BUSINESS ENVIRONMENT IN UZBEKISTAN
as Seen by Small and Medium Enterprises

Survey results based on 2005

Tashkent, 2006
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GLOSSARY

CBU – Central Bank of the Republic of Uzbekistan
CCD – Cargo Customs Declaration
CFSA – Central Fire Safety Administration of the Republic of Uzbekistan
CIS – Commonwealth of Independent States
CSREO – Consolidated State Register of Enterprises and Organizations
CTI – Chamber of Trade and Industry
EURASEC – Eurasian Economic Community
FCC – Freely Convertible Currency
FEA – Foreign Economic Activity
GDP – Gross Domestic Product
Goskompriroda – State Committee of the Republic of Uzbekistan for Nature Protection
Goskomstat – State Statistics Committee of the Republic of Uzbekistan
IFC – International Finance Corporation
IMF – International Monetary Fund
MFERIT – Ministry for Foreign Economic Relations, Investments and Trade of the Republic of Uzbekistan
MJ – Ministry of Justice of the Republic of Uzbekistan
OECD – Organization for Economic Cooperation and Development
RIA – Regulatory Impact Analysis
Sanoatkontekhnazorat – State Inspectorate of the Republic of Uzbekistan for Monitoring Industrial Workplace Safety and Mines
SCC – State Customs Committee of the Republic of Uzbekistan
SES – Center for State Sanitary - Epidemiological Surveillance under the Ministry of Health
SME – Small and Medium Enterprise
STC – State Tax Committee of the Republic of Uzbekistan
STP – Single Tax Payment
TashtekhPD – Tashkent Shipping Documents Processing Center under the National Railway Company “Ozbekiston Temir Yollari”
Taxpayer’s PIN – Taxpayer’s Personal Identification Number
TN FEA – Trade Nomenclature for Foreign Economic Activity
UFEOEIS – Unified Foreign Economic Operations Electronic Information System
VAT – Value Added Tax
WTO – World Trade Organization

Uzbek Soum to US dollar exchange rates used in the report (CBU rates):
Average exchange rate for 2004: $1 = 1,020 Soums, average exchange rate for 2005: $1 = 1,120 Soums.
Exchange rate on January 1, 2006: $1 = 1,180 Soums.
PREFACE

The International Finance Corporation is pleased to present the results of its fifth annual SME survey in Uzbekistan, conducted by IFC’s Uzbekistan SME Policy Project. The purpose of this survey is to reveal the views of business representatives on the existing environment for doing business in the country. The project was implemented due to the financial support of the Swiss State Secretariat for Economic Affairs (SECO). UNDP’s Reforming Tax System and Developing New Revision of the Tax Code Project has partially financed the section of the Survey related to taxation issues.

This study is based on the results of a comprehensive survey conducted in January – February 2006 in all regions of the country among 2,500 small business representatives (legal entities), and 400 individual entrepreneurs from all sectors of the economy. The sample of participants and methods of the survey are comparable to previous studies conducted by IFC in Uzbekistan, making it possible to trace the dynamics of the business climate in Uzbekistan.

This survey reflects entrepreneurs’ own views of the business environment in Uzbekistan, and does not necessarily reflect the views of IFC or SECO. The survey is not intended to be an exhaustive statement of all the issues faced by small businesses. Rather, it offers an opportunity to reveal the most critical issues that affect the development of this sector, as seen by respondents. Based on the data obtained in the course of survey, IFC has developed specific recommendations to help address the issues raised by the participants that hamper small business development in the country.

As proposed by the Government of Uzbekistan, this year’s survey has looked deeper into how the businesses evaluate the efficiency of the measures introduced by the Government of Uzbekistan in 2005. These evaluation results are included into the “Overview of the Business Environment in Uzbekistan” section. In addition to the information regarding enforcement of the Government’s decisions, the section also highlights the issues faced by small businesses.

In addition to the overview section, the report is divided into three parts. Part I reviews the situation with exports, imports and voluntary liquidation, the three processes reported by respondents as the most problematic in 2005 (see Part III: Statistical Results of the Survey).

Other essential business attributes such as registration, obtaining permits, licenses, certificates and standards, inspections, taxation and relationships with financial institutions were reviewed in detail in IFC’s previous reports for 2001-2004. The information on those issues as well as additional data to the chapters above is presented graphically in the Statistical Results of the Survey.

Part II (Annexes to the Report) offers information on the Regulatory Impact Analysis (RIA) system, which is used in many countries to analyze the potential impact of business regulation, in order to assure that decisions balance the interests of the state, businesses and society. Regular business environment surveys, similar to those conducted by IFC in Uzbekistan over the past five years, are instruments that may be used to inform such comprehensive assessments of decision-making.

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1 To avoid reiteration of issues which are described in detail in previous reports, particular chapters of this survey contain references to previous IFC reports. All texts referred to are available electronically at: [http://www2.ifc.org/centralasia/sme/uzsurvey.htm](http://www2.ifc.org/centralasia/sme/uzsurvey.htm).
In 2006, the Government of Uzbekistan changed business registration procedures fundamentally by introducing registration by application. The information on this new procedure, and the recommendations for its further improvement, appear in Annex 4 of Part II. Future surveys will assess the impact of this change.

The reader may also refer to the Annexes for detailed information regarding the methodology and the basic facts of the survey.

The results of the survey were discussed at round table meetings and in focus groups with the participation of representatives of the Ministry of Economy; the Ministry of Finance; the Ministry for Foreign Economic Relations, Investments, and Trade; the Ministry of Justice; the State Tax Committee; the State Customs Committee; the Chamber of Trade and Industry, as well as with entrepreneurs. This allowed IFC to obtain expert assessment of the results and major findings of the survey.

The IFC Uzbekistan SME Policy Project expresses its gratitude to the SME Coordination Council; the Inspections Coordination Council; the Ministry of Economy; the Ministry of Justice; the Ministry for Foreign Economic Relations, Investments, and Trade; the State Committee for Demonopolization and Support of Competition and Entrepreneurship; the State Tax Committee; the State Customs Committee; the State Statistics Committee; the Consolidated Information and Analysis Department on Economic and Foreign Economic Matters under the Cabinet of Ministers; and the Chamber of Trade and Industry of Uzbekistan. The project would also like to thank our colleagues from the World Bank Resident Mission in Uzbekistan, the IFC Southern Europe and Central Asia Department and the IFC Private Enterprise Partnership for their valuable contribution to the preparation of this Report.

This Report is available in the Uzbek, Russian, and English languages. Electronic versions of this Report can be downloaded at: http://www2.ifc.org/centralasia/sme/uzsurvey.htm.

Additional copies of this report in print may be obtained by contacting:

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OVERVIEW OF THE BUSINESS ENVIRONMENT IN UZBEKISTAN

According to the data of the Goscomstat of Uzbekistan, the SME sector continues to occupy a growing share of the Uzbek economy. In 2005, SMEs were responsible for more than 38% of the country’s Gross Domestic Product and 66% of the country’s employment. There were 10 operational small enterprises per 1,000 residents in 2005.

The business environment survey for 2005\(^1\) also confirmed the growing activity of the SME sector. Among the positive developments revealed by the survey was a higher portion of small enterprises making investments in fixed assets during the year. Although this indicator has not yet reached the highs seen in 2001-2002, the data for 2005 still demonstrate a significant growth from the deep recession in 2003.

The significance of this indicator is that it demonstrates the intentions of small businesses to expand the production of goods and services, which eventually should contribute to growing employment and general economic growth. In other words, the indicator shows growing confidence of entrepreneurs in the effectiveness and stability of recent reforms.

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\(^1\) The study is based on the survey among SME representatives conducted by the IFC in the beginning of 2006 in all regions of the country, and the expert opinions presented in focus groups, which included entrepreneurs as well as representatives of a number of ministries and agencies.
The indicator’s dynamics correlates with the Government’s actions in 2002-2003, which adversely affected the business environment (see 2001-2003 IFC Reports "Business Environment in Uzbekistan as Seen by Small and Medium Enterprises") and also caused a deep recession in the investment activity. Accordingly, a number of steps to liberalize the economy taken in 2005 have contributed to entrepreneurs’ willingness to invest in their businesses.

In this survey, IFC experts attempt to assess the impact of the reforms in such spheres as inspections, reporting, tax administration, access of businesses to cash and streamlined permit and licensing procedures (see Box 1.1) on the environment for doing business in the country. Another intention was to assess the problems that continue to hamper the SME sector’s development. The assessment results appear further in the text and are summarized in Table 1.1 of this section.

Box 1.1
Legislation passed in 2005 to improve the business environment:
- June 2005 – to improve legal protection of businesses;²
- June 2005 – to improve the system of submitting reports and tax calculations;³
- June 2005 – to introduce a single tax payment;⁴
- August 2005 – to ensure uninterrupted access to cash;⁵
- September 2005 – to optimize license and permit procedures;⁶
- October 2005 – to reduce and streamline inspections.⁷

The survey has also shown that the processes of performing foreign trade operations and business liquidation were the most problematic for entrepreneurs in 2005 (see Statistical Results of the Survey). A detailed analysis of the problems faced by entrepreneurs during these procedures is included in corresponding chapters of this report.

STREAMLINING THE SYSTEM FOR SCHEDULING AND CONDUCTING INSPECTIONS

Most surveyed entrepreneurs undergoing an inspection mentioned a positive impact of the recent Presidential Decree that aimed to improve the legal protection of businesses.⁸ In accordance with the Decree's provisions, the only agency now allowed to inspect the overall ‘financial and business operations’ of a firm is the Tax Inspectorate.⁹ Additionally, the Decree stipulates that measures such as closing a business, suspending operations and bank account transactions, and application of severe penalties may be only be applied to businesses as a result of a court order, after July 1, 2005.

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² Decree of the President of the Republic of Uzbekistan “On the Measures to Further Improve the System of Legal Protection of Businesses” #UP-3619 of June 14, 2005.
⁴ Decree of the President of the Republic of Uzbekistan “On Additional Measures to Encourage Development of Microfirms and Small Enterprises” #UP-3620 of June 20, 2005.
⁵ Decree of the President of the Republic of Uzbekistan “On Guaranteeing Uninterrupted Cash Payments from Bank Deposits” #PP-147 of August 5, 2005.
⁶ Decree of the President of the Republic of Uzbekistan “On Reducing the Types of and Simplifying Permit Procedures for Conducting Business” #PP-186 of September 21, 2005.
⁷ Decree of the President of the Republic of Uzbekistan “On the Measures to Further Reduce the Number of and Improve the System of Inspections of Businesses” #UP-3665 of October 5, 2005.
⁹ If the tax inspectorate reveals some indication of a crime, another agency (the Prosecutor’s Office) may also be engaged.
Another positive development revealed by the survey was a further reduction in both the frequency of inspections per enterprise and the share of enterprises undergoing an inspection over the course of a year. Between 2001-2005, the number of inspections that businesses faced each year fell from 6.2 to 0.9, while the share of inspected SMEs decreased drastically from 89% to 22%.

IFC experts estimate a potential annual effect from the Decree #UP-3619 to the SME sector of $21 million.\(^\text{10}\)

This decrease in the total number of inspections is due to the fact that fewer businesses are being inspected overall. However, the number and duration of inspections that each inspected firm experienced actually increased during this period. For instance, in 2005, the average number of inspections per inspected enterprise rose from 3.7 to 4.1, and the average duration of the inspection from 1.4 to 2.9 days, as compared to the previous year.

\(^{10}\) Effect is calculated as a sum of (1) additional income SMEs may earn within a year due to the discontinued practice of non-judicial business suspension; (2) penalties previously imposed to SMEs within a year by the Prosecutor’s Office after inspections.
A lack of standard and transparent criteria in selecting businesses for inspections explains this greater focus on a small number of enterprises. The last survey’s results confirm this statement: various inspectorates tend to inspect not the enterprises that represent a greater threat to the public, but enterprises that have higher cash turnover, such as public catering and trading firms (see IFC’s 2005 Business Environment in Uzbekistan as seen by Small and Medium Enterprises report).

Box 1.2
The method of selecting businesses for inspections in many countries is based on a ranking by risk categories. Thus, fire departments pay greater attention to premises that have a higher risk of fire outbreak (industrial enterprises, such as oil and gas companies, which process highly flammable substances), or are visited by more people (hospitals, schools, stadiums, theaters). Public catering and retail facilities do not match these criteria, as they rarely use hazardous material and host relatively few visitors.

This method also makes sense from the perspective of the inspectorate, allowing for more efficient allocation of resources in order to ensure fire safety in the country.

chart 1.5
PRESSURE OF INSPECTING AGENCIES ON ENTERPRISE UNDER INSPECTION INTENSIFIED

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Inspections</th>
<th>Average Duration of Inspection</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>3.7</td>
<td>1.4</td>
</tr>
<tr>
<td>2005</td>
<td>4.1</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Uzbek enterprises with higher cash turnovers tend to be inspected more frequently than those representing a higher social risk.

chart 1.6

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total Number of Enterprises</th>
<th>STC %</th>
<th>CFSA %</th>
<th>SES %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Catering</td>
<td>5.2 thousand</td>
<td>STC - 41%</td>
<td>CFSA - 38%</td>
<td>SES - 48%</td>
</tr>
<tr>
<td>Retail trade</td>
<td>25.5 thousand</td>
<td>STC - 36%</td>
<td>CFSA - 25%</td>
<td>SES - 22%</td>
</tr>
<tr>
<td>Industry</td>
<td>19.5 thousand</td>
<td>STC - 20%</td>
<td>CFSA - 18%</td>
<td>SES - 14%</td>
</tr>
<tr>
<td>Construction</td>
<td>10.7 thousand</td>
<td>STC - 19%</td>
<td>CFSA - 12%</td>
<td>SES - 5%</td>
</tr>
</tbody>
</table>
Additionally, review of the regulatory framework shows that the functions of a number of Uzbek inspectorates often overlap. For instance, labor protection is supervised by a number of agencies: the Ministry of Labor and Social Protection, SES, Sanoatkontekhnazorat and the State Committee for Architecture and Construction. Assigning this function to a single agency, the Ministry of Labor and Social Protection, would enhance the efficiency of the public inspection system (see Annex 2 for more detail).

However, it should be noted that the Government is already working on developing a transparent system for selecting enterprises and conducting inspections. For instance, at the end of 2005 a number of laws and regulations were adopted to improve the selection process and conducting inspections. The Presidential Decree of October 2005 “On the Measures of Further Reduction in and Improvement of the Business Inspection System”11 led to each inspectorate developing its own regulation, “On the Principles for Preparing Annual and Quarterly Coordination Schedules for Business Inspections.” In addition, the Fire and SES Inspectorates were instructed to develop and introduce inspection checklists beginning January 1, 2007, which would include the areas to be covered during inspection. The impact of these measures may be assessed only after they become effective in 2007 to determine the possibility of extending these practices into other inspectorates.

IMPROVING THE SYSTEM OF REPORTING

The survey has shown that Presidential Decree #PP-100 on improving the reporting system12 yielded positive results. In particular, the Decree reduced the frequency of filing tax and other obligatory reports, for micro and small firms, from monthly to quarterly; initiated a procedure for collecting financial statements by tax agencies at terms that are convenient for entrepreneurs, and forbade public authorities and other organizations to demand any information other than that required by law. Entrepreneurs have welcomed these developments, and many have seen the results of changes implemented directly from central authorities (e.g., reduction in the number of documents that need to be filed). However, when local authorities were tasked with implementing qualitative changes (such as increasing the convenience of filing reports at tax inspectorates), the number of entrepreneurs who reported seeing changes decreased significantly.

chart 1.7  DECREE #PP-100 STREAMLINED THE REPORTING SYSTEM, BUT SOME PROBLEMS PERSIST

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>DECREASES</th>
<th>ACCOUNTANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of paperwork submitted reduced</td>
<td>72%</td>
<td></td>
</tr>
<tr>
<td>Waiting lines in tax inspectorates became shorter</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Tax inspectorates accept documents during the entire business day</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Tax inspectorates created favorable conditions</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>No changes</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

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11 # UP-3665 of October 5, 2005.
This indicates that the quality and pace of enforcing new regulations at the local level varies by locality. For instance, improvements have been felt by the majority of entrepreneurs in the Navoi region, while their peers in Kashkadarya think that the situation with reporting in their region has not changed much (see Statistical Results of the Survey).

IFC experts estimate a savings for small businesses of more than 2 million accountants’ workdays – in monetary terms $6.5 million per year – as a result of the Decree.13

**IMPROVING TAX ADMINISTRATION**

SMEs have traditionally named taxation as one of the most problematic aspects of their activity (see 2001-2004 IFC reports “Business Environment in Uzbekistan as Seen by Small and Medium Enterprises”). To reduce the tax burden and streamline tax administration, the Government introduced a single tax payment (STP) for small enterprises that engage in the industry and service sectors, effective from the second half of 2005.14 The STP replaces all taxes and mandatory payments to the specialized funds (particularly, compared to the single tax it also includes fees to the extra-budgetary Pension Fund, the National Road Fund and the extra-budgetary Schooling Fund15). The survey has shown that more than half of entrepreneurs believe that the introduction of the STP reduced the tax burden – two of every five respondents noted simpler tax calculation and payment procedures.

However, it is worth noting that most enterprises are engaged in several businesses. Each type of business, such as retail, trade and industry, is governed by a different tax system. Therefore, the share of companies that paid the STP without paying other taxes was only 14% of all SMEs.

The survey results also demonstrate that payroll taxes and payroll fees represent a large portion of the tax burden. Although personal income tax rates and social contributions to extra-budgetary funds have been reduced since 2002, when IFC first voiced this issue (see 2002 IFC report “Business Environment in Uzbekistan as Seen by Small and Medium Enterprises”), the situation has not changed considerably (see Annex 3).

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13 Effect calculated as the annual costs on the accountant’s services to prepare and file reports saved by SMEs as a result of reduction in the frequency of reporting.

14 Decree of the President of the Republic of Uzbekistan “On the Additional Measures to Encourage Development of Microfirms and Small Enterprises” #UP-3620 of June 20, 2005.

15 Before that and since 1998, according to the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan “On the Procedures for Taxation of Microfirms and Small Enterprises that Turned to the Simplified Taxation Scheme” #159 of April 15,1998, instead of taxes and a number of fees they could choose to pay a single tax (see 2001-2003 IFC reports “Business Environment in Uzbekistan as Seen by Small and Medium Enterprises”).
The system in place makes the entrepreneurs keep a part of their turnover “in the shadows.” Focus group participants estimate that the country’s small businesses underreport some 60-70% of their sales, on average. The most important reason for hiding turnover, as indicated by entrepreneurs, was the intention to evade taxes.

The Uzbek Government is considering further reduction of the tax burden and simplification of the tax system. Specifically, the Cabinet of Ministers’ meeting on August 11, 2006 discussed the main approaches and lines of activity for further improvements in the tax policy for 2007, which assumed both tax rates cuts and simplification of the tax administration.

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**Box 1.3**

The draft concept for the tax policy in 2007 discussed by the Cabinet of Ministers proposes reductions in the following taxes and fees:

- Corporate income (profit) tax – from 12% to 10%. It is also proposed that the deductible items also include the communication and advertising expenses previously taxed in part;
- Single tax payment – from 13% to 10%;
- Single social payment – from 25% to 24%;
- Personal income tax – maintain the lower tax bracket at 13%, reduce the medium bracket (equivalent of 5 to 10 times the minimum wage) from 20% to 18% and the upper bracket (above 10X the minimum wage) from 29% to 25%;
- Levies on purchasing or temporarily importing heavy-duty trucks, multi-seat buses, special vehicles – from 20% to 6%.

Other parallel measures will change the structure of the budget revenues by gradually reducing the share of direct taxes with a simultaneous increase in the share of resource taxes. For that purpose, the rates of the latter will be raised through indexation. However, that will not concern the oil and gas sector. On the contrary, the oil royalty will be reduced from 35% to 20%, the gas condensate royalty from 32% to 20% and natural gas royalty from 58% to 30%. The excise tax rates will also be reduced for gasoline from 45% to 28%, for diesel from 40% to 25% and aviation kerosene from 20% to 8%.

In order to unify and simplify the system of taxation, the Government has proposed introducing a simplified taxation for trading firms. Instead of the existing five taxes and contributions, the draft document proposes introduction of a unified tax payment on sales based on population size: for trading firms in urban areas with population above 100,000 residents – 5%, in other settlements – 3%, in hard-to-reach and mountainous areas – 1%.

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*From the website of the National Information Agency of Uzbekistan www.uza.uz (August 11, 2006).*
However, businesses appear to have controversial views on these proposals. While focus group participants have responded positively to the reduction in the single tax payment and the corporate income (profit) tax, other Government measures, such as the proposed cuts in the single social payment and the personal income tax, are seen as insignificant. Focus group participants do not think these measures will create adequate preconditions for discontinuing the prevailing practice of the wages “in envelopes.”

ENSURING UNINTERRUPTED ACCESS TO CASH

The survey has shown that entrepreneurs continue to face problems withdrawing cash from their bank accounts. The President’s Decree #PP-147, enacted in August 2005, enforces strict measures against banks for failing to provide cash in a timely fashion. While this has improved the situation somewhat by the end of 2005, local banks have been slow or lax in implementing the Decree, continuing to create problems for entrepreneurs.

The Survey has found that the Decree facilitated cash withdrawals for paying wages, although businesses still face difficulties in withdrawing money for replenishing their working assets. Performance varies strongly across regions, ranging from 1.5 days for withdrawing cash for working capital needs in the Surkhandarya region to 3 weeks in the Tashkent region.

At the root of the issue is the Uzbek Government’s fundamentally administrative measures to control the amount of cash money in circulation. Rather than using market tools to control foreign exchange and inflation rates, it has instead set objectives to restrict the cash in circulation. The survey results have shown that, along with easier access to cash, there has also been an increase in the time needed for converting Uzbek Soums to FCC and a decrease in the number of loans received by small businesses (see Statistical Results of the Survey). These attempts to reduce the money supply adversely affect the development of both the financial sector and the economy as a whole.

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Example tax calculations in Annex 3 show that under the new reduced rates, the STP and payroll taxes and fees make up 10% and 17% of the sales, respectively.

Decree of the President of the Republic of Uzbekistan “On Guaranteeing Uninterrupted Cash Payments from Bank Deposits” #PP-147 of August 5, 2005.

STREAMLINING PERMIT AND LICENSE ISSUING PROCEDURES

One of the administrative instruments used by the state to regulate the market entry of businesses is a procedure for issuing various permits and licenses. Presidential Decree #PP-186 improves the situation in this area by reducing the list of publicly issued permits, establishing the minimum term for license validity of five years, and approving the list of 13 types of activity licensed for an indefinite term. The survey has shown that by canceling 12 permits, 19% of the SMEs that need to obtain permits gained an opportunity to work without them. As IFC experts estimate, the economic effect from the Decree PP-186 could be at least $5.2 million per year.\(^\text{21}\)

\(^{20}\) Decree of the President of the Republic of Uzbekistan “On Reducing the Types of and Simplifying the Permit Issuing Procedures for Conducting Business” #PP-186 of September 21, 2005.

\(^{21}\) Effect calculated as the sum of (1) savings made by SMEs that would previously be paid for obtaining cancelled permits and licenses within a year; (2) savings of SMEs during the year from the reduced regularity of license application due to the indefinite or the minimal five-year validity term.
chart 1.13

**UP TO 18% OF ENTREPRENEURS UNAWARE OF GOVERNMENT DECISIONS ADOPTED IN 2005**

% of respondents claiming they do not know about adopted measures

- **Republic of Karakalpakstan**: 48%
- **Namangan region**: 26%
- **Tashkent region**: 17%
- **Kashkadarya region**: 14%
- **Surkhandarya region**: 5%
- **Syrdarya region**: 5%
- **Fergana region**: 4%
- **Bukhara region**: 1%
- **Djizzak region**: 8%
- **Samarkand region**: 4%
- **Tashkent, City of**: 3%
- **Andijan region**: 10%
- **Khorezm region**: 2%
- **Navoi region**: 6%

**Legend:**
- UP-3620 (STP)
- PD-100 (reporting)
- PD-147 (access to cash)
- UP-3619 (legal protection)
However, the survey has also shown that some issues remain in implementing Decree #PD-186. For instance, 5% of the respondents that received retail trade permits reportedly obtained them after these permits had been canceled by the Decree – i.e., after October 1, 2005 (see Statistical Results of the Survey).

ENHANCING LEGAL AWARENESS OF ENTREPRENEURS AND PROTECTION OF OWN INTERESTS

The Government has launched a broad information campaign to publicize and explain the regulations above by publishing articles in the national press, broadcasting news spots on national TV, and conducting a number of issue-related round table discussions and on-site regional workshops with Government officials. However, the survey results have shown that every sixth respondent has not heard of the new Decrees.

Box 1.4
The President’s Decree #PD-186 also instructed the Cabinet of Ministers to prepare and introduce a draft law “On Permit Procedures” within three months, which would include:

- Introduction of issuance of permits based on application;
- A comprehensive list of actions and types of activity that require permits;
- Simplified, clear and sound mechanisms for permit procedures, priority for permit one-stop-shops, permit fees limited to processing costs.

The focus-group discussions have produced two possible reasons for that. The first was that the information materials disseminated were written in a legal language beyond the comprehension of most entrepreneurs. Another reason could be the fact that some local officials simply did not tell entrepreneurs about the new laws, and continued demanding compliance with abolished regulations.

![Chart 1.14](chart1.14)

DESPITE LARGE INFORMATIONAL CAMPAIGN, PERCENTAGE OF ENTREPRENEURS WELL AWARE OF LEGISLATION REGULATING THEIR BUSINESS ACTIVITY DECLINED IN 2005

% of respondents

<table>
<thead>
<tr>
<th>Year</th>
<th>Know well enough</th>
<th>Know generally</th>
<th>Know poorly/ do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>35%</td>
<td>57%</td>
<td>9%</td>
</tr>
<tr>
<td>2004</td>
<td>46%</td>
<td>50%</td>
<td>4%</td>
</tr>
</tbody>
</table>

*a focus group participant:*

“We still carry receivable-payable statements to the tax office the same way that we did before. Those people didn’t tell us that we shouldn’t do it, nor refused to take our statements.”
Legal awareness of small businesses closely relates to their ability to defend their own rights. The survey for 2005 confirmed that in case of disputes with public authorities or other businesses, SMEs prefer not to go to court. Many are not even aware that going to court is an option in such situations.

Only three of every five entrepreneurs that participated in court trials in 2005 unconditionally acknowledged the judicial system’s ability to protect their property and other rights effectively. Every third entrepreneur believes that the courts depend on the government in their decision-making.

Moreover, Uzbekistan still does not have a system of arbitration that might be an alternative solution to the economic courts in resolving disputes between businesses.
INTRODUCING A REGULATORY IMPACT ANALYSIS SYSTEM

Many countries have focused on enhancing the quality of public decision-making in the area of business regulation. When developing such regulations, it is important to consider the interests of all parties and the consequences that the decision may entail for all the stakeholders (i.e., businesses, society and the state).

Diagram 1.1

The IFC survey has helped make a partial assessment of the effectiveness of the decisions made in 2005 to improve the business environment. However, that is only one of the assessment tools available. Many countries widely employ a Regulatory Impact Analysis (RIA) aimed at enhancing the quality of the decisions made in the area of business regulation.
The system assumes the following:

- streamlining the regulation system;
- helping enhance rule-making activity of the central and local governments in business regulation;
- identification, abolishment and prevention of economically unreasonable and ineffective regulations;
- substantiating the need for state intervention in business activities, based on the principle of justified state intervention into economic processes;
- reduction of administrative, economic and organizational barriers for business development.

Evaluation of the effectiveness of government regulation should begin as early as the decision-making stage, when the regulation is being drafted, and consider existing documents in order to amend or supplement them.

Some RIA elements are already in place in Uzbekistan. Various state agencies periodically monitor the implementation of the measures adopted. The Business Forum and the regional public councils under the aegis of the Chamber of Trade and Industry have begun their work. IFC is prepared to assist the country in introducing missing RIA elements to create a comprehensive and effective monitoring system of business development (see Annex 1 for detailed information on RIA).

The remaining part of this IFC report includes the chapters that explore the major issues faced by entrepreneurs in 2005 in foreign trade operations and voluntary/self-liquidation. According to the survey, these processes in 2005 were reported by the entrepreneurs as the most problematic (see Statistical Results of the Survey). Tables 1.2 and 1.3. below summarize the analysis of the main sources for the issues and provide short- and long-term recommendations to address them.

The Annexes (Part II of the Report), in addition to RIA information, provides additional data to the chapters and analyzes the new business registration procedure (see Annex 4).

Part III of the Report “Statistical Results of the Survey” contains detailed and updated data on all the aspects of the respondents’ business activity, beginning from registration to liquidation, including obtaining permits, licenses, certificates and standards, settlements transactions, calculation and payment of taxes and other compulsory fees, and foreign economic operations. These aspects were closely scrutinized in the previous IFC reports for 2001-2004.

Box 1.7

The policy of deregulation currently pursued in many countries of the world is aimed at reducing government regulation of economic processes. The RIA reform logic assumes that effective regulation of certain public functions is necessary, with a parallel reduction of intervention in areas where market failure is minimal or nonexistent (by abolishing redundant functions). However, this intervention must be transparent and based on a uniform methodology that establishes the main parameters for intervening in the market. This will eventually help reach the ultimate goal of reducing administrative, economic and organizational barriers for business development.22

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22 Deregulation of the Economy and Removal of the Administrative Barriers, Russian Federation, (EuropeAid/114008/SV/RU).
Table 1.1  **MAIN STEPS OF THE GOVERNMENT IN 2005 INTENDED TO IMPROVE THE BUSINESS CLIMATE AND THE ISSUES TO BE ADDRESSED**

<table>
<thead>
<tr>
<th>Issues addressed by the Government in 2005</th>
<th>Outstanding issues that Government measures, adopted in 2005, did not solve</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Streamlining the system for scheduling and conducting inspections</strong></td>
<td></td>
</tr>
<tr>
<td>- Tax Inspectorate is the only agency to inspect the financial and business operations;</td>
<td>- Transparent criteria in selecting businesses for inspection are not fully in place;</td>
</tr>
<tr>
<td>- Legal measures such as business closure, suspension of operations and bank account transactions, and application of pecuniary penalty may be applied to businesses only through a judicial procedure</td>
<td>- Overlapping functions of some inspectorates during inspections</td>
</tr>
<tr>
<td><strong>Improving the system of reporting</strong></td>
<td></td>
</tr>
<tr>
<td>- Reduced regularity of reporting on taxes, fees, and other compulsory contributions by micro and small firms from monthly to quarterly;</td>
<td>- Conveniences for submitting reports by taxpayers are not created everywhere;</td>
</tr>
<tr>
<td>- Local tax offices instructed to create conveniences for entrepreneurs at collecting and registering financial reporting;</td>
<td>- Local tax offices continue to ask for additional papers</td>
</tr>
<tr>
<td>- State agencies and other organizations may not demand any information, reports, statements and documents other than provided by the law</td>
<td></td>
</tr>
<tr>
<td><strong>Improving tax administration</strong></td>
<td></td>
</tr>
<tr>
<td>- Single tax payment (STP) introduced for small industrial and service firms instead of the whole set of taxes and fees to the specialized funds;</td>
<td>- STP coverage is limited, e.g. survey shows that in 2005 only 14% of SMEs paid only STP and no other complex taxes;</td>
</tr>
<tr>
<td>- The firms that turned to STP enjoy a lower tax burden and a simpler tax administration process.</td>
<td>- Often a large portion of the tax burden is the taxes and fees paid from the payroll;</td>
</tr>
<tr>
<td></td>
<td>- Existing tax burden makes entrepreneurs keep a part of their turnovers &quot;in the shadow&quot;;</td>
</tr>
<tr>
<td></td>
<td>- Complex tax administration system for firms engaged in several businesses or paying taxes under the general taxation system</td>
</tr>
</tbody>
</table>

**Table 1.1**
<table>
<thead>
<tr>
<th>Issues addressed by the Government in 2005</th>
<th>Outstanding issues that Government measures, adopted in 2005, did not solve</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ensuring uninterrupted access to cash</strong></td>
<td></td>
</tr>
<tr>
<td>▪ Strict administrative measures for the failure to provide cash timely as requested by businesses;</td>
<td>▪ Access to cash for replenishing working assets is still a problem and strongly varies across regions;</td>
</tr>
<tr>
<td>▪ General situation with access to cash for paying wages has improved</td>
<td>▪ Along with simplified access to cash, the time for converting Uzbek Soums to foreign exchange increased considerably</td>
</tr>
<tr>
<td><strong>Streamlining permit and license issuing procedures</strong></td>
<td></td>
</tr>
<tr>
<td>▪ List of activities requiring permits was shortened;</td>
<td>▪ Problems persist locally with enforcing the legislation by the agencies in charge of issuing permits and license;</td>
</tr>
<tr>
<td>▪ A minimum validity term for a license is now five years;</td>
<td>▪ The law “On Permit Procedures” is not passed to regulate application-based permits, create a specific list of actions and types of activity that would require permits, provide simplified, clear and sound mechanisms for permit procedures, priority use of the “one-stop-shop” principle, or limit permit fees to processing costs</td>
</tr>
<tr>
<td>▪ 13 activities now licensed for an indefinite term</td>
<td></td>
</tr>
<tr>
<td><strong>Enhancing legal awareness of entrepreneurs</strong></td>
<td></td>
</tr>
<tr>
<td>▪ Government has launched a broad information campaign to publicize and explain the new regulations;</td>
<td>▪ Disseminated information does not correspond to the legal awareness level of a significant part of entrepreneurs and is inappropriate for their comprehension;</td>
</tr>
<tr>
<td>▪ The Business Forum under the Chamber of Trade and Industry began its work intended to build a link between businesses and authorities</td>
<td>▪ local officials that communicate with entrepreneurs not only do not perform explanatory work, but also often continue demanding compliance with regulations already abolished</td>
</tr>
</tbody>
</table>
## Table 1.2
### KEY PROBLEMS WITH FOREIGN TRADE OPERATIONS, THEIR MAIN SOURCES AND RECOMMENDATIONS TO ADDRESS THEM

<table>
<thead>
<tr>
<th>Issues</th>
<th>Problem sources</th>
<th>Short-term recommendations</th>
<th>Expected impact</th>
<th>Long-term recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of small businesses engaged in FEA is small and continues to fall</td>
<td>For exports</td>
<td>Price non-competitiveness of domestic goods</td>
<td>Lower the tax burden (see the IFC survey for 2004 for more details); Facilitate the development of the transport and forwarding market to make services less expensive</td>
<td>Lower cost and enhanced competitiveness of domestic products; Higher demand for domestic goods from foreign partners; Greater share of small businesses engaged in exports; Lower unofficial exports and growing official exports</td>
</tr>
<tr>
<td>Restrictions on export payments and selection of currency for payment</td>
<td>Liberalization of export payments: Gradual reduction in 100% prepayment requirement with subsequent cancellation; Expanding FCC export preferences onto exports done for other currencies</td>
<td>Less cost and enhanced competitiveness of domestic products; Higher demand for domestic goods from foreign partners; Greater share of small businesses engaged in exports; Lower unofficial exports and growing official exports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import restrictions</td>
<td>Liberalization in import operations (see Import Recommendations)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For imports</td>
<td>High customs and tariff charges</td>
<td>Reduction in customs burden: Reduction in the rates and the list of products charged with import duties and excises; Reduction in customs fees for customs clearance</td>
<td>Greater share of small businesses engaged in imports; Reduced illegal imports and greater share of legal operations; Reduced opportunities for abuse for officials</td>
<td></td>
</tr>
<tr>
<td>Unofficial restrictions on bank and customs procedures</td>
<td>Revising the trade balance regulation approach to facilitate export growth instead of imposing artificial import restrictions in order to maintain a positive trade balance</td>
<td>Growing exports and more equal trade balance through market-based mechanisms; Greater transparency in foreign trade procedures by abolishing the practice of unofficial restrictions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For exports and imports</td>
<td>Highly problematical administrative export and import procedures</td>
<td>Simplification of administrative procedures: Automatic notice of transaction completion in authorized banks and customs; Creating a level import regime for all businesses</td>
<td>Shorter terms and lower processing costs for foreign trade operations; More efficient business planning for entrepreneurs; Reduction in unofficial foreign trade operations and growth in legal exports and imports</td>
<td></td>
</tr>
<tr>
<td>Issues</td>
<td>Problem sources</td>
<td>Short-term recommendations</td>
<td>Expected impact</td>
<td>Long-term recommendations</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------</td>
</tr>
</tbody>
</table>
| For exports and imports                                              | Low legal awareness among businesses and lack of corresponding information                        | Enhance the level of legal awareness among both entrepreneurs and public officers through organizing round tables and seminars and preparation of explanatory materials. | - Higher demand for domestic goods from foreign partners;  
  - Reduced unofficial exports and growing official exports                                                                                         |                           |
| Substantial part of foreign trade transactions by small businesses is done unofficially | For exports: High tax burden  
  For imports: Difficulties in withdrawing cash from bank accounts | Lowering the tax burden (see the IFC survey for 2004 for more details)  
  - Making access to cash easier (see IFC Report for 2003);  
  - Stricter control over enforcement of the President’s Decree #PD-147 |                           |                           |
| For exports and imports                                              | See analysis of the previous issue                                                                 |                                                                                             |                                                                                                                                                    |                           |

Table 1.3: KEY PROBLEMS WITH VOLUNTARY/SELF-LIQUIDATION, THEIR MAIN SOURCES AND RECOMMENDATIONS TO ADDRESS THEM
FOREIGN TRADE

- The share of exporters and importers among small businesses is low and continues to fall. In 2005, export and import operations were performed only by 0.7% and 1.8% of the respondents, respectively. This is a decrease from 2.7% and 5.9% in 2002.

- A substantial part of exports and imports by SMEs is made unofficially. One-third of the respondents-exporters acknowledged having up to 60% of their export operations made bypassing official channels. Correspondingly, 27% of the importers illegally import about a quarter of their goods.

Uzbekistan is taking steps to promote the exports of goods and services and overcome the barriers to export operations. However, the country’s foreign trade policy has focused on an import substitution policy (see box) rather than on export-oriented development, hindering the development of exports. As a result, foreign trade in the country is characterized by a relatively high share of primary exports and inadequately low involvement of the private sector in export and import operations.

---

Box 2.1

The main goal of the import substitution strategy is to make structural changes in the economy by organizing local production of goods traditionally imported from wealthier countries. To achieve that, the countries that have chosen the strategy had to implement a package of measures that stipulates for:

1) public planning and active interference of the state in the economy;
2) imposing high import tariff and non-tariff barriers for finished goods to protect local manufacturers;
3) maintaining an overvalued exchange rate of the local currency to make the imports of capital goods less expensive;
4) restricting current account transactions to ration the use of limited foreign exchange.

The experience of those countries has shown that such a strategy causes the following problems:

1) development of capital- rather than labor-intensive production, failing to reach the expected employment growth and poverty reduction;
2) production capacity underutilization, inefficiency and inviability of the new industries;
3) lack of required growth in productivity;
4) development of new industrial sectors at the expense of the traditional (agriculture);
5) large economic distortions, resulting from an overvalued exchange rate;
6) growing external debt and a high cost to the state budget;
7) suppression of the economy’s export sectors.

---

The exports promotion strategy, on the other hand, leads to country industrialization through export-led development, particularly in the sectors that possess comparative advantages in the foreign markets. This implies creating a liberal foreign trade regime, opening the economy for foreign competition, maintaining an under- rather than overvalued exchange rate, offering privileges to exporters, and creating free trade zones. A special focus is made on facilitating tough competition in the country and attracting foreign investments.¹

It has to be noted that the intention to engage in foreign trade is suppressed in the first place by barriers impeding the general private sector development.² These issues include, for example, the high tax burden and targets set by local governments, which limit entrepreneurs from developing their businesses (including those in foreign trade) and drive a part of their operations out to the shadow sector.

There are also other issues specific to export and import operations, which will be examined further in this chapter.

SHARE OF SMALL BUSINESSES ENGAGED IN FEA IS SMALL AND CONTINUES TO FALL

The IFC survey has shown that the share of exporters and importers among small businesses is low. In 2005, export and import operations were performed by only 0.7% and 1.8% of the respondents, respectively. Every year, the share of entrepreneurs that do not even try to engage in foreign trade continues to grow.

chart

SHARE OF EXPORTERS AND IMPORTERS AMONG SMALL BUSINESSES DECLINES

% of respondents

<table>
<thead>
<tr>
<th>Year</th>
<th>Exporters</th>
<th>Importers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>2.7%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2003</td>
<td>1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>2004</td>
<td>1%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2005</td>
<td>0.7%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>


² For detailed analysis of the issues, please see the 2001-2004 IFC reports “Business Environment in Uzbekistan as Seen by Small and Medium Enterprises.”
According to the data of the State Statistics Committee, the value of total exports of microfirms and small enterprises in 2005 fell by more than 20% (to $221.2 million) compared with the previous year, while imports for the same period increased by 8% (to $1.17 billion in 2005). The official data indicate a declining ratio of the number of operating small businesses that have done any export (from 0.48% in 2004 to 0.4% in 2005) and import (from 1.34% to 1.22%).

Following reasons may explain the low share of exporters among the small businesses.

**PRICE NON-COMPETITIVENESS OF DOMESTIC GOODS**

Local goods face marketing difficulties in foreign markets due to their low competitiveness as compared to similar goods produced in other countries. Lower-grade in quality, they are also often higher in price (see Annex 5). An important factor contributing to the higher costs of local production as deemed by the focus-group participants is the high tax burden on the small business sector. The issue of the high tax burden and the other issues related to taxation were examined in detail in 2004 IFC report “Business Environment in Uzbekistan as Seen by Small and Medium Enterprises.” The survey for 2005 has shown that the aggregate tax burden has been reduced only insignificantly since previous surveys (see Statistical Results of the Survey).

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*a focus group participant:*

“We had an export contract nearly signed. However, in the end our counterparts turned down the contract as our product ended up being 20% more expensive than what they were offered in a neighboring country. I made a calculation that the taxes and all other compulsory payments make up almost half of our product’s cost. It is because of high taxes that I cannot reduce the price for my product.”

---

chart 2.2 THE SHARE OF SMES ENGAGED IN FOREIGN TRADE OPERATIONS, AND VOLUMES OF SUCH OPERATIONS (GOSKOMSTAT DATA)
Another factor affecting the export price is high transportation costs. They arise from both fixed reasons (landlocked location, remoteness from major world markets, the need to cross borders and make a transit through the territories of several countries over land) and a lack of proper forwarding services.6

The survey has shown that 60% of exporters use railways to transport their products. However, they have to overcome numerous bureaucratic, organizational and other barriers. For instance, a procedure such as receiving a car layout – only one of the required procedures for this type of transport – takes more than 3 days and is reported as problematic or very problematic by 60% of the respondents. Lengthy and complex procedures force entrepreneurs to make unofficial payments in addition to the official ones. This adds to the already high costs of the exporters. Entrepreneurs face similar situations when using other types of transport.

The survey has shown that the high prices for domestic goods are also largely due to high customs collections (import duties, excise taxes and VAT) on the imported inputs. Although some categories of businesses have privileges on customs payments, those are applied only to the imports for own needs. However, a small enterprise cannot always make an import on its own, or sometimes prefers to buy an item (e.g., used foreign equipment) in the local market. In this case, it has to pay the price that includes all the customs payments.

6 These issues are examined in greater detail in “Analyzing the Market for Forwarding Services,” an article in Biznes Vestnik Vostoka #56 of July 27, 2006 and “Export Promotion in the Republic of Uzbekistan: Creating a Favorable Environment and Effective Institutions,” a report by the Center for Economic Research with the assistance of UNDP, Tashkent 2005.

RESTRICTIONS ON EXPORT PAYMENTS AND SELECTION OF CURRENCY FOR PAYMENT

Businesses may export only against a 100% prepayment or a letter of credit, or a buyer’s bank guarantee or an insurance policy issued for an export contract against political or commercial risks.

These restrictions on export payments may be explained by the Government’s intention to prevent capital outflow. However, these payment terms create significant obstacles for the businesses that wish to export. Letters of credit, bank guarantees, and insurance policies are quite costly and require adequate knowledge and experience from businesses. On the other hand, prepayment is associated with risks for the importer and diverts money from circulation, thus implying an interest-free loan for the seller. This makes it difficult for potential exporters to find foreign partners, and forces them to make unofficial supplies that may also result in capital outflow.

Apart from the payment type restrictions, some regulations narrow the exporters’ choice of the currency of payment. A number of tax privileges are applicable only for exports made for a freely convertible currency. Thus, the goods (services, works) exported for FCC are taxed at a zero VAT rate, while the other exports are taxed at the effective rate of 20% (see 2003 IFC report “Business Environment in Uzbekistan as Seen by Small and Medium Enterprises”). As a result, although a significant part of the exports go to CIS countries (particularly to Russia and Kazakhstan), the major currency received by small businesses from the exports is the US Dollar. As the national currencies of the CIS countries become more stable in the world’s monetary system (the Russian Rouble in particular), these restrictions appear to be redundant.

IMPORT RESTRICTIONS

One of the factors obstructing the growth of small businesses’ export potential is the system of foreign trade regulation focusing on restricting imports. The high level of protectionism leads to local manufacturers targeting local markets with import-substituting production rather than attempting to access competitive foreign markets (both in terms of price and quality). In this situation, the local consumer has no choice but to accept the low quality of the local product, as a similar foreign-made product is either unavailable or much more expensive due to high customs duties.


9 For instance, for issuing a letter of credit the banks would charge up to 1% of its amount. Any changes in the terms, document verification and dispatch and other services of the servicing and correspondent banks are made for additional charges.

10 According to some estimates, the average level of tariff protection exceeds the world average 2-4 times (Chepel S., Ibragimova N. “Macroeconomic Impact of Foreign Trade Liberalization at WTO Accession”, Rynok, Dengi I Kreidit #7, July 2006.)
The survey has found that the vast majority of respondents not involved in exports do not see a need to promote their products in foreign markets. Their goods, securely protected from competition with high tariff and non-tariff barriers, enjoy demand in the local market. However, sound competition there could encourage the local producers to introduce progressive technologies and make use of material and labor resources more efficiently. That would help enhance the quality of the local products and ultimately take them to the world market, thus expanding the product sales and the scale of production.

Moreover, experience has shown that in a generally restrictive import regime, it is difficult to maintain a normal environment for importing materials, equipment, parts, etc. Some export-oriented productions, however, are heavily dependent on these imports. The state tries to resolve the issue by offering exemptions on customs payments, but it is nearly impossible to provide for all such cases where that may be necessary. As a result, all exporters must prove their eligibility for preferences (thus stretching their scarce resources) or face high duties and charges. To expedite the clearing of imported goods, entrepreneurs often pay all the charges even if their goods fall under the list of exemptions. They then try to secure a refund, which complicates future business plans.

Liberalizing the import regime in general, not for the exporters only, will rid the foreign trade actors from these problems. This will also make export and import administration much easier for the authorities and substantially reduce the opportunities for abuse.

**HIGHLY PROBLEMATICAL ADMINISTRATIVE EXPORT PROCEDURES**

The survey results have shown that the export procedures continue to be highly problematic. Every other respondent-exporter believes that the existing export and customs procedures hold back the development of the country's export potential. The issues related to those procedures were reviewed in detail in the IFC reports for 2002 and 2003. The survey and focus group discussions have demonstrated that many of the previous issues are still outstanding.

As seen in Diagram 2.1, the process of executing a standard export contract consists of many stages, consuming a considerable amount of time and often implying unofficial payments.

**Focus group participants:**

“We are eligible for a preferential import duty for the material we import for our needs. But to be able to apply for it, we have to get a corresponding certificate every time, which takes a week. We also have to prove that we will process the imported goods ourselves, or we will lose the right for the preference. This means we cannot have them partially processed by any other firm, which would be better for us, but have to buy or lease the equipment for its processing.”

“In practice, we have to pay everything demanded by customs officers all the way, and only after that do we strive for getting back what we overpaid.”
Diagram 2.1  EXPORT CONTRACT FLOW DIAGRAM

1. APPLICATION TO AN AUTHORIZED BANK FOR REGISTERING A CONTRACT
Documents:
(1) application;
(2) contract original;
(3) contract copy;
(4) invoice confirming payment for the Certificate;
(5) Goskompriroda’s statement (if necessary);
(6) Goskomstat statement confirming the status of a manufacturing small enterprise;
(7) certificate of origin;
(8) certificate of quality;
(9) settlements statement;
(10) railway bill;
(11) car codes assigned;
(12) contract copy.

Cost: processing fee of 0.2% of the contract amount (officially); and $50-$100 unofficially.

2. APPLYING FOR A PERMIT TO GOSKOMPRIRODA (IF NECESSARY):
Documents:
(1) contract original;
(2) contract copy;
(3) contract copy with bank’s marks;
(4) Goskompriroda’s statement (if necessary).

Cost: receiving a statement in half a day costs $80 (unofficially); and $50-$100 unofficially.

3. REGISTERING THE CONTRACT WITH FOREIGN EXCHANGE CONTROL UNIT OF THE STATE CUSTOMS COMMITTEE *
Documents:
(1) application;
(2) contract original;
(3) contract copy;
(4) Goskompriroda’s statement (if necessary).

Cost: registering in 2 days is $40-50 (unofficially).

4. REQUESTING A FORWARDING COMPANY FOR RAILCAR CODES
Signing a contract of carriage.
Documents:
(1) letter requesting a code;
(2) contract copy.

Cost: for 1 code 900,000-1.3 million Soums to Kazakh territory (officially). unofficially – $100 to receive the code for 900,000 Soums.

5. APPLICATION OF THE FORWARDING COMPANY TO TASHKENT SHIPMENT DOCUMENTS PROCESSING CENTER UNDER THE NATIONAL RAILWAY COMPANY “OZBEKISTON TEMIR YOLLARI”* FOR A RAILCAR LAYOUT
Documents:
(1) contract copy;
(2) car codes assigned;
(3) invoice confirming payment for railway carriage;
(4) letter informing on freight to be transported.

Period of issuance of car layout – 3-7 days.
Cost varies subject to freight ($50-100).

6. APPLICATION TO UZBEKEKSPERTIZA FOR THE CERTIFICATE OF ORIGIN (THIS PROCEDURE BEGINS AFTER THE FREIGHT IS LOADED) (IF NECESSARY)
Documents:
(1) contract copy;
(2) invoice confirming payment for the Certificate;
(3) contracts for inputs purchased, indicating their origin;
(4) in some cases other certificates: of compliance, hygienic, phytosanitary.

Period of issuance of certificate – 7 days.
Cost: 17,740 Soums officially; for quick processing – $20-25 unofficially.

7. APPLICATION TO A CUSTOMS BROKER FOR FILLING A CARGO CUSTOMS DECLARATION (CCD) (IF APPLIED FOR THE FIRST TIME A CONTRACT MUST BE SIGNED)
Documents:
(1) contract original;
(2) contract copy;
(3) container and car numbers;
(4) railway bill;
(5) settlements statements;
(6) Goskompriroda’s statement;
(7) certificate of origin;
(8) certificate of quality;
(9) certificate of compliance if necessary. $20-25 for printing the declaration (unofficially).

8. CCD AND FREIGHT PROCESSING BY CUSTOMS:
Documents:
(1) contract original;
(2) contract copy;
(3) Goskompriroda’s statement;
(4) certificate of origin;
(5) certificate of quality;
(6) if necessary certificate of compliance;
(7) settlements statement;
(8) container and car numbers;
(9) railway bill.

Processing time – 2 hours.
Cost: processing fee of 0.2% of the contract amount (officially); and $50-$100 unofficially.

9. CUSTOMS EXAMINATION, SEALING AND FREIGHT DISPATCH
Documents:
(1) application;
(2) letter of contract registration with customs;
(3) $10 for sealing (unofficially).

Cost: for examination Eur 5 per hour (officially) and $5-10 unofficially;
(2) for inviting a specialist – up to $100 (unofficially);
(3) $10 for sealing (unofficially).

10. 50% CURRENCY SURRENDER
Documents:
(1) application.
Time: within 10 days after money is received. Exemption requires a document from Goskomstat confirming the status of a manufacturing small enterprise – 3 days.

11. CONTRACT DeregISTRATION IN THE BANK
Documents:
(1) application;
(2) letter of contract registration with customs;
(3) document confirming full payment;
(4) shipping documents;
(5) in some cases an acceptance statement with a counterparty is required.
Time: recording completion of the transaction (deregistration) is done in 2 days.

12. CONTRACT DeregISTRATION IN CUSTOMS
Documents:
(1) application;
(2) contract original;
(3) contract copy;
(4) settlement confirmation from the bank;
(5) reconciliation statement (in some cases).
Time: deregistration is done in 3-4 days.

* if registration is denied, applicant must renegotiate changes made to the contract with foreign partner and register those changes at an authorized bank and resubmit customs registration documents.
The small number of businesses engaged in import can be attributed to following factors.

**HIGH CUSTOMS AND TARIFF CHARGES**

One of the major obstacles for imports to Uzbekistan continues to be the high level of customs and tariff charges – i.e., import duties, excise tax, VAT and customs fees. In 2005-2006, the rates for import duties\(^\text{13}\) and the excise taxes for excisable goods\(^\text{14}\) imported to Uzbekistan were reviewed several times. The changes mainly included raising the rates and expanding the list of goods subject to those charges.

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**Box 2.5**

Excise tax is imposed only on those goods that do not suffer a significant drop in demand with increased prices (thus ensuring constant income from the tax). These goods are usually luxury items or those considered dangerous to the consumer or society, as the tax performs an income distribution function or restricts consumption of harmful products. An essential precondition for excising an item is the ability of the state to enforce strict control over production/import of the excisable product to avoid tax evasion. In addition, to avoid price distortions, the excise rates on both imported and locally produced goods must be equivalent.\(^\text{15}\)

Uzbekistan has imposed an excise tax on a broad range of imported goods (60 commodity groups of TN FEA), including basic consumer goods and other products that do not meet the above criteria. Therefore, it means that the excise in this case, in addition to the fiscal function, also performs an import limiting function.

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\(^{12}\) Methodology used in Doing Business is different from that used in this IFC report, which may result in different data. For methodology used in Doing Business, please visit [http://www.doingbusiness.org/MethodologySurveys/TradingAcrossBorders.aspx](http://www.doingbusiness.org/MethodologySurveys/TradingAcrossBorders.aspx).

\(^{13}\) Decree of the President of the Republic of Uzbekistan #PВ-183 of September 19, 2005.

\(^{14}\) Resolution of the Cabinet of Ministers of the Republic of Uzbekistan #610 of December 28, 2004; Decree of the President of the Republic of Uzbekistan #PD-26 of March 11, 2005; Decree of the President of the Republic of Uzbekistan #PD-244 of December 27, 2005; Decree of the President of the Republic of Uzbekistan #PD-183 of September 19, 2005.

In addition to the duties and excise tax, customs clearance involves a processing fee of 0.2% and a VAT of 20% of the customs value. The VAT for customs purposes is charged based on the whole amount, which includes the customs value, the excise and the import duty paid. However, during the VAT refund, the customs officers use only the tax amount charged on the product’s contract value (see IFC 2003 report “Business Environment in Uzbekistan as Seen by Small and Medium Enterprises” for more details).

Therefore, the high customs payments and their collection through the “tax-on-tax” principle considerably raise the importers costs, often forcing them to abandon importing completely or to evade the compulsory charges.

**UNOFFICIAL RESTRICTIONS DURING BANK AND CUSTOMS PROCEDURES**

Some focus group participants notice that a serious obstacle in import operations is the regular refusals of some agencies to perform their functions. For instance, the decision-making process in commercial banks and customs offices is absolutely nontransparent for entrepreneurs.

There are no formal restrictions for converting Uzbek Soums into a foreign currency. However, the focus group participants report that the commercial banks regularly suspend their conversion operations, citing restrictions imposed by the Central Bank. The IFC survey has shown that the time it took businesses to convert their money for importing both finished goods and inputs and equipment increased significantly after September 2005, even doubling for some types of goods. Since banks reserve the Soum equivalent of the entire amount to be converted for the length of the transaction period, businesses have to withdraw their money from circulation for an indefinite time. This situation also complicates meeting contractual liabilities with their foreign counterparts in time, resulting in delivery failures and interruptions in production cycles complicating the business planning process.

**Chart 2.3**

**CURRENCY CONVERSION PERIOD IS UNCERTAIN AND UNWARRANTED**

<table>
<thead>
<tr>
<th>Category</th>
<th>January-August 2005</th>
<th>September-December 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foodstuff</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Consumer goods other than food</td>
<td>24</td>
<td>37</td>
</tr>
<tr>
<td>Equipment</td>
<td>12</td>
<td>27</td>
</tr>
<tr>
<td>Raw materials</td>
<td>18</td>
<td>25</td>
</tr>
<tr>
<td>Other</td>
<td>22</td>
<td>31</td>
</tr>
</tbody>
</table>
Some focus group participants have also noted that commercial banks refuse to convert Soums into foreign exchange to pay for the service of transporting imported goods into Uzbek territory when such expenses are not covered by foreign suppliers. In those cases, the local businesses have to pay for the transport companies’ services in foreign exchange cash. To be able to cover the expenses, they have to keep some of their money “in the shadow.”

On their part, customs offices also regularly suspend the clearance of imported goods for an indefinite period, with the same consequences for businesses as the foreign exchange suspension. This also results in higher expenses for storing goods at customs warehouses and delays in payments to the budget.

As focus group participants claim, in all these cases the authorized offices provide no explanation for their actions, referring to some instructions of higher authorities. This practice significantly complicates business planning and pushes entrepreneurs into unofficial payments and illegal imports.

**HIGHLY PROBLEMATICALLY ADMINISTRATIVE IMPORT PROCEDURES**

Much like with export procedures, a business must go through many stages to make an import transaction. As Diagram 2.2. indicates, passing each stage takes a great amount of time. To expedite the procedure, the importers often resort to unofficial payments (for details, please see “Statistical Results of the Survey” section of the 2004 IFC report “Business Environment in Uzbekistan as Seen by Small and Medium Enterprises”).

**LOW LEGAL AWARENESS LEVEL AMONG ENTREPRENEURS AND THE LACK OF ADEQUATE INFORMATION**

The low percentage of the small businesses engaged in FEA is also partly due to the low level of legal awareness of the businesses themselves. Quite often, they are not familiar with their rights and obligations arising during foreign trade operations. Due to the absence of basic knowledge of the regulations regarding the foreign trade procedures, some businesses fail to prepare the required package of documents properly or make a valid appeal against the illegal actions of public officials. This contributes to substantial delays in procedures and higher costs for entrepreneurs.

When discussing these export and import issues, focus group participants spoke of the lack of adequate information on the prices, markets, customs legislation, standards and other requirements accepted in importing countries. The survey has also shown that the agencies in charge of export promotion (such as MFERIT, CTI, embassies and Uzbek trade representations abroad, commodity exchanges) are not performing their functions effectively. More than half (58%) of exporter respondents reported that they felt no support whatsoever from those agencies.

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**a focus group participant:**

“We have imported goods; but it's been a month and we still cannot have them cleared by the customs. My production is about to stop. They say this month they have bad statistics, you see – their import is too big! Maybe in the beginning of the next quarter they will start clearing goods again.”

**a focus group participant:**

“Frankly, some entrepreneurs are themselves guilty for being abused by the customs officers. If our importers were a little more knowledgeable, they wouldn’t let that happen.”
Diagram 2.2  IMPORT CONTRACT FLOW DIAGRAM

1. APPLICATION TO AN AUTHORIZED BANK FOR REGISTERING A CONTRACT
Documents:
(1) application;
(2) contract original;
(3) contract copy;
(4) copy of an import (transaction) passport.
Registration period – 2 days.
Procedure cost – 1 minimum wage (officially).

2. REGISTERING THE CONTRACT WITH FOREIGN EXCHANGE CONTROL UNIT OF THE STATE CUSTOMS COMMITTEE
Documents:
(1) application;
(2) contract original;
(3) contract copy with bank’s marks;
(4) import transaction passport.
Registration period is 3-7 days.
Costs: registering in 1 day is $50 (unofficially)
Problems: Verbal refusal to register a contract due to some inaccuracies, resulting in contract withdrawal by applicant.

3. FOREIGN EXCHANGE CONVERSION
Documents:
(1) application;
(2) contract copy with customs stamps.
Time: up to 45 days.
Prepayment right after conversion.

4. APPLICATION TO TASHTEKHPD (TASHKENT SHIPPING DOCUMENTS PROCESSING CENTER UNDER THE NATIONAL RAILWAY COMPANY “OZBEKISTON TEMIR YOLLARI”) FOR ACCEPTING FREIGHT AT FRONTIER. SIGNING A CONTRACT WITH TASHTEKHPD
TASHTEKHPD issues an invoice at 100,000 Soums per railcar to process freight. After the processing customs officer stamps the railway bill and the invoice.

5. PLACING THE FREIGHT TO A CUSTOMS WAREHOUSE
For releasing freight into free circulation, in the absence of own warehouse, the freight is placed into a bonded warehouse (daily storage cost is 150-200 Soums per ton).

6. APPLICATION TO UZSTANDART FOR CERTIFICATE OF COMPLIANCE
Documents:
(1) sign and attach contract with Uzstandart
(2) application
(3) invoice copy;
(4) railway bill copy;
(5) foreign counterpart’s certificate of compliance (if available);
(6) 3 sample goods;
Costs: for testing from 30,000 to 400,000 Soums depending on product (officially); $100-100 (unofficially).
Laboratory issues test result statement to serve as a ground for Uzstandart to issue a certificate.
Time for issuing a certificate: 1-2 days.
Certification fee: 40,000 Soums (officially).

7. APPLICATION TO A CUSTOMS BROKER FOR FILLING A CARGO CUSTOMS DECLARATION (CCD)
Documents:
(1) contract original;
(2) railway bill;
(3) invoice copy;
(4) SCC letter confirming preference eligibility.
Time for issuing CCD is 2 hours.
Cost: processing fee of 0.2% of the contract amount; $20-25 for printing the declaration (unofficially).

8. CCD AND FREIGHT PROCESSING BY CUSTOMS
Documents:
(1) contract original;
(2) contract copy;
(3) railway bill;
(4) invoice;
(5) certificate of origin;
(6) certificate of compliance;
(7) SCC letter confirming preference eligibility;
(8) CCD;
(9) Laboratory test results.
Problem: export CCDs almost never reach the destination. Without it, goods are cleared as per database price (i.e., last similar import).
Cost: for objective freight valuation one must pay $300. After that the freight is released into free circulation.

9. CUSTOMS OFFICE REQUESTS THE LABORATORY UNDER THE STATE CUSTOMS COMMITTEE FOR EXAMINING INDIVIDUAL LISTED PRODUCTS
Documents:
(1) contract original;
(2) contract copy;
(3) railway bill + 1 copy;
(4) invoice + 1 copy;
(5) certificate of origin + 1 copy;
(6) certificate of compliance + 1 copy.
(7) 3 samples of goods.
Examination period is 3 days.
Cost: $100 (unofficially).
Result: receiving a test statement allowing release into free circulation.

10. CONTRACT DEREGISTRATION IN THE BANK
Documents:
(1) application;
(2) contract original;
(3) contract copy;
(4) CCD copy;
(5) freight import card;
(6) reconciliation statement confirming no claims of a foreign partner;
Time: deregistration is done in 2 days.

11. CONTRACT DEREGISTRATION IN CUSTOMS
Documents:
(1) contract original;
(2) contract copy;
(3) copy of the import transaction passport;
(4) reconciliation statement confirming no claims of a foreign partner.
Time: deregistration is done in 3-14 days.

* If registration is denied, applicant must renegotiate changes made to the contract with foreign partner, register those changes at an authorized bank and resubmit customs registration documents.
SUBSTANTIAL PART OF FOREIGN TRADE TRANSACTIONS BY SMALL BUSINESSES IS DONE UNOFFICIALLY

A survey among the small business representatives of exporters and importers conducted in 2005 has shown that in the existing environment, a substantial part of foreign trade operation is conducted unofficially. A third of the respondents—exporters acknowledged that up to 60% of their export operations bypass official channels. Similarly, 27% of importers illegally import about a quarter of their goods (for details please see Statistical Results of the Survey section of the 2004 IFC report “Business Environment in Uzbekistan as Seen by Small and Medium Enterprises”).

The reasons for such a high share of unofficial transactions in foreign trade are reviewed below.

HIGH TAX BURDEN

A high tax burden as mentioned above undermines the opportunities to conduct and develop a business. In an attempt to reduce taxation, foreign trade actors have to avoid official channels for a part of their foreign trade transactions.

**Box 2.6**

Presently the Chamber of Trade and Industry of Uzbekistan is establishing the Association of Exporters of Uzbekistan to assist large and small businesses in identifying and resolving the obstacles to export. The association will provide services to entrepreneurs in finding potential buyers abroad, preparing contracts and procedural documentation, marketing local goods, organizing exhibitions, fairs, etc. A major focus is proposed to be on the development of recommendations to improve the export procedures. Establishment of the association is expected before the end of 2006.\(^{16}\)

**chart 2.4 EXPORTERS DO NOT RECEIVE ADEQUATE SUPPORT FROM AUTHORIZED AGENCIES**

\[^{16}\text{Source: The Chamber of Trade and Industry of the Republic of Uzbekistan.}\]**
DIFFICULTIES IN WITHDRAWING CASH FROM BANK ACCOUNTS

Local producers often decide to export unofficially due to the complexities of the existing monetary regulations (see “Overview of the Business Environment in Uzbekistan” and “Statistical Results of the Survey” sections of this report).

The survey has shown that entrepreneurs continue to have problems withdrawing cash from their bank accounts or (where farmers are concerned) face long wait times before they receive money for agricultural products sold to the state. They prefer to sell their products abroad for immediate cash without due validation of the transaction, despite its illegality.

RESTRICTIONS IN EXPORT PAYMENTS AND CHOICE OF CURRENCY

As mentioned above, the restriction on export payment forms is a significant obstacle to finding a foreign partner. This in turn becomes a reason for those exporters who fail to comply with the regulatory requirements to do their exports unofficially.

HIGHLY PROBLEMATIC EXPORT AND IMPORT PROCEDURES

Highly problematical administrative procedures during export and import substantially increase the attractiveness of unofficial foreign trade operations for entrepreneurs. While making export or import decisions, they compare the time and money costs of going through all the compulsory procedures formally on one hand, and possible risks and unofficial payments associated with illegal operations on the other. In cases when the costs related to observing the law outweigh the latter, the businesses may consciously choose to violate the prescribed requirements.

HIGH CUSTOMS AND TARIFF CHARGES

High customs and tariff payments seriously drive entrepreneurs to do imports unofficially to evade compulsory charges. It should be noted that even a one-time violation of the prescribed import procedures entails a whole chain of subsequent violations. The businesses that buy some cheap imported goods through unofficial channels do not have evidence supporting legality of the purchase. Therefore, when using or reselling the product, they knowingly have to violate the established rules for financial and economic activity.

UNOFFICIAL RESTRICTIONS IN BANK AND CUSTOMS PROCEDURES

Regular suspensions in converting Soums to foreign exchange and processing of goods by customs officials make entrepreneurs look for a way out by making unofficial payments – i.e., promote the habit of resolving issues through breaking the law. This may also be a reason for the growing share of the entrepreneurs that knowingly prefer to perform import operations illegally.
SHORT-TERM RECOMMENDATIONS FOR ADDRESSING FOREIGN TRADE ISSUES

The issues highlighted reduce the effectiveness of the measures taken by the Government to enhance small businesses’ involvement in foreign economic activity. Drastic improvement of the situation requires the Government to create favorable tax conditions and simplify the export and import procedures as much as possible. An important step in realizing the country’s import and export potential could be transparency improvement in the decision-making process of foreign trade regulation.

These recommendations are dealt with in more detail below.

FURTHER LIBERALIZATION OF EXPORT PAYMENTS

Liberalization of export-transaction requirements should be continued – in particular, the restriction on the amount of exports (currently not to exceed the amount of guarantees received, insurance policies secured against political and commercial risks, money received upfront, or covered by a letter of credit\(^1\)). The survey has shown that in practice only a small number of exporters use L/Cs, bank guarantees or contract insurance policies in their exports. Therefore, prepayment remains to be the main mechanism to be used by the businesses in securing their export revenues.\(^2\) However, the rule above states that exporters may not ship goods in values exceeding the amount of prepayment, which in effect becomes a requirement for 100% prepayment. Abolishing this requirement will make it easier for local businesses to find potential buyers abroad.\(^3\)

This step will not undermine the control over timeliness of export receipts, as the existing mechanisms for enforcing export contracts fully secure the receipt of both export proceeds and corresponding taxes (see Box 2.7).

Box 2.7

Some measures are in place to control performance of export contracts:
…“the authorized banks must register all export and barter contracts (excluding cases listed in P1.2. of this Regulation) regardless of customs regimes, including those:
– made at commodity exchanges for a foreign currency;
– for processing goods;
– for supplying enterprises established abroad with Uzbek investments, including those on consignment;
– for supplies under intergovernmental agreements.”

\(^1\) Paragraph 3 of Regulation on the Procedure for Preparing a Statement of Payments registered by the Ministry of Justice of the Republic of Uzbekistan #1137 of May 14, 2002.

\(^2\) For instance, based on the survey by the center for Economic Research under UNDP assistance, 95% of exporters use prepayment in their settlements. See “Export promotion in the Republic of Uzbekistan: creating a favorable environment and effective institutions,” Center for Economic Research with the assistance of UNDP, Tashkent 2005.

\(^3\) For example, Ukraine abolished similar requirements on prepayments, L/Cs or foreign bank guarantees for exporters in 1997.
…“Each registered export (barter) contract must be monitored by the authorized bank in terms of the operations related to contract enforcement.”

…“in case of failure to receive the export earnings completely or goods within the time frame established by the law (based on the date of border crossing or completion of works), the authorized bank inform the local tax and customs authorities in writing to take measures according to the law.”

“all contracts (agreements) registered in authorized agencies in the manner prescribed by the law are subject to registration in the customs offices.”

…“all contracts (agreements) registered by the customs offices are subject to performance monitoring.”

…note that from October 1, 2003, the State Customs Committee, along with the Agency for Foreign Economic Relations, the Central Bank of the Republic of Uzbekistan, the authorized banks and other interested ministries and agencies introduce the Unified Foreign Economic Operations Electronic Information System.”

…“To establish that the Center for Customs Statistics and Analysis under the State Customs Committee of the Republic of Uzbekistan, its units and groups under territorial departments, customs complexes and posts shall develop a statistical electronic database based on customs freight declarations and be responsible for the timeliness and integrity of dispatch or delivery entries into the Unified Foreign Economic Operations Electronic Information System.”

…“the Center for Customs Statistics and Analysis under the State Customs Committee, its divisions under territorial departments, customs complexes and posts are responsible for timeliness and integrity of the information regarding the incoming and outgoing goods entered into UFEOEIS, develop an electronic statistical database on the Basis of Cargo Customs Declarations (CCD) with Appendices, analyze the data on exports and imports and the customs charges collected therefrom and ensure timely integration of the electronic database into UFEOEIS.”

…“to establish that:

– products exported, except centralized exports, are considered sold 60 days after the moment of crossing the country’s customs border with the responsibility of due payment of all corresponding taxes;

– upon the request of the tax authorities the banks must provide the transaction data of their customers required for monitoring the integrity and completeness of all due tax payments.”

For violating the established procedure of foreign exchange receipt by concealing it, the business executives in charge may be held criminally responsible pursuant to Article 178 of the Criminal Code of the Republic of Uzbekistan.

20 Regulation on the Procedure for Registering and Monitoring Export and Import Contracts by Authorized Banks” registered in the Ministry of Justice on August 9, 2000 #54.

21 Procedure for Registering Contracts (Agreements) by the Customs registered in the Ministry of Justice on October 15, 1999 #832.


24 Decree of the President of the Republic of Uzbekistan “On Measure to Increase Responsibility of Business Entities for Budget Payments” #UP-1504 of August 9, 1996.
In addition to liberalizing export payments, the Government should also expand the tax privileges that currently pertain to FCC export only to cover all other exports for other currencies also.

**Expected impact:**

*These steps will help expand the circle of potential buyers for local goods and correspondingly the demand for domestic products from foreign partners. Payment liberalization will also contribute to lowering unofficial exports.*

**SIMPLIFICATION OF EXPORT AND IMPORT ADMINISTRATIVE PROCEDURES**

In order to expedite the process of going through procedures, it is necessary to reduce the number of stages required for export and import contracts.

Among the stages that appear redundant is the need to record the completion of a transaction with banks and customs offices, so that the transaction is removed from their registry list. These procedures can be performed automatically in the Unified Foreign Economic Operations Electronic Information System, which records all contract transactions and can therefore track whether transactions have been completed. As the survey among exporters and importers indicates, this process takes on average about 2 business days in customs and 1.5 days in commercial banks. Abolishing this procedure, which includes two subsequent steps, will allow saving and rationalizing the working time of entrepreneurs.

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**Box 2.8**

In April 2006, the State Customs Committee of Uzbekistan (SCC) and the Agency for Customs Control under the Ministry of Finance of Kazakhstan announced the creation of joint specialized customs points for agricultural products exported from Uzbekistan to Kazakhstan. For an uninterrupted and timely passage of fruits and vegetables, the two agencies made a decision to introduce a simplified ‘one-stop-shop’ procedure for those products. On the Uzbek side, the Cargo Customs declarations are filled, goods are examined and phytosanitary certificates issued. Once on Kazakh territory, an Uzbek customs officer presents a delivery acceptance certificate with the freight. No other examination or document is needed.

In order to see how successful and effective this measure is, some additional analysis of agricultural exports will be required. Yet even as early as June 2006, the press service of the SCC reported a growth in agricultural supplies to the neighboring country. From January - May 2006, some 14,000 tons of fruits and vegetables worth $210,000 were supplied to Kazakhstan – a dramatic increase from 238 tons worth $38,000 for the same period in 2005.25

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Foreign trade procedures could be greatly simplified by treating all commodities importers equally. This implies abolishing the practice of granting preferences for importing individual goods (e.g., equipment or materials) to a specific category of importers (e.g., exporting enterprises, foreign investments, small businesses), with parallel liberalization of the import regime as a whole. For instance, it would be reasonable to exempt all technological equipment imported to Uzbekistan from the VAT and customs duties regardless of the purpose of the import. This work will not only lighten the import operations for FEA players presently working under general terms, but also free businesses from the need to prove their right to exemption.

**Expected impact**

Simplified foreign trade procedures will result in:

- shorter terms and lower costs for processing foreign trade operations;
- reduction in unofficial foreign trade operations and growth in legal exports and imports;
- more efficient business planning for entrepreneurs.

**REDUCTION IN CUSTOMS PAYMENTS BURDEN**

The Government should review the rates and list of goods imposed with import duties and excises for their future reduction. This work is inevitable in light of Uzbekistan’s integration into the international economic community – in particular its accession to EURASEC and preparation for WTO accession. It is important to note that these steps should concern all imports in general, and not only those of the exporter enterprises.

It would be advisable to reconsider the existing customs processing fee for processing exports and imports of 0.2% of the customs value. It should adequately reflect the real processing costs incurred by the customs offices and not be a source of income for them. In this regard, it seems possible to reduce the fee or introduce a fixed rate that covers all corresponding customs expenses.

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**Box 2.9**

Uzbekistan officially joined the Eurasian Economic Community (EURASEC) in the beginning of 2006. The member countries of this organization have already conducted some work in unifying the foreign trade and customs legislations. The EURASEC framework has 30 documents adopted to unify and simplify the customs control and processing of goods and vehicles crossing the borders of member countries, which Uzbekistan is expected to accept in the near future.26

The ultimate goal of this work is the creation of a full-fledged customs union. The decision to become a member of custom union is a much more complex political issue than joining the free-trade area, where Uzbekistan has long been a member. This is because a free-trade agreement provides for exemption of the customs duties to goods originating from member countries. In customs union, all member countries must accept the common “playing rules,” also in respect to the goods produced in other countries of the world. Uzbekistan as one of the most closed in terms of foreign trade countries in EURASEC, will have to do much work to liberalize its foreign trade regime.

**Expected impact**

This step will help considerably reduce the business costs for processing the imported goods and services in customs. The reduction in the customs and tariff charges will reduce illegal imports and raise the share of legal operations, thus compensating possible losses for the state budget from the lower duty and excise rates. In addition, the decline in illegal imports will promote equal competitive opportunities for all entrepreneurs and facilitate the reduction in unfair competition. Creating a level playing field for all importers will significantly simplify the foreign trade administration and reduce the opportunities for abuse.

**REVISING THE TRADE BALANCE REGULATION APPROACH: CREATING CONDITIONS FOR ACCELERATED EXPORT GROWTH TO MAINTAIN POSITIVE TRADE BALANCE**

The study shows that the regular, unmotivated suspensions in foreign exchange conversion or customs clearance are caused by the Government’s intent to keep the country’s trade balance under control – i.e., restrict import growth and avoid its substantial excess over the export earnings. As mentioned above, this practice causes a number of problems that seriously complicate the legality of the business in the country. Moreover, these arrangements contradict the liabilities undertaken by Uzbekistan in 2003 following Article VIII of the Articles of Agreement of the IMF. Such practices of trade balance regulation should be abandoned. Implementing a range of market-oriented steps in promoting exports, including those recommended in this publications, will be a much more effective instrument in sustaining the country’s balance of payments.

**ENHANCING LEGAL AWARENESS AMONG ENTREPRENEURS**

To reduce the stock of foreign trade problems, it is also important to enhance the level of legal awareness among both entrepreneurs and the involved public officers. This must be achieved through organizing round tables and seminars, publications and broad disseminations of explanatory materials and information on foreign markets, etc.

**LONG-TERM RECOMMENDATIONS**

In order to enhance the country’s export potential, develop domestic production, diversify exports and encourage small business’ involvement in foreign economic activity, it is important to continue foreign trade liberalization. This should include consideration of export promotion initiatives and import liberalization as a single package of measures.

These objectives could be supported by the introduction of the Regulatory Impact Analysis (RIA) system, which would allow assessing regulatory decisions from the perspective of their social and economic effectiveness based on the interests of the state, business and society. In other words, it would be a comprehensively balanced assessment of the possible policy implications ensuring optimal decision-making (see Annex 1 for more details). Employing the RIA system not only for new policies, but also for a critical review of the existing regulation mechanisms, will help assess the effectiveness of the existing administrative procedures and identify redundant stages. These could be either abolished or replaced by other instruments of public regulation without prejudicing public interests.
Sooner or later, many businesses choose to discontinue their activity due to various reasons, thus having to go through a liquidation procedure.

Liquidation is the termination of activities assuming no transfer of rights and liabilities to any other parties. A legal entity may be liquidated upon the decision made by its founders (partners) or a body authorized by the constituent documents, as well as the decision of a court in the cases provided by the law. Since liquidation by court is a compulsory procedure, and therefore out of the hands of entrepreneurs, we will consider liquidation by the founders or the authorized body – i.e., voluntary liquidation. As it is the right of any enterprise, and can be exercised at any time, it should be a smooth, simple and effective process.

Although it may seem paradoxical, the complexity of the liquidation process affects the growth of the number of small and private businesses. Studies conducted around the world confirm a direct correlation between the number of shutdowns and the number of startups. This relation is explained by the fact that optimal liquidation procedures give entrepreneurs a chance to utilize their abilities in a better way, respond more flexibly to market changes and use scarce resources more efficiently. The effective liquidation procedure also serves the interest of investors and lenders who receive more funds for financing new investment opportunities.

Moreover, a simple and transparent voluntary liquidation procedure benefits the state. A complicated process deters entrepreneurs from liquidating their companies, causing many to abandon their businesses instead. The state in this case will have to identify and liquidate these companies at a cost to the budget that could be otherwise used for investments.

VOLUNTARY LIQUIDATION PROCEDURE IS PROBLEMATIC

The IFC survey has shown that 73% of the respondents that had to liquidate their enterprises found the procedure very problematic or quite difficult.

1 Article 53 of the Civil Code of the Republic of Uzbekistan.
BUSINESS ENVIRONMENT IN UZBEKISTAN
as Seen by Small and Medium Enterprises

The focus group discussions have shown that the inspectorates in charge of business registration under khokimiyats (local authorities) and the local tax inspectorates are the most problematic parts of the liquidation process.

The difficulties above may be explained both by existing gaps in the regulatory framework and the low legal awareness of entrepreneurs.

SHORTCOMINGS OF THE REGULATORY FRAMEWORK

The existing legislation lacks regulation that could clearly define the voluntary liquidation procedure. The main requirements for the liquidation of legal entities are provided in the Civil Code of the Republic of Uzbekistan. Similar provisions exist in the Laws “On the Joint Stock Companies and Protection of Shareholders’ Rights” and “On Limited and Additional Liability Companies.”

However, the legislation does not offer a detailed regulation for voluntary liquidation. Based on the analysis of the “Regulation on the Liquidation of Enterprises that Do Not Conduct Business or Failed to Form Authorized Capitals within the Terms Established by Law,” we can assume that its provisions also apply to the voluntary liquidation procedure. This implies that the provisions regulating the forced liquidation, as the document’s title says, also regulate voluntary liquidation.

The voluntary liquidation procedure based on the Regulation mentioned above is shown in Diagram 3.1.

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3 Articles 53-56 of the Civil Code of the Republic of Uzbekistan.
4 Articles 101-104 of the Law “On Joint Stock Companies and Protection of Shareholders’ Rights”.
5 Article 55 of the Law “On Limited and Additional Liability Companies”.
Diagram 3.1 VOLUNTARY/ SELF-LIQUIDATION FLOW DIAGRAM

1. Making a decision on voluntary liquidation.

2. Notification of the registering agency. Documents:
   1. Application;
   2. Information on liquidating committee’s members;
   3. Decision on liquidation with indication of procedure and timeframe.

3. Approval or refusal by the registering authority of the liquidation committee’s membership.

4. Publishing in the press a notice of liquidation along with the information on the procedure and the deadline for accepting creditors’ claims.

5. Preparation of an interim liquidation balance sheet.

6. Presentation to the registering agency of:
   1. The interim liquidation balance sheet;
   2. A copy of the notice published;
   3. Bank’s info on the liquidation account balance and the accounts payable;
   4. Copies of the document confirming a written notification sent to creditors.

7*. Approval or refusal by the registering agency of the interim liquidation balance sheet.

8. Approval of the interim liquidation balance sheet.


11. Presentation to the registering agency of:
    1. The liquidation balance sheet;
    2. Copies of the bank’s payment documents confirming settlements with creditors.

12*. Approval or refusal by the registering authority of the liquidation balance sheet.

13. Approval of the liquidation balance sheet.

14. Distribution of the remaining property among shareholders (partners).

15. Closure of the liquidation account in the bank, surrender of seals and stamps to the internal affairs authorities for destruction with respective confirmations received, cancellation of trademark certificates.

16. Making a decision on finalizing the liquidation arrangements.

17. Application to the registering agency to exclude the liquidated entity from the public register of legal entities enclosing:
    1. Original of constituent documents and the public registration certificate;
    2. Bank’s confirmation of the liquidation account closure;
    3. Seal and stamp surrender confirmation by the internal affairs authorities;
    4. Confirmation of cancellation of trademark registration certificates;
    5. Liquidation balance-sheet approval with the enclosed balance-sheet certified by the tax inspectorate;
    6. Tax inspectorate’s confirmation of absent or written-off debt to the budget and extra-budgetary funds;
    7. Confirmation of the submission of documents to the State Archive.

18. Registering agency issues a decision on excluding the entity from the public register of legal entities and making the record to the public register of legal entities.

19. Registering agency’s notification to the Pension Fund, Employment Promotion Fund, statistical agencies, tax authority.

20. Deregistration at Pension Fund, Employment Promotion Fund, statistical agencies, tax authority.

* – These approval procedures were eliminated by Annex 3 to Resolution #PP-186 of the President of the Republic of Uzbekistan “On Reducing the Number of and Simplifying the Procedure for Issuing Permits to Start Entrepreneurial Activity,” September 21, 2006.
However, in practice it is at the officials’ discretion whether to follow the diagram, as there are no specific clauses in the Regulation that apply to the voluntary liquidation procedure. The voluntary liquidation procedure applied in practice is shown in Diagram 3.2.

Diagram 3.2  VOLUNTARY/SELF-LIQUIDATION FLOW DIAGRAM BASED ON AN ACTUAL EXAMPLE

1. Making a decision on voluntary liquidation

2. Publishing in the press a notice of liquidation along with the information on the procedure and the deadline for accepting creditors’ claims

3. Preparation of an interim liquidation balance sheet

4. Presentation of the interim liquidation balance sheet to the tax authorities

5. Liquidation inspection of the entity by the tax authorities;Eight months after the documents’ presentation

6. Filing a liquidation application to the registering agency with the enclosed liquidation balance-sheet certified by the tax authorities;

7. Closure of the account in the bank

8. Surrender of seals and stamps to the internal affairs authorities for destruction

9. Submission of documents to the State Archive

10. Application to the registering authority for a liquidation decision and exclusion from the public register

1 BUSINESS DAY

3 BUSINESS DAYS

5 BUSINESS DAYS

14 BUSINESS DAYS
Thus, officials have an opportunity to invent their own rules and time frames. This leads to a protracted, secretive procedure that demands a large number of documents without adequate explanation. A need to make unofficial payments to expedite the procedure becomes obvious. Every third respondent that had to go through the procedure acknowledged having to make unofficial payments.

LOW LEGAL AWARENESS OF ENTREPRENEURS

The existing liquidation issues described above related largely to the low legal awareness level of the businesses themselves. They are often unaware of their rights and do not demand that liquidation procedures take place according to the provisions partially described in the law, thus being unable to make founded appeals against the illegal actions of public officials.

SHORT-TERM RECOMMENDATIONS TO IMPROVE THE VOLUNTARY LIQUIDATION PROCEDURE

It becomes obvious from the above that the voluntary liquidation procedure needs to be improved. Preparing a special regulation that would outline the procedure, including the terms, conditions and the detailed mechanism of liquidation procedures can address the issue of regulatory gaps in this area.

CREATING A REGULATION ON VOLUNTARY LIQUIDATION

It appears necessary to develop a procedure that would regulate a manner in which voluntary liquidation would be made. It should contain:

- the list of authorities involved in the procedure;
- the mechanism of interaction between the businesses and the authorities;
- the amount of time given to each authority to perform its functions;
- the list of documents to be presented to each authority;
- the list of documents to be issued by the authorities.
The procedure should be based on the “one-stop-shop” principle and transfer some functions now performed by the businesses to the inspectorates (for example, handing over post-liquidation documents to the archive and stamps and seals to the internal affairs authorities for destruction), specifying a clear mechanism for the interaction of the inspectorate with corresponding authorities.

A special focus should be on fixing the time limit for the authorities in performing their duties and making it as short as possible.

**Expected impact**

Maintaining an integrated and transparent regulatory framework will allow:

- Unification of the liquidation requirements and eradication of the practice of arbitrariness;
- Access to information;
- Reduction in the time needed for voluntary liquidation;
- Fewer opportunities for corruption;
- Enhanced legal awareness of entrepreneurs and public servants.

One of the objectives of improving voluntary liquidation is to ensure transparency in the liquidation procedures. This will allow businesses to plan their actions ahead and reduce the space for unofficial payments. Clear liquidation mechanisms legally fixed in the regulatory framework through a single document will make a significant contribution to the legal protection of businesses and reduce opportunities for abuses of power.

Ultimately, a transparent liquidation procedure will allow businesses to make more efficient use of their financial and labor resources, resulting in a larger number of small and private businesses.

**ENHANCING LEGAL AWARENESS OF ENTREPRENEURS**

The problems of liquidation procedures may be reduced by raising the legal awareness among entrepreneurs and public officers through seminars, publications and general dissemination of information.

**Expected impact**

Explanatory work will help provide the entrepreneurs with a clear understanding of the liquidation procedures, giving them the knowledge to oppose the invalid requirements of any local authorities. This will become a social control mechanism over the actions of officials and reduce the opportunities for abuse.
Annex 1

REGULATORY IMPACT ANALYSIS (RIA)

In Uzbekistan, like in any other transition economy, public authorities at all levels regularly influence the business environment through decisions that they make. IFC experts estimate that the President and the Government in 2005 made more than 40 decisions affecting the way businesses operate. Therefore, it became necessary to create a system that would make a comprehensive assessment of:

- a possible impact of the regulatory decisions on the state, business and society;
- whether the intended objectives have been met efficiently.

Many countries have addressed similar issues by introducing the Regulatory Impact Analysis (RIA) system.

INTERNATIONAL EXPERIENCE

Regulatory Impact Analysis (RIA) is a term used to describe the process of systematically and coherently assessing public decisions in terms of the effect they have on the business environment, broad social groups (consumers, employees, population) and the extent to which they match the interests of the state. This assessment is done via the application of various analytical techniques and a wide discussion of the impact expected from the decisions.

Both the analysis and communication aspects of RIA are equally important. This process should start as early as possible at the initial stages of the public decision-making process, so that RIA can be used to assess impacts of new regulation as well as the existing regulation stock.

The first RIA elements were developed in a number of Western countries at the end of the 1970s to assess the effectiveness of public decisions that impacted the business community. This system is now employed in many developing countries, including Bulgaria, Croatia, Serbia, Romania, Estonia, Lithuania, Latvia, Poland, other EC countries, South Korea, Mexico and the Philippines, and is being introduced in CIS countries such as the Russian Federation, Ukraine, and Moldova.

RIA has been successfully implemented in many countries due to its flexibility, allowing it to take various forms depending on the objectives set by each government. Specific goals and mechanisms of RIA and the role it performs in administrative processes vary depending on the country’s economic development and the specifics of its legal system.

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1 This and the following subsections use the following sources:


However, there are also a number of general RIA implementation principles. The first international standard for evaluating the quality of public decisions was the Reference Checklist for Regulatory Decision-Making, developed by the Organization for Economic Development and Cooperation (OECD) in 1995. It has become an exceptionally important document for many governments in formulating their approaches to quality enhancement in public decision-making.

Box 4.2 Checklist for Regulatory Decision-Making.

1. **Is the problem correctly defined?** The problem to be solved should be precisely stated, giving evidence of its nature and magnitude, and explaining why it has arisen (identifying the incentives of affected entities).

2. **Is government action justified?** Government intervention should be based on explicit evidence that government action is justified, given the nature of the problem, the likely benefits and costs of action (based on a realistic assessment of government effectiveness), and alternative mechanisms for addressing the problem.

3. **Is regulation the best form of government action?** Regulators should carry out, early in the regulatory process, an informed comparison of a variety of regulatory and non-regulatory policy instruments, considering relevant issues such as costs, benefits, distributional effects and administrative requirements.

4. **Is there a legal basis for regulation?** Regulatory processes should be structured so that all regulatory decisions rigorously respect the “rule of law”; that is, responsibility should be explicit for ensuring that all regulations are authorized by higher-level regulations and consistent with treaty obligations, and comply with relevant legal principles such as certainty, proportionality and applicable procedural requirements.

5. **What is the appropriate level (or levels) of government for this action?** Regulators should choose the most appropriate level of government to take action, or if multiple levels are involved, should design effective systems of co-ordination between levels of government.

6. **Do the benefits of regulation justify the costs?** Regulators should estimate the total expected costs and benefits of each regulatory proposal and of feasible alternatives, and should make the estimates available in an accessible format to decision-makers. The costs of government action should be justified by its benefits before action is taken.

7. **Is the distribution of effects across society transparent?** To the extent that distributive and equity values are affected by government intervention, regulators should make transparent the distribution of regulatory costs and benefits across social groups.

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8. Is the regulation clear, consistent, comprehensible and accessible to users? Regulators should assess whether rules will be understood by likely users, and to that end should take steps to ensure that the text and structure of rules are as clear as possible.

9. Have all interested parties had the opportunity to present their views? Regulations should be developed in an open and transparent fashion, with appropriate procedures for effective and timely input from interested parties such as affected businesses and trade unions, other interest groups, or other levels of government.

10. How will compliance be achieved? Regulators should assess the incentives and institutions through which the regulation will take effect, and should design responsive implementation strategies that make the best use of them.

In 1997 OECD also developed a list of 10 practical recommendations for successful RIA systems that responds more closely to the institutionalization of the system.

Box 4.3 RIA Best Practices.

1. Maximize political commitment to RIA. Reform principles and the use of RIA should be endorsed at the highest levels of government. RIA should be supported by clear ministerial accountability for compliance.

2. Allocate responsibilities for RIA programs elements carefully. Locating responsibility for RIA with regulators improves “ownership” and integration into decision-making. A central body is needed to oversee the RIA process and ensure consistency, credibility and quality. It needs adequate authority and skills to perform this function.

3. Train the regulators. Ensure that formal, properly designed programs exist to give regulators the skills required to do high quality RIA.

4. Use a consistent but flexible analytical method. The benefit/cost principle should be adopted for all regulations, but analytical methods can vary as long as RIA identifies and weighs all significant positive and negative effects and integrates qualitative and quantitative analyses. Mandatory guidelines should be issued to maximize consistency.

5. Develop and implement data collection strategies. Data quality is essential to useful analysis. An explicit policy should clarify quality standards for acceptable data and suggest strategies for collecting high quality data at minimum cost within time constraints.

6. Target RIA efforts. Resources should be applied to those regulations where impacts are most significant and where the prospects are best for altering regulatory outcomes. RIA should be applied to all significant policy proposals, whether implemented by law, lower level rules or Ministerial actions.

7. Integrate RIA with the policy-making process, beginning as early as possible. Regulators should see RIA insights as integral to policy decisions, rather than as an “add-on” requirement for external consumption.

8. Communicate the results. Policy makers are rarely analysts. Results of RIA must be communicated clearly with concrete implications and options explicitly identified. The use of a common format aids effective communication.

9. Involve the public extensively. Interest groups should be consulted widely and in a timely fashion. This is likely to mean a consultation process with a number of steps.

10. Apply RIA to existing as well as new regulation. RIA disciplines should also be applied to reviews of existing regulation.

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In summary, RIA helps Governments in:

- identifying issues requiring solutions;
- developing alternative decisions;
- assessing impact of such decisions in terms of social and economic efficiency;
- monitoring performance of decisions made.

**RIA IN PRACTICE**

In practice, RIA is implemented in several stages. After the problem is identified after broad discussions or studies, the ministry or the agency concerned develops alternative solution proposals, including the option of no interference from the Government. These alternatives are then evaluated against RIA principles by the initiating agency (as in the UK), or a special department under the Government. In Germany, the stages of RIA include:

- **Preliminary RIA** (based on a number of alternative draft regulations) offers alternative decisions and provides comparative analysis to optimize the regulatory impact. Preliminary RIA identifies:
  - the expediency of regulatory impact in individual areas;
  - the expected regulatory impact on individual sectors;
  - possible risks for individual sectors;
  - the optimal alternative;
  - basic principles and concepts of the draft.

- **Concurrent RIA** (based on a single-draft regulation) is used to test and examine the draft regulation as it is developed. Analysis and examination methods are still of predictive nature. Concurrent RIA is used to:
  - Analyze individual criteria of the draft regulation (practicality, cost/benefit, equity and optimal burden distribution in the sector under analysis, future costs to maintain the project, etc);
  - Reduce uncertainty through examination of risk groups and expected externalities;
  - Abolish/replace cumbersome and outdated regulations;
  - Supplement, streamline and optimize the draft.

- **Retrospective RIA** (based on a regulation in effect) is used to examine the impact of regulation for a possible update if necessary. Retrospective RIA is applied to:
  - make a milestone evaluation of the extent to which the expected results have been met after the regulation was enforced;
  - identify and make a more accurate assessment of the impact and externalities caused by the regulation;
  - decide on whether the regulation should be revised, and if so, how substantially.

An important notice is that each of those stages includes formal and informal discussions of the options proposed with all stakeholders, including business community representatives via structured expert discussions and workshops.
Upon the results of RIA, a thoroughly reasoned and formalized document is prepared to be presented to the approving agency. For instance, in the UK this document must:

- list objectives of the draft regulation;
- assess the implementation of related risks;
- compare costs and benefits of every option;
- include a summary of who or what sector will bear the costs or enjoy the benefits;
- examine the proposed option from the social equity perspective;
- identify the impact on small businesses and make arrangements for them to be able to observe the new rules;
- choose the mechanisms for ensuring observance of the proposed rules;
- explain how the measures proposed will integrate to the system of existing rules;
- provide a report on communication results, reaction to the proposed measure and proposals on subsequent substantial changes in RIA;
- describe control mechanisms.

At the same time, introducing a RIA requires considerable efforts and strong political support throughout the process. Experience in other transition economies where RIA systems are in their final preparation stage has shown a time frame of about two years from the time the Government adopts the idea of RIA to its implementation. During this time, interim conclusions about RIA’s effectiveness can be obtained, as the introduction process assumes a pilot assessment of some regulations. The results of pilot assessment are critical both for adjusting the introduction process and for demonstrating the effectiveness of the RIA system to the government.

**Box 4.4 Experience of Poland with introduction of RIA.**

In 1999, the Polish Government adopted a plan for the country’s medium-term development until 2002, which highlighted regulatory reform as a priority. In 2000, Poland made a decision to join the OECD program to revise its regulatory framework. The same year, the Government established the Regulatory Quality Team of representatives of the executive branch. The group was created as a council to discuss draft regulations related to the regulatory reform, interact with OECD in preparing the review, evaluate the actions of the executive and incorporate the regulatory impact analysis into the law-making.

By the end of 2001, following the decision of the Council of Ministers, the regulatory impact assessment became mandatory for all the regulations adopted thereby. RIA findings are incorporated into the explanatory note attached to the draft regulation and published along with the latter in a public information system.

In 2003, general guidelines were published that included methodological instructions for conducting RIAs. Special training courses were tailored for public servants. A special unit was established under the Government Legislation Centre in charge of quality control of RIAs, which coordinated all arrangements in that area and provided consultations.

From the methodological point of view, the instruments most frequently used during RIAs are the cost-benefit analysis or cost-only evaluation. Where the issues of human safety or health, security or environment are concerned, the corresponding risks must be quantified when possible. Assessment should include a possible impact on the competitiveness of the economy and market openness. A compulsory requirement for all agencies of the executive, regardless of the proposal considered, is to assess the impact on the budget, the labor market, short- and long-term impact on sector markets and regional effects.

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Another important aspect of RIA introduction is directly linked to the required political support. For an effective introduction of RIA (as well as for regulatory reform), it is critical to have a single agency or division within the Government that would be in charge of evaluating and applying the analyses performed by individual ministries and agencies. Having an institutional framework in place will help address the issue of a shortage of specialists in the area and create the basis for an objective analysis in case of a conflict of interest among the ministries and agencies.

PRE-CONDITIONS FOR INTRODUCING RIA IN UZBEKISTAN

Some RIA elements are already present in Uzbekistan both legislatively and institutionally. The legislation on regulations, for example, defines the types of regulations and establishes fundamental requirements for them.

According to the Uzbek legislation, the body issuing a regulation may delegate preparation of alternative drafts to several public authorities, research institutions and other organizations and persons, sign contracts therewith and announce competitions for the best draft. Thus, the current legislation already has provisions in place for alternative decision-making.

In addition, draft laws may be offered for public discussions, and drafts of other regulations may be offered for public or professional discussions. One example for such discussions may be counsels of the Business Forum organized by the Chamber of Trade and Industry of the Republic of Uzbekistan.

A draft regulation is presented to the approving agency with the explanatory note that includes:

- the list of people who drafted the documents;
- the executive summary;
- the rationale for this draft;
- the expected impact;
- the list of authorities and organizations with whom the draft has been agreed;
- the summary of controversies and a motivated opinion thereon.

These documents under a corresponding structure may serve as a basis for conducting a Regulatory Impact Analysis of proposed drafts.

A regulation draft may also have financial and economic calculations, statistical data and other information attached to support it. It is subject to compulsory legal expert examination. For quality evaluation purposes, the draft may be subjected to other expertise (economic, financial, scientific and technical, environmental, etc.). In evaluating a draft regulation, all experts are independent and unrelated to the position of the agency that has initiated the examination.

These provisions also serve as a basis for doing the regulatory impact analysis per se on the proposed drafts.

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There is also an ex-post-facto monitoring of the regulations via:

- special performance control in the ministries, agencies, territorial administrations of sectors and the local governments, enterprises, institutions and organizations;
- comprehensive performance review in the sectors and regions, consideration of their results at meetings of the complexes under the Cabinet of Ministers;
- applying personal responsibility measures to the officials, executives and officers that failed to ensure timely and complete implementation of the objectives set in the regulation.

Most important, draft Government decisions to improve the business environment have been available for discussion by the business community since 2005, under the aegis of the Chamber of Trade and Industry of Uzbekistan. Various public authorities also conduct periodic surveys among businesses and monitor the implementation of the Government’s decisions. Another analysis made is of the effect the regulations have on the budget when they concern the taxation of businesses.

Diagram 4.1  PARTIAL RIA ELEMENTS ALREADY USED IN UZBEKISTAN

- Surveys by external organizations
- Business forum and public councils of CTI
- Surveys among line ministries
- Official data
- Public discussion of the alternative solutions
- Assessment of costs/benefits for the state
- Assessment of costs/benefits for the society
- Assessment of costs/benefits for business
- Adoption of a regulation
- Solution developed
- Implementation
- Actual impact assessment
- Performance monitoring

Elements used in Uzbekistan
Elements partially used in Uzbekistan
Elements NOT used in Uzbekistan
RECOMMENDATIONS ON FURTHER IMPLEMENTATION OF RIA

Introduction of a comprehensive RIA system at this stage of economic development of Uzbekistan is quite a logical step. Existing legislative and institutional framework already in part meet the RIA requirements, and an active law-making process to improve the business environment will create the necessary prerequisites for intensifying work in this area.

In order to introduce a RIA system in Uzbekistan it is important to prepare a detailed action plan that should include the following steps:

- establishing goals and objectives for introducing RIA based on the country’s priorities, aimed at the intensification of economic reforms;
- reviewing experience of other countries in introducing and applying the system;
- analysis of whether the legislation of Uzbekistan corresponds to RIA principles;
- preparation of specific proposals on possible methods and forms for introducing RIA in Uzbekistan.

The International Finance Corporation has introduced RIA in a number of developing countries, and is prepared to assist the Uzbek Government in this work.
Annex 2

EXAMPLE OF AN OVERLAP OF INSPECTORATES’ FUNCTIONS

Many functions of inspectorates in Uzbekistan are duplicated and dispersed among a number of agencies. One example is the supervision of labor protection. This function is simultaneously performed by the following agencies:

- the Ministry of Labor and Social Protection, overseeing social and economic protection of workers;\(^1\)
- the Sanitary and Epidemiological Service, for protection of workers’ health;\(^2\)
- Sanoatkontekhnazorat, for industrial safety;\(^3\)
- the State Committee of the Republic of Uzbekistan for Architecture and Construction, overseeing protection of workers during construction and installation works.\(^4\)

The ultimate goal of all the agencies is the same – i.e., to protect the workers.

Diagram 5.1

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International experience shows that such scattering of administrative functions is inefficient from both the position of public supervision and the costs for maintaining staff. Many other countries organize state inspectorates based on their goals and objectives. In Latvia, for example, functions of many inspectorates in charge of protection of industrial workers have been delegated to a single agency, the Labor Inspectorate.

The public control framework in protection of workers may look as follows:

Diagram 5.2
Annex 3

EXAMPLE OF TAXATION FOR AN INDUSTRIAL ENTERPRISE

During the period under report, the enterprise (total staff: 4) produced and sold products worth UZS 2.5 million. Production costs were UZS 1.98 million. Total amount of taxes and fees paid was UZS 776,000, including:

- single tax payment (STP) of UZS 325,000;
- other taxes and compulsory fees (personal income tax, single social payment and compulsory social security contributions) of UZS 451,000.

Net disposable profit after all taxes and fees was UZS 195,000.

In this specific case, the taxes and fees on the payroll comprised 18% of the sales, which is 1.5 times higher than the STP rate.
Annex 4

REGISTRATION

MAIN ISSUES

In the last several years, Uzbekistan has taken a number of steps to improve state registration of business entities, as it is one of the key administrative procedures experienced by all entrepreneurs. Among these were the introduction of a “one-stop-shop” registration procedure in 2001, and the ability to apply for a number of permits in parallel to registration. These arrangements have significantly reduced the problems faced by entrepreneurs during registration. However, the results of the business environment surveys in previous years indicate that some problems in this area still persist (for more details, refer to 2003-2004 IFC reports “Business Environment in Uzbekistan as Seen by Small and Medium Enterprises”).

The survey for 2005 has also demonstrated a lack of substantial improvements in the area for the period considered. In particular:

- the established time limits are not observed. According to the legislation, the period for public registration of businesses (without obtaining additional permits) may not exceed 7 days. However, as indicated by the survey in practice, this procedure took on average 20 business days in 2005.
- most entrepreneurs, despite the existing provisions in the law, still have to undergo the procedures to receive taxpayer’s PIN, register in the Pension and Road Funds and CSREO entry on their own (see Statistical Results of the Survey).
- registration expenses have gone up. For instance, in 2004 the amount of money entrepreneurs would spend on registration was UZS 63,000, while the amount for 2005 went up to UZS 100,000.

GOVERNMENT’S STEPS

To address these issues, the President of the Republic of Uzbekistan signed Decree #PD-357 May 24, 2006, which approved the Regulation on the Application Based Public Registration and Recording of Businesses.

According to the Decree, which went into effect September 1, 2006, Uzbekistan now applies an application-based public registration. Under this procedure, authorities do not examine the documents presented to them for compliance to the law, but review only the part under their jurisdiction necessary to enforce registration requirements.

A key point of the new registration system is that some functions previously performed by the statistical agencies and internal affairs authorities have now been transferred to the registration authorities.

This has substantially reduced the legally mandated period of public registration from 7 to 2 business days.

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2 Detailed analysis of key registration problems, main sources of problems and recommendations for addressing them are presented in the 2004 IFC report “Business Environment in Uzbekistan as Seen by Small and Medium Enterprises.”
3 Paragraph 1 of Item 2 and Item 22 of the Regulation on Application Based Public Registration and Recording of Businesses.
NEW REGISTRATION PROCEDURE

Below is a brief overview of the main requirements of the new registration procedure.

First, the entrepreneur must choose the company name and obtain a certificate confirming that the name is unique and without confusingly similar equivalents.³ The period for issuing this certificate has been reduced from 3 to 2 business days. Validity period for the document is 2 months.

The next step is to prepare a package of documents required for registration. It should be noted that the list of such documents has been shortened.

Officials then review the documents to ensure that there are no grounds for refusal in registration.⁵ The time to review the documents, issue a negative decision and return to the applicant is limited by three hours from the moment of their presentation.

The Regulation includes a fixed list of reasons for refusal of public registration.⁶

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Box 5.1 List of cancelled documents:

- **for all legal entities** – a document confirming the entity’s postal address;
- **for enterprises with foreign investments and other enterprises with foreign capital** – a bank’s recommendation letter and a copy of the Cabinet of Minister’s decision on establishing the enterprise with foreign investments on the territory of the Republic of Uzbekistan if its authorized capital equals or exceeds $20 million;
- **for joint stock companies** – minutes of the constituent assembly (conference) of the company;
- **for limited and additional liability companies and business partnerships founded without foreign capital** – a reference from the bank confirming the fact that every founder has paid in at least 30% of the contribution indicated in the constituent documents;
- **for dehkan farms** – a decision of the general meeting of an agricultural cooperative (shirkat) on founding a farm or the management or the employer (administration) of another agricultural enterprise;
- **for private farming enterprises** – a copy of the minutes of the bidding committee organized by khokimiyats on land allocation, a business plan for commercial farming.

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Box 5.2 Reasons for refusal of registration.

*for all businesses:*

- application to an irrelevant registering authority;
- presentation of an incomplete set of documents.

*additionally for legal entities:*

- the firm name in constituent documents or stamp and seal designs do not correspond to the name specified in the certificate confirming its uniqueness;
- the legal form of business declared in the constituent documents or the stamp and seal designs do not correspond to the legal forms provided by the legislation of Uzbekistan;
- constituent documents include types of activity prohibited by the legislation of the Republic of Uzbekistan.

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³ The document was referred to as “The Firm Name Certificate” before the new Regulation was introduced.
⁵ Paragraph 1 of Item 22 of the Regulation on Application Based Public Registration and Recording of Businesses.
⁶ Items 18-21 of the Regulation on Application Based Public Registration and Recording of Businesses.
If there are no grounds for refusal, the business is registered after this process. The new Regulation contains the respective provision: “In the absence of grounds for refusing the public registration the entity shall be subject to public registration.”

After the business is registered, it is assigned a Taxpayer’s Personal Identification Number (taxpayer’s PIN) and statistical codes. Then the permission for seals and stamps is formalized, and the data entered to the public register.

One of the main advantages of the application-based registration is having a minimal number of authorities involved in the procedure. Therefore, registering authorities have the functions of issuing statistical codes. The registering offices assign statistical codes of OPF, FS, SOATO, and OKONH using corresponding statistical classifiers, and an OKPO code from the quota issued by the State Statistics Committee on a regular basis.

After email communication with the state tax service, the district tax inspectorate assigns a taxpayer’s PIN directly without involving regional and national tax offices.

Transition to a predominantly electronic document management system, which allows for direct assigning of taxpayers’ PINs by lower offices of the tax authorities, reduces the duration of this stage of registration to 8 business hours.²

Under the application-based registration system, the authority to issue permissions for seals and stamps is also delegated to the registering authorities.

After the registration procedures are over within the prescribed term (not more than 2 business days from the presentation of documents), the registering authority issues a certificate of public registration and accompanying documents.³

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² Item 25 of the Regulation on Application Based Public Registration and Recording of Businesses.
³ Item 28 of the Regulation on Application Based Public Registration and Recording of Businesses.
The business entity may begin its operations after receiving the public registration certificate and opening a bank account (individual entrepreneurs and dehkan farms may open bank accounts at their discretion).9

The business entity is registered in the Tax Inspectorate by the registering authorities themselves after the entity receives the right to conduct a business.

However, the new registration procedure does not apply to newly established business entities, who:

- along with the documents required for public registration also submit the documents for registering their titles to land issued for new construction;
- along with the documents required for public registration also submit the documents for receiving technical specifications for gas and power network connections in building a new facility;
- indicate a licensed activity as a major business in their registration application-notice.

Public registration of these entities is performed in accordance with the Regulation on the “Procedure of Public Registration and Recording of Business Entities and Formalization of Approvals” (Annex 1 to the Resolution of the Cabinet of Ministers #357 of August 20, 2003).10

**SHORTCOMINGS OF THE NEW REGISTRATION PROCEDURE**

Despite all its advantages, the new procedure has a number of drawbacks, chiefly, the fact that Uzbekistan now has two parallel registration systems.

Although the application-based registration should apply to most of the newly established entities, such fragmentation of the legal framework may cause confusion among entrepreneurs and the registering authorities themselves.

It is quite understandable that the Government retains the “permission” based registration mechanism for some businesses that require greater control. However, other regulatory tools exist that allow closer supervision of those businesses. For instance, any entity engaged in activities requiring more regulation must first apply for a license or a permit. The control over such businesses should be exercised during those procedures.

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9 Item 28 of the Regulation on Application Based Public Registration and Recording of Businesses.

10 Item 1 of the Regulation on the Procedure of Public Registration and Recording of Business Entities and Formalization of Approvals” (Annex 1 to the Resolution of the Cabinet of Ministers #357 of August 20, 2003).

11 Article 19 of the Law on Guarantees of the Freedom of Business Activity.
Nevertheless, the new registration system still has loopholes, as the restrictions against registering a business by application procedure can be bypassed easily.

Another drawback of the new system is the 2-day time frame for the application-based registration. Although the reduction in time from 7 to 2 days is progress, the best registration procedure allows someone to come to the registering authority as an applicant and leave it the same day as an entrepreneur. IFC surveys conducted in many countries of the world confirm this need, revealing that the slightest delays in administrative functions result in significant increases in wait times for the entrepreneur. As the survey shows, entrepreneurs spend 20 days instead of the legally provided 7 in Uzbekistan.

Registering authorities that attended the focus group discussions revealed that officers of the business-registering inspectorates are frequently sidetracked with other tasks completely irrelevant to their official duties. This negates the progressive step taken by the country to simplify starting up a business.

Another point is that obtaining a firm name remains a separate pre-registration procedure. The business must apply to another authority, which takes an additional 2 days. In other words, the “one-stop-shop” principle that takes care of the entire registration process in a single agency has not been implemented in full.

**FURTHER STEPS TO IMPROVE THE REGISTRATION SYSTEM**

The new public registration system is meant to address many issues in the area. Actual effectiveness of the innovations may be assessed on the basis of further studies.

However, at this stage some main recommendations may already be formulated to improve registration procedures:

- extend the application-based registration to all types of entities;
- reduce the time for registration procedures to one business day for the full utilization of the application-based registration principle;
- discontinue the practice of distracting registration officers and imposing irrelevant functions;
- create an IT system that would include an integrated database of all operational enterprises enabling:
  - business entities to reserve a firm name on their own by accessing the database through the Internet;
  - assignment of statistical codes and taxpayers’ personal identification numbers within a single registering authority.

These measures will promote a further simplification and cost saving in registration procedures for businesses.
Annex 5

**SAMPLE EXPORT PRICING**

To illustrate how substantial taxes and other mandatory fees influence export pricing, we will consider the following case. A local enterprise manufactures a product marketable abroad by using only local materials. The highest price for the finished product in the world market is an equivalent of 17,080 Soums per kilogram. The enterprise is a small business and pays its taxes through a simplified scheme. As an enterprise who exports above 30% of its sales for FCC, it is also eligible for tax relief. Therefore, the enterprise pays the single tax payment at the rate reduced by 50% against the effective, which makes 6.5% of the export sales. Most generally (see Diagram below) the product’s total cost includes the following components (per kg of the final product). The cost structure below will change depending on the type of product manufactured.

Considering the existing price, tax system and wages, the lowest price the enterprise can offer for export (above 20,000 Soums per kg), even excluding profit, is higher than the world price by 20% (17,080 Soums). The sum of taxes and other fees even after the tax privilege makes up about a fifth of the export price. If exporters also use imported materials in their production, then this share will be even higher due to the customs payments. This creates a situation in which the local businesses are either unable to export or have to minimize their tax burden through evasion.
Annex 6

METHODOLOGY AND KEY FACTS ABOUT THE SURVEY

This report is based on the results of a survey conducted January-February 2006 by an independent research company contracted by the IFC. The company’s employees have conducted individual structured on-site interviews using a specially developed questionnaire.

This year’s number of respondents was 2,900, of which 2,500 were small business representatives (legal entities) and the rest were individual entrepreneurs.¹

Findings of the survey have been discussed with representatives of a number of state agencies, the Chamber of Trade and Industry and businesses from the capital and a number of regions. This allowed for assessment of the findings and major conclusions on every section of the questionnaire. On a number of issues, some expert examinations have been provided.

SAMPLE SELECTION

In order to conduct a survey, a multi-tiered sample was selected, representing a stratified quota model of the SME population and included respondents whose proportion by regions and sectors reproduced the population.² Respondents have been selected through a random, non-repeated method by preset sample parameters across regions, sectors and sizes of SMEs in Uzbekistan.

Surveys in the regions were conducted in the region capitals (centers) and surrounding rural areas.

Sample included SMEs operational at the time of survey in all 12 regions of the country, the republic of Karakalpakstan and the city of Tashkent. The respondents were company owners or executive decision-makers.

The report used population data as of January 1, 2006, from the State Statistics Committee and demography of small businesses.

The criteria for the sample included the following:
- economic sectors in which SMEs were engaged;
- regions (provinces) of the country;
- company size.

¹ The definition of an SME is given in the Decree of the President of the Republic of Uzbekistan #UP-3305 of August 30, 2003.
² This year the number of enterprises in agriculture was arbitrarily reduced due to this sector’s large role in the economy and the homogeneity of the answers of agricultural enterprises to the questionnaire. To restore sample representativeness, the analysis involved a weighting procedure.
The quantitative and qualitative features of the sample, as well as the survey method, made it possible to gather data compatible with the data in the surveys IFC conducted in Uzbekistan in 2002-2005.

The breakdown of the entire SME community of Uzbekistan by economic sector and region is as follows:
### Business Environment in Uzbekistan as Seen by Small and Medium Enterprises

#### Total Number of Entities

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total number of entities</th>
<th>Small</th>
<th>Microfirms</th>
<th>Percentage of the Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>176,792</td>
<td>3,913</td>
<td>172,879</td>
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<tr>
<td>Construction</td>
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<td>906</td>
<td>10,792</td>
<td>4</td>
</tr>
<tr>
<td>Wholesale trade</td>
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<td>1,832</td>
<td>8,433</td>
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</tr>
<tr>
<td>Retail trade and public catering</td>
<td>30,691</td>
<td>5,132</td>
<td>25,559</td>
<td>11</td>
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<tr>
<td>Other services</td>
<td>15,090</td>
<td>1,892</td>
<td>13,198</td>
<td>6</td>
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<tr>
<td>Other</td>
<td>4,612</td>
<td>577</td>
<td>4,035</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total in the Republic of Uzbekistan</strong></td>
<td><strong>268,636</strong></td>
<td><strong>16,325</strong></td>
<td><strong>252,311</strong></td>
<td><strong>100</strong></td>
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</tbody>
</table>

#### Total in the Republic of Uzbekistan

<table>
<thead>
<tr>
<th>Region</th>
<th>Total number of entities</th>
<th>Small</th>
<th>Microfirms</th>
<th>Percentage of the Total</th>
</tr>
</thead>
<tbody>
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<td>900</td>
<td>11,733</td>
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<td>1,016</td>
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<tr>
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<td>15,007</td>
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<td>Kashkadarya region</td>
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<td>829</td>
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<td>11,098</td>
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<td><strong>Total in the Republic of Uzbekistan</strong></td>
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<td><strong>252,311</strong></td>
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## SAMPLE: LEGAL ENTITIES

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<tr>
<th>Sector</th>
<th>Microfirm/enterprise</th>
<th>Small enterprise</th>
<th>Total</th>
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</thead>
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<tr>
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<td>370</td>
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<td>193</td>
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<td>Retail trade and public catering</td>
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### REPUBLIC OF KARAKALPAKSTAN

<table>
<thead>
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<th>Small enterprise</th>
<th>Total</th>
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<tr>
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<tr>
<td>Retail trade and public catering</td>
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### ANDIJAN REGION

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</tr>
<tr>
<td>Agriculture</td>
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<td>Construction</td>
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<td>1</td>
<td>13</td>
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<td>Wholesale trade</td>
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<td>1</td>
<td>11</td>
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<tr>
<td>Retail trade and public catering</td>
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<td>Other services</td>
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<tr>
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<tr>
<td><strong>Total</strong></td>
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## Business Environment in Uzbekistan as Seen by Small and Medium Enterprises

### Bukhara Region

<table>
<thead>
<tr>
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</thead>
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<td>Agriculture</td>
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<tr>
<td>Construction</td>
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<td>Retail trade and public catering</td>
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<tr>
<td>Other services</td>
<td>20</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
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### Djizzak Region

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</thead>
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<td>Wholesale trade</td>
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<td>11</td>
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<tr>
<td>Retail trade and public catering</td>
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<td>1</td>
<td>33</td>
</tr>
<tr>
<td>Other services</td>
<td>15</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>Other</td>
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<td><strong>Total</strong></td>
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### Kashkadarya Region

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<tr>
<td>Construction</td>
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<td>Retail trade and public catering</td>
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<td>114</td>
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<td>56</td>
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<tr>
<td>Other</td>
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<tr>
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<td><strong>508</strong></td>
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### NAVOI REGION

<table>
<thead>
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<th>Total</th>
</tr>
</thead>
<tbody>
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<td>Agriculture</td>
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<td>12</td>
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<td>Construction</td>
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<tr>
<td>Retail trade and public catering</td>
<td>6</td>
<td>1</td>
<td>7</td>
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<tr>
<td>Other services</td>
<td>9</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
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<tr>
<td><strong>Total</strong></td>
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### NAMANGAN REGION

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</thead>
<tbody>
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<td>Construction</td>
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<td>11</td>
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<tr>
<td>Wholesale trade</td>
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<td>1</td>
<td>10</td>
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<tr>
<td>Retail trade and public catering</td>
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<td>29</td>
</tr>
<tr>
<td>Other services</td>
<td>13</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>Other</td>
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### SAMARKAND REGION

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<td>Agriculture</td>
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<td>64</td>
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<tr>
<td>Construction</td>
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<td>1</td>
<td>17</td>
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<td>13</td>
<td>1</td>
<td>14</td>
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<tr>
<td>Retail trade and public catering</td>
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<td>4</td>
<td>44</td>
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<tr>
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<tr>
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### SURKHANDARYA REGION

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<th>Total</th>
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</thead>
<tbody>
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<td>Wholesale trade</td>
<td>9</td>
<td>1</td>
<td>10</td>
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<tr>
<td>Retail trade and public catering</td>
<td>27</td>
<td>2</td>
<td>29</td>
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<tr>
<td>Other services</td>
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### SYRDARYA REGION

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### TASHKENT REGION

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<tr>
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<td>13</td>
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<td>Retail trade and public catering</td>
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## Business Environment in Uzbekistan as Seen by Small and Medium Enterprises

### Fergana Region

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<td>Construction</td>
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<td>Retail trade and public catering</td>
<td>44</td>
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<tr>
<td>Other services</td>
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### Khorezm Region

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<tr>
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<th>Microfirm/enterprise</th>
<th>Small enterprise</th>
<th>Total</th>
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<td>Construction</td>
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### Tashkent, City of

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### SAMPLE: INDIVIDUAL ENTREPRENEURS

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<th>Region</th>
<th>Number of Entrepreneurs in the sample</th>
<th>Retail trade</th>
<th>Transportation services</th>
<th>Consumer services</th>
<th>Public catering</th>
<th>Production of consumer goods</th>
<th>Butchers</th>
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