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## Influence of household income on the development of small and medium-sized businesses: An international comparative analysis

■ **Abstract.** This study was aimed at analysing the impact of household incomes on the development of small and medium-sized businesses (SMEs) on the example of Kyrgyzstan and developing recommendations for the implementation of international experience in the country. The research methodology included the collection and analysis of statistical data to estimate the average monthly nominal wage using the arithmetic mean. The method of economic and statistical analysis was used to compare wages in Kyrgyzstan with similar indicators in other countries using Wilcoxon t-test, and to analyse the economic performance of SMEs for the period 2017-2023. The study found that a high level of household income contributes to an increase in consumer demand and stimulates the development of SMEs through increased sales and investment. However, low household incomes have a negative impact on purchasing power and, consequently, on the sustainability and profitability of businesses. It has been found that household incomes play a decisive role in shaping the demand for goods and services, which directly affects the activity and growth of SMEs in the country. The wage level in Kyrgyzstan was found to be extremely low and significantly different from the average wage level in other countries. The study also identified the main challenges that hinder the successful development of SMEs in Kyrgyzstan, including a complex bureaucratic environment, insufficient financial support, high poverty levels, and a lack of investor protection. As a result, a set of recommendations was developed to improve the conditions for SME development in Kyrgyzstan. The implementation of these recommendations will create favourable conditions for the growth and development of SMEs in Kyrgyzstan, contributing to the country's economic sustainability and social development

■ **Keywords:** level of wages; economic growth; state support; level of corruption; bureaucratic obstacles

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## ■ INTRODUCTION

Household incomes play a key role in the development of small and medium-sized businesses (SMEs) in various countries of the world. In Europe, SMEs account for 99% of all companies and provide jobs to more than 85 million citizens out of a total working-age population of 200 million people. In 2022, there were about 24.3 million SMEs operating in the EU (European Commission, 2024). The high level of income of the population contributes to an increase in purchasing power, which, in turn, stimulates demand for goods and services provided by SMEs. For example, in high-income countries such as Germany (as of early 2024, about EUR 3,984 per month), SMEs make up the bulk of the economy, providing jobs (Ranked: Countries..., 2024). On the other hand, in low-income countries such as India and Nigeria, SMEs face more serious challenges. In such countries, there is often a low purchasing power of the population, which limits the opportunities for SMEs to grow and develop. According to the World Bank, in India, despite the significant potential for SME development, many enterprises face difficulties due to low-income levels and limited access to financial resources. In such circumstances, SMEs are forced to look for innovative approaches to attract customers and increase their competitiveness in the market (Ausat *et al.*, 2023; Chit *et al.*, 2023).

The topic of the impact of household incomes on the development of SMEs in Kyrgyzstan is extremely relevant in light of the current economic challenges and opportunities of the country, since the level of income of the population directly affects demand and consumer activity, determining the demand for goods and services provided by SMEs. Low-income levels in certain regions of the country, such as Southern and Western Kyrgyzstan, create challenges for small businesses, complicating access to finance and limiting the potential for growth and innovation (Sakkarbaeva & Kumashev, 2024). On the other hand, regions with higher income levels, such as the capital Bishkek and the northern regions of the country, have more favourable conditions for the development of SMEs. The high purchasing power of the population there contributes to increased demand for products and services, stimulating the development of local entrepreneurship. Awareness of these income differences and their impact on the business environment of Kyrgyzstan is necessary to formulate targeted economic policies aimed at supporting the sustainable development of SMEs in all regions of the country.

This topic has attracted the attention of many researchers who have devoted their work to the investigation of various aspects of SMEs. L. Al-Haddad *et al.* (2019) revealed that SMEs play a key role in generating jobs and stimulating economic growth. This fact confirmed the importance of the SME sector as a driving force for creating new jobs and increasing the overall level of income in society. The study by A. Arjang *et al.* (2024) highlighted the importance of business innovations for SMEs and their impact on improving the quality of life. The development of innovative strategies has contributed not only to economic growth, but also to the improvement of social indicators, including income levels and access to services. Among the strategies to support SMEs, special attention was paid to financing and financial inclusion. G. Chandrarin *et al.* (2018) confirmed that improved financial inclusion and access to

finance significantly contributed to reducing poverty and unemployment through the development of SMEs. Review of the papers by J.M. Nkwabi & L.B. Mboya (2019) and V.O. Okolo *et al.* (2023) supplemented the understanding of the impact of income on the development of SMEs and its contribution to economic growth indicators in various regions of the world. C.R. Kulueva & A.A. Satybaldyeva (2022) analysed aspects of regulation and support of SMEs in the socio-economic development of Kyrgyzstan, and also revealed the protective role of Kyrgyz regulatory documents to solve existing problems of entrepreneurship development in the southern region. The study by U.K. Muidinov & U.A. Teshebaeva (2022) shows some socio-economic features of entrepreneurship in Kyrgyzstan, considering the specifics of the transition period.

Consequently, the research conducted in the field of SMEs not only revealed their key role in the economies of various countries, but also proposed specific support strategies aimed at promoting their sustainable growth, social inclusion, and innovative development. Thus, recent studies indicate a variety of areas of influence of household incomes on the development of SMEs in various regions of the world. Despite the significant amount of research in this area, identifying the features of the impact of household incomes on the development of SMEs in Kyrgyzstan remains an urgent task that requires further analysis and research. The purpose of the study was to identify the specific features of the impact of household income on the development of SMEs on the example of Kyrgyzstan. In order to achieve the goal, the following tasks were identified: to assess the impact of the incomes of the Kyrgyz population on the development of SMEs and to compare them with the incomes of other countries of the world; to identify the problems of SME development in Kyrgyzstan that hinder its successful development; to develop a number of recommendations to solve the identified problems regarding the development of SMEs in Kyrgyzstan.

## ■ MATERIALS AND METHODS

The study on the impact of household incomes on the development of SMEs in Kyrgyzstan was conducted using a comprehensive analysis of statistical data and an international comparative approach. Statistical data were collected on the average monthly nominal wages of employees of enterprises and organisations in various sectors of the Kyrgyz economy. The information was obtained from the report of the National Statistical Committee of the Kyrgyz Republic (2024). Data for 2022-2023 were used for the analysis. To calculate the average salary in the country, the standard arithmetic mean method was used, which allowed establishing a general trend in income levels in Kyrgyzstan during the selected period.

The average salary in Kyrgyzstan was compared with similar indicators in other countries of the world, such as the Netherlands, Ireland, Greenland, Canada, Denmark, Norway, Iceland, the USA, Luxembourg, Switzerland (Ranked: Countries..., 2024). These countries were chosen due to the fact that their citizens have the highest salaries. The Wilcoxon t-test was used to determine statistically significant differences between income levels. This nonparametric test compared data ranks and identified

statistically significant differences between groups of countries. This approach identified key trends in the income level of the Kyrgyz population and also compared them with international experience. Next, data were collected on the number and main economic indicators of the activities of SMEs in Kyrgyzstan for the period from 2017 to 2023 (National Statistical Committee..., 2024). For the analysis, data were used on the share of SMEs in the total volume of entrepreneurial activity, their contribution to the country's economy and the dynamics of this contribution during the study period. This study also identified the problems of SME development in Kyrgyzstan. To do this, the main obstacles faced by SMEs in the country were analysed. The main sources of data were official reports on the state of the business environment, international ratings, and analysis of statistical indicators and international comparisons (Economy rankings, 2020; Entry points for digital..., 2021; Trends in the development..., 2024).

The final stage of the study included the development of specific recommendations and strategies to support the development of SMEs in Kyrgyzstan. The main task of this stage was to adapt and apply the experience of successful countries that have achieved significant results in stimulating the development of SMEs through effective government policies and support programmes. To this end, an extensive analysis of international experience and best practices from other countries was carried out, including the study of government programmes, financial support mechanisms, tax incentives, administrative reforms, and measures to improve the business environment. The key aspects that can be adapted and implemented in the conditions of Kyrgyzstan to increase the competitiveness and sustainability of SMEs were highlighted. The study used the experience of

several countries such as Singapore, Brazil, Mexico, Switzerland, Estonia, and Canada to develop recommendations and strategies for the development of SMEs in Kyrgyzstan. These countries were chosen because of their successful experience in developing and implementing effective government policies and support programmes. The use of best practices in poverty alleviation, education promotion, microcredit, digitalisation and government support can create a favourable economic environment and contribute to the country's economic growth.

## ■ RESULTS

### Assessment of the impact of income of the Kyrgyz population on the development of SMEs and comparison with other countries of the world

In Kyrgyzstan, the impact of household income on the development of SMEs is especially significant, given its economic structure and the level of socio-economic development. A high level of income contributes to an increase in consumer demand, which is important for the development of SMEs, since a significant part of their activities is based on this segment. Low income, on the contrary, limits the purchasing power of the population, which makes it difficult to sell goods and services, reducing the profitability and sustainability of enterprises themselves. Thus, the growth of household incomes not only stimulates consumer demand in the market, but also provides entrepreneurs with more opportunities to invest in expanding and modernising their businesses, contributing to their sustainable development. Table 1 shows the average monthly nominal wages of employees of enterprises and organisations by type of economic activity in Kyrgyzstan for 2022 and 2023 in USD.

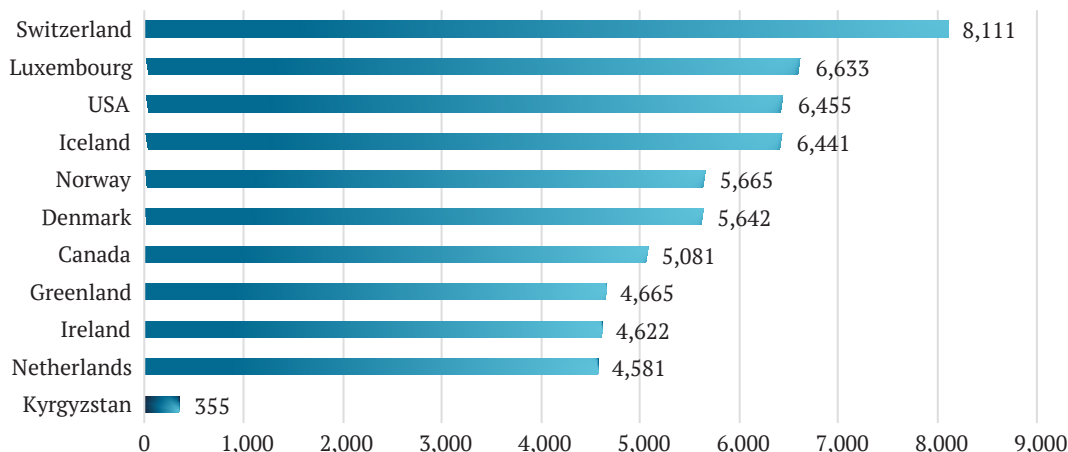
**Table 1.** Average monthly nominal wages of employees of enterprises and organisations by type of economic activity in Kyrgyzstan

Type	Value, USD		As a percentage of the corresponding period of the previous year	
	2022	2023	2022	2023
Agriculture, forestry, and fishing	137.17	283.3	106.4	206.5
Extraction of mineral resources	537.53	564.41	133.5	105
Manufacturing industries	467.96	546.12	187.4	116.7
Provision (supply) of electricity, gas, steam	377.22	463.81	111.5	123
Water supply, cleaning, waste treatment and recycling	207.23	264.96	102.7	127.9
Construction	247.52	299.04	117.3	120.8
Wholesale and retail trade, repair of cars, motorcycles	260.46	327.37	104.2	125.7
Transportation and cargo storage	327.24	409.07	114	125
Activities of hotels and restaurants	238.7	310.52	125.6	130.1
Information and communication	474.89	636.06	113.7	133.9
Financial intermediation and insurance	493.07	602.98	114.9	122.3
Real estate transactions	206.65	274.97	114.8	133.1
Professional, scientific, and technical activities	311.04	639.65	117.5	127.4
Administrative and support activities	213.61	320.3	106.4	149.9
Public administration and defence; Compulsory social security	298.44	523.36	113.5	175.4
Education	174.61	284.93	106.2	163.2
Public health and social services	171.07	242.34	134.9	141.7
Art, entertainment, and recreation	132.91	261.77	117.9	197
Other service activities	206.77	212.12	107.1	102.6
Total average salary	292.37	354.36		117.5

**Source:** compiled by the authors based on National Statistical Committee of the Kyrgyz Republic (2024)

Thus, for the period 2022-2023, the average salary increased by 17.5%. In agriculture, forestry, and fisheries, there was a significant increase in wages by 106.4% in 2022 and by 206.5% in 2023, which is primarily due to investments in agriculture, contributing to increased agricultural productivity. The mining sector, on the contrary, showed a 5% decrease in wages in 2023, which is due to global changes in resource prices or to internal economic factors such as a decrease in production or changes in industry regulation.

Manufacturing industries showed moderate wage growth of 16.8%, due to the introduction of new technologies and improved production processes. The significant wage growth of 175.4% in the public administration and defence sector in 2023 reflects an increase in government spending on social security and defence, and the implementation of structural reforms in management and defence. It is important to note that the salary level in Kyrgyzstan is significantly lower than in many other countries, as shown in Figure 1.

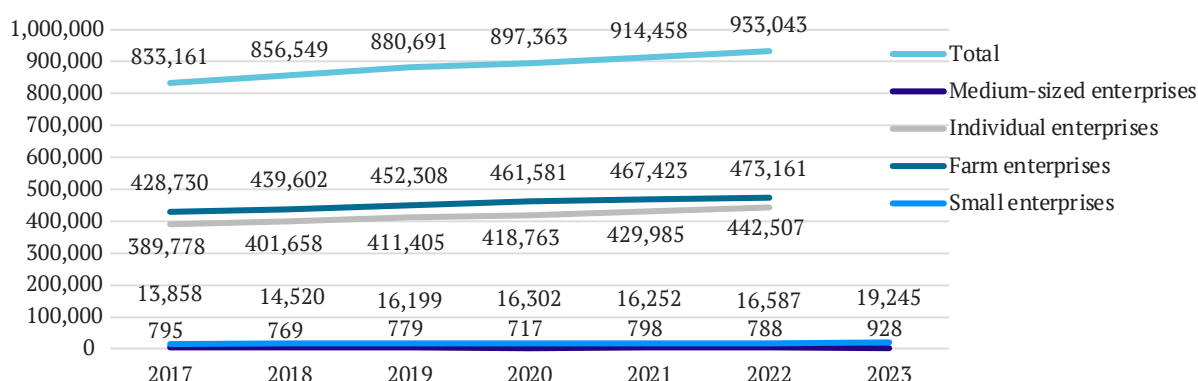


**Figure 1.** Comparison of the average wage of Kyrgyzstan with the countries with the highest wage levels as of the end of 2023, USD

**Source:** compiled by the authors based on Frequently asked questions about small business (2023), Ranked: Countries with the highest and lowest average salaries (2024)

Thus, in comparison with the above-mentioned countries, the salary level in Kyrgyzstan is significantly lower. For example, the average salary in Switzerland is the highest of the listed countries and amounts to USD 8,111. While in Kyrgyzstan, the average salary is USD 355. This means that the average salary in Switzerland is about 23 times higher than in Kyrgyzstan. This significant gap reflects the low income and economic challenges faced by Kyrgyz residents, including access to housing, medical care, and other social services. Given the significantly low-income level of

the population in Kyrgyzstan, starting own business seems to be an extremely difficult task. Low incomes create significant barriers for potential entrepreneurs, including limited access to capital, insufficient purchasing power of the population and limited market opportunities. These factors complicate not only the launch of new enterprises, but also their sustainable functioning, affecting economic activity and the development of the country as a whole. Figure 2 below shows the dynamics of the development of SMEs in Kyrgyzstan.



**Figure 2.** Dynamics of development of SMEs in Kyrgyzstan, units

**Source:** compiled by the authors based on the National Statistical Committee of the Kyrgyz Republic (2024)

The analysis of the presented data showed that the sector of SMEs in Kyrgyzstan is developing extremely slowly. In the period from 2017 to 2022, there was a slight increase

in the number of small enterprises from 13.9 thousand units to 19.2 thousand units, which indicates an extremely slow growth dynamic. Nevertheless, the overall pace of



SME development remains extremely low, no more than 7% over the entire period, which indicates the existing structural barriers and economic constraints that hinder the

more dynamic development of this sector in the country. This is confirmed by the main economic indicators of the activities of SMEs, which are presented in Table 2.

**Table 2.** Main economic indicators of the activities of SMEs, as a percentage of the total volume of the republic

	2017	2018	2019	2020	2021	2022
Revenue (gross income) from the sale of products (goods, works, services)	29	29.5	31.8	27.4	32.1	33.3
Volume of industrial production	21.4	22.1	21.2	17.8	20.8	22.1
Volume of contract works performed using in-house resources	77.1	88.7	93.4	96.1	89.6	90.8
Volume of agricultural production	63.1	62.5	62.6	62.5	61.3	62.7
Wholesale and retail trade; Repair of cars and motorcycles	82.6	79	81.6	80.8	83.9	80.6
Scope of services provided by hotels and restaurants	96.7	97	95.9	98.6	90.8	94.3
Transportation and cargo storage	60.9	60.5	61	65.7	60.3	66.2
Scope of postal and courier services	15.7	14.4	18.1	18.3	34.1	45.1
Export	34.7	39.3	35.4	24.9	27.3	66.9
Import	64.4	64.2	65.5	54.4	56.7	65.8

**Source:** compiled by the authors based on the National Statistical Committee of the Kyrgyz Republic (2024)

Analysing the main economic indicators of the activities of SMEs in Kyrgyzstan for the period 2017-2022, it can be noted that revenue from the sale of products (goods, works, services) showed a slight increase from 29% in 2017 to 33.3% in 2022, which indicates an extremely slow increase in the economic activity of SMEs. The volume of industrial output produced by SMEs remained relatively low and ranged between 17.8% and 22.1%, indicating insufficient industrialisation of SMEs. The volume of contract work performed on its own is consistently high and reached 90.8% in 2022, which underlines the importance of SMEs in the construction sector. Consequently, it can be concluded that the development of SMEs remains slow in some key sectors, such as industrial production.

Thus, income plays a key role in the development of SMEs in Kyrgyzstan, significantly affecting their ability to develop and sustainability. This analysis showed that SMEs in Kyrgyzstan are developing at extremely low rates, which is also conditioned by extremely low incomes of the country's population. It is important to understand that low-income limits purchasing power, which, in turn, reduces demand for SME products and services. In conditions of insufficient demand, enterprises cannot generate sufficient revenue to reinvest in business development and expansion. In addition, low incomes of the population lead to limited access to financial resources, which further exacerbates the problems faced by SMEs.

#### Identification of problems of SME development in Kyrgyzstan

It is necessary to agree with the President of the Kyrgyz Republic Sadyr Zhaparov, who identified several main factors that negatively affect the development of SMEs in the country (Sadyr Zhaparov: We..., 2021). One of the significant problems is the presence of family clans that usurp power and control key economic and political resources in the country. Such concentration of power in the hands of a narrow group of people creates conditions for unequal competition and hinders the free development of entrepreneurship. Family clans often put personal interests above public ones, which undermines trust in state institutions and economic processes.

Corruption is another serious problem for the development of SMEs in Kyrgyzstan. Corrupt practices permeate various levels of government and create additional barriers for entrepreneurs. In this context, it should be noted that as of 2023, Kyrgyzstan was ranked 141<sup>st</sup> out of 180 countries in the Corruption Perception Index, which is the leading global indicator of the level of corruption in the public sector. In 2023, the country received 26 points, which is one point less than in 2022 (Transparency International. Kyrgyzstan, n.d.). Such a low rating indicates serious problems with corruption, which negatively affect the business climate and hinder the development of SMEs in Kyrgyzstan.

Outflow of young people outside the republic for employment purposes: economic instability and limited employment opportunities within the country lead to a significant outflow of young people abroad. Young and qualified personnel leaving the country deprive the economy of the necessary human capital, which makes it difficult to develop innovative projects and increase labour productivity in SMEs. In 2022, the National Statistical Committee of the Kyrgyz Republic (2024) conducted a population census, including questions about migration. According to the census results, 16% of the total population of Kyrgyzstan, or 1 million 94.5 thousand people, were temporarily absent from their permanent place of residence. Of this number, 876,883 people (80% of the absent population) migrated outside the country, and 271,631 people migrated inside Kyrgyzstan. The Global Data Institute (2023) report noted that among the reasons for migration from Kyrgyzstan, respondents indicated the following: the desire to improve their financial situation and earn more money (36.9%), the desire to find a job and build a career (15.9%). Such high rates are demonstrated by the unwillingness and inability to open and develop SMEs in their country.

The majority of citizens have a high level of poverty and low income. Low-income levels hinder the accumulation of capital required to invest in business development and innovation. The proof of this is the low ratings in the Poverty Headcount Ratio (the level of poverty in terms of population). Poverty Headcount Ratio is a rating developed by the World Bank to assess the proportion of the population living below the national or international poverty line

(Poverty & equity brief..., 2023). The indicator is expressed as a percentage and reflects the percentage of people in a country or region whose income (or consumption) is below the established poverty level. International poverty lines such as USD 1.9, USD 3.2 and USD 5.5 per day at purchasing power parity are used for global comparisons. Kyrgyzstan received a rating of 33.3 in 2021, which indicates an extremely low financial condition of the country's population. Pressure on entrepreneurs from public authorities manifests itself in the form of bureaucratic obstacles, excessive regulation, and unreasonable inspections. Bureaucratic obstacles are manifested in complex and complicated procedures for business registration, obtaining licenses and permits. These processes often require a long time and numerous approvals, which significantly slows down the start-up and operation of enterprises. For example, it may take from several weeks to several months to obtain a standard business license, which creates uncertainty and additional costs for entrepreneurs.

Over-regulation is also a serious problem. The regulatory framework in the field of business is often unnecessarily complex and ambiguous, which makes it difficult for entrepreneurs to understand their rights and obligations and forces them to involve additional legal consultants, increasing operating costs. Unjustified inspections by government agencies further aggravate the situation. Frequent and unexpected inspections can be carried out without a clear reason and in violation of procedures,

which distracts entrepreneurs from their main activities and creates additional financial and time costs (Kyfyak et al., 2024). For example, small businesses may be subject to several inspections per month, which practically paralyzes their activities. These factors together create an unfavourable business environment, reduce the confidence of entrepreneurs in government agencies and hinder the development of SMEs. Uncertainty and high risks of interaction with government agencies limit opportunities to attract investment and expand business, which ultimately slows down the country's economic growth (Ivanov et al., 2021).

The insecurity of the interests of entrepreneurs, there are no guarantees for investors. The insecurity of entrepreneurs' interests and the lack of guarantees for investors in Kyrgyzstan create significant barriers to business development and capital raising. Entrepreneurs often face insufficient protection of their rights, which leads to additional risks and uncertainty. Table 3 shows the Ease of Doing Business ranking, which considers various aspects of the business environment, such as ease of business registration, obtaining construction permits, access to loans, investor protection, taxation, and resolution of insolvency issues (Economy rankings, 2020). This rating helps to assess how comfortable and safe it is to do business in a particular country, which is an important indicator for entrepreneurs and investors when making decisions about investments and business expansion.

**Table 3.** Sub-indexes of Ease of Doing Business rankings of Kyrgyzstan and the top five countries in the ranking

	Result of Kyrgyzstan (80 <sup>th</sup> place in the ranking)	Result of New Zealand (1 <sup>st</sup> place in the ranking)	Result of Singapore (2 <sup>nd</sup> place in the ranking)	Result of Hong Kong (3 <sup>rd</sup> place in the ranking)	Result of Denmark (4 <sup>th</sup> place in the ranking)	Result of the Republic of Korea (5 <sup>th</sup> place in the ranking)
Registration of enterprises	42	1	4	5	45	33
Obtaining building permits	90	7	5	1	4	12
Connection to the power supply system	143	48	19	3	21	2
Registration of property	7	2	21	51	11	40
Obtaining loans	15	1	37	37	48	67
Protection of minority investors	128	3	3	7	28	25
Taxation	117	9	7	2	8	21
International trade	89	63	47	29	1	36
Contract enforcement	134	23	1	31	14	2
Resolution of insolvency	78	36	27	45	6	11

**Source:** compiled by the authors based on the Economy rankings (2020)

In this rating, it is worth paying attention to the huge gap between the leading countries regarding investor protection. Kyrgyzstan received 128 points, extremely high scores that demonstrate the lack of investor protection in the country. Also in this rating, it is worth paying

attention to the "taxation" sub-index, which also received a large number of points, which indicates an imperfect taxation system that greatly hinders the development of SMEs in the country. Complex and frequently changing tax rules create an additional burden on entrepreneurs, increasing

their operating costs and requiring additional resources to maintain accounting records and comply with tax obligations. This is especially difficult for small businesses, which do not always have sufficient financial and administrative capabilities to effectively manage tax issues, which ultimately reduces their competitiveness and hinders growth (Kalchenko *et al.*, 2018). Contract enforcement is also at an extremely low level (134 points), which indicates weak legal protection for entrepreneurs and investors. An ineffective judicial system and lengthy dispute resolution procedures make it difficult for entrepreneurs and investors to protect their rights and interests. For example, when violating the terms of a contract, businessmen often face long court proceedings that can drag on for years, which leads to significant financial losses and a decrease in confidence in the legal system. The low level of contract execution also deters potential investors, as they are not confident in the possibility of a quick and fair dispute resolution. This creates additional risks and uncertainty for doing business, which limits SMEs' access to necessary financial resources and hinders their development.

According to the National Bank of the Kyrgyz Republic, interest rates on loans for small businesses range from 18% to 24% per annum (Trends in the development..., 2024). High interest rates on loans cannot be affordable for everyone to start their own business. It is important to note that such high rates are due to the low solvency of borrowers and the high level of financial risks. By the end of 2023, the total loan portfolio of the Kyrgyz banking sector reached KGS 275.7 billion (USD 3.31 billion). This volume includes loans aimed at various sectors of the economy, including agriculture, trade, construction, and industry. Loans for agriculture, for example, increased by 8.1%, reaching KGS 45.6 billion (USD 0.55 billion). In 2023, the total volume of loans issued to SMEs amounted to only 12% of the total loan portfolio of the banking system, which demonstrates the limited access of SMEs to financial resources (Trends in the development..., 2024). In addition, entrepreneurs face serious difficulties in purchasing modern equipment, due to the constant increase in prices for imported goods due to fluctuations in the USD against the KGS. Rising electricity and gasoline prices further complicate business operations, as these factors directly affect the cost of products and services provided by SMEs.

Thus, the problems of SME development in Kyrgyzstan include bureaucratic obstacles, excessive regulation, unreasonable inspections, insufficient protection of entrepreneurs' rights, lack of guarantees for investors, and weak legal protection and low level of contract execution. These factors create an unfavourable business environment, reduce the confidence of entrepreneurs and investors in government institutions, increase operating costs and hinder the attraction of necessary financial resources, which ultimately slows down the country's economic growth and the development of SMEs.

#### **Recommendations for solving identified problems of SME development in Kyrgyzstan**

In this context, the proposed recommendations are aimed at eliminating the above-mentioned problems and creating a favourable business environment that will contribute to the growth of entrepreneurial activity, attract investment,

and increase the competitiveness of the Kyrgyz economy. Improving the literacy and education of the population is a fundamental strategy to stimulate economic development and strengthen the SME sector in Kyrgyzstan. Improving educational standards and expanding access to quality education from an early age lays the foundation for the development of competent and qualified personnel capable of further contributing to the development of the national economy. Increasing the level of education of the population will increase the chances of the population to get well-paid jobs, which will increase their purchasing power and stimulate demand for products and services provided by SMEs. Special attention should be paid to the development of additional education and professional retraining programmes that will help the adult population adapt to changing economic conditions and labour market requirements. Public and private initiatives to support start-ups and entrepreneurship among young people through business incubators, accelerators and specialised courses will also contribute to the growth of SMEs.

Reducing the drain of the young population abroad. At the state level, a number of strategies used by other countries can be applied to solve the problem of the leakage of young personnel abroad. To do this, it is important to develop and implement a policy aimed at improving working conditions and remuneration for young professionals. For example, Sweden offers high living standards and social protection, which makes it attractive to young professionals despite higher taxes (Tynaliev *et al.*, 2024). It is also important to strengthen investments in education and scientific and technical research to create a strong intellectual base and offer promising career opportunities to young people. Canada is an example of a country that actively invests in research and education, creating attractive conditions for young professionals. To retain young professionals, it is also important to focus on creating incentives to work in nationally significant industries and sectors of the economy. For example, China uses incentive and subsidy programmes to attract talented young people to key industries such as information technology and innovation.

To combat poverty, various countries have applied a variety of strategies that can be successfully implemented in Kyrgyzstan. For example, Brazil has implemented the Bolsa Família in Brazil (2019) programme, which provides cash transfers to poor families subject to certain social obligations, such as school attendance and regular medical check-ups. This model of conditional cash transfers has had a significant impact on reducing inequality and hunger, significantly reducing the number of people living in poverty and bridging the historical urban-rural divide in Brazil. Another successful example is the Conditional Cash Transfers programme in Mexico, which provided subsidies to families with children on the condition that children attend school and receive regular medical check-ups (Stampini & Tornarolli, 2012). This initiative has contributed to improving children's educational performance and health, which has contributed to reducing poverty in the long term. For Kyrgyzstan, the implementation of such programmes can have a significant positive impact on the fight against poverty. It is important to adapt such ideas to the specific conditions of the country, considering social and economic characteristics. The introduction of such programmes can

stimulate access to education and health care, which is especially important for improving human capital and reducing social inequalities in Kyrgyzstan.

The problem of insecurity of the interests of entrepreneurs and the lack of guarantees for investors can be solved by implementing world experience, which is successfully applied in other countries. Reference can be made to the experience of Singapore, which has demonstrated a successful model of protecting the rights of investors and entrepreneurs through a strict legal and regulatory framework. The main functions for the protection of investors' rights are performed by a special agency for the protection of investors' rights – the Monetary Authority of Singapore (MAS). MAS monitors the activities of financial institutions, requires disclosure of information to ensure transparency, develops measures to protect the rights of investors, sets standards for independent assessment and audit, and promotes financial literacy among the population. Thus, MAS implements a comprehensive approach to protecting investors and maintaining financial stability in Singapore.

Increasing the level of digitalisation in the country is also able to improve the development of SMEs in the country. Although Kyrgyzstan has defined a digital transformation policy in several key strategic documents, including the National Development Strategy for the period from 2018 to 2040, the Government Programme for 2018–2022 and the National Digital Transformation Programme “Digital Kyrgyzstan–2019–2023”, the level of digitalisation remains extremely low (Entry points for digital..., 2021). The main problems include insufficient digital literacy and the lack of a clearly defined investment plan for the development of digital human capital. Despite the active development of the IT sector, the main obstacle to its expansion is the lack of qualified IT specialists and the outflow of talented Kyrgyz developers abroad to foreign employers.

In this context, the practice of Estonia is interesting, which has demonstrated successful experience in the field of digitalisation of public services, which has significantly increased the level of trust on the part of entrepreneurs and investors. The key measures contributing to this success are the introduction of electronic residency, which allows foreign entrepreneurs to conduct business in the country remotely, the creation of online platforms for registering and doing business, and the introduction of digital signatures and documents that simplify and accelerate legal processes. Germany also provides various forms of protection for investors, including insurance and legal guarantees. Important measures include the introduction of state guarantees for investors in case of political or economic risks, the creation of export credit and investment insurance agencies, and the provision of legal support and advice to foreign investors.

The key areas of support for SMEs can also be identified as financial support from the state, the provision of tax benefits, interest-free loans, and free rental premises. It is extremely important for the state to pay special attention to the development of regions, since it is there that the regulation of conditions for the accessibility and development of individual entrepreneurship is required. It is also important to create consulting companies that will inform entrepreneurs about legitimate actions that contribute to the favourable development of entrepreneurial activity in the country.

## ■ DISCUSSION

The role of SMEs in the economic development of Kyrgyzstan remains key, as in many countries of the world, since these enterprises not only create jobs and stimulate economic growth, but also contribute to social stability and innovative development (Asgary *et al.*, 2020; Dahliyah *et al.*, 2023). However, appropriate support strategies are required for the effective development of SMEs, considering the specifics of the national economy and the international experience of successful countries (Diabate *et al.*, 2019). In this context, household incomes play an important role in the dynamics of the development of SMEs, since a high level of income contributes to an increase in consumer demand, which stimulates the production and sale of goods and services of SMEs. On the contrary, low incomes limit purchasing power, which can negatively affect the profitability and sustainability of these enterprises. In addition, high incomes contribute to an increase in the volume of investments that SMEs can direct to development, business expansion, and innovation (Ausat & Suherlan, 2021).

This study was aimed at a comprehensive assessment of the impact of income of the Kyrgyz population on the development of SMEs in Kyrgyzstan. During the analysis, the key factors determining the success of SMEs in conditions of economic instability and social changes were identified. As it was found, the incomes of the population affect the ability of entrepreneurs to invest in improving the skills of their employees and improving working conditions, which, in turn, increases the productivity and competitiveness of enterprises. The study noted that government support aimed at increasing income levels and reducing poverty can significantly improve the conditions for the development of SMEs. Such measures include the provision of tax incentives, subsidies, access to loans and training programmes for entrepreneurs. Together, all these factors create a favourable environment for sustainable growth and prosperity of SMEs in Kyrgyzstan. This conclusion is confirmed in the study by J.M. Nkwabi & L.B. Mboya (2019), which explored the factors hindering the growth of SMEs in Tanzania, such as financial constraints, lack of capital, technological challenges, and complex government regulation. In addition, the study identified several significant challenges that significantly impede the development of SMEs in the country. One of the key problems is the high level of corruption, covering various levels of government. Corrupt practices create additional barriers for entrepreneurs, increasing transaction costs and worsening the business climate. B.I. Gumel & B. Bin Bardai (2023) also focused on this issue, emphasising the dual role of government as a source of obstacles to the development of SMEs, and as a catalyst for their development.

Another significant problem is the complex and often unpredictable bureaucratic environment. Business registration procedures, obtaining licenses and permits require significant time and financial costs, which slows down the development of entrepreneurship (Gutium *et al.*, 2023). Excessive regulation and frequent unjustified inspections also increase uncertainty and create additional barriers to business. This was also confirmed by B.I. Gumel & B. Bin Bardai (2023), who identified twenty-five factors influencing the development of SMEs in emerging economies. The



researchers emphasised that the difficulties associated with bureaucratic processes significantly limit access to financing and investments necessary for sustainable SME growth. J. Juergensen *et al.* (2020) also highlighted this problem, which significantly affects the development of SMEs. They noted that a complex bureaucratic environment not only increases the cost of doing business, but also creates significant obstacles to attracting investment and developing new projects. The researchers argue the need to simplify administrative procedures and increase their transparency as key steps to ensure a more favourable environment for SMEs. In addition, insufficient protection of the rights of investors and entrepreneurs, a weak legal system, and a low level of contract execution limit investment opportunities and create additional risks for business. In this context, the authors of this study agree with A.M. Jusupova & G.U. Khajiyeva (2022), who, using the example of the development of SMEs in Kazakhstan, also argued that the lack of investor protection could lead to distrust on their part and limit access to capital necessary for the sustainable development of SMEs.

According to L. Al-Haddad *et al.* (2019), weak investor protection can create barriers to raising capital, since investors, fearing losses, will be less inclined to invest in SMEs, which will negatively affect their ability to expand and develop. The study also revealed that a low level of education and a high level of poverty create additional obstacles to the development of SMEs, limiting access to skilled labour and reducing the purchasing power of the population, which in turn hinders economic growth and sustainability of these enterprises. A. Arjang *et al.* (2024) argued that the lack of adequate infrastructure and limited market access also complicate the activities of SMEs. The lack of financial literacy among entrepreneurs and the lack of government support exacerbates the current situation. An important part of this study was the development of recommendations for solving the identified problems. The implementation of successful international experience to stimulate the development of SMEs in Kyrgyzstan, presented in the study, was a key strategy in the context of their important role in the economy, creating jobs and stimulating innovation. To improve the protection of the interests of entrepreneurs and investors, Kyrgyzstan was invited to implement successful international experience. For example, Singapore is an example of a country with an effective investor protection model supported by a strict legal and regulatory framework implemented through MAS – the agency monitors the activities of financial institutions, ensures transparency and investor protection, which contributes to maintaining financial stability. It was also recommended to pay attention to Estonia's experience in digitalising public services, which should increase the level of confidence of entrepreneurs. The study noted that the introduction of e-residency and digital technologies to simplify business processes can be useful for improving the business environment in Kyrgyzstan.

Thus, the paper focuses on the importance of legal protection of entrepreneurs and investors, which is an important area for attracting investments and ensuring the sustainable development of SMEs. The lack of adequate protection of rights can create significant risks and limit business development, therefore, the study emphasises

the need to improve the legal environment as one of the priority areas of policy. The advantage of this study lies in its systematic approach to analysis and recommendations. The study considers not only economic aspects, but also social and institutional factors affecting the development of SMEs. This distinguishes this research from other approaches, as it strives for a comprehensive understanding of the problems and offers integrated solutions that contribute to the sustainable and long-term development of the Kyrgyz economy.

## ■ CONCLUSIONS

The results of the study showed that the income of the population of Kyrgyzstan has a significant impact on the development of SMEs. A high level of income contributes to an increase in consumer demand, which, in turn, stimulates the development of SMEs, providing enterprises with the opportunity for growth and modernisation. At the same time, low income limits the purchasing power of the population, which makes it difficult to sell goods and services, reducing the profitability and sustainability of enterprises. Thus, increasing household incomes plays a key role in stimulating consumer demand and provides entrepreneurs with more opportunities to invest in the development of their businesses, which contributes to their sustainable growth. The analysis of the data also showed that the salary level in Kyrgyzstan is significantly lower than in other countries, which limits opportunities for the development of SMEs.

The problems of SME development in Kyrgyzstan are multidimensional and include the presence of family clans, high levels of corruption, economic instability, youth outflow, low incomes for most citizens, bureaucratic obstacles, excessive regulation, unreasonable inspections, insufficient protection of the rights of entrepreneurs, lack of guarantees for investors, and weak legal protection and low level of contract execution. These factors create an unfavourable business environment, reduce the confidence of entrepreneurs and investors in government institutions, increase operating costs and hinder the attraction of necessary financial resources, which ultimately slows down the country's economic growth and the development of SMEs. Further, recommendations were proposed to address the identified problems of SME development in Kyrgyzstan. Attention was paid to improving the educational system, which includes updating curricula, introducing world practices, and developing professional retraining. These measures are aimed at the development of qualified personnel who will contribute to the economic growth of the country. In addition, strategies have been proposed to prevent the diversion of young people abroad, such as improving working conditions and creating career opportunities in nationally important industries.

Measures to combat poverty were also considered, using successful examples from other countries, such as conditional cash transfer programmes. To protect the rights of entrepreneurs and investors, it is proposed to adopt the experience of Singapore and Germany in the field of legal protection and financial guarantees. An important component of the recommendations is to increase the level of digitalisation, with an emphasis on improving digital literacy and creating favourable conditions for IT professionals. These measures are aimed at creating a favourable business

environment conducive to the growth of entrepreneurial activity, attracting investment and improving the competitiveness of the Kyrgyz economy. Thus, the role of SMEs in the economic development of Kyrgyzstan remains key, but for their effective growth, appropriate support strategies are needed that consider the specifics of the national economy and international experience. Further research may include a more detailed international comparative analysis of the impact of household incomes on the development of SMEs, taking into account the specific socio-economic

conditions of each country. This will help to identify the most effective strategies for increasing household incomes and their impact on the development of entrepreneurship in various regions of the world.

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## ■ CONFLICT OF INTEREST

None.

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## Вплив доходів населення на розвиток малого та середнього бізнесу: міжнародно-порівняльний аналіз

■ **Анотація.** Це дослідження було спрямоване на аналіз впливу доходів населення на розвиток малого та середнього бізнесу (МСБ) на прикладі Киргизстану та розробку рекомендацій для імплементації міжнародного досвіду в країні. Методологія дослідження включала збір та аналіз статистичних даних для оцінки середньомісячної номінальної заробітної плати зі застосуванням середнього арифметичного. Метод економіко-статистичного аналізу було застосовано для порівняння заробітних плат у Киргизстані з аналогічними показниками інших країн із використанням Т-критерію Вілкоксона, а також для аналізу економічних показників діяльності суб'єктів МСБ за період 2017-2023 років. У дослідженні було виявлено, що високий рівень доходів населення сприяє збільшенню споживчого попиту і стимулює розвиток МСБ через підвищення обсягів продажів та інвестицій. Однак низький рівень доходів населення чинить негативний вплив на купівельну спроможність і, отже, на стійкість і рентабельність підприємств. З'ясовано, що доходи населення відіграють визначальну роль у формуванні попиту на товари та послуги, що безпосередньо впливає на активність і зростання МСБ у країні. Було виявлено, що рівень заробітної плати в Киргизстані є вкрай низький і суттєво відрізняється від середнього рівня заробітних плат в інших країнах світу. У дослідженні також було ідентифіковано основні проблеми, які гальмують успішний розвиток МСБ у Киргизстані, включаючи складне бюрократичне середовище, недостатню фінансову підтримку, високий рівень бідності населення та відсутність захищеності інвесторів. У результаті дослідження було розроблено набір рекомендацій для поліпшення умов розвитку МСБ у Киргизстані. Впровадження цих рекомендацій дасть змогу створити сприятливі умови для зростання та розвитку МСБ у Киргизстані, сприяючи зміцненню економічної стійкості та соціального розвитку країни

■ **Ключові слова:** рівень заробітної плати; економічне зростання; державна підтримка; рівень корупції; бюрократичні перешкоди