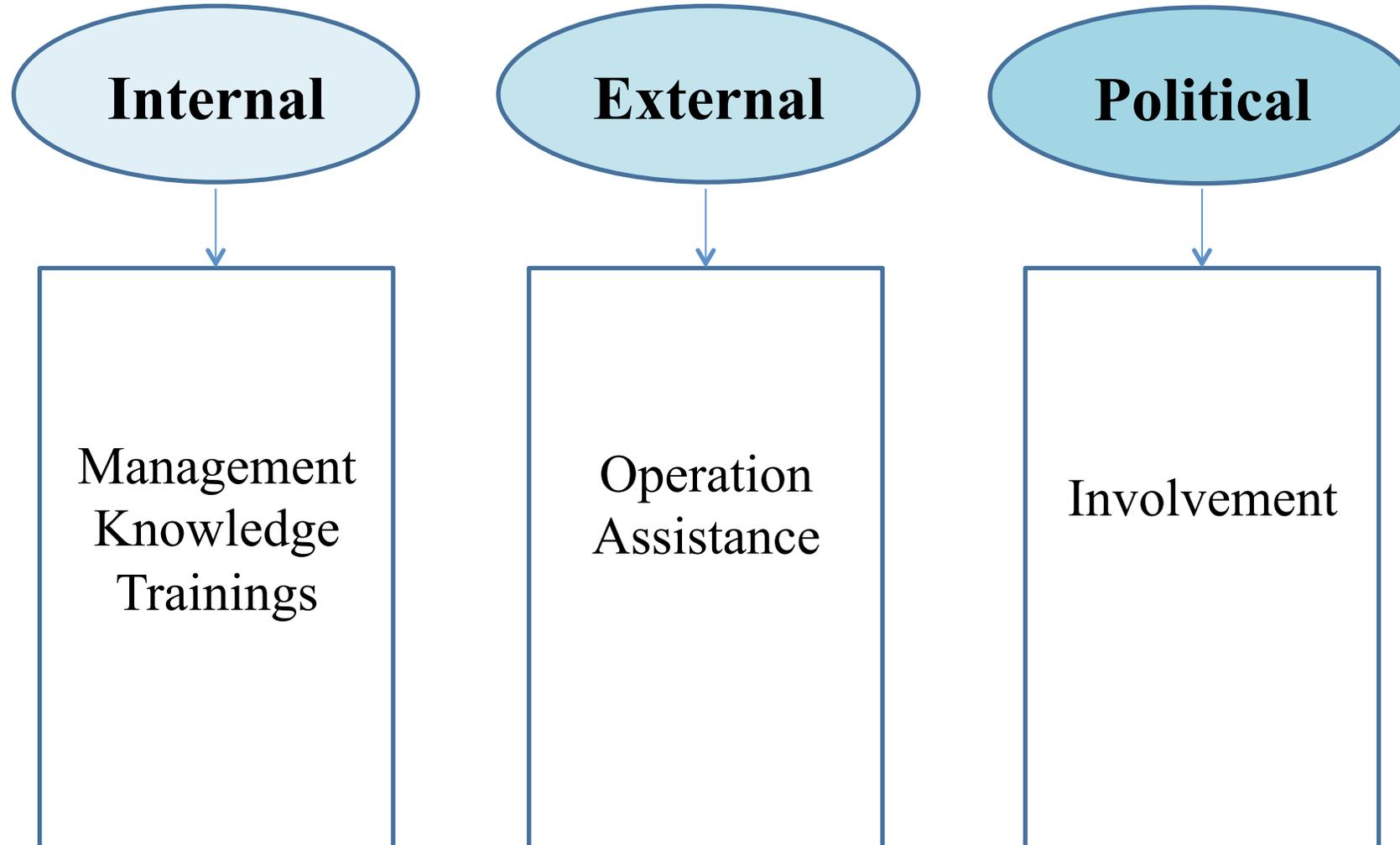


# **4 Factors affecting SME's sustainability**

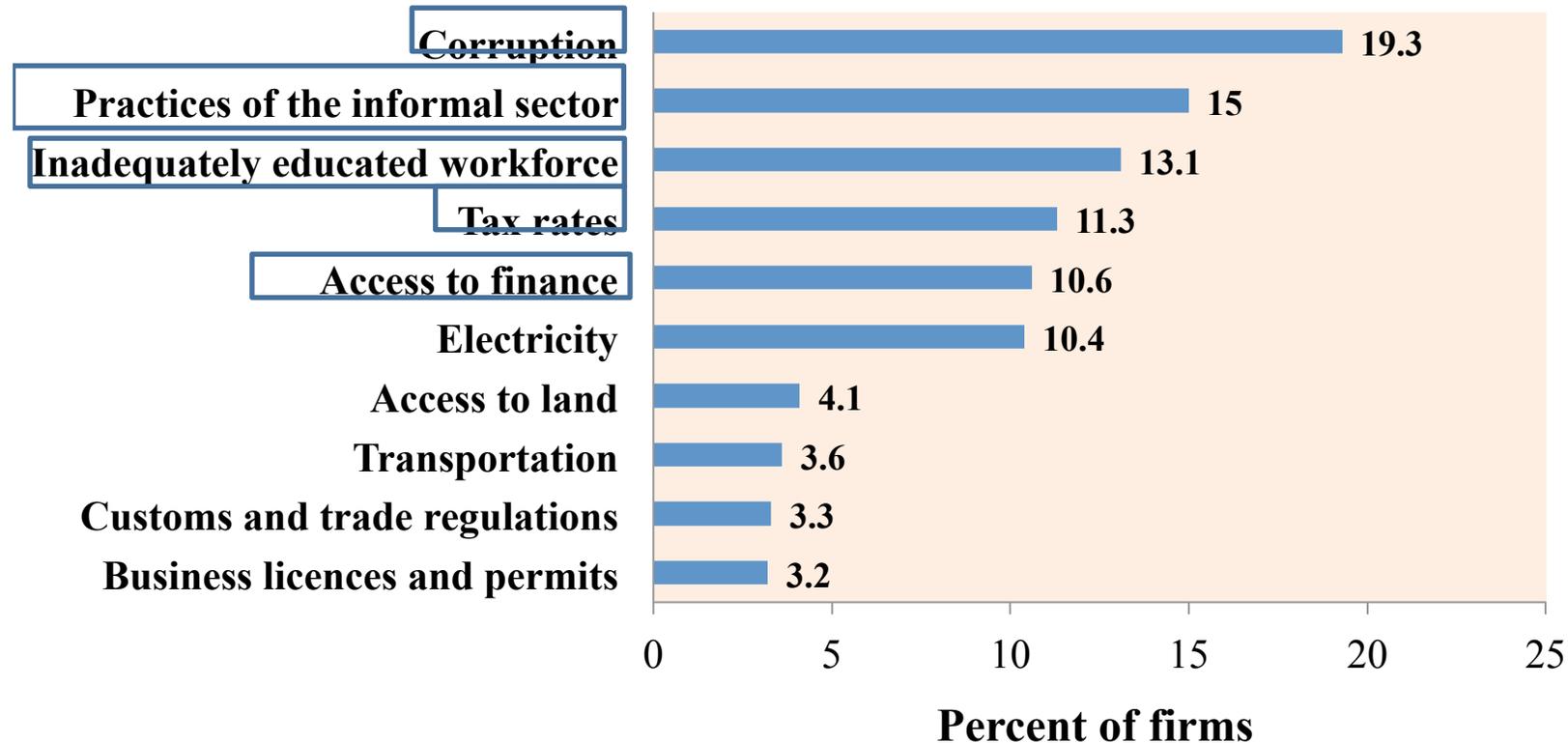
## Factors affecting SME's sustainability

1. Financial Aspect
2. Government control
3. Human Resource Aspect
4. Technological Aspect
5. Gender Gap
6. Financial infrastructure

## Problems facing SMEs in UZB and KAZ

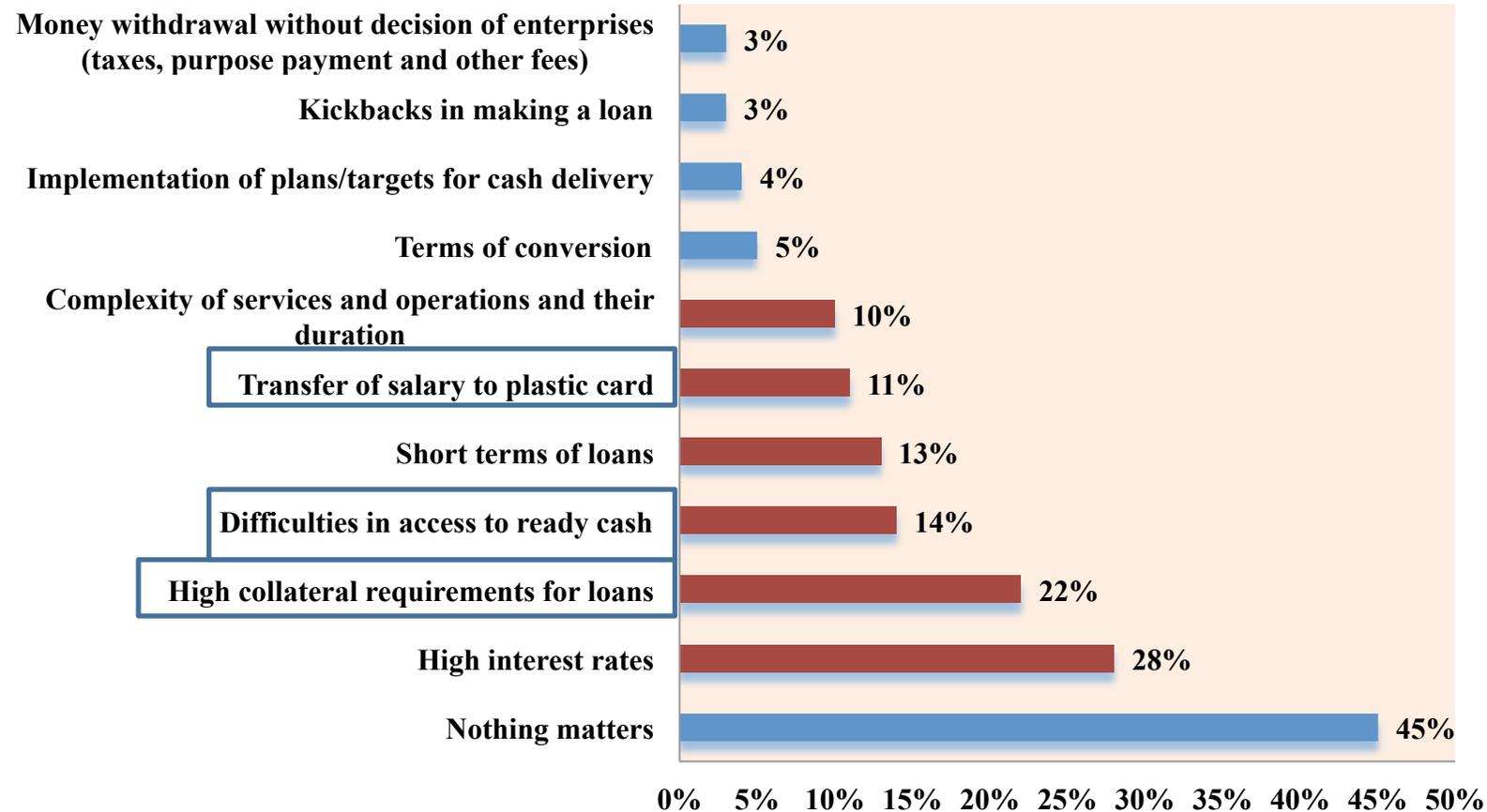


## Financial Aspect. Obstacles for KAZ firms



**Insufficient access to financial resources and investment capital are barriers to growth for SMEs in KAZ and UZB**

# Financial Aspect. Obstacles for UZB firms

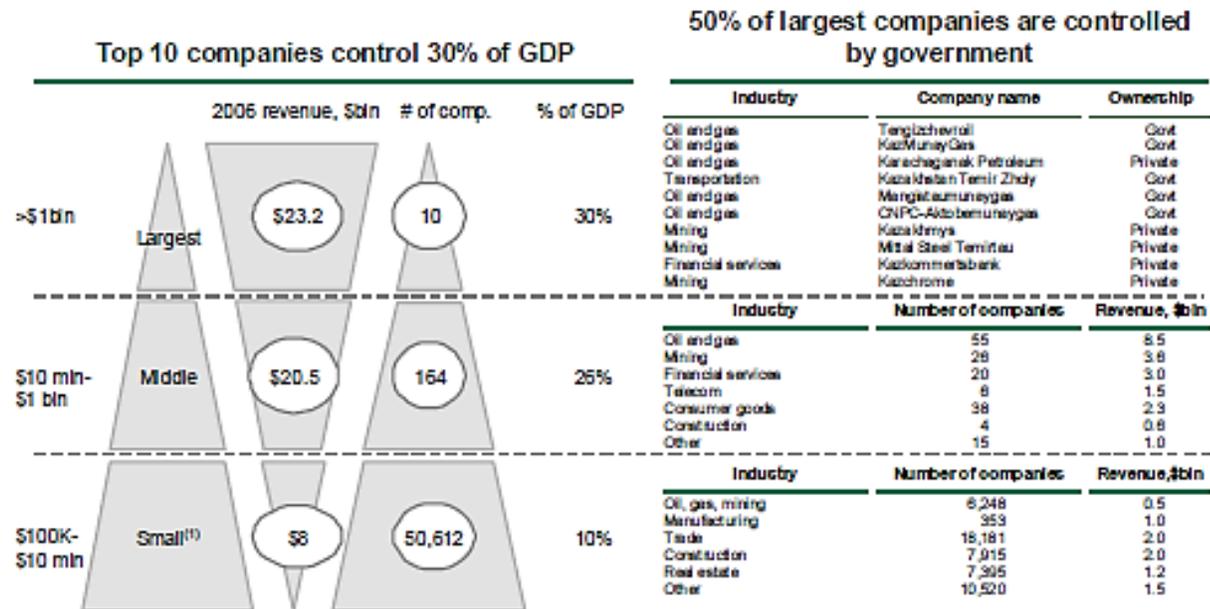


The greatest concern of entrepreneurs in their relations with banks is high interest rates for commercial loans

Source: Entrepreneurs of Uzbekistan as a basis for the middle class formation, Results of sociological research

## 2. Government Control

In KAZ, the market is dominated by few large companies in extractive industries, of which several are under government control



Lending to state-owned enterprises left SMEs strapped for working capital in KAZ

### 3. Human Resource Aspect

Old socialist ideas in business strategies due to the lack of understanding and knowledge of **market economy** fundamentals

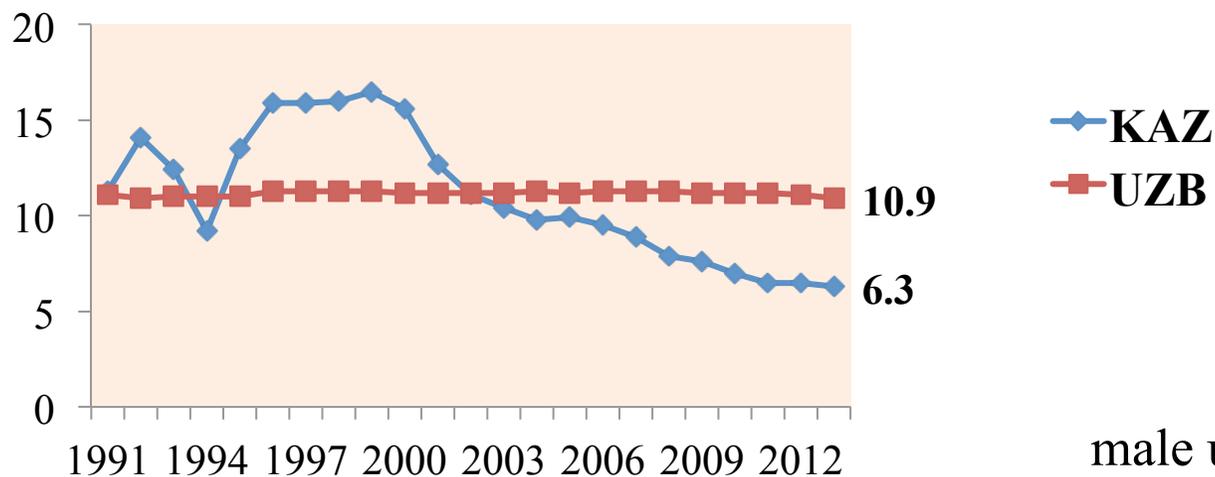
## 4. Technological Aspect

The **productivity and quality problems** stem from the old production facilities left from the Soviet times

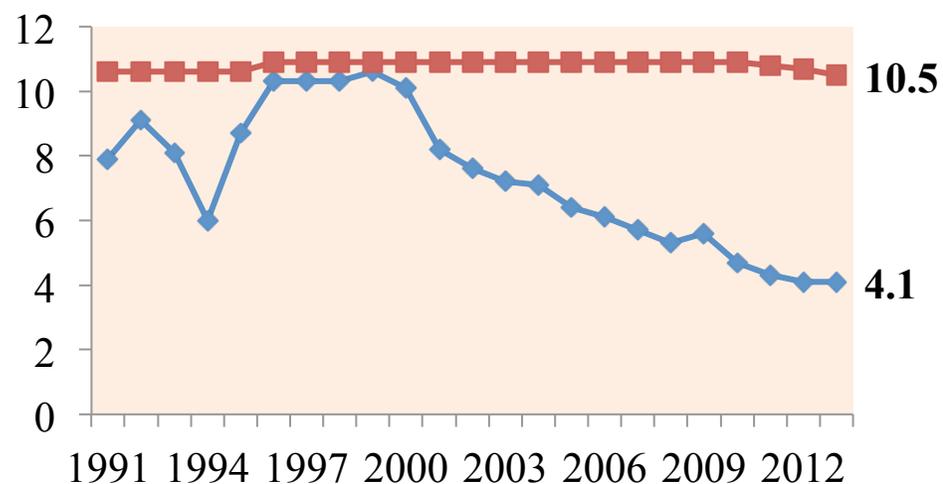
Indicator	Ownership	UZB	KAZ	Eastern Europe and Central Asia
Percent of firms using technology licensed from foreign companies		<b>8.5</b>	<b>10</b>	16.9
	Domestic	<b>6.5</b>	<b>9</b>	14.7
Percent of firms having their own web site	10 % or more foreign ownership	<b>21</b>	<b>25.4</b>	39.7
	Domestic	<b>22.6</b>	<b>43.9</b>	54.8
Percent of firms using e-mail to interact with clients/suppliers	10 % or more foreign ownership	<b>20.2</b>	<b>43.7</b>	53.8
	Domestic	<b>50.3</b>	<b>55.5</b>	69.1
Percent of firms with an annual financial statement reviewed by external auditors		<b>44.4</b>	<b>88.2</b>	79.8
	Domestic	<b>42.2</b>	<b>88</b>	79
	10 % or more foreign ownership	<b>69.5</b>	<b>94.6</b>	89.3
	Domestic	<b>30.3</b>	<b>13.3</b>	34.4
		<b>30.2</b>	<b>12.1</b>	33.2
	10 % or more foreign ownership	<b>31.5</b>	<b>46.9</b>	51

## 5. Gender Gap. Female and male unemployment rate

female unemployment rate



male unemployment rate

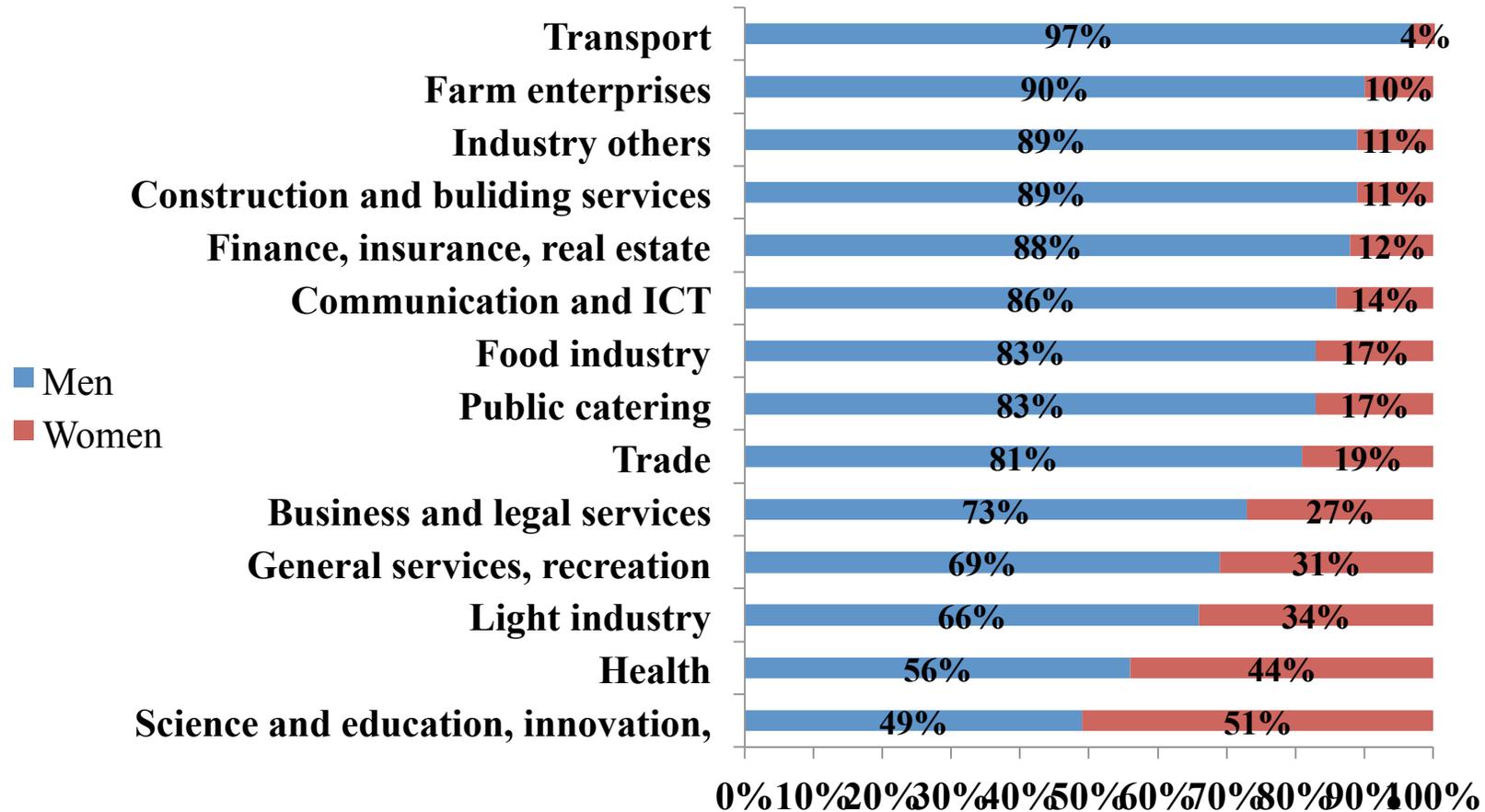


Male and Female labor participation rate in 2013:

	Male	Female
KAZ	77.9%	67.7%
UZB	75.6%	48.1%

## UZB: Women entrepreneurs

Most women were represented in areas such as science and education, innovation and mass media 51%, health 44%, light industry 34%



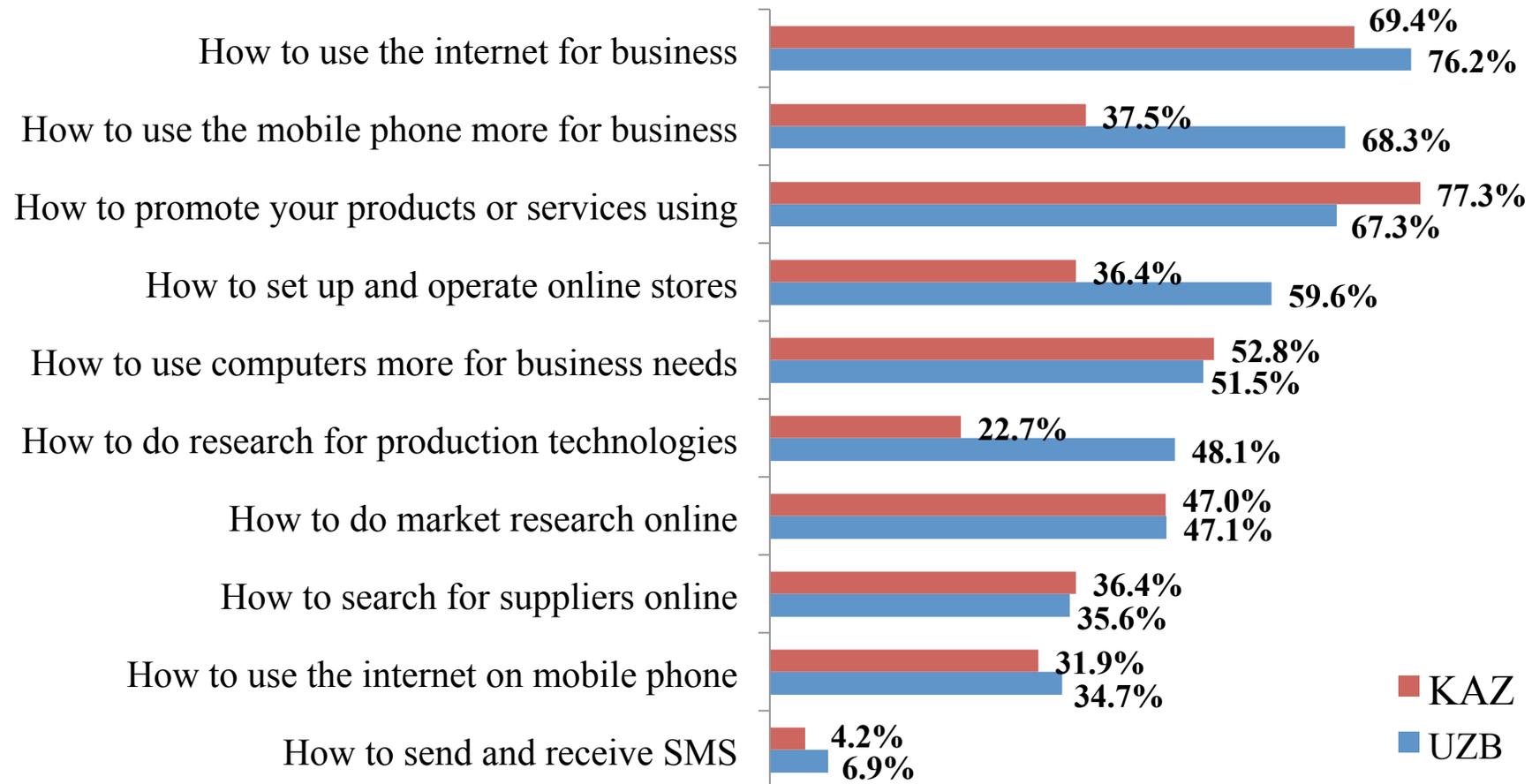
## UZB & KAZ: Women perception of Information and Communication Technology Skills

**Women entrepreneurs are keen to improve their ICT knowledge in order to improve productivity and grow their microenterprises**

	UZB		KAZ	
	Agree	Disagree	Agree	Disagree
Interested in learning the skills to use mobile phones in business	<b>92.4%</b>	7.6%	<b>74.2%</b>	25.8%
Interested in learning the skills to use a computer in business	<b>88.6%</b>	11.4%	<b>75.3%</b>	24.7%
Interested in learning the skills to use the internet for business	<b>86.7%</b>	13.3%	<b>80.4%</b>	19.6%
Confident in using a computer for business	46.6%	53.4%	30.1%	69.9%
Confident in using the internet for business	30.8%	69.2%	20.4%	79.6%

## UZB & KAZ: ICT Skills Training

### Women entrepreneurs are interested in...



UZB & KAZ: Women’s Participation Rate in Business Support Programs for Women Entrepreneurs is **very low...**

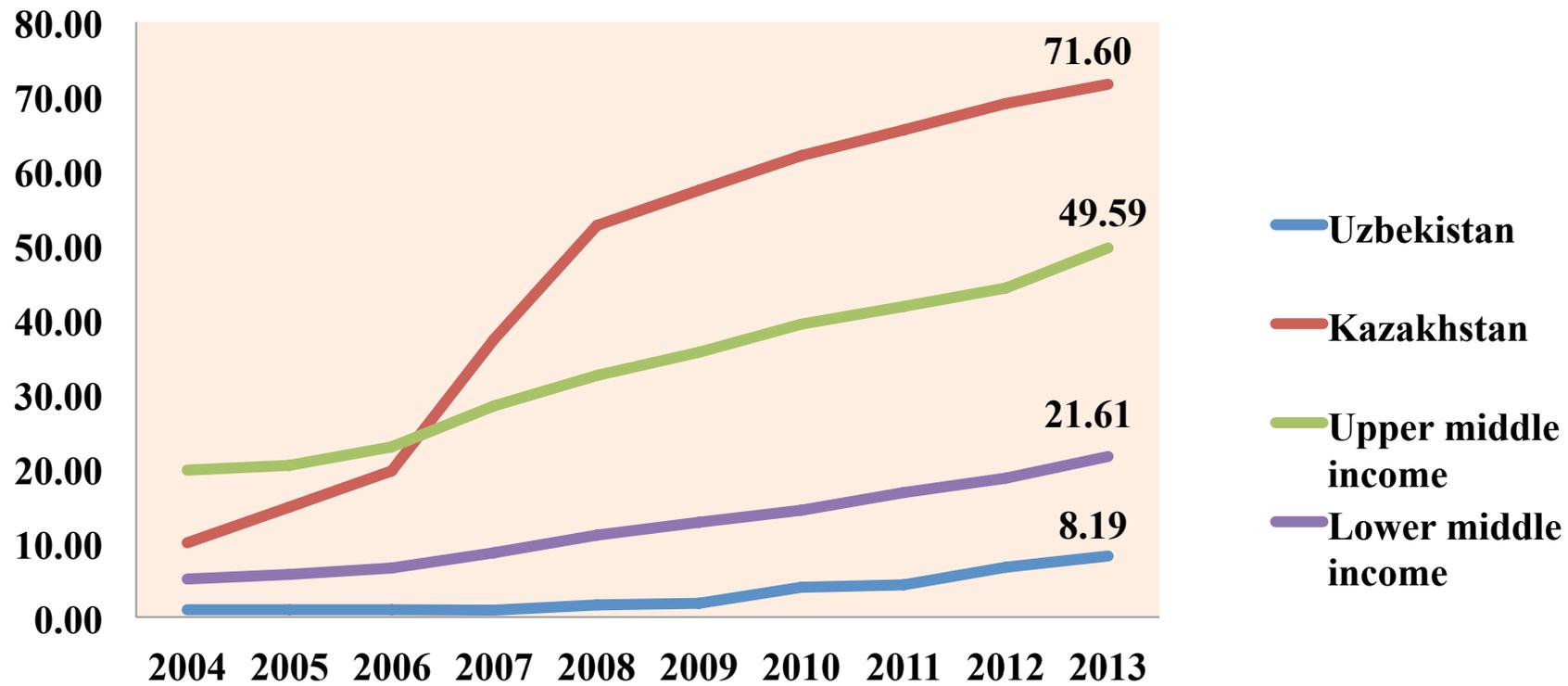
	UZB		KAZ	
	Yes	No	Yes	No
Government procurement program targeted to women business owners <sup>b</sup>	10.5%	<b>89.5%</b>	1%	<b>99%</b>
Women’s trade fair or exhibition (regional, national, or international)	26.7%	<b>73.3%</b>	2%	<b>98%</b>
Services of a women’s business support or enterprise center	21%	<b>79.1%</b>	4%	<b>96%</b>
Business counseling or mentoring program for women entrepreneurs	37.1%	<b>62.9%</b>	4%	<b>96%</b>
Loan program for women entrepreneurs	28.6%	<b>71.4%</b>	5%	<b>95%</b>
Entrepreneurship training program for women entrepreneurs	46.7%	<b>53.3%</b>	22 %	<b>78%</b>

Source: ADB report “Information and Communication Technologies for Women entrepreneurs. Prospects and Potential in Azerbaijan, Kazakhstan, the Kyrgyz Republic, and Uzbekistan.

## 6. Financial ICT: ATM machines, card payment machine

In **UZB**, difficulties in access to ready cash, transfer of salary to plastic cards is due to the **lack of ATM machines**.

**ATM machines per 100,000 adults**



# 5 Recommendations

## Recommendations toward SME fostering policies

### Entrepreneurs:

1. Change deep-rooted socialist mindset
2. Know and demand their rights
3. Participate in business support programs

### Government:

1. Provide equal rights and opportunities
2. Less control over market
3. Provide access to financial services
4. Organize training centers and aware people about them
5. Simplify tax system
6. Build gender capacity

### International organizations:

1. Provide technical, financial assistance
2. Provide advice and appropriate encouragement to the government
3. No plain credit lines
4. Frequent enterprise surveys