BG Pulse Journal USA
ISSN:1947-2536 http://www.bgpulseusa.com/index.php/bg

IMPROVING BUSINESS VALUATION AND INVESTMENT FINANCING MECHANISMS FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN UZBEKISTAN

Rafiyeva Zarina Xusanovna
Senior Lecturer, Department of 'Investment and Innovation',
Samarkand Institute of Economics and Service
Rasulov Donor Sayfiddinovich
Student of Samarkand institute of economics and service
doi:https://doi.org/10.5281/zenodo.23688493

Abstract. This study examines the relationship between business valuation and investment financing for small and medium-sized enterprises (SMEs) in Uzbekistan. It identifies institutional, financial, and informational constraints that limit the effective assessment of enterprise value and access to investment capital. Using official statistics, national legislation, comparative analysis, and established valuation methods, the research develops an integrated framework combining discounted cash flow analysis, market multiples, asset-based valuation, financial transparency, and risk-adjusted financing. The findings indicate that reliable valuation can reduce information asymmetry, improve credit allocation, and strengthen investor confidence. The study recommends digital financial reporting, differentiated credit guarantees, and the development of alternative investment instruments tailored to SME characteristics.
Keywords: small and medium-sized enterprises, business valuation, investment financing, discounted cash flow, financial transparency, credit guarantees, investment attractiveness, Uzbekistan.

Annotatsiya. Maqolada O'zbekistonda kichik va o'rta biznes subyektlari qiymatini baholash hamda investitsiyalarni moliyalashtirish mexanizmlarini takomillashtirish masalalari tadqiq etilgan. Rasmiy statistik ma'lumotlar, milliy qonunchilik va ilmiy yondashuvlar asosida biznes qiymatini aniqlashdagi muammolar, moliyaviy shaffoflik hamda kredit resurslaridan foydalanish imkoniyatlari tahlil qilingan. Daromad, bozor va xarajat yondashuvlarini integratsiyalash, risklarni hisobga olish, kredit kafolatlari va muqobil moliyalashtirish vositalarini rivojlantirish bo'yicha takliflar ishlab chiqilgan.
Kalit so'zlar: kichik va o'rta biznes, korxona qiymati, investitsiyalarni moliyalashtirish, diskontlangan pul oqimi, moliyaviy shaffoflik, kredit kafolatlari, investitsion jozibadorlik, O'zbekiston.

Аннотация. В статье исследуются вопросы совершенствования оценки стоимости субъектов малого и среднего бизнеса и механизмов финансирования инвестиций в Узбекистане. На основе официальной статистики, национального законодательства и научных подходов анализируются проблемы определения стоимости предприятий, финансовой прозрачности и доступа к кредитным ресурсам. Разработаны предложения по интеграции доходного, рыночного и затратного подходов, учёту инвестиционных рисков, развитию кредитных гарантий и альтернативных инструментов финансирования.
Ключевые слова: малый и средний бизнес, стоимость предприятия, финансирование инвестиций, дисконтирование денежных потоков, финансовая прозрачность, кредитные гарантии, инвестиционная привлекательность, Узбекистан.

Introduction

Small and medium-sized enterprises play a strategic role in economic diversification, employment generation, regional development, and the expansion of private-sector activity. Their contribution to national economic performance depends not only on the number of operating businesses but also on their productivity, technological capabilities, financial resilience, and ability to attract investment. In emerging economies, these characteristics are particularly important because smaller firms often operate with limited capital reserves, relatively short financial histories, and restricted access to long-term financing.

Uzbekistan provides a relevant context for examining these relationships. According to the National Statistics Committee, the share of small business and private entrepreneurship in gross domestic product was approximately 53.5% in 2024, based on the published statistical series. The corresponding indicator for 2023 was approximately 53.8%. The official statistical database subsequently reported a 52.2% share for 2025, reflecting the published annual series and its revisions. These figures confirm the sector's substantial economic contribution while also highlighting the importance of examining changes in its relative productivity and structure.

The significance of SMEs is also evident in their industrial and regional activities. In January–September 2025, small businesses accounted for 33.4% of industrial production and 75.7% of construction work, according to the National Statistics Committee's press release. Their contribution varies substantially across economic activities, indicating that valuation and financing policies should reflect differences in operating models, asset intensity, and revenue stability rather than treat all enterprises as financially identical.

Despite this economic importance, the assessment of SME value remains complex. Large companies can often be evaluated using extensive audited financial statements, publicly traded market comparables, and established financing histories. Smaller businesses may have limited disclosure, concentrated customer bases, owner-dependent management, informal operational practices, and insufficient collateral. Their economic value can also depend on intangible resources, including customer relationships, brand reputation, digital platforms, specialised knowledge, and the entrepreneurial capabilities of their founders.

These characteristics create a connection between valuation and financing. When an enterprise cannot demonstrate its sustainable earnings or the quality of its assets, lenders may rely excessively on physical collateral. Investors may respond by demanding higher returns, reducing the amount of capital offered, or declining to finance otherwise viable projects. Conversely, a credible valuation supported by transparent information can improve the allocation of financial resources and facilitate negotiations between business owners, lenders, and investors.

The legal framework of Uzbekistan provides a foundation for addressing these challenges. The Law of the Republic of Uzbekistan No. 811-I of 19 August 1999, On Valuation Activity, establishes the legal basis for valuation activities and addresses valuation standards, procedures, and methodological requirements. The Law No. ZRU-598 of 25 December 2019, On Investments and Investment Activity, regulates relations associated with domestic and foreign investment. These laws are relevant to the development of reliable business valuation and a more predictable investment environment.

Literature review

Business valuation is traditionally based on three principal approaches: income, market, and cost. Their conceptual foundations are complementary, although their practical relevance varies according to the characteristics of the enterprise being assessed.

The income approach estimates value by reference to expected future economic benefits. Discounted cash flow analysis is especially relevant when a business has a reasonably identifiable operating model and can produce defensible forecasts. The method requires estimates of future free cash flows, an appropriate discount rate, and, where applicable, a terminal value. Its main advantage is that it connects enterprise value with the firm's future capacity to generate cash rather than simply recording the historical cost of its assets. However, the reliability of discounted cash flow analysis depends on the quality of its assumptions. Overly optimistic revenue projections, underestimated operating expenses, insufficient working capital, or an inappropriate discount rate can materially distort the result. These limitations are particularly significant for small enterprises exposed to seasonal demand, currency fluctuations, changing borrowing costs, or customer concentration.

Damodara emphasises the importance of consistency between projected cash flows and discount rates. Koller, Goedhart, and Wessels (2020) similarly demonstrate that value creation depends on the relationship between returns on invested capital and the cost of capital. For SMEs, these principles imply that growth alone should not be interpreted as evidence of value creation. Expansion that requires excessive borrowing or generates returns below the cost of financing may weaken the enterprise's economic position.

The market approach estimates value by comparing the enterprise with similar businesses or transactions. Multiples such as enterprise value to earnings before interest, taxes, depreciation, and amortisation (EV/EBITDA), price-to-earnings, and enterprise value to revenue can provide useful benchmarks. Yet their applicability in Uzbekistan may be restricted by limited publicly available transaction data, differences in accounting practices, sector concentration, and the small number of genuinely comparable enterprises. Market multiples should consequently be adjusted for differences in profitability, growth prospects, liquidity, financial leverage, governance quality, and business risk. Applying a multiple from a large international company directly to a small Uzbek enterprise without such adjustments can produce misleading conclusions.

The cost approach assesses the value of assets after considering relevant liabilities and, where appropriate, the cost of replacing or reproducing assets. It can be especially useful for asset-intensive businesses, enterprises with unstable earnings, and firms whose principal value lies in identifiable tangible resources. Nevertheless, it may underestimate the value of enterprises with strong customer networks, proprietary software, effective distribution systems, or other intangible advantages. The importance of combining these approaches is reflected in Uzbek scholarship. Khomitov and Anorkulova's study of international and Uzbek small-business valuation practices examines the application of income, market, and cost approaches and highlights the relevance of financial transparency and comparable-market information. Their analysis supports the need to adapt valuation techniques to the characteristics of the domestic business environment.

A related strand of research examines the financing constraints of smaller enterprises. Bank lending remains important because it provides working capital and investment resources without necessarily requiring the owners to surrender equity. However, debt financing is not equally appropriate for every business. Enterprises with predictable cash flows may be able to service scheduled repayments, whereas innovative firms with uncertain revenues may require equity, patient capital, leasing, or blended financing. Karimov, in his study of financing small business and private entrepreneurship in Uzbekistan, considers bank lending, state support programmes, microcredit, and cooperation with international financial institutions. The study reinforces the importance of diversifying financing sources rather than relying on a single instrument.

The theoretical connection between valuation and financing can be explained through information asymmetry. Business owners generally possess more detailed knowledge about their operations than external financiers. If this information cannot be verified, lenders may increase collateral requirements, charge a higher risk premium, or reject applications. Financial reporting, independent valuation, and credible forecasts can reduce uncertainty, although they cannot eliminate genuine business risk. Accordingly, the present study treats valuation not merely as an exercise in determining a monetary figure but as an information infrastructure connecting enterprise performance with financing decisions. This perspective provides the basis for the methodological framework developed below.

Methodology

The research applies a qualitative and quantitative analytical framework based on official statistical data, legislative analysis, comparative valuation methods, and the examination of SME financing mechanisms. The methodological design combines descriptive statistics, institutional analysis, financial modelling, and comparative assessment to identify the principal constraints affecting enterprise valuation and investment financing in Uzbekistan.

Results

The economic significance of SMEs and the need for differentiated valuation

Official statistics confirm that small business remains a major component of Uzbekistan's economy. However, the sector's contribution to GDP alone cannot establish the financial strength of individual enterprises. Two businesses operating in the same industry may generate comparable revenue while exhibiting substantially different profitability, liquidity, debt exposure, and future growth prospects. The distinction is important for investment allocation. A business with modest current earnings but stable contracts, efficient operations, and strong growth opportunities may possess considerable investment potential. Conversely, a company with high turnover but weak margins, excessive borrowing, and persistent payment delays may have limited capacity to support additional debt.

The structure of small-business activity also differs across sectors. The National Statistics Committee reported that, in January–September 2025, small businesses generated industrial output worth UZS 258.5 trillion, representing 33.4% of total industrial production. Their share of construction work reached 75.7%. Such differences indicate that asset intensity, contract duration, inventory requirements, and cash-conversion cycles must be incorporated into valuation and financing decisions. For example, a manufacturing enterprise may require substantial investment in machinery and inventories before its sales revenue is realised. A software company may possess few physical assets but generate value through intellectual property and recurring subscriptions. Applying the same collateral-based lending model to both enterprises can produce inefficient financing outcomes.

The analysis identifies financial information quality as a critical determinant of valuation reliability. Financial statements that accurately represent revenues, expenses, assets, liabilities, and cash flows enable external users to distinguish sustainable operating performance from temporary changes. In smaller enterprises, the separation between business and personal expenditure, inconsistent documentation, limited budgeting, and weak internal controls can complicate the reconstruction of normalised earnings. Such practices do not necessarily mean that a business lacks economic value; rather, they increase the cost of verifying its financial position.

Normalisation is particularly important when owners receive compensation that differs from market rates, related-party transactions are significant, or one-off expenses distort reported profitability. An appraiser should adjust these items only when sufficient evidence exists and

should clearly distinguish verified facts from assumptions. The value of intangible assets presents another methodological challenge. Customer relationships, trademarks, software, specialised employee knowledge, and supplier networks may contribute significantly to future cash flows without appearing fully in the balance sheet. Their economic value should be reflected through defensible cash-flow forecasts or appropriate valuation methods, while avoiding the double-counting of benefits already included in projected earnings.

The Law On Valuation Activity provides the statutory foundation for valuation procedures and standards. The practical challenge is to ensure that valuation reports for SMEs apply consistent assumptions, explain the evidence used, identify limitations, and distinguish enterprise value from equity value. The latter requires consideration of debt, cash, and other relevant claims on the business. A standardised valuation report should consequently include the valuation purpose and date, the basis of value, financial adjustments, forecast assumptions, discount-rate methodology, comparable transactions where available, sensitivity analysis, and the principal sources of uncertainty. Such documentation would make valuation outcomes more useful for banks, investors, business owners, and public support institutions.

Bank lending remains an important channel through which businesses finance equipment, inventory, working capital, and expansion. Central Bank statistics show that total outstanding loans in Uzbekistan reached UZS 595.309 trillion as of 1 December 2025, compared with UZS 525.887 trillion a year earlier. The increase was approximately 13%. Loans to legal entities amounted to UZS 378.147 trillion, compared with UZS 350.536 trillion a year earlier. These aggregate figures demonstrate the expansion of lending but should not be interpreted as SME-specific loan volumes.

A separate Central Bank publication reported that financing for small and medium-sized businesses and entrepreneurial activity among the population reached UZS 131.2 trillion in 2025, 42% above the previous year. The reported sectoral allocation included approximately UZS 43 trillion for trade and catering, UZS 17.9 trillion for agriculture, UZS 17.7 trillion for industry, UZS 15.2 trillion for construction, and UZS 12.5 trillion for transport and communications. These figures indicate substantial financing activity, while the concentration in trade and catering also raises questions about how effectively investment resources support productive capacity, technological upgrading, and long-term productivity.

This approach can reduce the likelihood that a business receives excessive debt based on inflated forecasts or is denied financing merely because it lacks substantial physical collateral. It also creates a clearer basis for distinguishing temporary liquidity problems from structural insolvency.

Table 1

Key indicators and implications for improving SME valuation and investment financing in Uzbekistan[1]

Indicator or analytical dimension	Evidence or current limitation	Implication for policy and practice
SME contribution to GDP	Approximately 53.5% in 2024 in the published official statistical series	Strengthen valuation and financing infrastructure for a major component of economic activity

[1] Author's work

SME share of industrial production	33.4% in January–September 2025	Expand access to equipment finance, leasing, and technology investment
SME share of construction work	75.7% in January–September 2025	Align financing maturities with contract execution and payment cycles
Total outstanding bank loans	UZS 595.309 trillion as of 1 December 2025	Evaluate the quality and allocation of lending, not just its aggregate growth
SME and entrepreneurial financing	UZS 131.2 trillion reported for 2025, up 42% year-on-year	Improve monitoring of additional investment, repayment capacity, and productivity outcomes
Financial disclosure	Inconsistent reporting and limited comparability can increase verification costs	Develop standardised digital financial records and proportionate assurance requirements
Business valuation	Income, market, and cost approaches may produce different results	Require transparent assumptions, cross-checks, and sensitivity analysis
Financing diversification	Bank loans may not suit all investment risk profiles	Expand appropriately regulated leasing, factoring, guarantees, and equity instruments

The table demonstrates that Uzbekistan's policy challenge is not simply to increase the amount of finance available to small enterprises. It is to establish a closer relationship between the quality of enterprise information, the reliability of valuation, the design of financing instruments, and measurable economic outcomes.

Discussion

The results suggest that improving SME valuation and investment financing requires a coordinated institutional response. Valuation methods, financial reporting, credit assessment, and investment policy should not be developed independently because weaknesses in one component can undermine the effectiveness of the others. The discounted cash flow method provides a theoretically sound foundation for assessing the value of businesses capable of generating future cash flows. However, its application in Uzbekistan requires particular attention to inflation, currency exposure, financing costs, sectoral volatility, and the availability of reliable historical information.

A major methodological issue is the selection of the discount rate. An excessively high rate can undervalue a viable enterprise, while an artificially low rate can encourage overinvestment and create unrealistic expectations among owners and financiers. Risk premiums should therefore be based on identifiable economic exposures and should not be added mechanically. Currency consistency is equally important. Cash flows projected in Uzbek soums should generally be discounted using a rate consistent with soum-denominated cash flows. If forecasts are prepared in a foreign currency, the discount rate and expected cash flows should reflect that currency's inflation

and risk characteristics. Mixing nominal and real variables, or combining cash flows and discount rates expressed in different currencies, can produce materially misleading results.

Scenario analysis should complement conventional DCF calculations. A manufacturing company, for example, may face uncertainty regarding imported equipment costs, exchange rates, energy expenditure, and demand. An agricultural enterprise may be more exposed to weather conditions, seasonal working-capital requirements, and commodity prices. These risks should be incorporated into transparent scenarios rather than concealed within an unexplained valuation adjustment. The market approach requires a different adaptation. In the absence of sufficient comparable transactions, valuers should identify the limitations of available benchmarks and adjust for differences in company size, liquidity, profitability, and risk. International multiples can provide contextual evidence, but they should not be treated as direct substitutes for domestic market data.

The cost approach remains useful for businesses whose value is closely related to identifiable physical assets. Nevertheless, replacement cost should not be confused with the economic value of an operating enterprise. Machinery that cannot generate adequate returns may have a relatively high replacement cost but a low contribution to going-concern value. The three approaches should therefore function as complementary evidence. Where the resulting estimates differ considerably, the valuer should explain whether the difference reflects weak forecasts, limited comparable data, obsolete assets, intangible value, or unusually high risk. A mechanically calculated average of three estimates would not resolve these underlying problems.

A reliable valuation system can improve credit allocation by providing lenders with a more complete understanding of a borrower's financial capacity. However, enterprise value and repayment capacity are not identical. A company may possess valuable land, machinery, or intellectual property while generating insufficient cash to meet repayments on time. Conversely, a service company with limited physical assets may generate predictable cash flows sufficient to support borrowing. Consequently, credit decisions should consider both the value of the enterprise and its capacity to service debt.

This distinction supports the development of cash-flow-based lending alongside traditional collateral-based assessment. Banks could evaluate historical operating cash flows, verified transaction records, customer contracts, receivables, and realistic forecasts when determining loan eligibility. Alternative data may improve assessment for smaller borrowers, but automated scoring should be transparent, explainable, and subject to controls against inaccurate or discriminatory decisions. Credit guarantees can address part of the collateral constraint. Under a carefully designed guarantee mechanism, a public institution assumes an agreed portion of the lender's eligible loss if a qualifying borrower defaults. This can encourage lending to economically viable businesses that lack sufficient collateral. Nevertheless, guarantees should not eliminate the lender's responsibility for due diligence, nor should they encourage enterprises to borrow beyond their repayment capacity.

Leasing can support the acquisition of productive equipment without requiring the enterprise to finance the entire purchase price from its own resources at the outset. It is particularly relevant for manufacturing, transport, construction, and certain agricultural activities. The financing decision should nevertheless consider the total leasing cost, the useful life of the equipment, expected productivity gains, and the enterprise's ability to make payments throughout the contract period. Factoring can improve working-capital management when firms sell goods or services on credit to financially reliable customers. By converting eligible receivables into earlier cash inflows, factoring can reduce the need to borrow against unrelated assets. Its usefulness depends on the quality of the receivables, the creditworthiness of the buyer, and the contractual allocation of default risk.

Equity financing is more suitable for businesses whose investment opportunities involve substantial uncertainty or a long period before profitability. Investors may contribute capital, governance expertise, and commercial networks in exchange for an ownership interest. Although this arrangement can reduce fixed repayment pressure, it requires credible valuation, clear shareholder rights, and effective mechanisms for resolving disagreements between founders and investors. Venture capital and angel investment are especially relevant for technology-intensive enterprises with scalable business models. However, such instruments cannot be expected to finance every small business. Traditional service providers, retailers, and mature manufacturing companies may benefit more from bank loans, leasing, or retained earnings than from venture investment.

Blended financing can combine private capital with appropriately structured public support or development-finance resources. For example, a productive investment project may receive commercial financing alongside a partial credit guarantee or a targeted investment subsidy. The public component should be justified by a clearly identified market failure or developmental objective, and its additional economic benefits should be assessed against its fiscal cost. The central principle is that the financing instrument should match the underlying economic activity. Requiring all enterprises to rely on collateralised bank loans can exclude promising investments, while providing equity to businesses with stable, predictable cash flows may unnecessarily dilute ownership.

Conclusion

Improving the valuation of small and medium-sized enterprises and strengthening investment financing mechanisms are closely connected objectives for Uzbekistan's economic development. The country's SMEs account for a substantial share of GDP and make important contributions to industrial production, construction, employment, and regional economic activity. Their long-term contribution, however, depends on their ability to convert entrepreneurial potential into sustainable productivity and investment returns. The study demonstrates that no single valuation method is sufficient for every enterprise. The income approach is particularly useful when future cash flows can be forecast reliably; the market approach provides external benchmarks when comparable data are available; and the cost approach is relevant when identifiable assets play a major role in business value. Their integration, supported by transparent assumptions and sensitivity analysis, can improve the credibility of valuation outcomes.

The principal institutional challenge is to connect valuation with actual financing decisions. Better financial disclosure, proportionate verification, risk-adjusted forecasts, and consistent valuation reports can reduce information asymmetry between business owners and financiers. In turn, more reliable information can support better lending decisions, improve investor confidence, and facilitate the selection of appropriate financing instruments. The financing system should move towards a diversified structure in which bank loans, leasing, factoring, credit guarantees, equity investment, and blended finance serve different business needs. Debt should be matched to repayment capacity, leasing to productive asset acquisition, factoring to eligible receivables, and equity to investments whose uncertainty or maturity makes fixed debt repayments less appropriate.

Public policy should complement these market mechanisms through improved valuation standards, accessible digital financial infrastructure, professional development, transparent guarantee programmes, and performance-based evaluation of investment support. The success of these measures should be assessed not merely by the volume of credit distributed but by additional investment, productivity growth, financial resilience, and sustainable business development. Ultimately, a credible and accessible valuation framework can become an important link between

SME performance and investment capital. By aligning the assessment of enterprise value with financing instruments, risk management, and institutional transparency, Uzbekistan can improve the allocation of financial resources and strengthen the contribution of small and medium-sized enterprises to sustainable economic growth.

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