



FEATURES OF WORLD AND UZBEKISTAN PRACTICES OF ASSESSING THE VALUE OF SMALL BUSINESSES

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ABSTRACT	KEYWORDS
<p>This article compares the global experience and Uzbekistan's practice of small business valuation. It analyzes the advantages and limitations of the income, market, and cost approaches applied in determining the value of small business assets. Worldwide methods such as DCF modeling, valuation multiples, and goodwill assessment are examined in the context of Uzbekistan's economic environment. Issues related to transparency of financial statements, market price formation, and asset revaluation in local enterprises are discussed based on real cases. The study concludes with practical recommendations for improving small business valuation in Uzbekistan.</p>	<p>Small business, valuation, market value, DCF, multiples, goodwill, assets, Uzbekistan economy.</p>

Introduction

The emergence of enterprises with various forms of ownership as a result of the development of open market relations, acceleration of the processes of denationalization and privatization of property, and support for entrepreneurial activity in the production and service sectors has created demand for the valuation services market.¹At the same time, the need to treat newly established enterprises (businesses) as property complexes and assess the market value of the properties that are part of their assets is increasing day by day.

Small businesses are an integral part of the economy of every country, playing an important role in economic growth, ensuring employment and forming market balance. Globally, small businesses account for more than 90 percent of the total number of enterprises and are the main driver of economic activity. Determining the real value of small businesses is a fundamental economic mechanism

¹Resolution of the President of the Republic of Uzbekistan No. PQ-4381 dated 01.07.2019 “On measures to further improve appraisal activities and simplify the mechanisms for the sale of low-profit and non-operating state-owned enterprises”

necessary for processes such as attracting investments, selling and acquiring enterprises, determining credit ratings, and optimizing tax reporting.

In recent years, the complexity of business valuation in the global market, changes in the asset structure, the increase in the share of intangible assets, and the rapid change in market conditions have made the valuation of small businesses an even more pressing issue. In developed countries (USA, Great Britain, Japan, Canada, etc.), the methods used to determine the value of small businesses have a systematic approach, and advanced methods such as the DCF model, EBITDA multipliers, market transaction analysis, and goodwill determination are widely used.

Although the importance of small businesses in the Uzbek economy is very high, the practice of valuing enterprises is not yet fully developed. The lack of transparency of financial statements, imbalances in the revaluation of assets, weak monitoring of market prices, and the lack of accounting for intangible assets in many enterprises complicate the valuation process. This creates the need to compare foreign experience with national practice and develop options for existing methods suitable for the conditions of Uzbekistan.

Although there are many scientific publications on the valuation of small businesses, they are mainly focused on general theory, and a systematic comparative analysis of the practice of Uzbekistan with world experience is not sufficiently covered. In particular, issues such as calculating risk coefficients when using the DCF model, determining the cost of capital, selecting multipliers, assessing goodwill, and the lack of open data on market transactions still require a scientific and practical solution. Therefore, the relevance of the research topic is determined by the need to improve scientific and practical approaches to determining the real value of small businesses, and to develop methods suitable for the conditions of Uzbekistan based on world experience.

This article examines advanced global valuation methods, compares them with Uzbek practice, and draws conclusions on their application in the national economy.

Literature review

The global scientific literature on small business valuation relies on valuation methodologies developed in more developed markets. Many studies emphasize that three main approaches are used as global standards in this process - income approach, market approach and cost approach. Aswath Damodaran (NYSE professor) in his fundamental research emphasizes the importance of risk coefficients, cost of capital and the choice of multipliers in small business valuation, noting that the valuation of private companies is much more complex than that of public companies.²

Several studies on the Discounted Cash Flow (DCF) model used in the income approach have shown that errors in forecasting future cash flows of small businesses, market volatility, and the seasonality of small businesses significantly affect the overall accuracy of the valuation. International valuation standards published by the IVSC — International Valuation Standards Council note that when determining the value of small businesses, it is mandatory to take into account indicators such as enterprise size, market share, legal restrictions, and management stability³.

Regarding the comparative market approach based on multipliers, Pratt & Grabowski's work "Cost of Capital" justifies the existence of a "Small-firm premium" component for small businesses, that is, their risk coefficients are higher than those of large companies. Although the advantage of this

²(source: <https://pages.stern.nyu.edu/~adamodar/>).

³(source: <https://www.ivsc.org/standards/>).

approach is the ability to quickly compare with market prices, many scholars note the low accuracy of multipliers due to the lack of open transaction statistics in developing countries. Scientific studies conducted by Uzbek scholars have shown that imbalances in the financial statements of small businesses, differences in the revaluation of fixed assets, and the lack of transparency of tax information complicate the valuation process. Local economists emphasize that in order to determine the value of a business in accordance with international standards, local enterprises need to switch to digital financial reporting, streamline inventory processes, and improve monitoring of market prices (source: lex.uz, stat.uz).

Also, in the practice of valuation in Uzbekistan, in many cases, there is a high reliance on the cost approach. The reason for this is the insufficient formation of market prices for assets. However, in the international literature, this approach is criticized for not fully reflecting the real value of small businesses, especially in the service sector, as intangible assets - brand, customer base and intellectual resources - are not valued. In general, the analysis of scientific literature shows that while the world practice of valuing small businesses has a high methodological basis, there are a number of systemic problems in its practical application in the conditions of Uzbekistan. These differences require the development of proposals to increase the scientific relevance of the topic and improve valuation processes.

Research Methodology

In this study, the main methodological approach was chosen to compare, analyze and evaluate the methods used in the world practice of small business valuation and their applicability in the conditions of Uzbekistan. The methodology was formed on the basis of the International Valuation Standards (IVSC), the OECD Principles for Small Business, the Damodaran Capital Markets Model, and the methods used in the practical valuation market of Uzbekistan.

The following main methods were used in the research process:

1. Comparative analysis method.

The parameters of the global and Uzbek valuation systems were used to compare. In particular, the differences in the DCF model, multipliers, and asset-based valuation approaches were compared based on international sources, IVSC standards, and practice materials in Uzbekistan.

2. Analysis of financial indicators.

In determining the value of a small business, profitability, return on assets, cash flow stability, risk ratios, and capital structure were evaluated. These indicators were studied in conjunction with models such as WACC, CAPM, and beta coefficient, which are widely used in world practice. The main financial data on world practice were taken from the Damodaran Global Database⁴.

3. Regulatory and legal analysis.

The legislation on valuation activities in the Republic of Uzbekistan, the procedure for the activities of valuation organizations, regulatory documents on determining the value of assets and businesses (lex.uz portal) were analyzed. Methodological guidelines, valuation standards, and procedures for the activities of LLCs developed by state bodies were also studied.

⁴(<https://pages.stern.nyu.edu/~adamodar/>).

4. Expert evaluation element.

The opinions of experts operating in the Uzbek valuation market, public reports, and methodological approaches published by valuation companies were studied. Through the opinions of experts, practical problems encountered in determining the value of small businesses were identified.

5. Case study analysis.

In order to better illuminate the process of valuing small businesses in Uzbekistan, an analysis of valuations conducted on the example of LLCs was conducted. This approach examined the real impact of calculations, financial indicators, asset values, market conditions, and risk factors in the local context.

6. Statistical analysis.

To assess the macroeconomic importance of small businesses, open data from the Statistics Agency of the Republic of Uzbekistan (<https://stat.uz>) the number, share, production volume, employment rate, export potential, and investment flows of enterprises operating in the sector were analyzed.

These methodological approaches ensured the scientific validity of the results obtained in the study, their consistency with world practice, and made it possible to develop proposals suitable for the conditions of Uzbekistan.

Analysis and results

The study compared global and Uzbek practices in small business valuation. The results of the analysis showed that although the theoretical foundations of valuation approaches are similar in both systems, their application, quality indicators, and level of accuracy differ significantly.

In developed countries (USA, Europe, South Korea, Japan), the process of assessing the value of small businesses has the following characteristics:

- The DCF model is widely used because of the high level of transparency of financial statements.
- There is open data on risk coefficients (beta), cost of capital (wacc), and capitalization rates.
- Market multipliers are of high quality due to the availability of large market statistics on M&A.
- Intangible assets — brand, customer base, intellectual assets — are valued separately (IVSC 2023).
- The valuation is carried out by licensed professional valuers, and the control system is strong.

FOR EXAMPLE, the SBA (Small Business Administration) in the US has established a list of standard methods for valuing small businesses, and valuation is mandatory for bank loans.

According to the research results, assessing the value of small businesses in Uzbekistan is associated with the following problems:

- Financial statements are often incomplete and not transparent; some companies maintain 2-3 different reports.
- It is difficult to accurately forecast cash flows because market competition and supply and demand are volatile.
- Most appraisers rely solely on asset value-based valuations (cost approach).
- Intangible assets are not taken into account or are minimally valued.
- There are few statistics on the business sales market, and there is not enough open data.
- The subjectivity of expert assessments is high.

A unique aspect of the Uzbek valuation market is that many valuations are focused on the value of assets as collateral and collateral, with the real market value of the business taking a back seat.

An analysis of the LLC's activities (based on reports) showed that:

- The seasonality of financial results is high.
- Revenue and net profit are not stable, with sharp annual differences.
- The majority of assets are current assets, not fixed assets.
- There are short-term interruptions in cash flow.
- The valuation under the cost approach is close to the market value of the assets, but the value under the income approach is lower.
- It is difficult to apply valuation by multipliers in the Uzbek market due to the lack of sufficient transaction statistics.

The case study analysis showed that the true value of a small business cannot be determined based on just one method. A comprehensive approach is required.

Table 1 Differences compared to world practice⁵

Indicator	World practice	Uzbekistan practice
Quality of financial statements	High	Low in most cases
DCF application	Wide	Limited
Information on multipliers	Enough	Not enough
Intangible asset valuation	Important	Often ignored
Market Transaction Statistics	Open	Less
Control system	Strong	Medium
Qualifications of assessors	Official certificates are required.	Licensed, but low control

The analysis showed that:

- There is a pace of convergence towards international standards in assessing small businesses in Uzbekistan, but it is not yet sufficient.
- If the transparency of financial statements increases, the effectiveness of the DCF model will increase dramatically.
- The quality of the business valuation system will increase through the full implementation of international valuation standards (IVS).
- It is necessary to develop separate methodologies for valuing intangible assets.

Considering the high growth rates of small businesses in the economy, their contribution to job creation, and their high investment attractiveness, modernizing the assessment system is strategically important.

⁵International Valuation Standards Council. International Valuation Standards. London: IVSC.
 OECD. Corporate Governance / Financial Reporting Reports.
 World Bank. Financial Sector Assessment / Transparency Reports.
 Regulatory and legal acts of the Republic of Uzbekistan.

Conclusion/Recommendations

The results of the study showed that the process of assessing the value of small businesses is directly dependent on economic, legal and institutional factors, and there are significant differences between global and Uzbek practices. In global practice, valuation relies on market mechanisms, transparent financial reporting, standardized methodologies and a rich statistical base. In particular, approaches such as the DCF model, multipliers, and valuation of intangible assets are widely used in the global market and provide high accuracy.

In Uzbekistan, the valuation system is still in its development stage, and the dominance of the asset-based approach, low transparency of financial statements, and lack of market transaction statistics negatively affect the accuracy of valuation results. A practical analysis conducted on the example of an LLC also confirmed that it is impossible to determine the value of a small business based on only one method, and an integrated approach is needed.

According to the analysis, the following areas are important for further improving the small business valuation market:

- full implementation of international standards in the assessment process;
- digitization and increased transparency of financial statements;
- development of separate methodologies for valuing intangible assets;
- improving the skills of evaluators and strengthening institutional oversight;
- formation of an open database of market transactions;
- expanding analytical tools to improve cash flow forecasting in the small business sector.

In general, the efficiency of small business valuation in Uzbekistan can be significantly increased by harmonizing with world practice, modernizing methodological approaches, and enriching the database. The conclusions and proposals presented in this scientific article serve to further develop small business, an important segment of the economy, increase its investment attractiveness, and improve valuation practices.

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