Business Environment in Uzbekistan as Seen by Private Enterprises
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2009
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## GLOSSARY

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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>CBU</td>
<td>Central Bank of the Republic of Uzbekistan</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<tr>
<td>CIT</td>
<td>Corporate Income Tax</td>
</tr>
<tr>
<td>COM</td>
<td>Cabinet of Ministers of the Republic of Uzbekistan</td>
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<td>CTI</td>
<td>Chamber of Trade and Industry of the Republic of Uzbekistan</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>ILBS</td>
<td>Intermediate Liquidation Balance Sheet</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IRB</td>
<td>Inspections Registration Book</td>
</tr>
<tr>
<td>LBS</td>
<td>Liquidation Balance Sheet</td>
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<tr>
<td>MoJ</td>
<td>Ministry of Justice of the Republic of Uzbekistan</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>RIA</td>
<td>Regulatory Impact Assessment</td>
</tr>
<tr>
<td>SLT</td>
<td>Single Land Tax</td>
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<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
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<tr>
<td>SMPP</td>
<td>Screening Mechanism for Policy Proposals</td>
</tr>
<tr>
<td>STC</td>
<td>State Tax Committee of the Republic of Uzbekistan</td>
</tr>
<tr>
<td>STP</td>
<td>Single Tax Payment</td>
</tr>
<tr>
<td>TIN</td>
<td>Taxpayer Identification Number</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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</table>
CONVENTIONS USED

Council, Coordination Council – Inspections Coordination Council

Doing Business – A project by the World Bank Group producing a series of annual reports investigating regulations that enhance or constrain business activity (www.doingbusiness.org)

Enterprise Surveys – The Enterprise Surveys capture business perceptions on the biggest obstacles to enterprise growth, the relative importance of various constraints to increasing employment and productivity, and the effects of a country’s business environment on its international competitiveness (www.enterprisesurveys.org)

IFC Survey – The IFC SME survey, conducted in May 2008 (www.ifc.org/uzbee)

Khokimiyat(s) – Local authorities

Registration authorities – Inspectorates for Registration of Business Entities under District (City) Khokimiyats

Regulation on the Coordination of Inspections – Regulation on the Procedures of Coordinating Inspections of Businesses Conducted by Inspectorates (new revision), approved by the Republican Inspections Coordination Council and registered by the Ministry of Justice as #1573 on May 06, 2006

Regulation on the Procedures of Inspections – Regulation on the Procedures of Inspections of Businesses and Completion of Inspections Registration Book, registered by the MoJ under #1650 on December 29, 2006

Regulation on Voluntary Liquidation – Regulation on Voluntary Liquidation and Termination of Activities for Business Entities, approved by President’s resolution #PP-630 of April 27, 2007

Uzbek Soum to US dollar exchange rates used in the report (CBU rates):

- Average 2005 exchange rate: $1 = 1,115 soums
- Average 2006 exchange rate: $1 = 1,210 soums
- Average 2007 exchange rate: $1 = 1,265 soums
- January 1, 2008 exchange rate: $1 = 1,290 soums
- January 1, 2009 exchange rate: $1 = 1,393 soums
The International Finance Corporation is pleased to present the results of its regular SME survey in Uzbekistan, conducted by IFC’s Uzbekistan Business Enabling Environment Project. The purpose of this survey was to assess existing conditions for doing business in the country.

This study is based on the findings of a comprehensive survey conducted in May 2008 in all regions of the country among 500 small-business representatives 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.

The findings of other studies conducted by the World Bank Group in 2008 were also used in writing this report. The Doing Business project is dedicated to comparing government regulation in 181 countries. Enterprise Surveys are designed to ascertain the perspectives of businesses about obstacles to growth as well as the significance of factors hindering employment and efficiency. The study also reviews the how business environment in each of the countries under review influences the competitiveness of that country in the world market.

All quantitative data contained in the text, graphs, and tables of this report come from the IFC SME survey unless indicated otherwise.

This survey reflects entrepreneurs’ own views and not necessarily the views of IFC. This study 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. Using data obtained from the survey, IFC developed specific recommendations to help address issues raised by the participants.

IFC Uzbekistan Business Enabling Environment Project expresses its gratitude to the SME Coordination Council; the Ministry of Economy; the Ministry of Justice; the State Committee for Demonopolization and Support of Competition and Entrepreneurship; the State Tax Committee; the State Statistics Committee; the Consolidated Information and Analysis Department on Economic and Foreign Economic Affairs under the Cabinet of Ministers; the Chamber of Trade and Industry; the Economic Development Facilitation Center; and our colleagues from the World Bank Country Office in Uzbekistan; IFC Southern Europe and Central Asia Department, IFC Advisory Services in Eastern Europe and Central Asia, and IFC Business Enabling Environment Projects in Tajikistan and Ukraine 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://www.ifc.org/uzbee. Additional copies of this report in print may be obtained by contacting:

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EXECUTIVE SUMMARY

The introduction of an application-based procedure for registering businesses was an overall improvement. It took an average of eight working days and about $37 to start a business in 2007. However, the procedure still takes twice as long as mandated by the legislation. Reasons for delay include difficulty obtaining a company name and the continued practice of substantive reviews of charter documents by registration officials.

Introduction of the new Tax Code did not solve the main problems in taxation. Small businesses continue to pay a large amount of taxes. For every 100 soums of net profit retained, a business must hand over 170 soums in the form of taxes and obligatory payments. On average, enterprises are subject to seven taxes and obligatory payments, even under the simplified system.

Businesses are selected for fire, sanitary, and other inspections regardless of the risk their operations pose to society. Shortcomings in the legal framework regulating entrepreneurial activity and ineffective legal protections make the inspection process problematic for businesses.

Streamlining the voluntary liquidation procedure helped reduce the time and cost of the process. But improper implementation by the staff of government bodies and other organizations reduced the impact of reforms.
In May 2008, IFC conducted a study of the private sector in Uzbekistan. The goal was to assess the business environment and the effectiveness of measures taken in recent years. The main findings of this study are summarized below according to the following categories: business registration, permits, taxation, company reports, relations with financial institutions, inspections, and liquidation. A section of the report is dedicated to problems faced by manufacturing companies. IFC developed specific recommendations to help solve some of the problems identified in the study, and to further improve the business environment in the country.

BUSINESS REGISTRATION: PRACTICES ARE IMPROVING, BUT FURTHER STEPS ARE REQUIRED

The survey indicates that implementation of the application-based procedure for business registration reduced time and costs. The necessary procedures took an average of eight working days and about $37 in 2007, compared to nine working days and almost $60 in 2006.

This improvement can be attributed to several factors. First, activities were undertaken to raise awareness about the application-based procedure among officials in all regions. Second, oversight of government bodies’ compliance with registration procedures and statutory requirements was enhanced.

The survey indicated that problems remain. The duration of these procedures was reduced in practice but still exceeds statutory deadlines. For instance, business founders spend four days obtaining a company name, and another four days undergoing registration itself. The legislation mandates two working days for each procedure. More than half of respondents indicated that they had to agree the contents of their incorporation documents with inspectors upon registration, although the application procedure does not envisage substantive review of such documents.

The existence of several parallel state registration systems remains a problem. The application-based procedure cannot be used by certain kinds of start-up businesses (those requiring permits for allotment of land plots or for access to gas and power grids, or those whose activity must be licensed). Furthermore, different categories of businesses are registered with different bodies (either the Ministry of Justice and its local representative offices, or inspectorates for the registration of business entities under district and city administrations). This complicates the administration of registration procedures and control over the implementation of legislation.

1 This study is based on the results of a survey of SMEs, conducted by IFC in May 2008 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. Please see Annex 11 for more details on the survey methodology.

2 Hereafter, IFC’s SME survey is the source of the data presented in charts, unless otherwise indicated.
Thus, business registration procedures still require improvement. It is essential to:

- Create a unified e-system with a single database of all active enterprises enabling entrepreneurs to independently reserve company names online, as is currently possible in Russia and Belarus;
- Develop standard incorporation documents for entrepreneurs who prefer not to develop their own charter and constituent documents;
- Unify registration procedures by extending application-based registration to all types of enterprises;
- Transfer registration functions for all businesses to a single body. Such a reform was conducted in 2002 in Russia, allowing a reduction in registration time and a simplification of the procedure. As a result, the workload of the registration authority was optimized, competency of officials was increased, and the number of ‘fly-by-night’ companies fell;
- Bring legislation regulating registration into compliance with Presidential resolution #PP-357.

IFC conducted a dedicated survey in mid-2007 to explore problems in business registration after the introduction of the application-based procedure. Its conclusions are available on the IFC website at: www.ifc.org/uzbee.

PERMITS: REFORMS BEGUN IN 2005 REMAIN INCOMPLETE

SME surveys conducted by IFC in previous years showed that problems in procedures for issuing permits were systemic. These problems were caused by shortcomings in the regulatory framework, the unrestricted introduction of permits by a variety of state agencies, and non-compliance with legislation at the regional level. In September 2005, the leadership of the country attempted to optimize the system by reducing the number of permits issued and establishing that new permits could only be introduced by laws and by resolutions of the Parliament (Oliy Majlis) of the Republic of Uzbekistan. The Cabinet of Ministers was also assigned to develop a Draft Law on Permit Procedures that would aim to streamline the process, and submit it to the Legislative Chamber of the Oliy Majlis.

The Law on Permit Procedures is not adopted yet, with negative consequences for both businesses and the state. A lack of clear regulations for issuing permits results in an overlap of responsibilities among state bodies, the inefficient use of scarce state resources, and an increase in the potential for abuse of power. The interests of society are hurt because the unrestricted introduction of permits constrains competition, hampering the development of the private sector in general.

Box 1.1

Permits for new food supplements and for new perfumery and cosmetic goods duplicate the existing mechanism of certification for those products, and could be abolished.

---

3 In July 2008, the Complex of Economy and External Economic Relations of the Cabinet of Ministers held a meeting on the outcomes of the first half of 2008. Based on the outcomes the meeting, the Chamber of Trade and Industry along with the State Statistics Committee, Ministries of Economy, Finance, and Justice, was assigned to prepare proposals to the Cabinet of Ministers on creation of a unified e-system with a single database of company names of all active enterprises (for independent real-time online reservation of company names by entrepreneurs).


5 “We constantly supervise how local inspectorates implement registration procedure,” Russian tax courier, issue #9, 2004.


8 Resolution #PP-186 of the President of the Republic of Uzbekistan, On Reducing Types and Streamlining Permit Procedures for Entrepreneurial Activities, September 21, 2005. For more details, see IFC’s report, Business Environment in Uzbekistan as Seen by Small and Medium Enterprises, based on 2005 survey results.
The IFC survey shows that suspending reform brought a halt to expected further improvements in the area of permits. For instance, the number of companies forced to contact government bodies to obtain permits, approvals, and endorsements in their first year of operation remained at the 2005 level, or 76 percent of newly-registered businesses.

In fact, the permit regime became increasingly burdensome in 2007 compared with 2005 as indicated by the increased average number of permits obtained by respondents, rising costs and more time required to obtain a permit.

Figure 1.2

Permit System Remains a Burden

<table>
<thead>
<tr>
<th>Average number of permits obtained</th>
<th>Average number of working days needed to obtain one permit</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>2004</td>
<td>2005</td>
</tr>
<tr>
<td>2006</td>
<td>2007</td>
</tr>
</tbody>
</table>

According to IFC estimates based on the results of SME surveys, expenditures in the SME sector for obtaining necessary permits and approvals may total $17 million annually.

Box 1.2

Focus-group participants said government bodies often introduce arbitrary requirements for permit applicants (which differ depending on the region). Most often this applies to the list of documents to be submitted, time required for processing, and the validity terms of the permit.9

Figure 1.3

Time Requirements for Catering Permits Vary Across Regions

<table>
<thead>
<tr>
<th>Number of working days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tashkent region</td>
</tr>
<tr>
<td>Samarkand region</td>
</tr>
<tr>
<td>Namangan region</td>
</tr>
<tr>
<td>Bukhara region</td>
</tr>
</tbody>
</table>

9 For instance, according to Enterprise Surveys 2008, the average period of validity of one permit is seven months. For more details on Enterprise Surveys, please see Annex 11.
«We have to obtain a fresh permit to trade alcohol products every three months. The first time our premises and cash register were inspected. Now we bring the same papers to the trade department over and over again and waste a lot of time. Every time we come we are forced to buy expired canned stewed meat or other kinds of articles. That’s why the officials want to see us as often as possible and do not issue the permit for a longer period of time.»

Focus group participant, company director

Because of the suspension of reform in 2005, permit issuance is still regulated by a variety of legislative documents. According to IFC estimates, there are 150 regulations, some of which are intra-departmental documents. This complicates companies’ efforts to get essential information on existing procedures.

Moreover, despite the ban on the introduction of new permits by local public-administration and public-authority bodies, this practice continued in 2006-2008. In 2008 alone, 46 new permits were introduced in Uzbekistan. Only eight were introduced by law.

As a result, one in four respondents who obtained a permit in 2007 said the process was quite problematic and difficult or rather difficult.

Reform of the permit regime should be continued. The Law on Permit Procedures should introduce the following measures to streamline permit procedures:

- Determine the definitions of “permit,” “approval,” and other related terms in order to restrict the unlimited introduction of new permits by government bodies;
- Introduce the practice of issuing permits based on an application principle. This means that a company-applicant independently makes the decision to comply with existing requirements and norms and may perform certain actions or activities immediately after informing the appropriate government body;
- Determine an exhaustive list of actions and types of activities for which entrepreneurs need permits. It is essential to reduce the number of existing permits by abolishing some permits and approvals;
- Create streamlined, clear, and well-grounded procedures for obtaining permits with priority given to the “one-stop-shop” principle, and limit the fee for issuing a permit to the actual cost of the procedure;
- Establish the principle that “silence is consent.” According to this rule, a civil servant will be required to review and respond to the application in a certain period. If the response is delayed, the company is entitled to undertake the actions or activities it applied for.
TAXATION: THE NEW TAX CODE IS AN IMPORTANT STEP IN IMPROVING THE TAX SYSTEM, WHICH REQUIRES FURTHER REFORMS

The most significant recent event in the area of taxation was the introduction of the New Revision of the Tax Code of Uzbekistan in January 2008. The code is designed to streamline the tax system and promote its stability and transparency for taxpayers.

Box 1.4

Changes introduced by the new Tax Code:

- The new Tax Code regulates issues related to taxation without reference to other regulatory documents;
- Clear time periods between the adoption of tax legislation acts and their enactment are mandated, guaranteeing tax legislation stability for taxpayers;
- Individual tax benefits are banned;
- A taxpayer’s compliance with written explanations from the authorities relieves him of liability for a tax violation;
- Some benefits are expanded;
- New forms of tax control such as cash receipt control and off-site control are introduced.

Box 1.5

Enterprise Surveys indicate tax rates lead in the “rating” of barriers that businesses face. Every fourth respondent said tax rates constitute the largest hindrance in the company’s business.

The adoption of this document failed to solve all problems related to taxation. The ultimate problem is the large amount of taxes businesses pay. International studies indicate businesses in Uzbekistan face some of the highest tax rates in the world. According to Doing Business 2009, Uzbekistan ranks among the top ten countries in the world in this indicator.\(^\text{10}\) Certain tax rates are relatively low if taken alone, such as the Single Tax Payment (eight percent of turnover in 2008) or Corporate Income Tax (10 percent of profits in 2008). But even companies using the simplified tax system pay a high number of taxes and obligatory payments. Social insurance contributions constitute a particularly large burden for businesses.

Tax administration procedures remain complicated. Businesses must regularly seek clarification of tax legislation from the authorities. Due to the adoption of the new Tax Code, the number of these requests has doubled – every fourth respondent needed explanations on new tax legislation in the first half of 2008.

Both the government and the business community acknowledge that despite many progressive articles, the Code needs further improvement. This work is already underway, and a special Interagency Working Group has been established. Its objectives include monitoring and analyzing the practical implementation of the Code, and if required, making proposals to the Government for further improvement.

In making changes in the Tax Code, technical improvements (such as correcting contradictions and ambiguities) are not sufficient. It is more important to develop and adopt additional measures focused on reducing the tax load and streamlining legislation and administration. These measures should include:

Reducing the number of taxes and mandatory payments. This could be done, for instance, by unifying mandatory contributions to extra-budgetary funds (such as the Pension Fund, School Education Development Fund, and Road Fund), and by unifying the single social payment with individual social insurance contributions. If adopted, this measure could result in a reduction in the number of taxes and mandatory payments paid by an average enterprise under the simplified taxation system from seven to five;

Changing the priorities of the state tax service. Tax authorities should not play the role of “punitive body,” but should be a consultative body focused on providing essential support to the client – the taxpayer;

Establishing special consultative units in tax authorities;

Conducting regular consultations with representatives of the private sector on taxation issues;

Preparing and publishing an official, detailed, article-by-article commentary to supplement the new Tax Code.

Table 1.1 at the end of this chapter contains a snapshot of existing tax-related problems, indicates their sources and provides recommendations to address them. A more detailed analysis is contained in the “Taxation” chapter.

COMPANY REPORTS: BUSINESSES SHOULD ISSUE FEWER REPORTS, THE SUBMISSION PROCEDURE SHOULD BE IMPROVED, AND TAXPAYERS SHOULDN’T NEED TO SUPPLY EXTRA INFORMATION

The survey shows that businesses still have to submit numerous reports. Respondents indicated that even a company using the simplified taxation system files almost 40 reports on average to the tax and statistical bodies every year. The survey also demonstrates that every tenth respondent has to provide the tax authorities with additional information beyond what is mandated by legislation. Most often, these include documents confirming that company workers have no outstanding bills to public utilities, and records from the servicing bank. Starting in 2005, government bodies and other organizations were no longer permitted to demand from SMEs any information (including reports, data, references, and other documents) not stipulated by legislation.11

Nearly all surveyed respondents bring the reports to the tax inspectorates in person, although most of them know about the option to submit reports by regular or electronic mail. As a rule, they do not submit reports by mail (including electronic mail) at the demand of the tax inspectors, as indicated by 37 percent of respondents. Meanwhile, use of e-reporting is a prerequisite for successful implementation of the risk-based inspections system (for more details, see the “Inspections” section).

«Electronic reporting is a great idea and it would significantly simplify our lives if appropriately implemented. But so far we only face problems. First of all, there were so many headaches when we first registered digital signatures with the tax authorities. The electronic key we were issued on a floppy disk would not open in our computer… Second, it turned out that electronic tax reporting system is not compatible with the “1C” accounting software application that we, like many other accountants, use at our company. I have to manually transfer the data from our software into this reporting system. It is no good.»

Focus group participant, accountant

Additional contradictions arose after the adoption of the new Tax Code. The Code envisages that the tax reports be accepted from taxpayers without preliminary off-site control or discussion of its content.12 But the Regulation on the Receipt of Financial and Tax Reports requires tax inspectors to verify a number of points upon receipt of reports from the taxpayers.13 That is, the content of the tax report

11 Resolution #PP-100 of the President of the Republic of Uzbekistan, June 15, 2005.
12 Article 45 of the New Revision of Tax Code of the Republic of Uzbekistan.
is verified upon receipt, which contradicts provisions of the Tax Code (for more details please see the “Taxation” chapter). Furthermore, the period for processing this reporting was recently increased from two to three days.14

BANKS: IRREGULAR FUNCTIONS HINDER THE DEVELOPMENT OF BUSINESSES

The survey demonstrates that businesses continue to encounter a range of problems with commercial banks. In many respects, these problems arise due to the delegation of oversight functions not commonly assigned to financial institutions.

Every tenth respondent, and every fifth respondent in the wholesale trade, indicated that banks exercise monitoring and control functions over transactions carried out in the accounts of their client companies. The bank may demand additional documents (besides the payment order) to substantiate account transactions, and it may inform the tax authorities or the prosecutor’s office about the transactions of the business. This leads to delays in making deals and to the risk of being summoned to the tax authorities, as well as other complications. Banks have no legal grounds for making such demands, because regulations that would force banks to reveal such instances of fraud, tax violations and money laundering to the Department against Tax- and Currency-related Crimes and Money Laundering under the Prosecutor General’s Office of Uzbekistan15 are suspended until 2013.16

Another oversight function of the banks is to monitor compliance of businesses with so-called “cash plans.” In 2007, 58 percent of trade and public catering companies and 16 percent of manufacturing companies encountered requirements to comply with cash plans. In addition to banks, tax authorities and khokimiyats (local authorities) oversee compliance of businesses with cash surrender plans.

This problem is closely linked with a range of factors that force the companies to hold part of their operations in the informal sector and thus outside of bank turnover. This includes the excessive tax burden, regulations on cash and non-cash transactions, and high import duties.

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15 Resolution #PP-331 of the President of the Republic of Uzbekistan, April 21, 2006.

16 Resolution #PP-586 of the President of the Republic of Uzbekistan, February 20, 2007.
Furthermore, withdrawing cash from a bank account is not easy even for allowed purposes. The survey indicates that the average waiting period in 2007 to obtain cash for payrolls was four business days. Getting cash for working capital on average took seven business days. A presidential resolution guaranteeing "uninterrupted cash" from deposits did not solve the problem.\footnote{Resolution #PP-147 of the President of the Republic of Uzbekistan, On Guarantees of Uninterrupted Cash Payments from Bank Deposits, August 5, 2005.} Measures focused on eliminating the causes of this situation are required, instead of fighting the symptoms of the disease.

The purchase of foreign currency for making payments under import contracts is also a problem. Although there are no formal limitations on the conversion of soums into foreign currency, participants of focus groups said convertibility-related problems worsened in 2007. According to the survey data, the average period of conversion of soums in 2007 was 37 business days, i.e. about one and a half months. Eighty-four percent of companies that attempted to convert soums into foreign currency in 2007 responded that the duration was very problematic and difficult, or rather difficult.

\begin{figure}[h]
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\includegraphics[width=0.8\textwidth]{figure1.6.png}
\caption{EVERY FIFTH SMALL BUSINESS IS SUBJECT TO AT LEAST ONE INSPECTION A YEAR}
\end{figure}

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\centering
\includegraphics[width=0.8\textwidth]{figure1.6.png}
\caption{EVERY FIFTH SMALL BUSINESS IS SUBJECT TO AT LEAST ONE INSPECTION A YEAR}
\end{figure}

INSPECTIONS: FEWER COMPANIES UNDERGO INSPECTIONS, BUT PROCEDURES FOR SELECTING BUSINESSES AND CONDUCTING INSPECTIONS REQUIRE IMPROVEMENT

According to the survey, measures to reform the inspection system and protect businesses in 2005-2007 are yielding positive results.\footnote{See Annex 5.} The share of businesses undergoing inspections during a given year fell from 22 percent in 2005 to 17 percent in 2007.

Problems still remain. The system of selecting businesses for inspections based on risk analysis is dysfunctional. In practice the probability of inspections (including non-tax inspections for compliance with technical regulations) depends on sector affiliation and annual turnover. For instance, trade and public catering companies, as well as businesses with higher annual sales, are inspected most often.

The survey indicated that unauthorized inspections are widespread. Nearly half of all business inspections were informal, i.e. outside the established order.

\begin{figure}[h]
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\caption{EVERY FIFTH SMALL BUSINESS IS SUBJECT TO AT LEAST ONE INSPECTION A YEAR}
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\centering
\includegraphics[width=0.8\textwidth]{figure1.6.png}
\caption{EVERY FIFTH SMALL BUSINESS IS SUBJECT TO AT LEAST ONE INSPECTION A YEAR}
\end{figure}

Based on the findings of Enterprise Surveys, inspections are perceived as a barrier (from moderately problematic to very problematic) for 48 percent of respondents.
Government control systems need to be further reformed. For these reforms to be effective, it is important to address the following objectives:

- Remove the root causes for violating established rules: simplify the tax system; reduce the tax burden; and liberalize monetary, export-import and foreign exchange policies.
- Change the approach to assessing the efficiency of the inspection system and the performance of inspectorates. Indicators based on the number of violations identified and fines levied should be replaced by criteria that measure companies' commitment to voluntary compliance with legislation;\(^{19}\)
- Consecutively improve procedures for selecting businesses, conducting inspections, levying sanctions, and appeal by businesses.

Table 1.2 and the “Inspections” chapter contain more detailed arguments for these conclusions.

**LIQUIDATION: IMPROPER IMPLEMENTATION OF LEGISLATION REDUCES THE IMPACT OF REFORMS**

According to the IFC survey, the introduction of a new, streamlined, voluntary liquidation procedure on July 1, 2007, was a significant improvement.\(^ {20}\) The amount of time needed to complete a voluntary liquidation was reduced, and the maximum period of the entire procedure did not exceed seven months for any of the respondents. Previously, liquidation could take more than a year. As of July 1, 2007, the average amount of money that companies spend on liquidation procedures also fell to about $60, compared to $160 in 2005. According to IFC estimates, the total impact for small businesses from reduced procedural costs amounts to about $360,000 annually.

Problems linger in the sphere of liquidation because of inadequate implementation of legislative norms by the staff of registration authorities (inspectorates for registering business entities under the district khokimiyats), tax inspectorates, and commercial banks involved in liquidation processes. These institutions regularly violate time limits mandated by the Regulation on Voluntary Liquidation, transfer their responsibilities to the staff of the company being liquidated, force the company to go through extra procedures, or demand additional documents not stipulated by legislation.

The following measures would help solve problems in voluntary liquidation as detected by the survey:

- In-house regulations for registration and tax authorities need to be complemented with the provisions on liquidation procedures;
- New guidelines should introduce a mechanism for inter-agency coordination in the process of voluntary liquidation;
- Certain legal provisions must be clarified and conflicts must be eliminated in the legislative framework that regulates voluntary liquidation;
- Broad awareness-raising campaigns should be conducted among entrepreneurs and state officials on the new liquidation procedures.

An analysis of the main sources of these problems, recommendations for overcoming them, and the expected impact of such measures is summarized in Table 1.3. The analysis is presented in greater detail in the Voluntary Liquidation chapter, as well as in a separate IFC report, Voluntary Liquidation Procedure. Preliminary findings.\(^ {21}\)

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\(^ {19}\) Sample indicators are given in Annex 7.

\(^ {20}\) Resolution #PP-630 of the President of the Republic of Uzbekistan On Improving the Procedures of Voluntary Liquidation and Termination of Activities of Businesses, Apr 24, 2007.

\(^ {21}\) All IFC reports are available electronically at the IFC website www.ifc.org/uzbee.
MANUFACTURING: PROBLEMS WITH FINANCING AND INFRASTRUCTURE HINDER THE SECTOR

The survey showed that manufacturing companies encounter several specific issues. The technical infrastructure used by small manufacturing businesses is still extremely underdeveloped. The average age of the equipment under use is about 20 years, according to the survey. More than half of the surveyed industrial companies responded it is essential to procure new manufacturing equipment, but only one-tenth of businesses are actually doing so. The main reason for this gap is a lack of resources. Bank loans are difficult to obtain. A manufacturing business seeking to procure fixed assets faced the greatest difficulty getting a loan, according to the survey.

Another factor hindering the development of manufacturing companies is a lack of stable access to quality inputs and raw materials. When it is difficult and expensive to import raw materials, and the market for some kinds of local materials is underdeveloped or monopolized, manufacturers cannot consistently produce quality goods. According to Doing Business 2009, import transactions in Uzbekistan are among the most problematic, time-consuming, and expensive in the world.\(^{22}\)

Furthermore, the survey demonstrated that not all companies have the infrastructure essential for their business activities, including power grids, gas, and water supply. One in four small businesses stood idle for an average of 17 working days in 2007 because of outages in electricity, gas, or water supplies. According to IFC estimates, the losses of small businesses due to idle time amounted to about $9.5 million nationwide in 2007 (Annex 1).

Box 1.7

Highly problematic access to essential infrastructure has been confirmed in other surveys. More than half (53 percent) of Enterprise Surveys respondents from the manufacturing, construction and services sector indicated they experienced power outages in 2007. This happened on average 4.4 times a month, with an average total monthly duration of 13 hours per month. According to respondents’ estimates, these companies’ losses due to power blackouts stood at 5 percent of their annual sales.

CONCLUSION

The business environment in Uzbekistan is characterized by a large number of laws and by-laws regulating entrepreneurial activities. Since 1991 more than 16,000 legislative acts have been adopted. The number of these documents grows every year.

Uzbekistan has not created an effective mechanism to enable the detection of existing and potential challenges hindering private sector development in a timely and systematic manner. This mechanism is essential for determining and prioritizing steps for improving the business environment.

Some measures are taken without sufficient analysis of their implications and of the resources required from government and business for implementation. As a result, objectives may not be achieved, leading to the need to revise earlier decisions. The monitoring of implementation does not always allow for identification and adjustment of ineffective measures.

All this reduces the efficiency of regulations and leads to greater administrative burdens for businesses, hinders the growth of domestic and foreign investment, and encourages abuse by officials.

Thus, a new system that facilitates the following is necessary:

- Systematic identification of business issues requiring government action;
- Enhanced impact-forecasting for proposals on regulating business;
- Appropriate control over the implementation of legislative acts already in place.

\(^{22}\) For more details, please see Box 6.7 in Annex 1.
The systematic implementation of these measures will facilitate greater stability, transparency, and efficiency in government regulation. These goals can be achieved by implementing the Screening Mechanism for Policy Proposals (SMPP) – a mechanism that uses the tools of Regulatory Impact Assessment (RIA) to enable government agencies to assess the impact of proposed policy measures. Modernizing the existing system for drafting, adopting, and monitoring the implementation of legislative acts regulating business activities in this way will facilitate further improvement of business environment in the country.

International experience demonstrates that implementation of RIA facilitates a reduction of administrative costs for businesses and governments, and increased investment. It also leads to greater efficiency, competitiveness and export potential for domestic companies, as well as to macroeconomic stability (thanks to the greater flexibility of the economy) and accelerated growth in general.

In August 2008, IFC and the Cabinet of Ministers of the Republic of Uzbekistan signed a Memorandum of Cooperation envisaging coordinated efforts in implementing the SMPP. In December 2008, the Cabinet of Ministers adopted a resolution establishing a special Working Group and an Action Plan for introducing SMPP in Uzbekistan.23 According to the Action Plan, SMPP tools will be piloted in 2009 in drafting several new regulatory proposals and in monitoring implementation of some legislative acts. IFC will render necessary technical assistance to the ministries and government agencies involved in these activities.

### Table 1.1 Key Problems in the Tax System, Sources, and Recommendations

<table>
<thead>
<tr>
<th>PROBLEMS</th>
<th>SOURCES OF PROBLEMS</th>
<th>RECOMMENDATIONS</th>
<th>EXPECTED IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax payments by enterprises remain high</td>
<td>High social security contributions and obligatory payments to extra-budgetary funds, Taxation of company’s turnover (sales)</td>
<td>1. Reduce number of taxes and obligatory payments 2. Improve consultative support for taxpayers by: - establishing special consultative units at the tax authorities - facilitating the work of tax consultants 3. Constantly work on improving tax legislation 4. Hold regular consultations with the private sector 5. Expand the practices of electronic reporting 6. Draft Commentary to the Tax Code 7. Raise legal awareness of entrepreneurs and competence of tax officers by organizing seminars, disseminating publications and explanatory materials, etc.</td>
<td>Simplification of the tax system and tax administration will have the following positive outcomes: - Tax administration costs for the government and tax compliance costs for businesses will be reduced - Tax collection rates will be improved - Entrepreneurs can plan business development better - Entrepreneurs can clearly understand and quickly react to the government actions through the changes in tax legislation - Informal transactions of businesses will be reduced - Leeway for corruption and official abuse will be reduced</td>
</tr>
<tr>
<td>Tax administration is problematic for businesses</td>
<td>Tax legislation is difficult to understand, Contradictions in tax legislation, Large number of taxes and mandatory payments, Non-compliance with provisions of tax legislation, Non-compliance with the legislative requirements enabling businesses to submit tax reports by post or electronic mail, Low qualifications of local tax inspectors</td>
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</table>

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Process of inspections remains problematic for businesses

<table>
<thead>
<tr>
<th>PROBLEMS</th>
<th>SOURCES OF PROBLEMS</th>
<th>RECOMMENDATIONS</th>
<th>EXPECTED IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses are selected for inspection without analysis of the risks that their activities pose for society</td>
<td>Non-compliance of inspectorates with the criteria of selecting businesses for standard inspections</td>
<td>1. Introduction of a computerized risk-analysis system in inspectorates; 2. Creation of a regulatory and informational database essential for off-site monitoring</td>
<td>1. Greater efficiency of inspections 2. More efficient use of inspectorate resources 3. Reduce the burden on law-abiding enterprises and provide incentives to enterprises to comply with legal requirements 4. Establish a system that encourages enterprises that comply with legal requirements voluntarily and penalize those that violate them 5. Prevent unlawful interference by inspectors in business activities and reduce the potential for abuse of power 6. Increase compliance with rules by entrepreneurs, and raise the level of legal awareness of entrepreneurs 7. Standardize the procedure of conducting inspections</td>
</tr>
<tr>
<td>Shortcomings of the procedures of selecting businesses for ad hoc inspections by inspectorates</td>
<td>Improve decision-making procedures for selecting businesses for ad hoc inspections by: 1. Addressing the conflict of interest in scheduling short-term ad hoc inspections of compliance with trade and cash surrender regulations 2. Setting clear rules for selection of businesses for inspections in response to the consumer complaints 3. Limiting the number of ad hoc inspections per company</td>
<td>1. Greater efficiency of inspections 2. More efficient use of inspectorate resources 3. Reduce the burden on law-abiding enterprises and provide incentives to enterprises to comply with legal requirements 4. Establish a system that encourages enterprises that comply with legal requirements voluntarily and penalize those that violate them 5. Prevent unlawful interference by inspectors in business activities and reduce the potential for abuse of power 6. Increase compliance with rules by entrepreneurs, and raise the level of legal awareness of entrepreneurs 7. Standardize the procedure of conducting inspections</td>
<td></td>
</tr>
<tr>
<td>Information on technical requirements is not available to businesses</td>
<td>Improve decision-making procedures for selecting businesses for ad hoc inspections by: 1. Addressing the conflict of interest in scheduling short-term ad hoc inspections of compliance with trade and cash surrender regulations 2. Setting clear rules for selection of businesses for inspections in response to the consumer complaints 3. Limiting the number of ad hoc inspections per company</td>
<td>1. Greater efficiency of inspections 2. More efficient use of inspectorate resources 3. Reduce the burden on law-abiding enterprises and provide incentives to enterprises to comply with legal requirements 4. Establish a system that encourages enterprises that comply with legal requirements voluntarily and penalize those that violate them 5. Prevent unlawful interference by inspectors in business activities and reduce the potential for abuse of power 6. Increase compliance with rules by entrepreneurs, and raise the level of legal awareness of entrepreneurs 7. Standardize the procedure of conducting inspections</td>
<td></td>
</tr>
<tr>
<td>Lack of a clear procedure for ad hoc inspections</td>
<td>Establish clear procedures for ad hoc inspections</td>
<td>1. Greater efficiency of inspections 2. More efficient use of inspectorate resources 3. Reduce the burden on law-abiding enterprises and provide incentives to enterprises to comply with legal requirements 4. Establish a system that encourages enterprises that comply with legal requirements voluntarily and penalize those that violate them 5. Prevent unlawful interference by inspectors in business activities and reduce the potential for abuse of power 6. Increase compliance with rules by entrepreneurs, and raise the level of legal awareness of entrepreneurs 7. Standardize the procedure of conducting inspections</td>
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</tr>
<tr>
<td>The goal of an inspection is to detect a violation rather than to prevent its occurrence in future</td>
<td>1. Change the approach of assessing the effectiveness of inspections 2. Exclude the practices of providing incentives to the staff of inspectorates based on the results of inspections from special funds accumulated from the amount of levied sanctions</td>
<td>1. Greater efficiency of inspections 2. More efficient use of inspectorate resources 3. Reduce the burden on law-abiding enterprises and provide incentives to enterprises to comply with legal requirements 4. Establish a system that encourages enterprises that comply with legal requirements voluntarily and penalize those that violate them 5. Prevent unlawful interference by inspectors in business activities and reduce the potential for abuse of power 6. Increase compliance with rules by entrepreneurs, and raise the level of legal awareness of entrepreneurs 7. Standardize the procedure of conducting inspections</td>
<td></td>
</tr>
<tr>
<td>Inadequately effective institutions for legal protection of businesses from illicit actions of the staff of inspectorates</td>
<td>1. Introduce a provision according to which courts can invalidate the act on results of inspections in case of a violation of the rules concerning the completion of the inspection registration book by inspectors 2. Stiffen sanctions for violations of the procedures for selecting and conducting inspections of the companies by inspectorates</td>
<td>1. Greater efficiency of inspections 2. More efficient use of inspectorate resources 3. Reduce the burden on law-abiding enterprises and provide incentives to enterprises to comply with legal requirements 4. Establish a system that encourages enterprises that comply with legal requirements voluntarily and penalize those that violate them 5. Prevent unlawful interference by inspectors in business activities and reduce the potential for abuse of power 6. Increase compliance with rules by entrepreneurs, and raise the level of legal awareness of entrepreneurs 7. Standardize the procedure of conducting inspections</td>
<td></td>
</tr>
<tr>
<td>PROBLEMS</td>
<td>SOURCES OF PROBLEMS</td>
<td>RECOMMENDATIONS</td>
<td>EXPECTED IMPACT</td>
</tr>
<tr>
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</tr>
<tr>
<td>Government authorities and banks disregard the legal time limits</td>
<td>Registration and tax officials do not have clearly assigned duties on liquidation</td>
<td>1. In-house regulations for registration and tax authorities need to be complemented with the provisions on liquidation procedures</td>
<td>In short and medium-term:</td>
</tr>
<tr>
<td>Entrepreneurs must fulfill duties which are now the legal responsibility of government authorities</td>
<td>No mechanism is available for coordination between government authorities involved in liquidation procedures</td>
<td>2. Guidance is needed on inter-agency coordination</td>
<td>■ Reduction of time spent for voluntary liquidation</td>
</tr>
<tr>
<td>The legislation on voluntary liquidation contains ambiguity and contradictions</td>
<td>The legislation on voluntary liquidation contains ambiguity and contradictions</td>
<td>3. Provisions must be clarified and conflicts in the legislative framework eliminated</td>
<td>■ Increasing the responsibility of government officials</td>
</tr>
<tr>
<td>Entrepreneurs must undergo additional procedures not envisaged by the regulation</td>
<td>Officials in charge of liquidation have heavy workloads</td>
<td>4. Entrepreneurs and officials must learn their rights and responsibilities regarding the new liquidation procedure</td>
<td>■ Reducing potential for abuse of power by officials and thus decreasing unofficial payments</td>
</tr>
<tr>
<td>Government authorities require additional documents not required by law</td>
<td>No efficient control mechanism is available over officials involved in liquidation procedures</td>
<td>5. Legal provisions in place must be followed</td>
<td>■ Raising legal awareness of businessmen</td>
</tr>
<tr>
<td></td>
<td>Government officials involved in liquidation procedures “push” entrepreneurs to make unofficial payments</td>
<td></td>
<td>■ Decreasing the number of businesses not involved in financial and economic operations</td>
</tr>
<tr>
<td></td>
<td>Low level of legal awareness of entrepreneurs and officials involved in liquidation procedures</td>
<td></td>
<td>Eventually these measures should help increase the number of operational businesses</td>
</tr>
</tbody>
</table>

### Table 1.3 Key Problems in Voluntary Liquidation, Sources, and Recommendations

<table>
<thead>
<tr>
<th>PROBLEMS</th>
<th>SOURCES OF PROBLEMS</th>
<th>RECOMMENDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire and sanitary inspectors do not use approved inspection check lists</td>
<td>Fire and sanitary inspectors do not use approved inspection check lists</td>
<td>1. The requirement for fire and sanitary inspectors to use inspection checklists during inspections must be established by a legal act</td>
</tr>
<tr>
<td>Entrepreneurs must fulfill duties which are now the legal responsibility of government authorities</td>
<td>Entrepreneurs must undergo additional procedures not envisaged by the regulation</td>
<td>2. The practice of inspection checklists usage must be expanded on technical inspections other than tax audits</td>
</tr>
<tr>
<td>Government authorities require additional documents not required by law</td>
<td>Government authorities require additional documents not required by law</td>
<td></td>
</tr>
</tbody>
</table>
OVERVIEW OF THE BUSINESS ENVIRONMENT IN UZBEKISTAN

GENERAL INDICATORS OF BUSINESS PERFORMANCE
The rate of economic growth in Russia and Central Asia remained high in 2007. Uzbekistan was no exception. According to the State Statistics Committee, the country’s gross domestic product grew by 9.5 percent during the year. This is one of the highest rates in the region. The non-state sector accounts for 79.3 percent of Uzbekistan’s GDP.

Growth of value-added in industry, transport and communications, and trade, has made the largest contribution to the GDP growth.

Figure 2.1
UZBEKISTAN’S ECONOMY DEMONSTRATES STABLE GROWTH
GDP growth rates compared to the previous year

Source: Interstate Statistical Committee of the CIS (www.cisstat.com/rus/).

Figure 2.2
GROWTH IN 2007 WAS BROAD BASED
Sectoral structure of GDP, in %

Source: State Statistics Committee of the Republic of Uzbekistan
Growth remained rapid in 2008. In their joint statement in Tashkent on December 19, 2008, the Central Bank of the Republic of Uzbekistan and the IMF underlined that “in 2008 Uzbekistan has remained resilient to the ongoing international credit crisis and the downturn in developed economies, with real GDP growth of nine percent (according to official statistics), large external current account and fiscal surpluses, further accumulation of foreign exchange reserves, and continued stability in the banking system. The increase in inflation has been contained, though its level remains high.

“Uzbekistan will be affected in 2009 by the major downturn in the world economy through the decline in prices of Uzbekistan’s major export commodities, weaker demand for Uzbek exports due to lower growth in major trading partners, and the decline in remittances. The Uzbek economy is not integrated with the financial markets in developed countries and therefore is unlikely to suffer significantly from credit constraints or sharp falls in capital flows.

“… The mission expects the economic outlook to remain relatively favorable in 2009, with a limited slowdown in growth and continued external and fiscal surpluses.”

As of January 1, 2008, the number of operational businesses reached 436,500, including 392,000 small businesses. Agriculture accounts for the greatest number of active businesses.

The small business sector is also growing rapidly. In 2007 this sector produced about 46 percent of the country’s GDP, and accounted for 72 percent of all jobs in the Uzbek economy. There are about 15 small businesses per 1,000 residents of Uzbekistan.
Positive trends in the growth of small business indicate an improved commercial environment. Uzbekistan also received a higher ranking in Doing Business, a project that annually ranks countries based on ten indicators (Box 2.2).\(^{25}\)

Uzbekistan increased its score by 7 points in Doing Business 2008 and improved four out of ten procedures reviewed. These reforms were conducted in 2005-2007 in areas such as starting and closing a business, registering property, and paying taxes.\(^{26}\)

According to the latest report, Doing Business 2009, Uzbekistan advanced two places in the rating of 181 countries, driven by the development of credit information sharing. Despite this improvement, Uzbekistan is still in 138\(^{th}\) place.

<table>
<thead>
<tr>
<th>Country</th>
<th>Ease of Doing Business Ranking in Doing Business 2009</th>
<th>Change in Ranking Compared to Previous Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyrgyz Republic</td>
<td>68</td>
<td>+31</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>70</td>
<td>+10</td>
</tr>
<tr>
<td>Russia</td>
<td>120</td>
<td>−8</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>138</td>
<td>+2</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>159</td>
<td>−3</td>
</tr>
</tbody>
</table>

\(^{25}\) The number of countries in the survey is increasing, and 181 countries participated in Doing Business 2009. For more details, see www.doingbusiness.org.

\(^{26}\) IFC has reviewed these and other reforms of the business environment as well as their economic impact. See IFC reports, Business Environment in Uzbekistan as Seen by Small and Medium Enterprises, based on the 2005 and 2006 surveys (www.ifc.org/uzbee).
TAXATION

- The New Revision of the Tax Code was enacted January 1, 2008, with the goal of simplifying the tax system to the maximum possible extent.

- Tax payments among businesses in Uzbekistan remain large despite an annual reduction of individual tax rates. For every 100 soums of net profit received, a business in Uzbekistan pays 170 soums in taxes and obligatory payments.

- Tax administration remains problematic for businesses. Taxpayers must pay many different taxes and cannot submit tax reports electronically. Tax inspectors are under qualified.

Enactment of the New Revision of the Tax Code of Uzbekistan (hereafter, the Tax Code or Code) on January 1, 2008, was the main event in the sphere of taxation during the study period. Drafting this document took several years and the active involvement of ministries and agencies, the business community, and local and international experts. The Code was designed to simplify the tax system and promote its stability and transparency for taxpayers to the maximum (Box 3.1). The document also incorporated steps for improving taxation taken in the country during previous years (Box 3.2).

**Box 3.1**

Changes introduced by the Tax Code:
- The Code became a document of direct action, regulating issues related to taxation without reference to other regulatory documents;
- A clear time limit between the adoption of tax legislation acts and their enactment was mandated, creating guarantees for the stability of tax legislation for taxpayers;\(^27\)
- Individual tax benefits were banned;
- A taxpayer's compliance with written explanations from the authorities now relieves the taxpayer of liability for any tax offence;
- Some benefits were expanded;\(^28\)
- New forms of tax monitoring such as cash-receipt control and off-site control were introduced.

**Box 3.2**

Other changes in the taxation system in 2005-2008:
- The environmental tax, the fee for the right to engage in trade, and the fee for the right to engage in the tobacco trade were abolished;\(^29\)
- Trade and public catering businesses now pay a Single Tax Payment instead of a gross revenue tax;
- Fees for the precious metal trade and car-parking services were introduced;
- The Single Tax Payment rate was reduced from 13 percent in 2005 to eight percent in 2008;
- The Corporate Income Tax rate was reduced from 15 percent in 2005 to 10 percent in 2007.

Annex 2 contains a more detailed description of the taxation system and of changes enacted since 2005.

\(^{27}\) Article 3 of the Tax Code of the Republic of Uzbekistan.

\(^{28}\) For instance, imports of technological equipment were exempted from VAT regardless of purpose (earlier this applied only to equipment imported by companies for their own manufacturing needs); a zero VAT rate was granted for all exports (earlier the zero rate was granted only to the exports paid for with hard currency); VAT and Corporate Income Tax exemptions extended to rental of any property regardless of the purpose (earlier only for rental of equipment purchased for this purpose).

\(^{29}\) A full list of taxes and obligatory payments is given in the Annex 2.
By drafting and enacting the Tax Code the government demonstrated an awareness of problems in the business environment as well as a readiness to address them in a constructive manner. Second, the Tax Code created a precedent for broad involvement of businesses and the expert community in the discussion and detailed development of such an important document. A draft of the Code was made available on the Internet. Tax authorities conducted a broad and successful information campaign for the Code. This positive experience should be applied to the drafting of other regulatory acts concerning business activities. It is particularly notable that the private sector (as the regulated party) should be involved in the process of proposing and discussing measures.

The government set significant objectives for drafting the Tax Code (Box 3.3), the impact of which will only be fully assessable with time. IFC Uzbekistan Business Enabling Environment Project will further continue to study the issues of taxation.

According to the Order of the President of Uzbekistan, the New Revision of the Tax Code was to place special focus on the following:

- The formulation of clear and tested principles, approaches, and canons of tax policy-making;
- A reduction of the tax burden on business, increased tax incentives for the development of the manufacturing and services sector, rational and efficient utilization of resources, and the abolition of inefficient taxes and fees;
- The promotion of the direct application of the Tax Code, streamlining of the taxation system by the maximum unification of calculation and payment of certain taxes;
- The creation of equal ground for doing business for all taxpayers primarily by abolishing unjustified tax privileges and exemptions from the general taxation system;
- Enhanced stability of the tax system, allowing businesses to plan their development;
- Improved tax administration, increased tax collections, and the promotion of full tax collection and obligatory payments to government budgets and extra-budgetary funds, and a reduction of tax loopholes.30

However, the IFC survey conducted in May 2008 and an analysis of the implementation of the Tax Code in 2008 reveal that not all objectives were fully met. The Tax Code did not solve the most important problems of the tax system. Tax bills for businesses in Uzbekistan remain large. Businesses have to administer many taxes and obligatory payments, even when using the simplified system. Despite obvious improvement, tax legislation remains complicated and contradictory, while entrepreneurs have limited access to affordable tax consultation. All these issues make tax administration difficult for taxpayers. Below we analyze problems that the Tax Code did not address, addressed only partially, or made worse.

**TAX PAYMENTS REMAIN HIGH**

According to the 2007 survey, the total tax payments (the sum of all taxes and obligatory payments) for small businesses amounted to 15 percent of annual turnover.31 The figure was 18 percent of turnover in 2005.

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30 Order #P-2108 of the President of the Republic of Uzbekistan, January 7, 2005.
31 These include personal taxes and obligatory payments paid by employees of the enterprises, as well as VAT (for VAT payers).
The amount of taxes paid by small businesses as a ratio of turnover is falling. The sum of all taxes and obligatory payments paid by respondents as a percentage of their revenues is still excessively high. For every 100 soums of net profit received, businesses pay 170 soums in various taxes and obligatory payments. A third of respondents believe that existing tax rates hinder their business. Seemingly low individual rates for the Single Tax Payment and Corporate Income Tax indicate an ongoing reduction of the tax burden for companies. But when examining the overall tax obligations, all taxes and payments must be considered (Annex 3). International studies indicate that high taxes are associated with lower private investments and fewer new start-ups. Countries with higher taxes usually have fewer legally-operating businesses per capita.

There are grounds to believe the total tax rate in Uzbekistan remains among the highest in the world. According to Doing Business, Uzbekistan is among the last ten in 181 countries of the world in this indicator. According to Doing Business, the total tax rate of an Uzbek business amounted to 90.6 percent of the company’s profits in 2007. The total tax rate was higher only in Argentina, Belarus, Burundi, Central African Republic, Democratic Republic of Congo, Gambia, Mauritania, and Sierra-Leone. Notably, Doing Business assesses the total tax rate for companies under the general taxation system. And the rates of main taxes and mandatory contributions in the general taxation system have not been reduced since the enactment of Tax Code in 2008.

The following data also illustrates that the existing tax burden is highly problematic. According to Enterprise Surveys, existing tax rates are among the most significant barriers businesses face. Every fourth respondent indicated that tax rates constitute the highest barrier in the operations of his or her business. Access to external financing was the next most common response, with 18 percent of survey participants calling it the most significant barrier.

This study also identified factors that contribute to the high level of tax payments of small businesses.

**High rates for social contributions and payments to extra-budgetary funds**

The Single Tax Payment and the Single Land Tax are far from the only taxes paid by small businesses. The study showed that the Single Tax Payment accounts for 52 percent of the total sum of tax payments of an average eligible small business. The share of the Single Land Tax in the composition of an SLT-paying company’s tax bill is even lower, a mere 34 percent (Figure 3.2).
The single tax payment and single land tax were not the only taxes paid by small businesses in 2007.\(^{38}\) Percentage of a given tax in total amount of taxes and obligatory payments paid

**Composition of the total tax payments for a company paying the STP\(^{39}\)**

- Single tax payment: 52%
- Single social payment: 17%
- Trade Fee: 10%
- Personal Income tax: 9%
- Property tax: 7%
- Excise: 2%
- Pension Fund (2.5%): 1%
- Mandatory individual retirement contributions: 0.5%
- Voluntary individual retirement contributions: 1%

**Composition of total tax payments of a company paying the SLT\(^{40}\)**

- Single land tax: 34%
- Single social payment: 16%
- Income tax: 7%
- Road Fund: 5%
- School education Development Fund: 4%
- Pension fund (0.7%): 3%
- Pension Fund (2.5%): 2%
- Property tax: 1%
- Mandatory individual retirement contributions: 0.5%
- Voluntary individual retirement contributions: 2%

Thus, other taxes and mandatory payments constitute a major burden for small businesses. These primarily include social insurance contributions and payments to several extra-budgetary funds (Box 3.5). The Tax Code reduced the list of exemptions from the single social payment and from insurance contributions. Starting in 2008 the rate of companies’ mandatory contributions to the Pension Fund was increased from 0.7 percent to 1 percent. These factors may create a situation in which employers aren’t interested in offering official monetary incentives to their staff. Some of employers may prefer to address this problem through informal payments, i.e. by breaking the law, while the extra-budgetary Pension Fund faces lower collections.

\(^{38}\) Full list of taxes and mandatory payments paid by various taxpayers is given in Annex 2.

\(^{39}\) According to Article 349 of Tax Code, from January 1, 2008, taxpayers eligible for the simplified taxation system are exempt from property tax on property that they rent.

\(^{40}\) According to Article 349 of Tax Code, from January 1, 2008, taxpayers eligible for the simplified taxation system are exempt from property tax on property that they rent.
The UNDP Public Finance Reform in Uzbekistan Project assessed the total tax burden on an enterprise’s wage bill. According to the study, “there is still an acute need to reduce the tax burden for businesses’ wage bill. With contributions to the extra-budgetary social funds, the aggregate tax rate of income in the lower range (taxable at 13 percent) constitutes 31.2 percent of payroll, and the total tax burden of income in the average range is 35.5 percent. Estimates on mock examples with four taxes: the single social payment, personal income tax, Corporate Income Tax, and VAT show that along with the growth of labor intensity the percentage of taxes in earnings grows from 7 percent to 45 percent (increasing burden on labor-intensive companies).”

Given an excess of labor supply this issue is particularly pressing, as it hinders both the growth of wages and the creation of additional jobs.

“I personally heard at a large conference the head of the Pension Fund complaining that recently they had to pay huge maternity leave allowance to a woman working in Tashkent. Now he is proposing to put caps on the amount of maternity benefits. But she had been paying all taxes, including the contribution to the Pension Fund, from her large salary! It should be a model case for everyone. It turns out to be the opposite: officials are pushing us to pay the wages informally.”

Focus group participant, director of a company

Taxes on company sales

The main tax in the simplified taxation system, the Single Tax Payment, and contributions to the extra-budgetary pension, road, and school funds paid in the general taxation system, are levied on sales (revenue). These taxes constitute a heavy burden hindering business development in Uzbekistan because of low profit margins, even if individually the rates appear low. For every 100 soums remaining at the disposal of the company in the form of net profit, 170 soums must be paid in different taxes and fees (Figure 3.3).

FOR EVERY 100 SOUMS OF NET PROFITS RETAINED, BUSINESSES PAY 170 SOUMS IN VARIOUS TAXES

Amount of taxes and obligatory payments paid by respondents compared to net profits,

TAX ADMINISTRATION IS PROBLEMATIC FOR BUSINESSES

The findings of comparable international studies conducted by the World Bank indicate that tax administration in Uzbekistan among the most complicated in the world.

41 The data voiced at the meeting of the Expert Council for Fiscal Policy Improvement of the Business Forum in Tashkent on June 06, 2008. The citation is from the article: There is always space for improvements but there are deadlines… Yashina, Yu. Nalogovoe i tamojennye vesti, # 25 of June 13, 2008.

42 The indicator is calculated by IFC based on the data on taxes and obligatory payments paid in 2007 as well as net profits (after taxation) received in 2007 as indicated by the survey respondents.
According to Doing Business 2009, tax administration in Uzbekistan is among the most complicated in the world. According to the study, the company has to make 106 tax payments per year in Uzbekistan. Only the companies in Belarus (112) and Romania (113) make more payments according to Doing Business 2009. For comparison, Swedish companies make only two payments per year.

Problems in tax administration are caused by the following.

**Tax legislation is complicated**

Due to the enactment of the Tax Code, several by-laws were annulled (including guidelines and regulations). Those documents had established detailed procedures for calculating certain taxes and obligatory payments, citing specific examples. Entrepreneurs were accustomed to these documents, which were often written in a simpler language. As a result, tax legislation changed significantly while accessible interpretations of its provisions were not provided to taxpayers.

**Contradictions in tax legislation**

Contradictory tax legislation was one of the reasons for the new Tax Code. The pre-2008 Tax Code did not have the status of a document of direct action, i.e. it only determined general issues of the tax regime. A large number of by-laws (including resolutions of the Cabinet of Ministers and state agencies’ documents) regulated the taxation system. The existence of large number of documents complicated control over their content and resulted in numerous contradictions. The New Revision of Tax Code partially addressed this problem. But an analysis of the Code’s provisions reveals that not all contradictions were removed (Box 3.7). Some provisions of the Code worsened the terms of doing business compared to other legislation (Box 3.8).
THE TAX CODE CONTAINS CONTRADICTIONS AND DISCREPANCIES

Section 1 of Article 92 of the Tax Code states that before starting a tax inspection (and in the case of a short-term inspection of issues related to cash receipts, before its completion) the tax inspector must inform the taxpayer of the objectives and produce all necessary documents allowing the inspection.

At the same time, Section 2 of the same article establishes that the tax inspection is considered to have begun at the moment all necessary documents are submitted (listed in Paragraph 5 of Section 1 of Article 92). Thus, the inspector must inform the taxpayer about the purpose of the inspection and produce appropriate documents before starting the inspection, not before its completion, as indicated in Section 1.

CERTAIN PROVISIONS OF THE TAX CODE WORSENED THE TERMS OF DOING BUSINESS WHEN COMPARED WITH OTHER LEGISLATIVE ACTS

For instance, Section 1 of Article 89 of the Tax Code states that the period of tax inspection shall not exceed thirty calendar days. In exceptional cases this period can be extended at the discretion of the special authorized body for coordination of inspectorates. It means that the Tax Code does not set the maximum period of tax inspections but enables tax inspectors to extend them to indefinite period, which hinders the rights and legitimate interests of businesses. Other regulatory documents envisage that a tax inspection can be extended to no more than 30 days.\textsuperscript{45}

Numerous taxes and obligatory payments

As indicated, businesses pay a large number of taxes and obligatory payments. This is applicable to small businesses under the simplified taxation system as well. On average, a company in industry, construction, trade, or public catering using the simplified taxation system has to calculate and pay more than five taxes. Meanwhile, agricultural businesses pay the greatest number of taxes and fees, an average of 7.5 (Figure 3.2, Annex 2).

Some of these taxes and fees are levied on the same taxable base but are administered separately. For instance, single social payment and mandatory personal social contributions are calculated based on payroll. Contributions to the extra-budgetary Pension Fund, School Education Development Fund, and Road Fund (which are paid by taxpayers of the Corporate Income Tax and Single Land Tax) are also calculated on the same base. The company is supposed to transfer sums from the same taxable base to different accounts of state bodies and submit separate tax returns for each of these taxes. This significantly increases administrative burden on the company.

Non-compliance with provisions of tax legislation

The survey found cases of non-compliance with the new tax legislation on a local level. In 2006, the Tax Code established the taxpayer’s presumption of innocence. According to this principle, all insuperable contradictions and ambiguities of tax legislation must be interpreted in favor of the taxpayer. But the findings of the focus groups demonstrated that often inspectorates fail to comply with this principle.

«The provision that all doubts shall be interpreted in favor of the entrepreneur is a very good rule. Unfortunately, it does not always work in practice. The taxmen simply state that “they have no doubts”. And they interpret the laws in their own favor.»

Focus-group participant, lawyer

The new Tax Code introduced a ban on individual tax exemptions. But in the first half of 2008 some taxpayers were nevertheless granted individual tax benefits (Box 3.9).
In February 2008 alone, the following companies were granted individual tax exemptions:

- A foreign enterprise to be established on the base of Bukhorotex OJSC was granted exemptions from the Corporate Income Tax, property tax, social infrastructure development tax and mandatory contributions to the Road Fund;46
- General Motors Uzbekistan JV was granted exemptions from all taxes in Uzbekistan, mandatory contributions to the Road Fund, and customs duties on a number of imported goods.47

Box 3.9

Non-compliance with legislation allowing company reports to be submitted by post or e-mail

In 2005,48 steps were taken to permit the submission of reports by post or e-mail. These progressive methods enable taxpayers to use available resources more effectively and minimize contact with tax inspectors. But the study found only a few cases where these methods were utilized. Virtually all respondents continued to personally deliver reports to tax inspectors. Thirty-seven percent indicated that tax authorities demand submission of reports in person. In Tashkent tax inspectors widely require reports to be submitted on paper in addition to electronic reporting. Another 14 percent of respondents simply did not know that the postal service or internet could be used for submitting reports.

«When I submit reports by e-mail, the inspectors still demand that I bring its hard copy, too. That is, I have to submit the same report twice. I was required to do the same thing in Chilanzar and Shaykhontokhur district inspections.»

Focus group participant, accountant maintaining records at several companies

Box 3.10

In Azerbaijan "electronic payment and filing systems have been in place since March 2007. The goal is to have 100 percent online filing. Tax authorities have actively promoted online filing among businesses paying value added tax. These efforts have borne results. Ninety-five percent of these businesses are using the service, completing more than 200,000 online transactions in the first three months of 2008 alone — and saving an average 577 hours a year. Azerbaijan provided free software to taxpayers six months before implementing its new system, giving them time to become familiar with it. Distributing the tax software early paid off in more than one way: users also suggested improvements simplifying the design of the software's interface." 49

Notably the State Tax Committee is interested in receiving tax reports electronically (Box 3.11). The goal is to reduce administrative costs and to streamline the analysis and processing of tax reports. At the same time, local tax inspectors are hindering the use of electronic reporting by businesses for a number of reasons (including resistance to change, an aspiration to retain influence over entrepreneurs, and a lack of computer skills).

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46 Resolution #PP-798 of the President of the Republic of Uzbekistan, February 18, 2008.
47 Resolution #PP-800 of the President of the Republic of Uzbekistan, February 21, 2008.
48 Resolution #PP-100 of the President of the Republic of Uzbekistan, On Improving Reporting System for Businesses and Strengthening Liability for Illicit Demands of Reports, of June 15, 2005 mandated the State Tax Committee to approve the Regulation on Receipt and Registration of Financial Reports, Calculations of Taxes and Income Declarations, Written Statements and Notices including those received by post and electronically from businesses by tax authorities. This regulation was registered by the MoJ #1500 on July 29, 2005 and envisaged submission of reports by post or electronically.
State Tax Committee regularly declares its willingness to receive and process electronic tax reports.50 Responding to the question of an entrepreneur, Z. Khudoybergenova, the main state tax inspector of the Department of Records, Information, and Computerization, named four main reasons why tax officers should promote the universal transition to electronic reporting:

1) A reduction in the amount of time spent preparing and submitting reports;
2) Enhanced efficiency in updating reporting forms;
3) A minimization of errors in the preparation of reports through the utilization of software enabling checks and output control of documents;
4) Enhanced analytical efforts through receiving tax returns and financial reports electronically.51

Based on the statements by the State Tax Committee, the entire domestic tax system is computerized. The system of electronic receipt and processing of tax returns and financial reports is utilized at all state tax inspectorates of the city of Tashkent.52 N. Soliev, deputy chairman of State Tax Committee, said that “introducing the system of electronic reporting in Uzbekistan took a year-and-a-half, while international experience demonstrates that this process takes 7-8 years on average.”53 In the meantime, according to the findings of IFC survey, only three percent of small businesses in Tashkent submit tax reports by electronic mail.

Inadequate qualifications of local tax inspectors

Businesses must regularly contact tax inspectors for clarification. But due to the inadequate competency of local tax inspectors, the quality of answers is often low. According to the survey, every fourth respondent who contacted the tax authorities to seek counseling in 2008 believes that tax inspectors do not have adequate knowledge of the Tax Code. As a result, tax inspectors are afraid of assuming responsibility for interpreting the legislation, and businesses prefer not to ask tax inspectors for counseling. This situation hinders establishment of partnership-style relations between tax authorities and taxpayers, complicating tax administration even further and creating leeway for evading taxes.

52 STC Online. E. Yagudinova, Nalogovie i Tamojennye Vesti, №26, 20.06.2008.
"After I contacted the state tax committee several times seeking explanations, they called me and told me not to send any more inquiries and threatened to hold me liable."

Focus group participant, auditor

"For instance, I try not to make inquiries at our district tax inspectorate – they have never given a comprehensible answer to my question, as they lack basic knowledge for this."

Focus group participant, company accountant

Box 3.12

These factors create wide leeway for official abuse. Based on the findings of the Enterprise Surveys, more than half of businesses surveyed in Uzbekistan reported that tax inspectors required them to make unofficial payments during tax inspections or meetings with tax inspectors. This indicator is significantly above the average for the Eastern Europe and Central Asia, as well as for countries with per capita income comparable to Uzbekistan’s (Figure 3.6).54

Figure 3.6 The tax system of Uzbekistan leaves room for abuse

Percentage of Enterprise Surveys respondents who reported that, in the course of tax inspections or meetings, inspectors demanded unofficial payments or gifts.

A high percentage of entrepreneurs in Uzbekistan acknowledged resorting to unofficial payments to resolve issues related to taxation. Exactly half of the entrepreneurs surveyed by the Enterprise Surveys made such payments “sometimes,” “often,” “usually,” or “always.” Only 30 percent of respondents “never” make informal payments to resolve taxation-related issues.

RECOMMENDATIONS FOR ADDRESSING TAX-RELATED ISSUES

The tax system of Uzbekistan is in need of further reform, and efforts should not be limited to technical improvement of the wording of the Tax Code. It is essential to continue improving tax policies and tax administration.

Reduce the number of taxes and fees

Reducing the number of taxes collected is one measure for reducing the tax burden and simplifying the tax regime. To this end, it is appropriate to unify taxes that are levied on the same base but administered separately. For instance, contributions to the extra-budgetary Pension Fund, School Education Development Fund, and Road Fund could be unified. The unification of the single social payment with the individual social contributions could also be considered. Tax authorities could then redistribute tax collections for various purposes at the government’s discretion.

54 Перечень стран приводится на сайте Enterprise Surveys www.enterprisesurveys.org.
Similar reforms combining separate taxes (mandatory payments) levied on the same taxable base were implemented in the Russian Federation. In 2001, the single social tax was introduced, combining contributions to Russia’s Pension Fund, Obligatory Medical Insurance Fund, Employment Fund, and Social Insurance Fund. The introduction of a single tax replacing several payments calculated on the same base reduces taxpayers’ compliance costs as well as authorities’ expenses on tax administration.

Uzbekistan also has experience in combining taxes that are payable from the same tax base. In April 2004 a single social payment was introduced to replace contributions to the Pension Fund, State Employment Fund, and Trade Union Council. The Single Tax Payment introduced in 2005 replaced the single tax and mandatory contributions to the extra-budgetary Pension Fund, Republican Road Fund, and School Development Fund.

**Improve consultative support for taxpayers**

The tax service should change its approach to achieving its goals. It should prioritize efforts to engage taxpayers and help them fulfill their obligations. International experiences demonstrate that tax authorities are most effective in countries where they act as a consultative body providing essential support to their client, the taxpayer, rather than as a punitive body. In Uzbekistan, the focus should be placed on assessing the effectiveness of the performance of tax authorities. Attention should be paid not to the sheer number of offences and penalties, but to increasing the number of businesses within a given jurisdiction, reducing the number of mistakes in tax reports, meeting payment deadlines, enhancing collection rates, and to the effectiveness of taxpayer consultation. Examples of methods used by tax officials in other countries are contained in Annex 4.

The main objectives of tax authorities in Uzbekistan are as follows:

- Oversee compliance with tax legislation, including the accuracy of calculations, the timely and full payment of taxes, payments to the extra-budgetary Pension Fund and Republican Road Fund under the Ministry of Finance of Uzbekistan; and the appropriate, complete, and timely fulfillment of mandatory payments to individual retirement accounts;
- Ensure the establishment of conditions that allow compliance with tax legislation, and provide support to taxpayers in meeting their responsibilities;
- Directly participate in the implementation of tax policies;
- Ensure full and timely consideration of the subjects and objects of taxation;
- Detect, prevent, and intercept tax offences.\(^{55}\)

Tax authorities should pay particular attention to the development of special taxpayer service programs. For instance, special counseling units could be established at tax agencies. Such units should be mandated to assist taxpayers in understanding and applying tax legislation. In order to avoid conflicts of interest, these functions should be performed by tax officers whose responsibilities do not include inspecting of businesses. The creation of counseling units became more relevant as the need for clarification of tax issues rose following the adoption of the new Code.

**THE EXPERIENCE OF THE LATVIAN STATE REVENUE SERVICE IN SERVING THE TAXPAYERS**

The tax authority should focus on supporting taxpayers, i.e. providing them with counseling and/or other support, rather than on the enforced collection of taxes. Following reforms, the Latvian tax service changed its approach to taxpayers and began referring to them as clients. The leadership of the Latvian State Revenue Service announced that tax authorities should not be a repressive body and that its main function should be servicing clients. Client service centers were established in all local units of Latvian SRS to receive declarations and counsel taxpayers.

Changing its attitude towards taxpayers and establishing consulting centers where all taxpayers can obtain information free-of-charge facilitated an improvement in the legal awareness and responsibility of taxpayers, and also improved the collection of taxes and fees.

\(^{55}\) Article 4 of the Law on State Tax Service of Uzbekistan.
It is equally important to create the necessary conditions for the promotion of tax consultants as a profession. A legal framework for the development of tax counseling was created in 2006, when the Law on Tax Counseling was enacted. According to data of the Chamber of Tax Consultants, only 16 applicants have received qualifying certificates as tax consultants as of December 2008. The efforts for development of accessible tax consulting should be reinforced. Main focus should be on training and improving the skills of applicants and independent assessment of their knowledge.

**Conduct regulatory activities to improve tax legislation**

Monitoring and analysis of the effectiveness of the norms and practical implementation of the Tax Code are underway. A special Interagency Group was established with a mandate to propose further improvement of Code’s norms and provisions to the Cabinet of Ministers. This work will take place in 2008 and 2009. The activities of the Interagency Group should not be limited to addressing only contradictions and ambiguities in the Tax Code but also to the development and implementation of other measures for further streamlining tax legislation and tax administration. The government itself has a stake in these improvements. International experience demonstrates that, assuming all else is constant, tax collection is six percent higher in countries with simple tax legislation. In other words, tax collection can be increased six percent on average merely by simplifying tax legislation\(^56\).

At the meeting of the Expert Council of the Business Forum for the Improvement of Fiscal Policies held on June 6, 2008, in Tashkent, an official of the Ministry of Finance noted that about 130 proposals to improve the norms of the Tax Code had been received since the beginning of this year.

Forums for discussing the Tax Code were created at the websites of the Ministry of Finance (www.mf.uz), State Tax Committee (www.soliq.uz), and the Chamber of Trade and Industry (www.chamber.uz). Unfortunately, as this material was being prepared, there were no active discussions at these forums. Information on the forums should probably be disseminated more actively among the business community to stir interest in the discussions.

**Consult regularly with representatives of the private sector**

Further improvements to the tax system should take opinions of the business community into account. The relative simplicity of compliance with tax legislation significantly influences whether businesses choose to observe the rules or to hide part of their operations from taxation. It is essential to establish a mechanism for collecting, summarizing, and submitting specific proposals from the private sector to the relevant government bodies. It is important to create a feedback mechanism with private parties who enter discussions. This would help entrepreneurs understand how their proposals may be incorporated in the drafting of tax policies, or why they may be rejected. The Business Forum under the Chamber of Trade and Industry, along with the support of the UNDP, could serve as a platform for these discussions. IFC also has concrete experience in consulting with businesses and stands ready to provide the essential technical assistance to the government.

Officials of the Ministry of Finance and other government bodies and agencies have indicated that businesses do not adequately participate in consultations and discussions. Businesses are uninterested and sometimes simply afraid to express their opinions before officials. Meanwhile, there exist special methods for conducting consultations that can raise participants’ interest and help ensure a successful dialogue. Feedback for entrepreneurs (for example, in the form of media reports on agreements reached during a given roundtable) is an important incentive for participants in the discussion, prompting them to spend their time entering a dialogue with the government. These methods are widely used worldwide in RIA\(^57\).


\(^{57}\) For more details, see: RIA: International Experience and Prerequisites for Implementation in Uzbekistan, IFC, 2008, www.ifc.org/uzbee
Draft commentaries to supplement the Tax Code

In order to simplify tax administration for taxpayers and to prevent the misinterpretation of tax legislation, it is essential to draft an article-by-article commentary to the Tax Code. This document should provide an essential explanation of the provisions of the Code and of the special features of its application by taxpayers. During the drafting process it will be essential to consider existing tax-related and other legislative acts that regulate entrepreneurial activities, as well as their official explanations as provided by the Ministry of Finance, State Tax Committee, and other bodies. This document should be written in simple and accessible language and contain comprehensible examples, allowing taxpayers to independently master all details of the tax system. Such commentaries have been used in many countries and have been proven effective. IFC stands ready to cooperate with other donor organizations to provide essential technical assistance to the government in preparing this document.

It is also essential to conduct activities that improve awareness of tax legislation and legal issues among entrepreneurs. This can be achieved by organizing workshops and publications and disseminating explanatory materials. Particular attention should also be focused on improving the qualifications of tax inspectors. IFC is prepared to provide essential assistance in the organization of these training activities.

«The tax inspectorate often summons us to various workshops. I try to attend them although they are not always useful: sometimes they are indeed very useful and interesting but sometimes merely done «pro-forma».»

Focus group participant, accountant

EXPECTED IMPACT

Simplification of the tax system and tax administration will yield the following positive outcomes:

- Tax administration costs of both businesses and the government will be reduced;
- Tax collection rates will be improved through the reduction of unintentional errors by taxpayers and reducing the opportunity for abuse;
- Entrepreneurs will be more able to plan their business development;
- Entrepreneurs will be able to understand clearly and react in timely manner to changes to tax legislation;
- The informal operations of businesses will be reduced;
- Leeway for corruption and official abuse will be reduced.
Despite formal implementation of principles on selecting companies for tax, sanitation and other inspections using risk analysis, businesses are still inspected without regard for the risk their operations carry for the public.

Inspections remain problematic for businesses: shortcomings in the regulatory framework and a lack of information on technical requirements make entrepreneurs violate rules, and mechanisms for the legal protection of businesses are inefficient.

The practice of unauthorized visits to companies by inspectors is widespread. Nearly half of all inspections were informal, i.e. beyond established procedures.

The government of Uzbekistan is making significant efforts to improve business legislation and government oversight. The following measures, among others, have been undertaken:

- Inspectors' powers have been curtailed, and their ability to illegally interfere in the operations of businesses has been reduced;58
- The number of inspections has been reduced, oversight duplication has been removed, and the forms and methods of inspections have been improved;59
- Criteria based on risk analysis have been introduced into the process of selecting businesses for inspections.60

More on steps taken in 2005-2007 to reform the inspection system and protect businesses between 2005-2007 is provided in Annex 5.

These steps are yielding positive results. According to IFC surveys, the number of companies inspected fell from 89 percent in 2001 to 17 percent in 2007 (Figure 4.1).
The number of inspections per company remains high, and the total duration of inspections remains significant (Figure 4.2).

**OFFICIALS PUT SIGNIFICANT PRESSURE ON ENTERPRISES THAT UNDERGO INSPECTION**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of inspections per inspected company</th>
<th>Total duration of all inspections at a company in working days</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>2005</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>2006</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>2007</td>
<td>4</td>
<td>20</td>
</tr>
</tbody>
</table>

The data in Figure 4.2 is confirmed by other surveys of the private sector. According to Enterprise Surveys, companies that were inspected underwent an average of three inspections per year, distracting workers from their jobs for 10 business days.

In addition, respondents of the Enterprise Surveys reported paying 212,000 soums in formal and informal payments after the inspections.

The survey revealed that businesses are selected for inspections without consideration of the risk they pose for society at large, and that the process of inspection remains problematic for businesses. Furthermore, there is a widespread practice of unauthorized visits by inspectors. These problems and their causes are reviewed in greater detail in this chapter.

**BUSINESSES ARE SELECTED FOR INSPECTION WITHOUT CONSIDERATION OF THE RISKS THEIR OPERATIONS POSE FOR SOCIETY**

The survey showed that in practice the probability of an inspection is not based on the risk that a given business poses to the public, but on its cash turnover. Sectors with higher turnover such as public catering and trade were inspected more frequently (Figure 4.3). This statement is equally applicable to the inspections of financial and business operations as well as technical inspections. The same “sector focus” was typical for inspections over a number of years when IFC surveys were held. This means that the approach of inspectors to selecting companies has not changed despite imple-
The survey findings demonstrate that the frequency of inspections (including tax inspections) depend to a high degree on the amount of annual sales (turnover) of the business. Businesses with higher sales in 2006 were inspected more often in 2007 (Figure 4.4).

«We report high sales, and the inspectors come more often. The neighbor in front of us “keeps low profile” and underreports his sales, and gets inspected far less frequently.»

Focus group participant, company director

61 Following the Decree UP-3665 of the President of the Republic of Uzbekistan of October 5, 2005, all inspectorates developed and approved “clearly grounded principles of compiling annual and quarterly plans (schedules) of business inspections.”
Meanwhile, the method of selecting businesses for inspections should be based on a ranking by risk categories. Every inspectorate must have its own objective criteria for assigning an enterprise to a certain risk group based on the specifics of that enterprise’s activities. For instance, fire departments should pay greater attention to premises with a higher risk of fire outbreak, or to those that are visited by more people and thus have higher risk of injuries. Public catering and retail facilities do not match these criteria, as they rarely use hazardous material and host relatively few visitors. Similarly, the amount of sales of an enterprise cannot be by itself sufficient grounds for increased interest from the fire inspectorate, as it is not an indicator of fire hazard.

THE INSPECTION PROCESS REMAINS PROBLEMATIC FOR BUSINESSES

The survey demonstrated that the inspection process remains problematic for businesses. In practice the purpose of an inspection is often broadly formulated, enabling officials to probe diverse aspects of business operations. This reduces the right of a business “not to comply with the demands of inspectorates on issues outside their competence”62 to zero, as a general formulation of purpose significantly expands the inspectors’ authority.

«We had a standard complex inspection last year, i.e. by tax, fire, and sanitary inspectors. We thought that we would not be inspected again for at least 3 years but we were wrong. In the middle of this year again we were subjected to a complex inspection. This time inspectors had the order of the Coordination Council for an ad hoc inspection of all pharmaceutical businesses. It did not specify individual businesses, and inspectors stated that they could inspect any business in this sector. As our business is to sell drugs, they were entitled to conduct comprehensive inspection, checking the same documents and issues, as in the previous years.»

Focus group respondent, company director

Today businesses are not allowed to exercise their right to withhold records unrelated to a given inspection. It is quite difficult to determine whether some documents are related to the subject of inspection or not. Taking advantage of this, inspectors often demand information unrelated to the purpose of the inspection. Considering the specific nature of each inspection, it is rather difficult to determine an exhaustive list of documents necessary in each and every case. Probably for this reason the issue remains problematic in legislation.

The survey demonstrated that the businesses face additional problems in the course of ad hoc inspections, which are not clearly regulated by law. As a result, inspectorates have leeway to take unauthorized actions against inspected firms and to pressure them.

The survey findings show that inspectors often do not show the order or agenda of the inspection, do not produce identification, and fail to fill in the Inspections Registration Book (IRB).

«Often they do not produce the inspection warrant in the course of short-term inspections. Sometimes, tax inspectors themselves purchase goods, then, produce I.D. but not the order.»

«Having obtained a permit to conduct an inspection of a specific issue, they check everything hoping to find any kind of violation.»

Focus group respondents, company directors

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62 Paragraph 24 of the Regulation on the Procedures of Inspecting Businesses and Completing the Inspections Registration Book, registered by the MoJ under #1650 on December 29, 2006 (hereinafter – the Regulation on the Procedures of Inspections).
In some cases inspectors do not look for violations but provoke them with their actions while conducting inspections of firms in trade and public catering. For example, “controlled purchase,” a technique not regulated by law, is a widespread method of inspection. In a controlled purchase, the actions of the inspectors are aimed at provoking a company worker to commit an offence, utilizing the surprise factor. A lack of regulations covering this kind of inspection creates leeway for official abuse.

«Lately the tax inspectors started visiting us often. Every time an inspector comes pretending to be a “patient” and gets tooth treatment. After he paid and got a receipt, the “patient” produced all documents: ID, permit for inspection, and order of tax inspection, and announced that it was a tax inspection. He returned the receipt and certainly we had to return all the money to him. But the services cannot be returned like a commodity after being provided.»

Focus group respondent, company director

Unauthorized visits are inspections without the decision of the Republican Inspections Coordination Council, and in case of criminal charges, without the order for the inspection of appropriate government law enforcing body or prosecutor’s office.

UNAUTHORIZED VISITS BY INSPECTORS ARE WIDESPREAD

The survey found that seven percent of companies encountered unauthorized visits by inspectors in 2007. For comparison, 17 percent of companies were formally inspected in a given year (any company formally inspected underwent the process an average of three-and-a-half times). Respondents who said they had been unofficially inspected experienced informal visits from inspectors six times during the year on average. Primarily it is the fire and sanitary inspectors who visit businesses without bringing proper documentation, and less frequently the tax inspectors.

This and earlier surveys enable a determination of the main reasons for the problematic nature of business inspections. Let us review these in greater detail.

Shortcomings in business legislation

The key reason for the highly problematic nature of business inspections is inadequate legislation regulating business activities, making domestic businesses extremely vulnerable for government control (Box 4.3).

About 70 percent of businesses surveyed in 2006 by the UNDP and CTI claim that complex and contradictory legislation has a negative influence on their businesses. Only half of respondents believe that it is possible to do business in Uzbekistan without violating legislation. Two-thirds of respondents agreed with the statement that most entrepreneurs could be held liable if officials desired to do so.

On one hand, many ambiguities and contradictions in legislation enable inspectors to interpret legislation in light of their own interests.

«Due to delays in currency conversion, importers face exchange rate discrepancies. Although there are no stipulated procedures for reporting it, tax inspectors interpret it as an offence.»

Focus group respondent, company director

On the other hand, existing “rules of the game” often push companies into violations. Even tax inspectors concede that there are numerous objective reasons related to current legislation and government regulatory practices that essentially force businesses to commit offences. Entrepreneurs and officers of inspection agencies often mention the following:

- restrictions on cash and non-cash transactions of businesses.

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63 Unauthorized visits are inspections without the decision of the Republican Inspections Coordination Council, and in case of criminal charges, without the order for the inspection of appropriate government law enforcing body or prosecutor’s office.

64 According to the findings of two focus groups with tax inspectors in Tashkent city (city and rayon departments).

65 Paragraph 2 of the Regulation on the Procedures of Registration and Conducting Wholesale and Retail Trade, approved by the Resolution #407 of the Cabinet of Ministers of the Republic of Uzbekistan, October 26, 2002.
«There are restrictions for retail traders not to sell for bank transfer, and for wholesale traders not to sell for cash. But if an organization is willing to buy goods in my shop, where does it get the cash? Unwillingly, you have to break the law, either I sell the merchandise for bank transfer, or the buyer will obtain cash somehow.»

«You cannot buy many goods for bank transfer. Where do I get the cash? That’s why we have to sell some of the goods informally.»

Focus group respondents, company directors

- Difficulty with timely withdrawals of cash from bank accounts, forcing businesses to partially hide their cash receipts;

«In order to withdraw cash from the bank, you have to wait for at least a week. What if you need something urgently? We keep cash just in case we need to buy something for production needs.»

Focus group respondent, company director

- Delays in the conversion of soums into foreign currency at banks, which encourages the underreporting of revenue so that it can be converted on the black market;66
- A heavy tax burden, especially in the form of high labor taxes, which encourages informal payment of wages;

«In order to pay additional 100,000 soums to my worker, I have to pay the government approximately 70,000 soums. Compare these figures with the income tax in Russia – 13 percent plus they have a regressive scale of social tax, i.e. the more you pay, the lower the rate. No wonder that people prefer to pay and receive in cash.»

Focus group respondent, company director

- High rates of customs payments, including import duties, value-added tax, and excise on imports, generate widespread smuggling. The low prices of these goods encourage businesses to buy them and thus commit an offence. The sale of smuggled goods at lower prices (without customs payments) forces local producers and sellers competing with foreign manufacturers to evade taxes in order to reduce the cost of their own goods;

«I import goods that I buy wholesale or at very low prices during sales. But upon customs clearance I pay the duties levied based on the price list in the database of customs office.67 As a result, in order to abide by the rules, I’d have to pay triple the price of purchased goods. At what price I will have to sell them? Who will buy them from me at these prices? If I act by the rules, then, I will have to shut down the business.»

Focus group respondent, company director

- Outdated provisions. The analysis shows that many technical requirements were based on the regulatory acts of the U.S.S.R. and do not meet modern requirements, and thus cannot always be met.

Box 4.4

The sanitary regulations for milk quality control, endorsed by the Soviet Gosagroprom in 1986, are an example of outdated requirements.68

These regulations mandate the list of detergents and disinfectants permitted for treating milking equipment (Dezmol, Zbruch, Sulphochlorantine, DIM-2, KMS). But officers of the Sanitary Inspectorate acknowledged that many of these disinfectants are no longer produced. Those still being manufactured are inferior to modern disinfectants and are not used.

66 Respondents stated that currency conversion could take up to six months.
68 Sanitary regulations for the treatment of milking equipment and controlling milk quality were approved by the U.S.S.R. Gosagroprom with endorsement of the Soviet Ministry of Health on September 29, 1986.
Lack of access to regulatory requirements for fire safety, sanitation, and other codes

Information on regulatory technical requirements is often not available to companies, making compliance with the rules difficult. Sanitary regulations and norms (SanPiNs), construction standards and regulations (SNiPs), as well as fire safety regulations for businesses and other technical requirements are not registered by the Ministry of Justice and are not disseminated publicly. Therefore, businesses often don’t know which fire, sanitary and other regulations are applicable to their operations. Inspectors are not interested in informing the businesses about how to avoid violations. This situation enables inspectors to easily find offences, levy fines and extort informal payments.

«Often we find out that we have violated something only when an inspector shows up. There is no other way to find out how to do everything correctly.»

Focus group respondent, company director

Disregard for standardized inspection forms by fire-safety and sanitary officials

Many countries use standardized checklists to establish general technical requirements, improve business awareness and ensure the transparency of inspections (Box 4.5). Such checklists are also being implemented in Uzbekistan. Currently some types of businesses must be inspected by sanitary-epidemiological and fire-safety agencies with the use of inspection checklists (details in the Annex 6).69

An inspection checklist is a standardized report containing a list of questions and exhaustive detail on the items to be inspected. In other words, it is a finite list of questions that an inspector will ask. The checklist also has directions from the inspectorate specifying the measures to be taken by the entrepreneur to correct shortcomings. These checklists are used during inspections not related to the financial and economic activities of businesses.

But the findings of the survey demonstrate that, as a rule, inspectors of the fire safety and sanitary inspectorates do not use checklist forms. Obligatory use of inspection checklists is stipulated by internal policies of the Sanitary Epidemiological Service and Main Fire Safety Department. Often the inspected firms do not know about this rule, and thus cannot demand that inspectors fulfill it.

Non-compliance with criteria for selecting businesses

As mentioned above, 33 inspectorates of Uzbekistan agreed on principles for compiling routine inspection schedules. In other words, they established criteria for selecting businesses. The plan envisaged varying frequencies of inspections for companies in different risk categories. But according to the findings of the survey, the practical approach to selecting businesses was not significantly altered. The main and overriding shortcoming of the existing mechanism is the “across-the-board” principle, envisaging inspection of most businesses.

Figure 4.3 shows that public catering and trade firms are inspected most frequently, including by technical inspectors. But according to the approved principles for compiling standard inspection schedules of Sanitary Inspectorate, such enterprises are subject to standard inspections once in a ten year period if they observe all established rules, once in five years if they are found to observe rules only partially, and once in four years if they have violated sanitary rules.70 According to Fire Department criteria, public catering and trading firms are included in the third group of risk.71

69 All approved forms of inspection checklists are available at the IFC website www.ifc.org/uzbee.
70 Regulation of the State Sanitary-Epidemiological Surveillance of the Republic of Uzbekistan on the order of compiling yearly and quarterly coordination plans (schedules) of inspections of business entities, approved by the Chief State Sanitary Doctor of the Republic of Uzbekistan.
71 Regulation of the State Service of Fire Safety of the Republic of Uzbekistan on the order of compiling yearly and quarterly coordination plans (schedules) of inspections of business entities, approved by the Order of the Main Department of Fire Safety of the Ministry of Internal Affairs №64 of November 21, 2005.
When they partially observe established rules, they must be inspected once in three years. When they observe all requirements including fire safety, they must be inspected once in four years. But in practice even those enterprises that comply with sanitary and fire requirements are subject to standard inspections.

Often the cost of an inspection (for instance, as conducted by tax authorities) of a law-abiding company may significantly exceed the additional collections for insignificant offences found in the course of audit. As a result, both government, which incurred the direct cost of the inspection, and the business, which had to divert staff from their usual responsibilities, are at a loss. In addition, given a limited number of inspectors, not all companies to be audited can be inspected, creating the risk of missing major offences.

**Inadequate procedures for selecting businesses for ad hoc inspections**

The findings of the survey demonstrated that ad hoc inspections remain most problematic for businesses. Although the legislation allows ad hoc inspections (including short-term) in “exceptional cases” (Box 4.6), the findings of the IFC survey illustrate that inspectors widely employ this method. For instance, one-third of all official visits by inspectors to businesses in 2007 were made on either an ad hoc or a short-term basis. This may be because inadequate scheduling procedures create leeway for official abuse.

The Regulation on Coordinating Inspections establishes that ad hoc inspections (including short-term inspections) are permitted in exceptional cases:

- If a need for inspections based on the decisions of the President or Government of Uzbekistan;
- If oversight agencies receive information about violations of laws and regulations by businesses (such information may be supplied by companies, organizations, institutions, or individuals with specific statements and proof of offences);
- For the prevention of emergencies;
- In a worsening sanitary-epidemiological situation, or if there is a possibility of infectious diseases penetrating from neighboring countries and spreading.

Notably, the definition of an ad hoc inspection in the Tax Code contradicts itself. One article of the Code defines an ad hoc inspection as the audit of financial and business operations of a taxpayer. The previous article establishes that short-term inspections (conducted in the form of ad hoc tax inspections) are audits of certain operations of taxpayers unrelated to the inspection of its financial and business operations.

The Code does not specify exactly what constitutes “certain operations of the taxpayer” subject to short-term inspections. This creates grounds for official abuse, as inspection of any operation of a business can be justified by this definition.

Decisions to conduct ad hoc inspections are made by the Republican Inspections Coordination Council (hereafter, Council) or by its territorial commissions. This means that in order to avoid subjectivity in selecting businesses for inspection, the decision must be made collectively. This does not happen in practice, and the procedure of ordering inspections often turns into a formality. Inspections are ordered single-handedly in the form of a decision or a letter signed by the chairman of the Council, his deputies, or heads of territorial commissions.

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72 Section 16 of the Regulation on the Procedures of Coordination of Inspections of Businesses, conducted by Inspectorates (new revision), approved by the Decision of Republican Inspections Coordination Council registered by the Ministry of Justice № 1573 on May 06, 2006 (hereafter Regulation on coordination of inspections).

73 Section 3 of the Article 86 of the Tax Code of the Republic of Uzbekistan.

74 Section 3 of the regulation on coordinating inspections.
«In my practice I have encountered cases of mere 2-hour difference between the application of the inspectorate and the decision to order an inspection. The inspecting agency may write, “Due to necessity, I request authorization to inspect the X. business.” That’s it, there’s no explanation of this “necessity.” In response, the territorial commission immediately issues a letter authorizing the inspection.»

Focus group respondent, lawyer

Decisions to conduct ad hoc short-term inspections of compliance with regulations on trade and cash surrender by wholesale and retail, catering and service sector businesses are issued in the form of lists. These lists are signed (“in exceptional cases”) by chairmen of regional commissions or by deputy chairmen (the heads of tax departments). Thus, initiation (the stage of providing rationale) of the inspection, the decision to conduct it, and the inspection itself are at the discretion of the tax authorities. This leads to a conflict of interests and subjective approach to the company under inspection, and to abuse. Furthermore, this practice does not encourage inspectors to justify the need for ad hoc inspections.

The possibility of ordering ad hoc inspections of trade, catering, and service sector businesses in the form of lists on inspected companies also creates ground for official abuse. Based on the findings of the survey, there are often cases in which the letter authorizing tax inspection will permit audits of all “trading businesses” in a particular area. This contradicts the Regulation on Coordinating Inspections, which mandates that all lists contain the name, individual taxpayer identification number, and address of every company inspected.

«Recently several elite shops were opened in our area that sell expensive clothing and footwear. All shops were subjected to ad hoc inspections within one month. Can you explain such selectivity? Is there a government decision to inspect these very shops, is there an emergency, is there an epidemic? I think the answer is clear: they had to visit the new “lucrative” places, collect “contributions,” and show the novices “who is the boss.” Thus, to me, everything in the formal documents on the principles of ordering ad hoc inspections is a set of hollow words.»

Focus group respondent, company director

Another aspect of the problem is the wide use of consumer complaints about product quality as a pretext for inspections.75 In such a case the decision of the Council or the commission ordering inspection makes no mention of the subject of complaint. As a result, it is not the accuracy of the complaint or related potential offences, but other aspects of a company’s business that are inspected. Thus, the basis and purpose for an inspection should be made clear, as well as any complaints that have been made.

«It is illogical to order a tax inspection and audit a company’s finances in response to the complaint about product quality. Tax inspectors are not quality assurance specialists. Other people should be involved in verifying the quality of products and services.»

Focus group respondent, company director

Ad hoc inspections lack clear procedures, and relevant information is not accessible for enterprises under inspection

One of the reasons why ad hoc inspections remain so problematic for businesses is the lack of a regulatory act that clearly stipulates their procedures. Current legislation outlines general conditions for undertaking inspections (including ad hoc inspections) but their procedures are not stipulated in detail.76 Furthermore, often in the process of an inspection, inspectors will refer to methods and regulations established for their internal use.

75 As it was found at the meetings with the officials of tax authorities, ad hoc inspections of the State Tax Committee are initiated based on complaints of individuals nearly in all cases.

76 Section III of the Regulation on Procedures of Inspections.
For instance, in the short-term inspections of compliance with the regulations of cash surrender, tax inspectors use the Statute for Inspecting Businesses and Compliance with the Regulations for Trade and Services, and Cash Surrender, approved by the order # 147 of the State Tax Committee on June 24, 2007. This document is not registered with the Ministry of Justice and is an internal State Tax Committee document.

Documents approved for internal use by inspectors are not accessible to businesses, creating opportunities for abuse. It’s also a violation of law, as internal policies cannot stipulate the rights and responsibilities of businesses.77

**The purpose of the inspection is to find offences rather than prevent them**

Focus group respondents believe that the officers of inspectorates are not guided by the need to control compliance of businesses with legislation in an objective manner and prevent future offences. Quite the opposite, inspectors purposefully look for flaws in order to levy fines and other penalties. Based on the survey findings, more than half of inspections result in such consequences for inspected businesses (Figure 4.5).

> «At the time of the inspection the inspector could not find any faults and said, ‘it is not possible to file an inspection report without any violations. I cannot sign such a report. Let me file a small amount of under-collected taxes.’ Then, he wrote in the report that I failed to pay 13,921 soums.»

Focus group respondent, an accountant

There is an explanation for this. There still exists a lingering practice of assessing the performance of inspectorates and individual inspectors based on the number of offences found or the amount of fines levied. However, better criteria for assessing inspectors’ efficiency in international practices are statistics that demonstrate enterprises’ willingness to abide by the law and voluntarily comply with legal requirements (Annex 7).

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77 Article 24 of the Law on Legal Acts; Section 1 of the Resolution #469 of the Cabinet of Ministers of the Republic of Uzbekistan of October 09, 1997.
From the interview of Ilkhom Nosirov, secretary of the Republican Inspections Coordination Council:

– “What is your assessment of the current efficiency of inspections by inspectorates?”
– “According to our information, it is about 95–96 percent. Out of 100 inspected businesses, various violations are found in 95 cases on average. This is for an average inspector. Overall, there is a 100 percent efficiency rate. If the fire inspector did not find violations, they can be detected by the Sanitary Epidemiological Control.”

Box 4.8

«The efficiency of ad hoc inspections is nearly 100 percent. Do you know why? If an inspector initiated ad hoc inspection, then did not find anything, he would be punished. They can reduce the ‘quota’ of inspections for this inspector, and for the whole oversight body. That’s why they struggle to find something, even if it is not an object of inspection.»

«Inspectors who rarely find offenses are seen as either incompetent or bribe-takers, as there is a belief that businesses cannot but commit offenses.»

Focus group respondents, tax inspectors

In addition, some inspectorates (the tax authorities, state inspection for electricity control, and sanitary epidemiological control) have special extra-budgetary funds generated from revenues in the form of penalties imposed on a business after the identification of an offense.

Not only does this approach give incentives to inspecting agencies to find any offenses and levy penalties on businesses, it also explains low efficiency of inspections in Uzbekistan (Box 4.9).

Box 4.9

In Uzbekistan the amount of additionally collected taxes exceeds the cost of maintaining a tax officer by a mere 1.24 times. This indicator stands at 5.7 times in Russia and 4.6 times in Kazakhstan, respectively.

Inadequate legal institutions for protecting businesses from inspectors

As indicated, a number of measures were taken in recent years to strengthen legal safeguards for businesses in the course of inspections. As the findings of the survey demonstrated, inspectors often ignore these measures.

For instance, inspectors must fill in the Inspections Registration Book (IRB). In practice they do not always observe this rule (Figure 4.6). The findings of the focus groups illustrated that even when records are made in the IRB, they are often entered with procedural violations. Nevertheless, there is no liability for inspectors who fail to fill in the IRB, who do so in a flawed way. Furthermore, violating regulations for filling in the IRB do not constitute grounds for invalidating the results of an inspection when the case is heard in court.

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80 Annex 3 to the Regulation on the Procedures of Inspections.
81 Resolution of joint Plenum №12/149 On issues Related to the Application of Legislation of Uzbekistan Focused on Improving the System of Legal Safeguards and Liberalizing the Financial Liability of Entrepreneurs of the Supreme Court of Uzbekistan and Higher Economic Court of Uzbekistan of December 22, 2006.
Accordong to current legislation, fi nancial penalties should be levied on businesses solely through court orders. But inspectorates found a way around this requirement. Often an inspector will not impose fi nancial penalties on a company but artifi cially infl ate the amount of taxes payable to the government budget. The extra taxes are then collected from the company, without the consent of the business and without a court order. It then becomes company's headache to go to the court and prove the illegitimacy of the inspectors' actions and annul their decisions.

«At an inspection involving law enforcement authorities a business is often not given the chance to defend its rights. Taxes are immediately collected without a court ruling. It may be that after the taxes are collected without consent of the business, there are no funds left even to litigate against the actions of the inspectors.»

Focus group respondent, auditor

Meanwhile, the mechanism for appealing against illegitimate actions or decisions by inspectors does not function adequately. This limits the ability of businesses to safeguard their interests in their interactions with the inspectorates.82

A low degree of legal awareness among entrepreneurs and inspectors

Inadequate knowledge of rights and responsibilities keeps entrepreneurs from preventing unauthorized inspections, safeguarding themselves, and promoting own interests.

«So many people came from Sanitary Epidemiological Service alone. Every month, and before the holidays, someone shows up on inspection. They come in groups of three or four, intimidate, and do not produce any documents. Once I got so fed up that I asked them to fi ll in the Inspections Registration Book. Since then they have not shown up for four months. I regret that I did not do it before.»

Focus group respondent, company director

Due to inadequate legal awareness, the entrepreneurs rarely protest even against what they believe to be illegal decisions by inspectors. Furthermore, they do not want to formally oppose inspectors, and are wary of possible negative implications that could arise from this step. The business community in Uzbekistan has not fostered an environment that promotes willingness to enter disputes with the authorities.

«Fighting the inspectors would be too costly. Maybe you would win something at great cost. You will still have to work with them in future, and they will retaliate. Thus, an entrepreneur prefers to avoid confrontation in 99 percent of cases, even when certain he is right. Furthermore, it is simply impossible not to commit some kind of violation in our circumstances.»

Focus group respondent, company director

Inspectors’ inadequate understanding of the law contributes to a lack of partnership in their relations with businesses. The following data reflects the level of competence of officers in inspectorates. The economic court in Tashkent granted only 48 percent of lawsuits brought by inspectorates seeking to impose financial sanctions and 25 percent of lawsuits seeking to suspend bank transactions in 2007.83 The remaining lawsuits were dismissed or returned, in the case of a violation of the litigation procedures, or penalties were denied.

RECOMMENDATIONS FOR FURTHER IMPROVING THE BUSINESS INSPECTION SYSTEM

It is expected that the steps proposed below would help address problems in the system of business inspections and enhance efficiency.

**Improve the regulatory framework to facilitate compliance by businesses**

Addressing main reasons that force businesses to opt for offences is an essential prerequisite for reducing highly problematic nature of inspections for businesses. Proposed measures are as follows:

1. **Further reduce the tax and customs burden on businesses**

In recent years the tax burden on the domestic economy has been gradually and consistently reduced (by 1-2 percent annually). Furthermore, tax benefits, especially those that are ineffective and unnecessary, are being periodically reduced and streamlined. But the tax burden per unit of GDP is still higher than analogous indicators in developing countries with comparable per capita incomes. This objectively reduces the competitiveness of domestic businesses and constitutes the main stimulus for the informal economy and tax evasion, which are also supported by extremely high customs duties on many categories of imported goods.

**EXPECTED IMPACT**

Easing the tax and customs burden will enhance competitiveness for domestic producers and reduce the grounds for offences by businesses.

2. **Liberalize monetary regulations, and remove delays in withdrawing cash from bank accounts and converting local currency for imports**

Restrictions on cash transactions and delays in withdrawing cash from banks and converting soums into hard currency are among the important reasons for abuse and legal offences by businesses. Most often this occurs in the trade and catering sectors. Addressing these limitations is a basic and essential step for reducing problems posed by inspections for businesses, as well as for catalyzing the development of the private sector in general.

**EXPECTED IMPACT**

Removing the main incentive for offences will reduce their frequency, and enhance legal safeguards for businesses in the course of inspections.

**Inventory technical requirements for businesses**

It is essential to review technical requirements, simplify them as much as possible, bring them closer to the terms dictated by the market and modern technology, and to abolish outdated and obsolete regulations.

Furthermore, a business must have comprehensive information about regulatory requirements. To this end, appropriate documents must be published including on the websites of appropriate services and CTI.

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With IFC’s support, efforts are underway to compile the inventory and simplify fire safety requirements for businesses. The first draft of the new Fire Safety Regulation was prepared in the framework of this initiative envisaging a reduction of outdated and ineffective requirements. The draft has been submitted to the Fire Safety Department. It is expected that after the appropriate changes, an improved version of the regulations will be approved by the Fire Safety Department in 2009.

**Box 4.10**

**EXPECTED IMPACT**

Making an inventory of technical requirements and simplifying them will enable substantially greater transparency in the inspection process. Businesses can comply with fair requirements, thereby reducing the number of formal and informal sanctions against them. Furthermore, updating and modernizing technical requirements will not only increase the inclination of businesses to comply with them, but will also ensure greater protection for the public and for the environment.

**Make checklists mandatory for sanitary and fire inspections**

There is a need to legally strengthen the requirement for sanitary and fire inspectors to use inspection checklists. It is essential to start a broad information campaign to promote the use of inspection checklists (explaining their advantages both for businesses and inspectors). Furthermore, a review should be made of the prospects for using checklists during inspections conducted by other technical inspectorates unrelated to the financial and business activities. Internationally, checklists are widely used in environmental and workplace safety oversight. It appears they would be appropriate for Uzbek inspectorates Sanoatkontexnazorat, Uzdavenergonazorat and others.

**EXPECTED IMPACT**

This measure will enhance oversight of technical standards, have a positive impact on compliance of businesses with regulatory requirements, and promote their uniform implementation nationwide. It will increase inspectors’ responsibility and reduce leeway for official abuse.

**Implement computerized systems of risk analysis at inspection agencies**

The identification and selection of potential offenders requires clear methodology and methods. It is important to minimize the human factor. Risk analysis is an effective instrument, and it is increasingly being used internationally. This method analyzes information about businesses from a variety of sources. Signs indicating the probability of violations are identified, and as a result, inspectors turn their attention primarily to businesses posing a high degree of risk.

International experience shows that selective oversight of businesses based on risk analysis is more effective than broad oversight (both for the government’s budget and for companies). With this approach, businesses in the low-risk category may encounter no on-site inspections at all.

Comparative studies indicate that in countries where tax inspections are based on the risk analysis, collections are higher by an average 18 percent although, as a rule, tax rates are lower in these countries.84

Utilization of this method significantly enhances the targeted nature and outcomes of government oversight. Meanwhile, the pressure of inspections on law-abiding businesses is reduced, as is the total burden of the government monitoring. The resources of inspection agencies and of the government in general are utilized more effectively.

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Currently the UNDP’s Improving Tax Administration in Uzbekistan project and the State Tax Committee are attempting to implement computerized systems for selecting companies for tax audits based on risk analysis. International experience was reviewed in the framework of this initiative, including the successful implementation of an electronic risk-analysis system at the Latvian State Revenue Service.

The essential elements of a risk analysis system are an integrated database of companies using information from internal and external sources, a classification of the level of risk that a given business may violate legislation or established requirements, an assessment of these risks, and a mechanism for selecting companies for inspection on this basis.

The particular importance of information technology should be underscored. Information technology can help achieve a number of important objectives, including the rational utilization of resources (both technical and human) and enhanced control. It can minimize the human factor in the selection of businesses for inspection. It can enable identification of businesses with heightened risk. Finally, it will deliver more effective real-time control of the activities of subordinated inspection agencies.

Implementation of a risk analysis system will direct limited government resources more effectively and reduce costs for law-abiding businesses.

**EXPECTED IMPACT**

Create a regulatory and information framework for broad-based off-site monitoring

The Tax Code of January 1, 2008, includes articles on organizing and conducting off-site monitoring (Box 4.13). Straightforward procedures are needed for the implementation of this method. After a series of discussions with the business community, the State Tax Committee endorsed a temporary statute on off-site control by an internal order. But analysis of this document shows some provisions need to be further improved (Box 4.14).

Creating a database using internal and external sources is an essential prerequisite of effective off-site monitoring and for the selection of businesses with a high degree of risk for tax-related offences. The New Revision of the Tax Code contains a special provision listing bodies and organizations that must provide information on the tax liabilities of taxpayers. But in practice this article is ineffective due to the lack of a mechanism for transferring information on liabilities to the tax authorities. In particular this concerns notaries processing the sale and transfer of real estate and vehicles, etc. In reality, information is not provided to tax authorities, preventing them from conducting pre-inspection analysis and selecting objects for tax inspection. This leaves law-abiding taxpayers with the burden of on-site inspections.

An information exchange between the state tax services and other organizations and the introduction of off-site analysis are essential prerequisites for the successful use of computerized risk analysis systems in selecting businesses for inspection.
After several discussions of the draft document with representatives of the business community and international organizations, the Temporary Statute of Off-Site Procedures by the State Tax Service was approved by internal order of the State Tax Committee in August 2008. But fast approval of the statute, which was still in need of improvement, led to contradictions, confusion, and duplication as tax inspectors conducted off-site inspections while receiving reports from taxpayers.

For instance, Article 45 of Tax Code states that tax reports should be accepted without preliminary off-site control or discussion of their contents. In the meantime, the Statute on Receiving Financial and Tax Reporting requires tax officers to verify a number of elements upon receipt of reports from taxpayers (including signatures and seal, whether the required information and indicators have been filled-in, etc.). Furthermore, according to the Section 17 of the statute, if the report does not meet current requirements, tax inspectors issue comments on the report and return it to the taxpayer for corrections.

Nevertheless, the Statute on Receiving Financial and Tax Reporting states that if errors are found in financial and tax reports in the course of off-site control, then taxpayers are to be notified in writing with a demand for corrections. Tax inspectors must perform double-duty when identifying errors in reports. They must write a demand for the remedy of errors according to the Temporary Statute on Off-Site Procedures, and also submit “notes on the report,” as required by the Statute on Receiving Reports.

It is clear from all this that the Temporary Statute of Off-Site Procedures by the State Tax Service needs to be improved and appropriate changes should be made in the legislation due to the adoption of this Statute.

Off-site monitoring will enable a reduction of on-site tax inspections of law-abiding taxpayers, thus minimizing costs for businesses and government. Off-site monitoring will also facilitate more efficient use of resources by tax authorities.

**Improve procedures for ordering ad hoc inspections**

The system of ordering ad hoc inspections should be further improved to reduce pressure on businesses and prevent abuse by officials. The following proposals would help reach this objective:

- Address the conflict of interest in ordering short-term inspections of compliance with regulations covering trade and cash surrender by businesses;
- Determine an exhaustive list of “other operations” for which taxpayers are subject to short-term tax inspections;
- Determine unambiguous rules for ordering inspections based on consumer complaints. Limit inspection to the subject of the complaint, and ensure compliance of the purpose of the inspection with the powers of the inspection agency. Decisions to order inspections will become less subjective if this proposed measure complements the existing practice, in which ad hoc inspections are authorized by the Council or local commissions;
- Limit the number of ad hoc inspections per company in order to raise the threshold for initiating one. For instance, the amount of under-collected taxes identified in the first ad hoc inspection could be used as a criterion for tax inspections. In this example, the number of ad hoc inspections within a calendar year could be restricted to no more than one if the amount of under-collected tax does not exceed a sum equal to five minimum wages.

Improving the rules for ordering inspections will reduce subjectivity in decision-making, safeguard the rights of businesses and reduce the number of ad hoc inspections.

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85 Section 13 of the Statute on Receipt and Registration of Financial Reporting, Tax Returns, Dues, and Income Statements, Written Applications and Notices of Businesses (approved by the resolution of the State Tax Committee and registered by the Ministry of Justice under #1500 on 29.07.2005).
Establish clear procedures for ad hoc inspections

Considering the special nature of ad hoc inspections, addressing the problem of their conduct requires a separate statute detailing the possible types of inspections, how they can be carried out, the competence of inspectors, and prerequisites. Current legislation determines merely general principles and requirements for ad hoc inspections irrespective of their type.

In order to prevent conflicting interpretations of the procedures of ad hoc inspections (starting with the definition of a goal and ending with the competencies of the parties involved), it is essential to determine basic requirements for formulating goals and a rationale, as well as to determine an exhaustive description of required records and an agenda for the ad hoc inspection. Rules for actions undertaken during an ad hoc inspection should be specified (including controlled purchases).

It is also important to provide for internal mechanisms restricting bias and abuse by inspectors. A requirement that representatives of institutions protecting the entrepreneur’s rights (e.g. the Chamber of Trade and Industry of the Republic of Uzbekistan) be present during the inspection could be one of those safeguards.

**EXPECTED IMPACT**

This provision will restrict unregulated actions by inspectors, protect the right of businesses, and reduce the number of ad hoc inspections.

Change the approach to assessing the efficiency of inspections

Changing the approach of inspecting agencies to the assessment of the efficiency of inspections is an essential prerequisite for reducing problems. To this end, indicators such as the number of violations identified and fines imposed should be rejected. It is appropriate to use indicators describing good behavior of businesses and their commitment to compliance with law. The establishment of clear indicators demonstrating the achievement of these following goals is considered good practice worldwide:

- Maximization of business compliance with unambiguous regulatory requirements;
- Minimization of uncertainty for businesses;
- Reduction of corruption;
- Minimization of costs for businesses and optimization of costs for government.

A list of potential indicators is given in Annex 7.

The practice of providing incentives to inspectors from extra-budgetary funds created from penalties imposed on businesses should be abolished. Oversight bodies should be commended not for levying fines or uncovering offences but for good behavior of businesses and for effective preventive and counseling activities. It is appropriate to introduce a system of incentives for officials exclusively from the government’s budget and to look into opportunities for increasing inspectors’ wages.

**EXPECTED IMPACT**

The priorities of inspecting officers will shift from identifying offences and punishing offenders to preventing offences and facilitating the development of entrepreneurs in their jurisdiction.

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**Improve legal safeguards for businesses**

Bolstering legal safeguards for businesses would improve the inspection process. In particular, a provision should be introduced according to which additional collections or penalties could be collected from businesses only by court order. Also, to ensure that inspectors fill in the Inspections Registration Book responsibly, a rule should be introduced according to which failure to fill in or to inappropriately fill in the IRB (if the inspection is still conducted despite the Regulation on the Procedures of Inspections\(^7\)) will be considered sufficient grounds to invalidate the inspection report. Specific and transparent mechanisms should also be established for compensation of losses inflicted on a business as a result of illegitimate actions by inspectorates.

It is essential to continue efforts to enhance legal awareness of all parties involved (both inspecting officials and entrepreneurs). These efforts require joint roundtables, workshops, publications, and the broad dissemination of information on the procedures of scheduling and conducting inspections.

**EXPECTED IMPACT**

The responsibility of inspectors for their actions will be enhanced. Businesses will have more opportunities to safeguard their rights and to be compensated for losses arising from the illegitimate actions of inspectorates.

A greater degree of professionalism from inspecting officers will reduce offences. More-knowledgeable entrepreneurs will make fewer offences and be less afraid to protect their rights when dealing with inspectors. Improving legal awareness of entrepreneurs and inspectors will facilitate the establishment of partnership between inspectorates and entrepreneurs, which is an essential prerequisite to reducing problematic nature of inspections.

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\(^7\) According to the current legislation, in case the inspector refuses to fill-in the Inspections Registration Book, he/she is not permitted to conduct an inspection (Section 29 of the Regulation on Procedures of Inspections).
VOLUNTARY LIQUIDATION

The survey reveals that government authorities and organizations frequently do not follow new procedures for voluntary liquidation. This creates the following problems for entrepreneurs:

- Government authorities and banks disregard legal time limits for liquidation procedures;
- Businessmen must carry out some of the procedures themselves, even though they are the responsibility of state authorities;
- Entrepreneurs are required to undergo procedures not envisaged in the Regulation on Voluntary Liquidation; and
- Government authorities request documents that are not required by law.

IFC’s business environment survey conducted in 2006 illustrated problems in voluntary liquidation. Subsequent analysis revealed that a defective legal framework was the main reason for these problems. Legislation at that time lacked detailed provisions for voluntary liquidation. This allowed officials to invent their own rules.88

The situation changed in 2007 after the Regulation on Voluntary Liquidation and Termination of Activities for Business Entities89 came in effect on July 1. This document clearly and consistently formulates the voluntary liquidation procedure for business entities (incorporated companies and individual entrepreneurs). Annexes 8 and 9 include illustrative figures of previous and new voluntary liquidation processes as well as step-by-step illustrations of newly established arrangements.

Adopting a single regulation with a detailed definition of the liquidation procedure was a breakthrough. This regulation has streamlined the liquidation procedure and put an end to arbitrary, illegal requirements by government authorities. The regulation widened access to information on the liquidation process and reduced the potential for abuse. In addition, the regulation incorporates a number of provisions that simplify liquidation procedures for entrepreneurs (Box 5.1).

89 Approved by President’s Decree #PP-630, April 27, 2007.
The following innovations entered into force on July 1, 2007:

- **New “one-stop-shop” principle.** The new regulation introduces a liquidation procedure based predominantly on the principle of a “one stop shop,” where the latter is represented by the registration authority (inspectorate for registration of business entities under the district khokimiyat). This authority is now in charge of functions previously the responsibility of businessmen (the surrender of seals and stamps for destruction to the police; submission of original licenses (permits) to the authorizing body; and liquidation notification to the People’s Bank).

- **New benefits.** Legal entities now receive a number of benefits if they liquidate voluntarily. From the day of notification of voluntary liquidation, no accrual takes place on some taxes, as well as on fines related to all taxes and mandatory payments. The regulation also prohibits the taxation of shareholders’ funds if they are transferred voluntarily to the dissolving company to clear its liabilities.

- **Time limits for liquidation procedures.** The regulation specifies time limits for each authority to complete its task. The terms for tax inspection appointment and fulfillment are now defined as three and 30 days respectively (previously the inspection time was not specified, resulting in six to eight month delays).

- **“Silence-is-consent” principle introduced for tax inspections.** In particular, if a tax inspection is not completed within the established time limit, then tax and relevant arrears are assessed on the basis of calculations presented by the liquidator.

- **Documents submitted for liquidation.** The regulation defines the full list of documents to be submitted to government authorities when dissolving a business, and clearly states that the documents can be submitted in person or mailed to the registration authority.

- **Satisfying creditors’ claims.** The regulation defines settlement procedures with creditors as well as the priority right of the pledge holder to satisfy its claims. And,

- **Special voluntary liquidation procedure for businesses not involved in financial and economic activities.** These companies liquidate without tax inspection.

The adoption of the regulation allowed Uzbekistan to become one of the top ten global reformers of business liquidation matters, according to Doing Business 2008, a publication of the World Bank Group comparing business environment regulation in 178 countries.90

The IFC survey showed that the simplification of liquidation procedures reduced the time required for voluntary liquidation in general, from relevant decision-making by the founders to receipt of the liquidation notice from the state ledger.91 According to respondents of this survey, the entire liquidation process now takes seven months at most, whereas before it took a year and more.

“Before the regulation, all government institutions involved in liquidation created their own “rules of play” based on their own experience. Now entrepreneurs can indeed rely on a specific legal instrument and insist on its observance.”

Focus-group participant, company director

On average, the liquidation process costs about $60 since July 1, 2007, for businesses, compared to about $160 in 2005.

Box 5.2

Based on survey results, IFC experts estimate that the annual economic impact from the introduction of a new voluntary liquidation procedure for legal entities in the country is $361,700. This is the sum of direct benefits to entrepreneurs from reducing their liquidation costs.

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91 In addition to the general IFC SME survey, an additional survey of liquidation procedures was carried out in May 2008. The conclusions of this special survey are given in the IFC report, The procedure of voluntary liquidation. Preliminary findings, www.ifc.org/uzbee.
However, problems still persist in the implementation of liquidation procedures. The underlying issue is that regulations are not followed in practice by government authorities and organizations involved in liquidation. Officials regularly:

- Violate established time limits;
- Shift their responsibilities to businessmen;
- Force entrepreneurs to go through additional unscheduled procedures; and
- Require additional documents not specified in the regulation.

These problems are detailed below.

**GOVERNMENT AUTHORITIES AND BANKS DISREGARD THE LEGAL TIME LIMITS**

One major advantage of the new rules is strict deadlines imposed on authorities for each step of the liquidation process. This has already had a positive impact. For instance, the time an entrepreneur had to wait for an inspection to be designated and initiated was traditionally the longest stage of the procedure. Focus groups have shown that in recent years, six to eight month delays were typical. The latest survey, carried out after the adoption of the regulation, showed that the period was less than 4.5 months for all respondents.92

Yet, on average, government authorities still lag far behind the time limits established in the regulation (Figure 5.1). For instance, the regulation stipulates that a tax inspection should start within three working days from receipt of the liquidation notification from a registration authority. In practice businessmen must wait an average of about a month (24 working days). Other involved organizations and servicing banks also disregard these time limits.

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92 It is necessary to mention that the process of ordering an inspection of a liquidating enterprise takes more than half of the overall time needed to complete liquidation procedure.

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**STATUTORY TIME LIMITS ARE DISREGARDED**

<table>
<thead>
<tr>
<th>Stages of the voluntary liquidation process, measured in working days</th>
<th>Legal time limit</th>
<th>Actual time limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commencement of tax inspection after tax administration receives liquidation notification</td>
<td>3</td>
<td>24</td>
</tr>
<tr>
<td>Receipt of certificate from tax administration on absence of budget arrears</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Receipt of bank certificate on closure of main bank account</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Receipt of decision from registration authority on liquidation</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

**ENTREPRENEURS MUST SOMETIMES FULFILL DUTIES THAT ARE NOW THE LEGAL RESPONSIBILITY OF GOVERNMENT AUTHORITIES**

The regulation requires that liquidation be performed according to the “one-stop-shop” principle. This, in theory, should reduce the difficulty of the liquidation process for businessmen but increase the workload of government authorities and necessitate better coordination among them. The survey shows government officials are off-loading their duties onto entrepreneurs. For example, the latter are...
often obliged to inform a number of organizations, including tax officials, statistics officials, and the police, about their liquidation. This is officially the duty of registration authorities (Figure 5.2). According to focus groups, there are cases when requests and notifications regarding liquidation procedures or the relations between registration authorities, tax authorities, and servicing banks, must be physically delivered by the entrepreneurs themselves.

**Figure 5.2**

"ONE-STOP-SHOP" PRINCIPLE IS PERIODICALLY IGNORED

Respondents who stated they themselves informed government authorities of the commencement of liquidation

<table>
<thead>
<tr>
<th>Organization</th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statistics units</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Police</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Pension Fund</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road fund</td>
<td></td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

**ENTREPRENEURS MUST UNDERGO ADDITIONAL PROCEDURES NOT ENVISAGED BY THE REGULATION**

Under certain circumstances, the liquidating entrepreneur, according to the regulation, is entitled to halt his operations without being inspected by the tax administration. However, most often he is not able to exercise this right in practice (Box 5.3). This situation substantially complicates the liquidation process. Furthermore, it challenges the efficacy of the special conditions for businesses not involved in financial and economic operations.

The regulation has a provision aimed at protecting the rights of dissolving businesses against inspection delays, particularly those caused by the improper behavior of inspectors. The rule prescribes that if an inspection is not designated and completed within the legally mandated time frame, tax and other arrears should be assessed using tax returns submitted by the liquidator. However, tax authorities often disregard deadlines for setting inspection dates. The survey did not reveal a single case in which respondents used their own estimates and avoided needless tax inspections.

Moreover, the regulation introduces a special scheme for voluntary liquidation of companies not performing financial and economic operations at the time of official registration. This scheme has fewer stages than are necessary for the termination of a business. It excludes tax inspection; assessment of all taxes and other mandatory payments; notification of, and settlements with, creditors and borrowers; and preparation and approval of intermediary and liquidation balance sheets. However, registration and tax officials do not utilize this scheme. As a result, three-quarters of businesses not involved in financial and economic activities were liquidated according to the usual procedures for voluntary liquidation and had to fulfill all the extra stages.

There are cases when servicing banks, in accordance with the instructions of the Central Bank on bank accounts, close accounts and issue a closing certificate only after the business is excluded from the state ledger. In addition to repetitive applications to the bank (before and after exclusion from the state ledger), businesses enter a situation where exclusion from the ledger is impossible without the bank’s certificate, yet to receive a certificate the business must first be excluded from the ledger.

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93. Annex 3 to Regulation on Voluntary Liquidation and Termination of Operations for Business Entities describes the scheme of voluntary liquidation of enterprises not pursuing any financial and economic activities from the time of official registration.

«Officials have no interest in making our lives easier. For example, they suggested that we liquidate not under the Regulation on Voluntary Liquidation, but in the compulsory manner. I know that many others who have attempted to liquidate voluntarily have run into the same problems.»

Focus-group participant, company director

GOVERNMENT AUTHORITIES ASK FOR DOCUMENTS NOT REQUIRED BY LAW

While the regulation provides a complete list of forms that must be submitted to each authority, officials and bank employees frequently ask for additional documents. This considerably increases the time and cost of liquidation (Box 5.4).

Box 5.4

Entrepreneurs who need to make a record in the state ledger on business liquidation (the final stage of liquidation) are additionally obliged to submit to the registration authority a begunok (departure clearance), a police certificate confirming that seals and stamps have been destroyed, original founding documents (Article of Agreement and Articles of Association), and other documents. Experts estimate the necessary time for preparing these papers to be no less than one week.

The following reasons help explain the officials’ behavior:

Registration and tax officials don’t have clearly assigned duties on liquidation

In their routine work all government employees involved in liquidation procedures follow in-house regulations (provisions, rules, etc.). These documents have only vague job descriptions with regard to liquidation procedures, which complicate the entire liquidation process.

Box 5.5

In-house regulations of registration authorities — inspectorates under regional khokimiyats — are developed on the basis of the Model Provisions. According to these, the structure of the inspectorate includes a Division for Official Registration and Filing with one to three staff, and a Division for Issuing Permits with two to five staff. Therefore, the Model Provisions do not say who should perform the business liquidation functions or what these functions are. The word “liquidation” appears in this 20-page document only three times.

«Even within one tax inspectorate they can not agree about who is in charge of what. Our inspector forwarded us to the Revision [Audit] Division, where we were told to get back to the Inspector and the latter again asked us to see the Revision Division. At the end of the day, we had to go through all divisions – Administrative, Reporting, Export-Import, Trade Business Control (although we don’t do trade), and a zillion others. Are they not able to organize their own interdivisional coordination?»

Focus-group participant, company director

No mechanism is available for coordinating government authorities

Focus groups and interviews with government employees reveal that there are still substantial problems coordinating between registration authorities, other government institutions, and commercial banks participating in the liquidation process. There is no mechanism available to define officials’ responsibilities and duties.

95 An inquiry form on business self-liquidation that allows the company to be excluded from the State Ledger. To fill it in, a business must receive notifications stating that it lacks of arrears or obligations before the Tax Administration, District Statistics Branch, labor exchange, trade union, servicing bank, Traffic Police, archive, and District Police Branch.

96 Model Provisions on Inspectorates for Registration of Business Entities under Khokimiyats of Cities and Districts, registered by the Ministry of Justice, September 27, 2003, # 1279.
The legislation on voluntary liquidation contains ambiguity and contradictions

Ambiguity and contradictions in legislative norms lead to arbitrary interpretation by government authorities and servicing banks (Box 5.6). This creates an environment for improper implementation of legal provisions and complicates the liquidation procedures for businessmen, while increasing the potential for irregularities.

AN EXAMPLE OF AMBIGUITY IN THE REGULATION ON VOLUNTARY LIQUIDATION

The regulation states that tax arrears for the dissolving company must be assessed according to the liquidator’s calculations if the inspection is not completed within established time limits. The established limitations include both the time for tax authorities to appoint and start the inspection (three working days) and the maximum period for tax inspectors to inspect the dissolving business (30 calendar days). However, tax inspectors believe that this provision restricts only the time of the inspection itself. Therefore they try not to prolong the inspection; indeed, actual inspections have never lasted for more than 15 days, according to the survey respondents, and were completed within three days in half of the cases. What is often delayed in practice is the designation of the inspection date. In fact the State Tax Inspectorate schedules financial and economic inspections of dissolved companies on a first-come-first-served basis, and the average waiting period is about 24 working days. The ambiguous definition of the above restriction prevents entrepreneurs from being able to use their own calculations to determine tax arrears, even when tax inspections were not completed on time (i.e. within a period of three working days plus 30 calendar days from the date of notification of the tax inspectorate).

Other examples of ambiguities and discrepancies in the legislation on voluntary liquidation are given in the Annex 10. Moreover, analysis of the Russian and Uzbek texts of legislation regulating the voluntary liquidation procedure, showed that they differ significantly. Examples of such differences are also given in Annex 10.

Officials in charge of liquidation have heavy workloads

Officials are often not able to meet liquidation deadlines because they are overwhelmed with other duties. For example the Model Provisions on Registration Inspectorates, as mentioned above, do not nominate particular staff to be responsible for liquidation procedures. Therefore registration officials not only register and file, but also dissolve, business entities. Tax Inspectorates, according to focus groups, fix the inspection dates of financial and economic activities on a roster that also includes other kinds of inspections, both scheduled (standard) and ad hoc.

«Tax officers are very frequently assigned to the Prosecutor General’s Office for several days, or a week. Usually these are the smartest and most competent inspectors who bear the brunt of inspection work. Because of their frequent and lengthy absence we have to sit and wait for inspection dates to be scheduled.»

Focus-group participant,
Employee of a consulting group specializing in dissolving businesses

Moreover, it has become commonplace to charge the staff of registration and tax authorities with additional irrelevant functions. Officials of registration authorities, for instance, often have to deal with the improvement of social amenities on assigned territories. These distractions from liquidation duties lead to considerable delays.

97 Paragraph 5, Item 20 of the Regulation says, “If the inspection is not completed in the time set by Paragraph 1 of this Item, arrears of the enterprise with regard to taxes and mandatory payments shall be assessed according to submitted calculations of the liquidator.” Paragraph 1 of the same item, says, “The body of tax administration, within three working days from notification receipt from the registration authority, shall duly set about inspecting financial and economic activities (revision) of which the duration shall not exceed thirty calendar days.”
No efficient oversight mechanism for officials

Focus-group participants said the lack of oversight of officials allows them to violate liquidation procedures with impunity. That sanctions are not applied for delays or other non-performance violations creates a situation where irregularities are encouraged.

«Just look: the fact is that the same officials deal with both registration and liquidation. Recent years saw a call to arms regarding registration, and regular checks of how registration procedures are implemented on sites. But nobody checks liquidation. No government institution is interested in this. As a result, the same staff person from the registration inspectorate who is afraid of breaking the rules when registering the enterprise does what he wants when it comes to liquidation.»

Focus-group participant,
Employee of a consulting group specializing in dissolving businesses

Government officials push entrepreneurs to make unofficial payments

The survey and focus groups confirm that government officials often deliberately protract the liquidation or impose excessive requirements in the hope that businessmen will prefer unofficial ways of "solving the problem." One in five interviewed admitted that they made unofficial payments during liquidation. The survey indicates that entrepreneurs spend on average about $17 to obtain a certificate from the tax administration confirming that the company has no tax arrears, for example, although this certificate should be issued free of charge.

«An official of the registration authority told us plainly that the liquidator should himself go to the district police office in order to destroy his seal and stamp since ‘police officers too need to earn their daily bread.’ Furthermore, we had to destroy the seal and stamp before the liquidation record was entered in the state ledger, and that is sort of wrong.»

Focus-group participant, company director

Entrepreneurs and officials do not know their legal rights and responsibilities

The problems primarily result from the fact that businessmen are not aware of their rights and do not insist that liquidation procedures be followed according to the law. Therefore they are not able to contest the abusive actions of government authorities.

RECOMMENDATIONS ON VOLUNTARY LIQUIDATION

Unfortunately local government offices are often indifferent about improving liquidation procedures. Many officials do not yet fully understand why it is important to simplify the process. Registration authorities, for example, receive target indicators to be achieved on the number of newly registered and/or active businesses, and the liquidation of companies spoils the statistics. An opinion also prevails that simplified liquidation procedures will promote the number of "fly-by-night" companies on the market.
However, despite the apparent paradox, it has been proven that a complicated liquidation process negatively affects the growth of small and medium enterprises. A number of international surveys demonstrate a direct correlation between the numbers of dissolved and established entities.98 This relationship is explained by the fact that a fair and transparent liquidation procedure gives entrepreneurs “freedom to fail,” or the chance to better develop their talents and react more nimbly to the market, and efficiently use limited financial and labor resources. In addition, the instrumental liquidation procedure serves the interests of investors and creditors who get more funds to finance new investment plans, because scarce resources are no longer being used to prop up enterprises that are no longer viable.

There is another reason why a simple and transparent procedure for voluntary liquidation adds value to the government. A complex procedure discourages entrepreneurs from going through the process and forces them to merely abandon their businesses. It is probable that the founders of fly-by-night companies are inclined towards this method of closing businesses. Government in turn has to identify and dissolve such “abandoned” enterprises using public funds, which, again, could be channeled to investments.

Therefore, it is clearly important to continue improving the liquidation process. The activities listed below will help resolve existing problems in the field of voluntary liquidation.

**In-house regulations for registration and tax authorities need to be brought in line with the provisions on liquidation procedures**

All in-house documents regulating the activities of government authorities involved in liquidation procedures should be amended with detailed descriptions of their duties in the course of liquidation. First and foremost, changes need to be made to the Model Provisions on Registration Inspectorates, which can then be used as a basis to develop in-house documents for the registration authorities, since it is their employees who are ultimately responsible for implementation of the “one-stop-shop” principle in accordance with the Regulation on Voluntary Liquidation.

**Guidance needed on inter-agency coordination**

Since various government institutions are involved in the process of liquidation, new instructions need to be developed and adopted with specific rules for fulfilling liquidation functions. The instructions should regulate the system and timelines of document flow, rights and duties of parties involved, and the accountability for offences against the laws on liquidation procedures. Such a mechanism, for example, was developed for institutions involved in the official registration of businesses.100 This helped to increase the cohesion of their work in the registration of business entities.

**EXPECTED IMPACT**

If implemented, these measures would increase the accountability of officials in observing the established procedures thanks to a clear description of their responsibilities. Eventually this would put an end to requests for unauthorized paperwork and delays in liquidation terms, and would reduce the costs for liquidation procedures.

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100 Instructions on coordination between registration authorities and tax administration units as well as state statistics units when the notification procedure is used in the official registration of business entities, registered by the Ministry of Justice, October 31, 2006, #1633.
Provisions must be clarified and conflicts in the legislative framework eliminated

If entrepreneurs are to be spared inconsistent interpretations in the voluntary liquidation process, then existing gaps and inconsistencies need to be eliminated. For this purpose some provisions of the Regulation on Voluntary Liquidation need to be refined and modifications need to be made in the CBU instructions on bank accounts. These changes and explanations regarding interpretation of areas of dispute should be disseminated to both entrepreneurs and local officials.

As mentioned before, the current regulations on voluntary liquidation have no definition of “financial and economic activities.” This definition applies only to “enforced” liquidation and in practice officials are free to use or not use this provision. This has already confused entrepreneurs when they need to decide which scheme to follow for the voluntary liquidation of business entities. The lack of clear definition also gives rise to other problems. For instance, it complicates the tax inspection process. Therefore, the legal acts on voluntary liquidation should include a definition of the “financial and economic activities,” and adopt the current definition from the regulation on liquidation procedure for enterprises which are not involved in any financial and economic activities and which have not created their statutory funds within the legally-established time limits.

Box 5.9

As mentioned before, the current regulations on voluntary liquidation have no definition of “financial and economic activities.” This definition applies only to “enforced” liquidation and in practice officials are free to use or not use this provision. This has already confused entrepreneurs when they need to decide which scheme to follow for the voluntary liquidation of business entities. The lack of clear definition also gives rise to other problems. For instance, it complicates the tax inspection process. Therefore, the legal acts on voluntary liquidation should include a definition of the “financial and economic activities,” and adopt the current definition from the regulation on liquidation procedure for enterprises which are not involved in any financial and economic activities and which have not created their statutory funds within the legally-established time limits.

Expected Impact

Curtailing the scope for double interpretation of particular legislative provisions would substantially reduce the potential for irregularities and considerably ease the liquidation process for businessmen.

Entrepreneurs and officials must learn their rights and responsibilities regarding the new liquidation procedure

A public awareness campaign must be waged so that entrepreneurs and officials know and understand the legislative framework. Systematic media publications and publicity papers, distributed in registration authorities and in the Chamber of Trade and Industry, should be as clear and straightforward as possible. A similar awareness campaign among entrepreneurs and officials on business registration has proven to be invaluable.

“As for registration, everything is great – provided the entrepreneur knows his rights, of course. I mailed all my paperwork, for example, and they phoned me in due course in two days and asked to collect the registration certificate. I heard that some special workshops had been organized and that officials had been tested. Plus, entrepreneurs started at last insisting on their rights. That’s why they are scared to abuse the law. In my view this is exactly what we lack in the case of liquidation.”

Focus-group participant, company director

Expected Impact

Public outreach aimed at raising the legal awareness of entrepreneurs and officials will allow businesses to monitor how government institutions observe the established liquidation rules and institute public control over the actions officials. This would curtail the potential for irregularities.

Box 5.10

Information on the step-by-step procedures of voluntary liquidation, as well as bankruptcy, is published in several countries on web sites of government bodies and the chamber of commerce for the convenience of entrepreneurs. For instance, Great Britain’s registration authority web site (www.companieshouse.gov.uk) gives a detailed list of all forms and documents that must be submitted during the liquidation process, as well as a step by step process map of the liquidation procedure with detailed answers to frequently asked questions. Such information is available in open access in many other countries that rank highly in the Doing Business’ Closing a Business indicator.
Established legal provisions must be followed

Strict measures must be implemented to prevent deviations from liquidation procedures. Officials who violate the statutory procedure on voluntary liquidation should face legal sanctions (Box 5.11).

**Box 5.11**

Item 61 of the regulation stipulates that a person guilty of violating the provisions faces legal responsibility. This rule applies to violating procedures, time limits, and other elements of the liquidation process. Inappropriate implementation of official duties can result in administrative liability (Article 2411 of the Administrative Responsibility Code of the Republic of Uzbekistan) or criminal liability (Articles 205-208 and 214 of the Criminal Code of the Republic of Uzbekistan).

**EXPECTED IMPACT**

These measures would increase the responsibility of officials involved in liquidation and considerably simplify the process. The possibility of criminal charges against officials would be a serious tool for entrepreneurs seeking to influence the liquidation process and ensure their rights. Eventually, it should help reduce the time and costs of entrepreneurs in these procedures.
ANNEX 1.

Manufacturing enterprises

- Equipment and technology of small manufacturing businesses remain underdeveloped.
- Small manufacturing businesses have difficulty procuring high-quality raw materials.
- A lack of stable energy and water supplies hinders growth.

According to the State Statistics Committee of Uzbekistan, the role of small business in the economy is steadily increasing. In 2007, SMEs produced more than 46 percent of GDP. This was made possible thanks to measures by Uzbekistan’s leadership to improve the business environment, encourage the modernization and retooling of private businesses, develop cooperation contacts, and promote innovation.

Despite the growing significance of the small business sector for the economy as a whole, their contribution to industrial output remains small. According to the data of the State Statistics Committee, small businesses accounted for about 13 percent of total industrial output in 2007 (Figure 6.1).

![Figure 6.1](image)

This indicates barriers are hindering faster growth of small manufacturing businesses. These hindrances include poor equipment, difficulty purchasing raw materials, difficulty accessing essential infrastructure, administrative barriers, and a shortage of qualified workers. Some of these problems are reviewed in this chapter in greater detail.\(^{102}\)

\(^{102}\) Conclusions of this chapter are based on the data obtained in the course of the IFC SME survey conducted in 2008 as well as on an earlier additional IFC survey of industrial enterprises conducted in 2007.
DIFFICULTY MODERNIZING THE INDUSTRIAL FACILITIES OF SMALL BUSINESSES

A study of manufacturing facilities conducted by IFC in the summer of 2007 (Box 6.1) indicated companies employ outdated equipment, with the average age around 20 years. This has several implications including the inefficient use of resources, low-quality products, and non-competitiveness in domestic and foreign markets. As a result, cooperation with small business is less appealing for major companies, opportunities for localizing their products is reduced. More than 55 percent of respondents believe there is a need to procure new manufacturing equipment. Most of them were planning to do so in the near future, in either 2008 or 2009.

Box 6.1

WHAT EQUIPMENT IS USED BY SMALL BUSINESSES?

In order to assess the manufacturing equipment being used by businesses, IFC conducted a special study of manufacturing companies in all oblasts, Karakalpakstan and Tashkent in the summer of 2007. The findings of the study showed that private businesses often operate obsolete equipment. Three-fourths of the equipment used by the businesses was manufactured before 1995. The average age of the equipment was about 20 years. Most respondents purchased their equipment relatively recently — after 2001. Businesses are more likely to buy used equipment than new.

The following facts indicate that most equipment is bought in the secondary market. According to the findings of the survey, most equipment (more than 80 percent of units) owned by businesses is foreign-manufactured. But most businesses (70 percent) bought their equipment in Uzbekistan, not abroad. The survey also showed that existing equipment was usually purchased using the company’s own funds (only one in four businesses used a bank loan to purchase equipment).

103 Localization is a special program adopted by the president focused on encouraging domestic manufacturing of import-substitution products, components, and materials.
Uzbekistan's leadership is paying close attention to the technical modernization of private enterprise. This is demonstrated by the UP-3860 decree and a number of other decisions endorsing modernization programs.104

Box 6.2

Presidential Decree UP-3860 provides the following incentives for businesses to modernize and upgrade their manufacturing facilities and install modern, highly-efficient equipment:

- Allows corporate income tax deductions for funds spent modernizing manufacturing facilities or repaying loans used for modernization. Deductions are also offered for the cost of leased equipment (on the condition of utilizing depreciation funds accumulated for the respective period);
- Exempts new equipment from property taxes for five years;
- Allows small firms to deduct the cost of new equipment for amounts up to 25 percent of the taxable base of the Single Tax Payment under the simplified tax system.

Survey results indicate that in reality far fewer businesses undertake modernization. Eleven percent of businesses procured new equipment in 2007. In other words, for every five respondents in need of equipment, only one actually procures it. This gap between needs and abilities is caused by the following factors.

“We have equipment in our company that was manufactured in 1954. We are still operating it. Of course, it is difficult to maintain. You can’t find spare parts, because it’s been out of production for a long time. Obviously, there’s no need to talk about the quality and competitiveness of the products we are manufacturing.”

Focus group respondent, company manager

Difficulty obtaining external financing

More than 60 percent of respondents said that the main reason businesses cannot invest in fixed assets is a lack of resources. In these cases, businesses resort to external sources: loans, credit, leasing, and other forms of financing. The findings of the survey illustrate that businesses are increasingly investing borrowed funds.

Figure 6.6

BUSINESSES BORROW TO INVEST MORE OFTEN

Sources of financing for capital investments; Percentage of respondents who made these investments

<table>
<thead>
<tr>
<th>Source</th>
<th>2007</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company’s in-house sources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings of founders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-bank loans (friends relatives, acquaintances)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local investor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government funds</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

104 Decree #UP-3860 of the President of the Republic of Uzbekistan On Additional Measures to Encourage Modernization of Manufacturing of March 14, 2007.
The market for leasing services is rapidly developing in Uzbekistan. Between 2003 and 2007 leasing doubled as a percentage of GDP (from 0.36 percent to 0.76 percent). By the end of 2007 the amount of leased property increased by 58 percent from 2006 to $170 million. Interest rates on leasing deals in soums varied from 14 percent to 25 percent in 2007. The average length of a leasing deal in Uzbekistan is three years.

According to the survey, the financial system is not yet providing accessible financing. Only two-thirds of businesses in need of external financing received a loan from a bank or credit union in 2007. Despite the need for borrowing, some businesses preferred not to go to a bank or credit union, while others had their loan requests rejected (Figure 6.7).

Bank loans are unattractive for businesses in Uzbekistan because of high interest rates on, the inability to get a loan in cash, and strict collateral requirements (Figure 6.8).
The statistics on rejected loan applications illustrates that the situation improved in 2007 (Statistical Results of the Survey). However, only one of three manufacturing businesses that applied to banks for a loan in 2007 received one. This indicator is twice as high in the overall economy. The research findings illustrate that the percentage of loans being rejected is highest for manufacturing companies and those businesses who need funding for investment projects related fixed to assets, including equipment, buildings, machinery, and cattle (Figure 6.9).

One of the main reasons businesses did not seek loans in 2007 was high interest rates. According to the study, half of those companies planning to upgrade their equipment in the near future planned to take a loan. On average, they hoped to secure loans with 8 percent annual interest rates, although the average rate is between 16 percent and 20 percent (except for preferential loans). These rates may be prohibitively expensive for small companies, whose profit margins are below 10 percent (Figure 6.10). These facts shed doubt on businesses’ plans to implement upgrades.

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106 Refinancing rate of the Central Bank of Uzbekistan is 14 percent APR.
Businesses were also denied loans in 2007 due to inadequate loan collateral (banks usually require collateral of at least 120 percent of the loan) and because of an unwillingness to make unofficial payments (Figure 6.11).

Box 6.4

Based on the Enterprise Surveys, businesses were required to collateral in 99 percent of cases when they sought loans. The value of the collateral was on average 122.4 percent of the loan received. Land plots and buildings (58 percent of respondents), machinery and equipment (17.5 percent), and personal property (10.4 percent) were offered by businesses as collateral.

Figure 6.11

**REASONS FOR REJECTED LOANS**

Percentage of respondents who were rejected a loan

- High interest rate
- Bank rejected the loan without explaining the reasons
- Bank was under-resourced
- Inadequate collateral
- Unwillingness to make unofficial payments

Box 6.5

At the time of the study, commercial banks were issuing loans to small businesses from their own funds at rates of 16 percent to 18 percent. Often, however, businesses must also make informal payments to obtain a loan. Annual IFC surveys indicate that informal payments constitute about 10 percent of the size of the loan, significantly increasing the real cost for businesses. Furthermore, the need for unofficial payments pushes businesses to operate informally.

According to the study, 44 percent of respondents who contacted credit institutions for external financing believe that the process of obtaining a loan is problematic and complicated or extremely complicated. Eighty-five percent respondents in the manufacturing sector held this opinion.

Box 6.6

Presidential Decree UP-3860 grants tax benefits on profits and property, as well as through the Single Tax Payment, to businesses modernizing their operations. According to the survey, many manufacturing businesses are planning to make use of these benefits.

At the same time, one argument reduces the effectiveness of the incentives granted under this decree to accelerate modernization of the private sector. It is because the businesses can use the benefits granted only after procurement of equipment, i.e. benefits are applied after the equipment is commissioned.107 Thus, this measure does not address the problems of the companies who need to procure equipment but do not have the funds required.

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107 Section 4, President’s Decree UP-3860.
Highly problematic importation

As mentioned, more than 80 percent of equipment in use is imported. Much of it is manufactured abroad in countries like China, Russia, and France. Import procedures, however, remain problematic. Furthermore, Uzbekistan is one of the most expensive countries for imports in the world, even excluding customs duties and taxes (Box 6.7). This is partly due to the lack of sea access, distance to international markets, and need to cross borders and transit through several countries on land transportation. Transportation and forwarding services are also underdeveloped. This makes the process of importing equipment more complicated and costly, reducing the ability of small businesses to upgrade their operations.

Box 6.7

Doing Business 2009 analyzes information on procedural requirements for export and import transactions in 181 countries of the world. All official procedures related to imports and exports were considered (from making contracts between parties up to delivery of the good) and the time spent for these procedures.

According to the data of Doing Business, both export and import transactions are quite problematic for businesses in Uzbekistan, which is 171st in a rating of 181 countries worldwide. By two indicators, the number of days required for one transaction (both imports and exports) and the cost of this transaction per container (excluding customs duties and taxes), Uzbekistan is in the last ten countries in the world. It is last by duration of import transactions (104 days).

Figure 6.12 Documents needed for importation in the CIS countries (number)*

Figure 6.13 Duration of import transaction in the CIS countries (days)*

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108 IFC’s report as of the end of 2005 contains the details of import and export transactions. Focus group discussions showed that many issues raised therein still remain relevant. Report is available on the following website: www.ifc.org/uzbek.
«I made a contract to procure equipment from Belarus at the Uzexpocenter exhibition in Tashkent. It was difficult to get a bank loan and the money was not converted for several months. I had to pay additional interest during this period. Also the exchange rate of dollar increased substantially. The loan turned out to be quite costly for me.»

Focus group respondent, company manager

IMPORT LIMITATIONS ARE HINDERING EXPORT CAPABILITIES

According to the findings of Enterprise Surveys, the percentage of companies involved in exports is extremely low compared to Eastern Europe or Central Asia, or to countries with per capita income comparable with Uzbekistan (Figure 6.15).

Figure 6.15 Domestic export potential is not fully realized

Percentage of Enterprise Surveys respondents, involved in exports

Foreign trade regulation limiting imports hinders export potential in the private sector. High level of protection against imported commodities imply that it is much easier for domestic manufacturers to set up import-substitution operations focused on the domestic market than to try access external markets. Meanwhile, the domestic consumer has to accept the low quality of these goods, as the higher-quality products from foreign manufacturers are either inaccessible or much more expensive due to high customs duties. At the same time, more competition in the domestic market would encourage domestic manufacturers to introduce more advanced technology, and to use materials and human resources more effectively. This would help improve the quality of products, which ultimately would improve access to international markets, significantly expanding the market and scale of manufacturing.

Experience shows that if import policies are prohibitory, it is quite difficult to create and maintain adequate conditions for the import of raw materials, equipment, and components. Many export-oriented manufacturers depend on these supplies, however. The government is seeking to address this issue by granting customs exemptions to export-oriented businesses. But it is virtually impossible to foresee all cases when it is essential. As a result, exporters face high duties and fees on imports of raw materials, or have to prove their exemptions. This means diverting limited resources (time and money) to administrative issues instead of manufacturing.

Box 6.8

Figure 6.14 Cost of imports in the CIS countries (USD per container)*

* Along with CIS countries, a world leader in the respective indicator is shown in the charts.

According to the estimates of UNDP, average rate of customs tariff equals 41.7 percent, which indicates high level of import protectionism. For more details, see UNDP Policy Brief on Improving the Mechanism of Export-Import Regulation and Enhancing the Effectiveness of Customs Control, Tashkent, 2008.

For more details, see IFC report on "Business Environment in Uzbekistan from the Perspective of SMEs" on the outcomes of 2005. www.ifc.org/uzbee.
In order to facilitate import clearance, businesses often pay all customs duties (even if the commodity is eligible for exemptions) and claim reimbursement afterwards. This makes it difficult for exporters to plan their business. Liberalization of the import regime in general (not only for export companies) will relieve foreign-trade players from these problems and significantly simplify the administration of export-import transactions for government bodies, further reducing room for abuse by their staff.

Given the problems small businesses face in imports, the government’s decision to extend VAT-exemptions on imports of equipment is commendable (Box 6.9).

**Box 6.8**

In January 2008, VAT exemptions on imported equipment were expanded. Earlier this benefit was granted only to businesses importing equipment for their own needs (to be used in their own manufacturing, for example). The New Revision of Tax Code expanded this benefit on the imports of equipment regardless of its subsequent use. In other words, if equipment is imported and re-sold in the domestic market, the exemption is not annulled as before. A similar norm is envisaged for customs duties on equipment imports.

Small businesses that cannot import or prefer to buy used equipment in the domestic market significantly benefit from expanded exemptions from VAT and customs duties. Thus, it is logical to assume that expansion of these exemptions will favorably influence the ability of small businesses to re-equip their operations, and increase their competitiveness.

**Box 6.9**

**Intense competition with the informal sector**

The existence of the so-called informal sector reduces the appeal of investing in manufacturing capacity for small businesses. The informal sector consists of businesses operating without official registration or compliance with other government regulations. Unfair competition from the “informal” sector hinders approximately every fifth consumer goods manufacturer in its efforts to expand output.

According to the findings of Enterprise Surveys, about 40 percent of surveyed businesses in the manufacturing, construction, and services sectors face competition from unregistered businesses. For 47 percent of respondents, competition with the informal sector is a moderate or a severe problem.

**Box 6.10**

In order to reduce this pressure, the reasons for existence of the informal sector should be addressed, including the high tax burden and the difficulty of administrative procedures.

“We try to operate officially – and we have to pay numerous taxes, obtain permits, and bear with inspections. The neighbors operate without registration, and no problems.”

Focus group respondent, company manager

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111 Article 211 of the Tax Code stipulates that the imports of “equipment into the territory of Uzbekistan according to the list approved by law as well as components and spare parts on the condition that their supply is envisaged in the contractual terms for procurement of equipment” are exempt from VAT. “If the imported equipment is exported for sale or gratuitous transfer in less than three years after it is imported, this provision is annulled and VAT must be paid for the whole period of exemption.”

112 According to the Article 33 of the Law on Customs Tariffs (with amendments made after the New Tax Code), “equipment imported to Uzbekistan according to the list approved by law as well as components and spare parts on the condition that their supply is included in the contractual terms for procurement of equipment” is exempt from customs duties. “If the imported equipment is exported for sale or gratuitous transfer in three years after it is imported, this exemption is annulled and customs duties must be paid for the whole period of exemption.”
The survey of the managers of high-tech companies held in early 2008 by the Center for Economic Research\textsuperscript{113} to identify factors hindering investment and innovation confirmed an acute need for further improvement of the business environment. According to the findings of the survey, it is essential to optimize procedures for obtaining permits, approvals, licenses, certificates, and standards. These procedures were problematic for 65 percent of respondents. The authors of the study concluded that mandatory certification has become a hidden form of taxation. In addition, problems linger in procedures for launching new manufacturing operations (for example, in obtaining permits and endorsements necessary for expanding the territory of the company).

**DIFFICULTIES BUYING QUALITY RAW MATERIALS**

One problem that is significantly hindering the development prospects of manufacturing businesses is access to stable supplies of quality inputs and raw materials. Barriers related to procurement or the quality of input prevents every third manufacturer of consumer goods from consistently increasing output.

This is due to problems in importing quality raw materials, monopolies in the market of raw materials, and administrative barriers.

**Difficulty converting soums**

As noted earlier, importing remains a difficult business, including for businesses seeking raw materials for production (Box 6.7). Difficulty obtaining foreign currency in the domestic market exacerbates the problem. There are no formal limitations on converting soums into foreign currency. But according to the focus group, problems in currency conversion have worsened in 2007. Acquiring hard currency was difficult not only when importing finished products but also for imports of raw materials and other inputs. According to the last IFC survey, the average time of converting soums was 37 business days in 2007, about one-and-a-half calendar months.\textsuperscript{114} Eighty-four percent of businesses attempting to convert soums into foreign currency in 2007 said conversion was quite problematic, difficult and complicated.

In order to buy hard currency businesses have to allocate an appropriate amount of soums for purchasing the desired amount of hard currency in a special account of a commercial bank. The funds from this account are used only for buying foreign currency, and excluded from working capital for the whole period of conversion.

Businesses are forced to divert funds for substantial and indefinite periods, making currency conversion expensive and complicating timely fulfillment of contractual obligations with business partners, leading to breakdowns in delivery and manufacturing cycles.

**Few suppliers of local raw materials**

Difficulty importing raw materials has forced businesses to switch to domestic inputs. About 85 percent of inputs at an average small business are of local origin. This enables limited hard currency to be used more rationally, and allows companies to process available domestic raw materials for subsequent exports of commodities with higher added value.

\textsuperscript{113} For more details, see, “What hinders the potential of private capital flows,” Economic Review, №6 of 2008.

\textsuperscript{114} This is confirmed by other studies as well. The survey of 208 exporter/importers conducted by UNDP in May-June 2007 illustrated that average duration of currency conversion is 58 days. The study also drew the conclusion that the problems related to currency regulation are more relevant for small businesses. For more details, see, Report on the Finding of the Survey of Foreign Trade Actors about Existing System of Export-Import Regulation and Customs Administration, UNDP, Tashkent, 2007.
Another problem emerges here: the limited number of suppliers of raw materials. Thirty-six percent of manufacturers said they experienced difficulties due to the inadequate number of suppliers of raw materials. Amid inadequate competition, manufacturers and suppliers of raw materials set extremely high prices and demand unofficial payments before making contracts for delivery. Irregular delivery and low quality are also problems (Figure 6.16).

«I import raw materials for my business from China. These materials are also produced in Uzbekistan, but the domestic producer demands a surcharge above the official price. Given this surcharge, I am better-off importing from China.»

«I use cotton fabrics in my manufacturing. You would think, how could this be a problem in our country? But it’s not that easy. All quality fabrics are exported. It’s simply impossible for a small company to buy quality fabrics.»

Focus group participants, company managers

Problems withdrawing cash from bank accounts
Monetary regulation remains a serious hindrance for businesses. First, they are not always allowed to use cash to buy raw materials, components, and other inputs. And the price is often significantly higher if paid by bank transfer. Second, even though banks that delay issuing cash to companies can face legal sanctions115, businesses still cannot withdraw cash from their accounts even for permitted purposes at the necessary time. According to current practices, a company representative must first agree with the bank on the day when this amount of cash is to be issued. According to the survey, businesses have to wait between four days (for payroll) and seven days (for working capital) to obtain the necessary amount.

«We often have to buy things for manufacturing operations. They are much cheaper in the bazaar than as quoted by wholesale traders who accept bank transfers. Obviously, we are better off in the bazaar, but where do we get the cash?»

«They told us at the bank that we will get the cash for July salaries after the 25th of August. How do I look into the eyes of my workers?»

Focus group respondents, company managers

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115 Resolution #PP-146 of the President On the Guarantees of Non-stop Availability of Cash from Bank Accounts, issued on 05/08/2005.
INADEQUATE INFRASTRUCTURE

Another factor hindering the development of manufacturing is a lack of adequate infrastructure including power, water, roads, railway, etc. This problem consists of two parts. First, some small businesses have insufficient access to energy or water. Second, even those businesses that do have access still experience frequent cut-offs of electricity, gas, or water.

Lack of energy and water

The survey shows that not all small businesses have access to the infrastructure required for business (power grids, natural gas, water, roads, access railway, etc.). About one-third of respondents, who need natural gas for their operations said they lacked access. Meanwhile, Uzbekistan is one of top-three gas producers in the CIS and among the top-15 producers worldwide.

The survey also showed that this problem has a clear regional aspect. In some areas of the country there are far more companies missing essential infrastructure than there are nationwide (Figure 6.18).

Respondents believe it is not easy to access necessary resources. About 80 percent of respondents that managed to gain access to power grids, gas supply, hot water, cold water, or steam said they believed the process was difficult or extremely difficult.
Some businesses with access to energy and water said they were planning to expand. It would seem this step can only be welcome, as it means more income for working people, higher employment, and greater tax collections. But a company must obtain approval and provide justification to the authorities before it can increase consumption of electricity, gas, etc. Focus group respondents believe that increasing consumption limits is problematic.

“We are trying to increase our output all the time by importing new equipment, working several shifts… obviously our need for electricity also grows. But it is strictly limited. In order to increase the limit slightly, you have to write technical description with detailed justification of why your needs have grown. Then it is approved within the company and sent higher up along with letters, where it has to be reviewed and also approved. Then I draft the new contract for more power, which also has to be endorsed… In short, this is a grueling process, which may take many months. Last fall they told me, ‘give us $600 and we will immediately increase capacity and process all permits.’ But my boss refused to pay a bribe. Since then we have struggled to get everything formalized.”

Focus group respondent, company manager

**Frequent outages of energy and water supply**

The survey showed that one in four small business had to stand idle for 17 days due to the outages in electricity and water supply in 2007. While all sectors of the economy suffer from regular blackouts, the manufacturing and services sectors are hit hardest (Figure 6.19). According to IFC experts, losses of small businesses nationwide from idle time amounted to approximately $9.5 million in 2007.

Other studies also confirmed problems with power supplies. About half (53 percent) of manufacturing, construction, and service sector companies surveyed in the Enterprise Surveys indicated they had power blackouts in 2007. According to the survey data, it happened 4.4 times a month on average. The average duration of these blackouts was 13 hours a month. Respondents believe their companies’ losses from blackouts amounted to 5 percent of annual earnings. Power supply is a problem (either moderate or extremely serious) for half (52 percent) of respondents.
«We are a textile company. A simple power surge can put all automatic units off-line. The looms in the spinning mill shut down. Launching them again is difficult, because the thread breaks and you have to open the heads, clean them, and connect new thread with yarn. There are four heads on each loom, and we have about 100 looms. So everyone in the factory must rush to recover operations as soon as possible. For instance, the looms stopped this morning, and are still not operational. Today we will produce 1.5 tons at most instead of 3 million tons. How often does it happen? On average, one or two times a week. But there can be vicious cycles lasting three or four days in a row. The substations are old and cannot cope with the job.»

«One of our operations is gas-powered. In the winter gasmen came and sealed the workshop, saying that the gas would only be supplied to the residential buildings. Even though this was not the main operation but an auxiliary one, the entire factory stood idle.»

«We use water in our operation (for cooling). But in the summer the water pressure is a mere 1.5 bars instead of the three bars we should be getting. We had to buy and install pumps in order to maintain the pressure needed.»

Focus group respondents, company managers
## ANNEX 2.

### Current tax system

(as of August 1, 2008)

<table>
<thead>
<tr>
<th>№</th>
<th>TAX OR FEE</th>
<th>SMALL BUSINESSES AND MICROFIRMS (Manufacturing, Services, Construction)</th>
<th>OTHER BUSINESSES REGARDLESS OF SIZE</th>
<th>Payers</th>
<th>OBJECT OF TAXATION</th>
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<td>Tax on Super-profits[^119]</td>
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### MANDATORY CONTRIBUTIONS

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### TAXES AND FEES OF INDIVIDUALS PAID BY COMPANIES

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[^116]: Simplified taxation system is mandatory.
[^117]: Mining companies and manufacturers of excisable products cannot switch to single tax payment.
### TAX/FEE RATE

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<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td></td>
</tr>
<tr>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

### OTHER MAJOR CHANGES

- In 2006 the rate of dividend tax was reduced from 15% to 10%. Transfer of losses was allowed. In 2006-2007 the list of expenses deductible from taxable base was expanded.
- In 2006 zero percent rate on fuel and lubricants for agricultural sector was annulled. The list of equipment imports exempt from VAT was established in 2007. In 2008 the exemption on imported equipment was expanded.
- In 2006 the property used for production and storage of agricultural produce is tax-exempt. Since 2008 the taxpayers entitled to simplified taxation do not pay tax on rented property.
- Since 2006 the temporary work disability benefits of civil servants are paid by the government institutions within the limits of the appropriations, while analogous expenses of businesses were covered from own funds. In 2008 the taxable base of SSP was expanded by reducing the payments earlier exempt from SSP.
- In 2008 the income taxable at minimum rate increased from 5 to 6 minimum monthly wages.
- The amount of IRA contribution is deducted from the amount of income tax of the individual.

---

118 Only for following businesses: car parking lots, game machines, and billiards.
119 Only for manufacturers of cathode copper, cement (except for white cement), polyethylene granules and natural gas.
## Other taxes and fees

<table>
<thead>
<tr>
<th>№</th>
<th>TAX/FEE</th>
<th>PAYERS</th>
<th>OBJECT OF TAXATION</th>
<th>TAX/FEE RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>25</td>
<td>Environmental Tax</td>
<td>Except for taxpayers in the simplified scheme</td>
<td>Production costs and current expenses</td>
<td>1%</td>
</tr>
<tr>
<td>26</td>
<td>Trade Fee</td>
<td>Trade businesses</td>
<td>Trading place</td>
<td>3.5 minimum monthly wages</td>
</tr>
<tr>
<td>27</td>
<td>Tobacco Trade License Fee</td>
<td>Tobacco trading businesses</td>
<td>Month of trading</td>
<td>5 minimum monthly wages</td>
</tr>
<tr>
<td>28</td>
<td>Registration Fee</td>
<td>New businesses</td>
<td>Registration of businesses</td>
<td>5 minimum monthly wages</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5 minimum monthly wages</td>
</tr>
<tr>
<td>29</td>
<td>Unified Tax</td>
<td>Sales (turnover or gross revenues)</td>
<td></td>
<td>12-30%</td>
</tr>
<tr>
<td>30</td>
<td>Gross Revenues Tax</td>
<td>Trade and catering businesses</td>
<td>Gross revenues</td>
<td>16-20%</td>
</tr>
<tr>
<td>31</td>
<td>Unified Gross Sales Tax</td>
<td>Lotteries</td>
<td>Gross receipts</td>
<td>20%</td>
</tr>
</tbody>
</table>
ANNEX 3.
Example of taxation for an industrial enterprise\textsuperscript{120}

A small enterprise in Djizak region engaged in consumer-goods production and wholesale trade has 31 employees. In 2007 it manufactured and sold production amounting to about $110,000. About $13,200 were paid in taxes and obligatory payments, including:

- Single Tax Payment – $11,000
- Single social payment – $1,400
- Personal income tax – $700
- Personal social contributions to Pension Fund – $26
- Mandatory individual contributions to retirement account – $74.

Net profit after taxes and fees was $7,700.

In this case, taxes and fees constituted 12 percent of the company’s turnover and 170 percent of its net profit (i.e. profits after taxes and obligatory payments).

\textsuperscript{120} The data used in this Annex is received in IFC SME survey.
ANNEX 4.

Tax administration efficiency indicators

Comparative analysis of the efficiency of tax administrations of European countries enables a differentiation of three categories of efficiency indicators used in these countries: costs, fulfillment of tax liabilities by taxpayers including voluntary and enforced compliance, and the quality and content of the services provided.121

Table 7.1 Examples of effectiveness-indicators in tax systems around the world122

<table>
<thead>
<tr>
<th>CATEGORIES OF INDICATORS</th>
<th>EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FULFILLMENT OF TAX LIABILITIES</strong></td>
<td></td>
</tr>
<tr>
<td>Indicator of tax deficit reduction123</td>
<td>Denmark. The tax deficit is used as an indicator of effective oversight of compliance by taxpayers with their liabilities. It is set in the budget of the Danish tax authority. The target for this indicator is 3.1 percent or lower.</td>
</tr>
<tr>
<td>Reducing tax arrears</td>
<td>Lithuania. Tax arrears are compared with the amount collected.</td>
</tr>
<tr>
<td>Timely submission</td>
<td>France. Estimates are made of the percentage of businesses with overdue annual declarations.</td>
</tr>
<tr>
<td>Completeness and accuracy of income statements</td>
<td>U.K. A target was set for measured improvement in the ability of new and emerging companies to manage tax liabilities appropriately in 2007 and 2008.</td>
</tr>
<tr>
<td><strong>COSTS</strong></td>
<td></td>
</tr>
<tr>
<td>Need for electronic services</td>
<td>Iceland. In 2008, 75 percent of VAT and taxes levied at the source of income had to be declared online.</td>
</tr>
<tr>
<td>Effectiveness and efficiency</td>
<td>Denmark. Danish tax authorities conduct two progress checks of tax collections to control cost effectiveness and timely remedial action against deviations. The commitment is to reduce expended resources by 25 percent over the next four years.</td>
</tr>
<tr>
<td>Indicator of overall expenses compared to tax revenues</td>
<td>Czech Republic. The total cost of tax collecting is determined by the average number of workers in each unit. Information is collected from financial reporting.</td>
</tr>
<tr>
<td><strong>QUALITY AND CONTENT OF SERVICES</strong></td>
<td></td>
</tr>
<tr>
<td>Indicator of overall satisfaction of service consumers</td>
<td>Azerbaijan. The share of those using the services of the tax administration services (provided in writing, by electronic mail or telephone) whose issues were successfully resolved was 96 percent with the standard of 95 percent or higher.</td>
</tr>
<tr>
<td>Performance of tax administration: consistency and accuracy</td>
<td>Finland. The target is to increase the percentage of correct decisions in levying taxes.</td>
</tr>
<tr>
<td>Performance of tax administration: consistency and accuracy</td>
<td>Italy. The percentage of back tax claims rejected is measured.</td>
</tr>
<tr>
<td>Swift response to the taxpayer inquiries</td>
<td>Sweden. At least 75 percent of those wishing to speak with the tax authorities should be able to contact a consultant within five minutes.</td>
</tr>
<tr>
<td>Reducing the costs of taxpayers in meeting their liabilities</td>
<td>U.K. A goal was been set to raise the shares share of small businesses that consider filling-in tax returns a simple procedure to 90 percent in 2007 and 2008. This indicator is determined as the “customer service performance.”</td>
</tr>
<tr>
<td>Payment of compensation to taxpayer</td>
<td>Poland. Taxpayers are given a share of the penalty based on the total amount of compensation paid by the tax administration due to violations of deadlines after a decision has been reversed by a court.</td>
</tr>
</tbody>
</table>

121 EUROSAI, 2008. Comparative analysis of tax administrations efficiency in EUROSAI. Krakow, March, 2008. EUROSAI is the European Organization of Supreme Audit Institutions and includes 47 country members and the European Court of Auditors.
122 Source: ibid
123 The authors of the report define tax deficit as the “indicator of difference between taxes payable by law (theoretically) and actual collections.”
ANNEX 5.
Measures undertaken for improving inspections and legal protections of businesses in 2005-2007

Presidential Decree UP-3619\textsuperscript{124} established the following measures for improving the legal safeguards for businesses:

- Certain legal enforcement measures can be taken against businesses only by court order (halting or suspending activities, suspending bank transactions, imposing financial penalties, confiscating the objects of the offence, suspending or annulling licenses);
- Financial inspections of businesses can only be carried out by tax authorities. If signs of tax and currency-related crimes are detected, then a probe must be carried out by the Department for Combating Tax and Currency Related Crimes and Money Laundering of the Prosecutor General’s Office;
- Cross inspections may only be conducted into operations of a business that relate to another entity under inspection, and with a warrant of inspection based on criminal charges or a decision of the Inspections Coordination Council;
- During inspections it is not permitted to visit the businesses or demand accounting or financial records unrelated to the subject of the inspection.

Presidential Decree UP-3622\textsuperscript{125} envisages the following measures for improving the tax system:

- Minor offences committed by the businesses for the first time, unintentionally and without producing under-payment to the government budget or special state funds shall be punishable only by administrative measures against the management without submitting records to the court;
- If the case is transferred to the court, the business shall be relieved of financial penalties if it voluntary compensates damage caused by non-payment of taxes, fees, and other dues including the fines within one month.

Presidential Decree UP-3665\textsuperscript{126} stipulates the following measures for improving business inspections:

- The frequency of inspections is changed: standard inspections of financial operations of microfirms, small businesses, and farmers are conducted no more than once in four years, and other businesses are inspected no more than once in three years. New microfirms, small businesses, and farmers cannot be inspected within two years of registration;\textsuperscript{127}
- Penalties against businesses are abolished in cases where they comply with the orders of regulators based on the findings of inspections, and voluntarily compensate damage by established deadlines in full, including fines;

\textsuperscript{124} Decree UP-3619 on Further Improvement of the Legal Safeguards for Businesses of 14.06.2005.
\textsuperscript{125} Decree UP-3622 on Liberalization of Financial Liability of the Businesses for Economic Offences issued on 24.06.2005.
\textsuperscript{126} Decree UP-3665 on Further Reduction and Improvement of the Business Inspections of 05.10.2006.
\textsuperscript{127} Prior to enactment of this decision, all standard inspections could be done no more than once a year, and the inspections of private businesses, making timely and full payments of taxes and fees, and complying with other norms and regulations, and in possession of annual audit reports – no more than once in 2 years.
• Duplication of inspections by tax authorities is prevented. Territorial tax authorities now inspect businesses in other regions or towns together with the local tax authorities at the place of registration of the business.

Furthermore, for the implementation of Decree UP-3665, all inspectorates developed clear principles for drafting annual and quarterly schedules of business inspections.

The New Revision of the Tax Code of Uzbekistan enshrined the principle of the presumption of innocence of the taxpayer, according to which insuperable contradictions and ambiguities in tax legislation are to be interpreted in favor of the taxpayer.128

These measures are designed to create a more effective mechanism of legal safeguards for businesses and reduce interference of inspectorates in their activities. The objective of these measures is to safeguard the legitimate interests of businesses and prevent unjustified restrictions.

128 Article 11 of the New Revision of Tax Code.
ANNEX 6.
Implementation of inspection checklists in Uzbekistan

Efforts to develop and implement standardized inspection checklists have been underway in Uzbekistan for several years. With the support of IFC, appropriate international experience was reviewed and 11 forms for inspection checklists were developed for fire safety and sanitary inspections. These were later tested at several companies.

As a result of these activities, the Sanitary-Epidemiological Service approved an inspection checklist for foodstuffs trading businesses in August 2006. Today, grocery stores may only be inspected for compliance with sanitary regulations using this form.

In September 2007, the Main Fire Safety Department of the Ministry of Internal Affairs approved eight inspection checklists for the following types of businesses: gas stations; service businesses; agricultural businesses; storage, transportation, processing, and production of oil and gas; ferrous and non-ferrous metal processing; industrial and energy companies; and public buildings. Since October 2007, inspection checklists have been mandated for fire safety officials when they inspect these businesses.

Sample of Inspection Checklist
## ANNEX 7.

### Indicators of inspection efficiency

<table>
<thead>
<tr>
<th>GOAL</th>
<th>PROSPECTIVE PROGRESS INDICATORS</th>
</tr>
</thead>
</table>
| Improved compliance of businesses with regulatory requirements       | - Time required for businesses to rectify offences (this indicator should decrease as an indicator of lower gravity of the offence);  
- Percentage of workers trained/certified (should increase);  
- Number of repeated inspections (should decrease);  
- Number of complaints from workers or citizens (should decrease);  
- Number of institutions making changes in the management practices thanks to the assistance in complying with regulatory requirements (initially increases, then decreases by the end of transition period of 3-5 years);  
- Statistical trends of undesirable events such as accidents (should decrease);  
- Public’s feelings that the incidents in the sector are serious (should decrease). |
| Minimizing uncertainties for businesses                              | - Number of voluntary requests of businesses to assist in compliance with regulations (should increase);  
- Number of complaints from businesses about the shortage of information (should decrease);  
- Number of institutions requesting help in compliance with the regulations from the assistance centers of inspectorates (should increase);  
- Number of firms indicating that the regulations are understandable (should increase);  
- Feeling of the businesses that the regulations contain contradictions (should decrease). |
| Fighting corruption                                                  | - Number of internal audits detecting corruption cases (may increase or decrease depending on the baseline situation);  
- Time needed to resolve the situation due to complaint about corruption (should decrease);  
- Number of inspectors driving expensive cars (should decrease);  
- Wages of inspectors compared to the wages of equivalent workers in the private sector (should be equal);  
- Percentage of firms and clients reporting bribes (should decrease);  
- Feelings of business community that corruption is getting stronger (should decrease);  
- Percentage of civil servants reporting corruption cases in civil service (should increase, as these reports are encouraged, then decrease by the end of transition period). |
| Minimizing costs for private sector and optimizing the costs of the government | - Ratio of inspections of businesses/sectors with high risk against the number of inspections of businesses/sectors with low risk (should increase);  
- Number of days spent on each inspection (should decrease);  
- Number of queries for information (should decrease);  
- Number of inspections coordinated with other inspectorates (should increase);  
- Number of alternative inspection initiatives (third-party inspections, self-regulation, etc.) that substitute conventional methods of inspections (should increase);  
- Perception of inspections by companies (should become more positive);  
- Number of inspections per inspector (should increase);  
- Number of inspectors against the number of civil servants working for the inspectorate (ratio should increase);  
- Time spent by the business for the inspection (initially should increase, as the compliance with the rules is improving, then decrease after the situation levels off);  
- Number of inspections per annum/month against those planned per annum/month (ratio should be close to 100%). |

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130 Notably this list is reference demonstrating approximated indicators, which may be used for assessment of the effectiveness of inspections.
ANNEX 8.
Current and previous procedures for voluntary liquidation of business entities

Figure 1. Voluntary Liquidation Procedure Before July 1, 2007
Figure 2. Voluntary Liquidation Procedure After July 1, 2007

Decision on liquidation

Liquidator → Registration authority

- Tax Inspectorate
- District Statistics Branch
- Police Unit
- Servicing Bank
- ...
## ANNEX 9.

### FLOWCHART
Voluntary Liquidation of Business Entities Involved in Financial and Economic Activities

<table>
<thead>
<tr>
<th>Stages</th>
<th>Entities</th>
<th>Mechanism</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>Founders (shareholders)</td>
<td>Liquidator appointed. Intended liquidation deadline scheduled.</td>
<td>Decision on voluntary liquidation.</td>
</tr>
<tr>
<td>Stage 2</td>
<td>Administration of the Company</td>
<td>Transfer to liquidator all business documents, including company’s seals, stamps, and other property.</td>
<td>Three days after appointment.</td>
</tr>
<tr>
<td></td>
<td>Liquidator</td>
<td>Copy submission of voluntary liquidation decision to the registration authority. The following are submitted to banks: - Voluntary liquidation decision, one copy; - Notarized samples of liquidator’s signatures and seal, two copies; and - Application/request on closure of all accounts and relevant balance transfer to demand deposit accounts denominated in national and foreign currency.</td>
<td>No later than one working day after voluntary liquidation decision.</td>
</tr>
<tr>
<td></td>
<td>Bank</td>
<td>Suspension of all financial and economic activities. Tax assessment (on land, unified land, property, and water resources) ceased, including all fines resulting from taxes and mandatory payments. Writing off the funds from the company’s accounts by liquidator’s order. Suspension of memo-file # 2. Fund accumulation on single account by type of currency.</td>
<td>From the day of notification to the registration authority.</td>
</tr>
<tr>
<td>Stage 3</td>
<td>Liquidator</td>
<td>Terminating labor relations with employees according to labor law. Inventory of business assets and liabilities. Assessment of all taxes and other mandatory payments, from the beginning of the year to notification date of voluntary liquidation. Steps to recover receivables and identify/inform in writing the creditors on liquidation.</td>
<td>From the day of decision on voluntary liquidation.</td>
</tr>
<tr>
<td>Stage 4</td>
<td>Liquidator</td>
<td>Public announcement in one or several periodicals of company’s liquidation with the following details: - Full and short name of business; - Location (mail address), TIN; - Registration authority; - Notification on voluntary liquidation decision (date, number); and - Request deadline for creditors’ demands (no less than two months after announcement publication).</td>
<td>From the day of decision on voluntary liquidation.</td>
</tr>
</tbody>
</table>

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131 In accordance with President’s Decree #PP-630, April 27, 2007.
<table>
<thead>
<tr>
<th>Stages</th>
<th>Entities</th>
<th>Mechanism</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 5</td>
<td>Registration authority</td>
<td>Record in the State Ledger of Legal Entities on voluntary liquidating status of the company. Notes on voluntary liquidation to: – Ministry of Internal Affairs; – State Tax Committee; and – Statistics Committee.</td>
<td>No later than one day after notification.</td>
</tr>
<tr>
<td></td>
<td>Ministry of Internal Affairs</td>
<td>Informing the registration authority on all permissions to produce effective seals and stamps with company’s name.</td>
<td>No later than 10 days after receipt of submission.</td>
</tr>
<tr>
<td></td>
<td>State Tax Committee</td>
<td>Arrangement and performance of financial and economic inspection for the company. Identification of tax and other arrears according to company’s assessments if inspection (audit) is not completed on time.</td>
<td>Three and 30 respectively from the date of notification receipt.</td>
</tr>
<tr>
<td>Stage 6</td>
<td>Liquidator</td>
<td>Preparation of intermediate liquidation balance sheet (ILBS) in the context of inspection held by tax authority.</td>
<td>When the period is over for creditors’ claim submission.</td>
</tr>
<tr>
<td></td>
<td>founders (shareholders)</td>
<td>ILBS Approval.</td>
<td>After ILBS submission for approval.</td>
</tr>
<tr>
<td></td>
<td>Liquidator</td>
<td>Written notification to each creditor on acknowledging or rejecting the claims, and amount acknowledged.</td>
<td>Within five working days after ILBS approval.</td>
</tr>
<tr>
<td>Stage 7</td>
<td>Liquidator</td>
<td>Settlements with creditors in order of precedence. Property sale if in need of settlement funds. Property transfer to creditors if not sold within two months.</td>
<td>After ILBS approval.</td>
</tr>
<tr>
<td></td>
<td>founders (shareholders)</td>
<td>Possible satisfaction of creditors’ claims out of funds transferred to bank accounts of liquidated enterprise by founders (shareholders).</td>
<td></td>
</tr>
<tr>
<td>Stage 8</td>
<td>Liquidator</td>
<td>Transfer of remaining equipment to founders (shareholders). Preparation of Liquidation Balance Sheet (LBS).</td>
<td>After completed settlements with creditors.</td>
</tr>
<tr>
<td></td>
<td>founders (shareholders)</td>
<td>LBS approval.</td>
<td></td>
</tr>
<tr>
<td>Stage 9</td>
<td>Liquidator</td>
<td>LBS submission to tax authority.</td>
<td>After LBS approval.</td>
</tr>
<tr>
<td></td>
<td>State Tax Committee Unit</td>
<td>Certificate issued on no tax and other mandatory payment related arrears if unavailable.</td>
<td>Within one working day.</td>
</tr>
<tr>
<td>Stage 10</td>
<td>Liquidator</td>
<td>All bank accounts closed. Documents submitted to the State Archive.</td>
<td>After receipt of certificate from tax authority. Within three working days after closure of all accounts.</td>
</tr>
<tr>
<td>Stages</td>
<td>Entities</td>
<td>Mechanism</td>
<td>Timeframe</td>
</tr>
<tr>
<td>--------</td>
<td>---------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Stage 11</td>
<td>Liquidator</td>
<td>The following are submitted or sent to the registration authority to enter a liquidation record in the State Ledger: - Public announcement of company’s liquidation in one or several periodicals; - Certificate of official registration; - Certificate of servicing bank on closure of all accounts; - Seals and stamps; - Certificate of authorized body on invalidation of issued securities if any; - Originals of all licenses (permissions) if any; - Certificate of tax authority on lack of tax and other mandatory payment related arrears; and - Certificate of the State Archive.</td>
<td>After relevant documents are finalized.</td>
</tr>
<tr>
<td>Stage 12</td>
<td>Registration authority</td>
<td>Decision to enter the liquidation record in the State Ledger. Decision to reject the liquidation record in the State Ledger if documents presented are incomplete. Liquidator informed about the decision. Informing tax and statistics authorities. Seals and stamps submitted to the police for destruction. Licenses and permits transferred to issuing authorities (if any). Branch of the People's Bank (Halq Bank) informed.</td>
<td>Within two working days. Within one working day. Within one week.</td>
</tr>
</tbody>
</table>

The regulation also specifies that the whole process of the voluntary liquidation should take less than nine months from the day when the registration authority is advised of the liquidation decision.
ANNEX 10.
Ambiguities and contradictions in legislation regulating voluntary liquidation

The legislation regulating the voluntary liquidation of businesses has a number of ambiguities. Below are the examples of such shortcomings.

AMBIGUITY IN THE REGULATION ON VOLUNTARY LIQUIDATION
A separate liquidation scheme is designed for companies not involved in any financial or economic operations from the day of official registration. Since the legislation defines the notion of “financial and economic activity” in relation to “enforced” liquidation only, entrepreneurs and registration and tax authorities interpret the “non-involvement in financial or economic operations” differently. Officials resist attempts by entrepreneurs to apply the above scheme even if, for example, the company only made a contribution to its statutory fund but did not have any other financial activity or operations. Only one in four businesses uninvolved in financial or economic operations before the decision to liquidate was dissolved without tax inspection. There were cases when tax inspectors, by insisting on inspection (i.e. liquidation according to the scheme for businesses with financial and economic activities), noted in the inspection certificate later on that “the enterprise did not fulfill any financial and economic activities.”

CONTRADICTION IN THE REGULATION ON VOLUNTARY LIQUIDATION
Items 47 and 48 in the regulation illustrate the contradictions in the legislation on voluntary liquidation. In Item 48, if the dissolving company does not have any financial and economic activities and has submitted the certificate from the bank on closure of the primary account, then the registration authority should enter a liquidation record within two working days from the receipt of documents. On the other hand, Item 47 obliges the registration authority to consult the tax administration before making a liquidation record, in order to verify that the company did not have any financial and economic activities. The regulation allocates three working days for preparation of this request and a reply from the tax administration.

DISCREPANCY BETWEEN THE DEPARTMENTAL INSTRUCTIONS AND THE REGULATION
The regulation states that the bank closes the account and issues a certificate to the liquidator on the basis of the application. This stage is to be completed before application to the registration authority with an exclusion request. However, CBU instructions establish that “the bank … after completion of the liquidation process, based on the liquidator’s request, shall close the primary demand deposit account and issue a closure certificate to the liquidator within one working day.” This paragraph was an amendment to the instructions and was registered by the Justice Ministry in August 2007. Therefore the banks want written confirmation of “termination of the liquidation process.” However, as mentioned above, the liquidation process is considered complete only after a record is entered in the state ledger on dissolving the business. This record is only authorized if the bank certificate on account closure is

132 Item 1.2 of the Regulation On Liquidation Procedure of Enterprises not Involved in any Financial and Economic Activities and not Formed their Statutory Funds within Legally Established Timelines, approved by the COM Resolution, July 3, 1999, #327.
available. The active legislation stipulates that “in case of divergence between legal instruments, the regulation is accorded higher legal status” \(^{134}\) but as we see this rule is not followed in practice. The result is a vicious circle when a certificate can only be received after the liquidation process is complete, yet liquidation can only be completed after the bank certificate is received.

**DISCREPANCIES BETWEEN RUSSIAN AND UZBEK TEXTS OF THE REGULATION ON VOLUNTARY LIQUIDATION**

The Regulation on Voluntary Liquidation in the Russian translation establishes that the liquidating company must publish an announcement on liquidation in one or multiple periodicals. The regulation in Uzbek says that the liquidation committee should publish an announcement on the site of the Ministry of Justice on Internet as well.\(^ {135}\)

There are also differences in the list of documents to be submitted by the liquidating company, which does not have any business operations, to the registration authority to obtain the document confirming the liquidation. In the Uzbek translation, the regulation demands that the liquidating committee submit the reference from State archives, while the Russian text does not set out this requirement.\(^ {136}\)

Further, the Regulation on Voluntary Liquidation says the registration authority should notify state tax and statistical bodies about the liquidation of the business entity. In addition to this, the Regulation in Uzbek says that the registration authority should notify the justice authorities.\(^ {137}\)

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\(^{135}\) Fourth stage of voluntary liquidation according to Annex 1 to the Regulation on voluntary liquidation.

\(^{136}\) Seventh stage of voluntary liquidation according to Annex 2 to the Regulation on voluntary liquidation.

\(^{137}\) 12 stage and 9 stage of the voluntary liquidation according to Annexes 1 and 2 to the Regulation on voluntary liquidation correspondingly.
ANNEX 11.
Methodology of the 2008 IFC SME survey

1. RESEARCH METHODOLOGY

1.1. Objectives of the Survey
In May 2008, IFC conducted a study of the business environment in Uzbekistan. The objectives of the study included the identification and analysis of problems hindering the growth of the small business sector, the development of specific recommendations to address these problems with subsequent submission to the government, and the assessment of measures undertaken to improve the business environment (e.g., adoption of the New Revision of the Tax Code of Uzbekistan and introduction of the voluntary liquidation procedure).

1.2. Distinct Features of this Study
IFC last performed a survey of small businesses in Uzbekistan in 2006. The number of small businesses was not changed for this study. At the same time, the following factors make this study distinct from previous ones. First, several areas were researched at the request of the government: infrastructure, production of consumer goods, competitiveness of the business environment, and manufacturing equipment. Second, legislative acts that passed with IFC’s assistance were reviewed, including procedures of voluntary liquidation, registration, permitting, auditing, and reporting. Third, other surveys of the private sector in Uzbekistan by the World Bank Group, carried out by the Enterprise Surveys project and Doing Business project, were used for analyzing the challenges faced by entrepreneurs.

1.3. Main Facts of the Study
A stratified, random sample (i.e., a model of the community of private small businesses in Uzbekistan) was formed for the nationwide survey. Quantitative data on the companies in the total population were received from the report on the demographics of the small businesses of the State Statistics Committee of Uzbekistan as of January 1, 2008.

Sampling was based on the following criteria: (1) a region of Uzbekistan; (2) the sector of economy where the company is operating; (3) definition of the company as a small business (microfirm or small business) as determined by the average annual number of company workers in 2007.

The study was conducted in twelve regions of Uzbekistan, Karakalpakstan, and Tashkent city, covering all sectors of the economy, including the manufacturing sector, agriculture, construction, wholesale trade, retail trade, public catering, transportation and communications, technical supply and sales, public utilities, healthcare, and others.

Existing private microfirms and small companies were selected for the sample in proportion to their national distribution in 2007.

A company is designated as a “small business” according to its average number of workers (Table 1).

---

Table 1. Definition of Small Businesses (Disaggregated by Sectors)

<table>
<thead>
<tr>
<th>SECTOR OF ECONOMY</th>
<th>AVERAGE NUMBER OF WORKERS AT THE COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MICROFIRM</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1-20</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1-20</td>
</tr>
<tr>
<td>Construction</td>
<td>1-20</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>1-5</td>
</tr>
<tr>
<td>Retail trade and catering</td>
<td>1-5</td>
</tr>
<tr>
<td>Other</td>
<td>1-20</td>
</tr>
</tbody>
</table>

1.4. Research Methodology

The data on regional and sector distribution of all existing microfirms and small businesses in Uzbekistan were collected at the initial stage of sampling. The data were provided by the State Statistics Committee of Uzbekistan, and 392,000 small businesses were registered and operational as of January 1, 2008 (Table 5 in Section 3, Total Population).

Definition of Sample Size

The sample size was estimated using a formula for the percentage of the population (Box 1). The size of the sample (474 respondents) was estimated in a manner that enabled statistical conclusions for population percentages at 4.5 percent accuracy within 95 percent confidence.

Box 1
Formula for estimating total sample size:

\[ n = \frac{p(1-p)\times z_a^2}{D^2} \]

\( n \) – sample size, \( p \) – percentage of population, \( D \) – degree of accuracy, \( z_a \) – value of \( z \) for selected confidence interval.

The sample size for each stratum (i.e., region and sector) was estimated for the percentage of population with 6.8 percent accuracy with 90 percent confidence.

Box 2
Formula used to estimate the sample size for each stratum:

\[ n = \left[ \frac{1}{N} + \frac{N - 1}{N} \times \frac{1}{p(1-p)} \times \left( \frac{D}{Z_{1-a}/2} \right)^2 \right]^{-1} \]

\( n \) – minimum sample size for each stratum, \( N \) – general population size, \( p \) – percentage of parent population, \( D \) – degree of accuracy, \( Z_{1-a}/2 \) – z score for selected confidence interval.

\(^{139}\) This is the maximum number of workers at a small company in the manufacturing sector. For more precise definition of the category of the company in the manufacturing sector, see Resolution # 439 on Approval of the Classification of the Companies and Organizations defined as Small Businesses of October 11, 2003.
Due to the uneven distribution of businesses in the regions of Uzbekistan (Table 2), more estimates were done in addition to the estimated minimum sample size for each stratum or region (which was 28 respondents, or 6 percent of the total sample). Thus, the nationwide distribution of companies was taken into account in the final sample size.

The subsequent data analysis precisely reconstructed the regional distribution by utilizing weighting factors.

Table 2. Sample Disaggregated by the Regions of Uzbekistan

<table>
<thead>
<tr>
<th>Location of Respondents Surveyed</th>
<th>Existing small businesses, total</th>
<th>Distribution as a percentage of total number of companies in the sample</th>
<th>Sample size for each region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Karakalpakstan</td>
<td>16 899</td>
<td>6.0%</td>
<td>28</td>
</tr>
<tr>
<td>Andijan region</td>
<td>30 052</td>
<td>6.9%</td>
<td>32</td>
</tr>
<tr>
<td>Bukhara region</td>
<td>26 855</td>
<td>6.1%</td>
<td>29</td>
</tr>
<tr>
<td>Jizzakh region</td>
<td>19 136</td>
<td>6.0%</td>
<td>28</td>
</tr>
<tr>
<td>Kashkadarya region</td>
<td>69 903</td>
<td>14.8%</td>
<td>70</td>
</tr>
<tr>
<td>Navoi region</td>
<td>11 943</td>
<td>6.0%</td>
<td>28</td>
</tr>
<tr>
<td>Namangan region</td>
<td>22 565</td>
<td>6.0%</td>
<td>28</td>
</tr>
<tr>
<td>Samarkand region</td>
<td>36 348</td>
<td>8.3%</td>
<td>39</td>
</tr>
<tr>
<td>Surkhandarya region</td>
<td>24 093</td>
<td>6.0%</td>
<td>28</td>
</tr>
<tr>
<td>Syrdarya region</td>
<td>12 753</td>
<td>6.0%</td>
<td>28</td>
</tr>
<tr>
<td>Tashkent region</td>
<td>32 311</td>
<td>7.3%</td>
<td>35</td>
</tr>
<tr>
<td>Fergana region</td>
<td>37 829</td>
<td>8.6%</td>
<td>41</td>
</tr>
<tr>
<td>Khorezm region</td>
<td>25 370</td>
<td>6.0%</td>
<td>28</td>
</tr>
<tr>
<td>Tashkent city</td>
<td>25 907</td>
<td>6.0%</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>391 964</strong></td>
<td><strong>100%</strong></td>
<td><strong>474</strong></td>
</tr>
</tbody>
</table>

Box 3

Formula used to estimate final sample size incorporating the coefficient of responses:

\[ n_f = \frac{n}{1 - R_n} \]

\( n_f \) – final sample size, \( n \) – sample size without accounting for the percentage of response, \( R_n \) – percentage of response.

Location of Respondents Surveyed

In practice the respondents do not always answer all questions on the questionnaire, affecting the accuracy of the analysis. Thus, the percentage of those who answered all questions in previous years was taken into account in the final sample size. As the percentage of missing answers did not exceed five percent of the total number of respondents in previous studies, the sample size of each region was respectively increased by five percent in order to maintain total number of the answers essential for the analysis.
The final sample size of 500 respondents was formed in a manner enabling statistical conclusions with the accuracy rate of 4.5 percent with 95 percent confidence for the percentage of the total population.

Table 3. Random distribution disaggregated by regions of Uzbekistan accounting for the percentage of respondents

<table>
<thead>
<tr>
<th>SAMPLE SIZE, n</th>
<th>PERCENTAGE OF MISSING ANSWERS</th>
<th>SAMPLE SIZE REFLECTING RESPONSE RATE, n'</th>
</tr>
</thead>
<tbody>
<tr>
<td>28</td>
<td>5%</td>
<td>30</td>
</tr>
<tr>
<td>32</td>
<td>5%</td>
<td>34</td>
</tr>
<tr>
<td>29</td>
<td>5%</td>
<td>31</td>
</tr>
<tr>
<td>28</td>
<td>5%</td>
<td>30</td>
</tr>
<tr>
<td>70</td>
<td>5%</td>
<td>74</td>
</tr>
<tr>
<td>28</td>
<td>5%</td>
<td>30</td>
</tr>
<tr>
<td>28</td>
<td>5%</td>
<td>30</td>
</tr>
<tr>
<td>39</td>
<td>5%</td>
<td>41</td>
</tr>
<tr>
<td>28</td>
<td>5%</td>
<td>30</td>
</tr>
<tr>
<td>35</td>
<td>5%</td>
<td>37</td>
</tr>
<tr>
<td>41</td>
<td>5%</td>
<td>43</td>
</tr>
<tr>
<td>28</td>
<td>5%</td>
<td>30</td>
</tr>
<tr>
<td>28</td>
<td>5%</td>
<td>30</td>
</tr>
<tr>
<td>474</td>
<td>5%</td>
<td>500</td>
</tr>
</tbody>
</table>

The sample was further stratified according to the following sectors of the economy: manufacturing sector, agriculture, construction, wholesale trade, retail trade, and public catering, etc. (see Table 6 in Section 3, Total Population).

In 2007 agricultural producers, dekhkans and farmers, dominated the Uzbek economy (70 percent of total number of companies). In the random distribution, the number of agricultural companies was reduced by two-thirds, while the number of companies in the other sectors of the economy was respectively increased. Prior to the data analysis, national sector ratios of the companies were reinstated by weight coefficients.

Final structure of the stratified sample used in the study is reflected in Table 7 and 8 (Section 4 - Data on Survey Respondents).

Identification of Survey Points for Each Region

Identification of survey points (locations) became the next step in the sampling. Due to the lack of statistical data on distribution of companies within populated areas in Uzbekistan, the domestic population distribution was used for identifying survey points. It was assumed that a higher number of people living in a specific settlement meant more small businesses would operate in its territory.
2. CONDUCTING FIELD WORK

2.1. Preparation for Field Work

Research Questionnaire and Preparation of Interviewers

A questionnaire was developed for the purposes of the survey covering a number of aspects of doing business in the country. The questionnaire included questions on the following themes: bank transactions and convertibility, investments and loans, obtaining permits, voluntary liquidation, audits, access to infrastructure, production of consumer goods, the competitive environment, the availability of manufacturing equipment, taxation, company reporting, and issues related to adoption of the New Revision of the Tax Code. In the process of drafting a questionnaire, the proposals of the State Committee for Demonopolization, Ministry of Justice, Chamber of Commerce and Industry, Ministry of Economy, Social Information and Analytical Department of the Cabinet of Ministers, and the Center for Monitoring Implementation of Laws and Regulations under the Ministry of Justice.

The questionnaires were tested to ensure appropriate understanding of the questions by the respondents and to identify the length of one interview. For this purpose, 14 test interviews were held in Russian and Uzbek with the managers or chief accountants of companies from all sectors of the economy based in Tashkent city and Tashkent oblast. Based on those outcomes, the comments of the entrepreneurs and interviewers were incorporated into the final questionnaire.

Guidelines for the interviewer on how to use the questionnaire were drafted in the process of preparation to the survey. They included explanations of the questions in the questionnaire and definitions of the legal and accounting terms used. Also random sampling guidelines were developed to explain the use of a running schedule, the criteria for replacing a company, and how to deal with alternative companies.

Randomly selected companies were grouped into running schedules according to the compiled sample. In addition to the main companies selected for the survey, the running schedule included four additional alternative companies as well as special lines where interviewers should indicate the reasons for replacing a given company (the number of calls and visits and reasons for refusal to take part in the survey).

After completion of the development of the set of documents and questionnaires, training was arranged for fieldwork supervisors (survey coordinators) selected for coordination of the interviewers’ work in each region of the country. In the course of training, all questions of the questionnaire were explained and guidelines for utilizing random sampling were issued.

2.2. Field works

Fieldwork was conducted in all regions of Uzbekistan in May 2008. IFC oversaw the quality of supervisors’ and interviewers’ work in this process.

Interviewed ranged from 40 minutes to 1.5 hours depending on the sector of the economy and on whether the respondent covered certain administrative procedures included in the questionnaire.

Difficulties in the Course of Fieldwork

In total, 113 out of 500 companies were substituted, or about 23 percent of those in the study.

---

140 The questionnaire is available at: www.ifc.org/uzbee.
Table 4. Substitutions made in the course of fieldwork

<table>
<thead>
<tr>
<th></th>
<th>SAMPLE</th>
<th>SUBSTITUTE</th>
<th>PERCENTAGE OF SUBSTITUTE RESPONDENTS IN THE SAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>70</td>
<td>27</td>
<td>38.6%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>110</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Construction</td>
<td>50</td>
<td>21</td>
<td>42.0%</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>39</td>
<td>18</td>
<td>46.2%</td>
</tr>
<tr>
<td>Retail trade</td>
<td>67</td>
<td>28</td>
<td>41.8%</td>
</tr>
<tr>
<td>Catering</td>
<td>66</td>
<td>19</td>
<td>28.8%</td>
</tr>
<tr>
<td>Other</td>
<td>98</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>500</td>
<td>113</td>
<td>23%</td>
</tr>
</tbody>
</table>

The reasons for substitutions may be divided into two groups.

(1) Difficulties related to the search for companies in the running schedule emerged because some companies:
- were not found by the indicated addresses (199 companies including alternatives);
- shut down operations (131 companies including alternatives);
- Changed addresses, telephone numbers or main operations but have not yet re-registered (20 companies including alternatives).

Furthermore, the interviewers encountered poor telephone communications in the process of fieldwork, making the search for respondents difficult, particularly in remote regions.

(2) Companies refused to take part in the survey. Respondents named the following reasons for refusing to take part in the survey:
- Lack of free time (76 companies including alternatives);
- Unwillingness to release information on financial and business activities of the company including financial indicators (turnover, profits, taxes, etc.);
- Lack of appropriate knowledge and/or documents to participate in the survey;
  For instance, 20 companies (including alternatives) could not take part in the survey as the managers did not have financial and statistical reporting data as of the end of 2007, while the accountant was absent, as he/she shows up at the company on certain days of the month;
- Disbelief that this survey was anonymous and the fear of consequences (7 companies including alternatives).

2.3. Utilization of Other Methods of Data Collection in the Study

In addition to the survey of the small businesses, a number of other research methods were utilized in the course of the study.

A number of focus group discussions were held with the involvement of entrepreneurs and civil servants to obtain detailed information on a number of researched issues.

Reviewing the practices of voluntary liquidation of business entities, quantitative data were obtained in all regions by additional surveys of the former company managers who went through this procedure. Quality information was received by conducting in-depth interviews with relevant experts including a consulting company offering voluntary liquidation services.

In addition to the main survey, the study of audits, taxation, and permits included a number of in-depth interviews and focus groups with involvement of the experts of the tax authorities, Chamber of Commerce and Industry, law firms, and entrepreneurs who went through these procedures in 2007.

Different methods of data collection enabled the collection of more comprehensive information about the challenges faced by entrepreneurs and the development of detailed recommendations for addressing problems detected.
3. PARENT POPULATION

Table 5. Number of existing small businesses in Uzbekistan by region as of January 1, 2008

<table>
<thead>
<tr>
<th>Region</th>
<th>TOTAL NUMBER OF OPERATING SMALL BUSINESSES</th>
<th>INCLUDING SMALL BUSINESSES</th>
<th>MICROFIRMS</th>
<th>PERCENTAGE OF TOTAL SMALL BUSINESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Karakalpakstan</td>
<td>16 899</td>
<td>1 189</td>
<td>15 710</td>
<td>4.3%</td>
</tr>
<tr>
<td>Andijan region</td>
<td>30 052</td>
<td>2 843</td>
<td>27 209</td>
<td>7.7%</td>
</tr>
<tr>
<td>Bukhara region</td>
<td>26 855</td>
<td>1 657</td>
<td>25 198</td>
<td>6.9%</td>
</tr>
<tr>
<td>Jizzakh region</td>
<td>19 136</td>
<td>659</td>
<td>18 477</td>
<td>4.9%</td>
</tr>
<tr>
<td>Kashkadarya region</td>
<td>69 903</td>
<td>1 164</td>
<td>68 739</td>
<td>17.8%</td>
</tr>
<tr>
<td>Navoi region</td>
<td>11 943</td>
<td>733</td>
<td>11 210</td>
<td>3.0%</td>
</tr>
<tr>
<td>Namangan region</td>
<td>22 565</td>
<td>1 963</td>
<td>20 602</td>
<td>5.8%</td>
</tr>
<tr>
<td>Samarkand region</td>
<td>36 348</td>
<td>2 253</td>
<td>34 095</td>
<td>9.3%</td>
</tr>
<tr>
<td>Surkhandarya region</td>
<td>24 093</td>
<td>1 953</td>
<td>22 140</td>
<td>6.1%</td>
</tr>
<tr>
<td>Syrdarya region</td>
<td>12 753</td>
<td>708</td>
<td>12 045</td>
<td>3.3%</td>
</tr>
<tr>
<td>Tashkent region</td>
<td>32 311</td>
<td>2 126</td>
<td>30 185</td>
<td>8.2%</td>
</tr>
<tr>
<td>Ferghana region</td>
<td>37 829</td>
<td>2 853</td>
<td>34 976</td>
<td>9.7%</td>
</tr>
<tr>
<td>Khorezm region</td>
<td>25 370</td>
<td>861</td>
<td>24 509</td>
<td>6.5%</td>
</tr>
<tr>
<td>Tashkent city</td>
<td>25 907</td>
<td>4 054</td>
<td>21 853</td>
<td>6.6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>391 964</strong></td>
<td><strong>25 016</strong></td>
<td><strong>366 948</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Table 6. Sector-specific distribution of Uzbek businesses as of January 1, 2008

<table>
<thead>
<tr>
<th>Sector</th>
<th>TOTAL NUMBER OF EXISTING SMALL BUSINESSES</th>
<th>INCLUDING SMALL BUSINESSES</th>
<th>MICROFIRMS</th>
<th>PERCENTAGE OF ALL EXISTING SMALL BUSINESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>21 809</td>
<td>2 110</td>
<td>19 699</td>
<td>5.6%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>273 965</td>
<td>9 296</td>
<td>264 669</td>
<td>69.9%</td>
</tr>
<tr>
<td>Construction</td>
<td>14 855</td>
<td>1 288</td>
<td>13 567</td>
<td>3.8%</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>12 450</td>
<td>2 137</td>
<td>10 313</td>
<td>3.2%</td>
</tr>
<tr>
<td>Retail trade and catering</td>
<td>39 337</td>
<td>5 562</td>
<td>33 775</td>
<td>10.0%</td>
</tr>
<tr>
<td>Other</td>
<td>29 548</td>
<td>4 623</td>
<td>24 925</td>
<td>7.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>391 964</strong></td>
<td><strong>25 016</strong></td>
<td><strong>366 948</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

4. DATA ON STUDY RESPONDENTS

Table 7. Sample Disaggregated By Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>MICROFIRMS</th>
<th>SMALL BUSINESSES</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>65</td>
<td>5</td>
<td>70</td>
</tr>
<tr>
<td>Agriculture</td>
<td>105</td>
<td>5</td>
<td>110</td>
</tr>
<tr>
<td>Construction</td>
<td>46</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>34</td>
<td>5</td>
<td>39</td>
</tr>
<tr>
<td>Retail trade</td>
<td>63</td>
<td>4</td>
<td>67</td>
</tr>
<tr>
<td>Catering</td>
<td>62</td>
<td>4</td>
<td>66</td>
</tr>
<tr>
<td>Other</td>
<td>93</td>
<td>5</td>
<td>98</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>468</strong></td>
<td><strong>32</strong></td>
<td><strong>500</strong></td>
</tr>
</tbody>
</table>
Table 8. Structure of the sample by sector and region (with the number of microfirms in total followed by the number of respondents in the sector or region in brackets)

<table>
<thead>
<tr>
<th>Region</th>
<th>TOTAL</th>
<th>MANUFACTURING</th>
<th>AGRICULTURE</th>
<th>CONSTRUCTION</th>
<th>WHOLESALE TRADE</th>
<th>RETAIL TRADE</th>
<th>CATERING</th>
<th>OTHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Karakalpakstan</td>
<td>30 (28)</td>
<td>4 (4)</td>
<td>7 (7)</td>
<td>3 (2)</td>
<td>3 (3)</td>
<td>4 (3)</td>
<td>4 (4)</td>
<td>5 (5)</td>
</tr>
<tr>
<td>Andijan region</td>
<td>34 (32)</td>
<td>5 (5)</td>
<td>8 (7)</td>
<td>3 (2)</td>
<td>3 (3)</td>
<td>5 (5)</td>
<td>4 (4)</td>
<td>6 (6)</td>
</tr>
<tr>
<td>Bukhara region</td>
<td>31 (29)</td>
<td>4 (4)</td>
<td>7 (6)</td>
<td>3 (3)</td>
<td>3 (3)</td>
<td>4 (4)</td>
<td>4 (4)</td>
<td>6 (5)</td>
</tr>
<tr>
<td>Jizzakh region</td>
<td>30 (29)</td>
<td>4 (4)</td>
<td>7 (7)</td>
<td>3 (3)</td>
<td>2 (1)</td>
<td>4 (4)</td>
<td>4 (4)</td>
<td>6 (6)</td>
</tr>
<tr>
<td>Kashkadarya region</td>
<td>74 (70)</td>
<td>10 (9)</td>
<td>17 (17)</td>
<td>7 (7)</td>
<td>6 (6)</td>
<td>9 (9)</td>
<td>10 (9)</td>
<td>15 (13)</td>
</tr>
<tr>
<td>Navoiy region</td>
<td>30 (29)</td>
<td>4 (4)</td>
<td>7 (7)</td>
<td>3 (3)</td>
<td>2 (1)</td>
<td>4 (4)</td>
<td>4 (4)</td>
<td>6 (6)</td>
</tr>
<tr>
<td>Namangan region</td>
<td>30 (28)</td>
<td>4 (4)</td>
<td>7 (6)</td>
<td>3 (3)</td>
<td>2 (2)</td>
<td>4 (4)</td>
<td>4 (4)</td>
<td>6 (6)</td>
</tr>
<tr>
<td>Samarkand region</td>
<td>41 (38)</td>
<td>6 (6)</td>
<td>10 (10)</td>
<td>4 (4)</td>
<td>3 (3)</td>
<td>6 (4)</td>
<td>5 (4)</td>
<td>7 (7)</td>
</tr>
<tr>
<td>Surkhandarya region</td>
<td>30 (28)</td>
<td>4 (3)</td>
<td>7 (6)</td>
<td>3 (3)</td>
<td>2 (2)</td>
<td>4 (4)</td>
<td>4 (4)</td>
<td>6 (6)</td>
</tr>
<tr>
<td>Syrdarya region</td>
<td>30 (29)</td>
<td>4 (4)</td>
<td>7 (6)</td>
<td>3 (3)</td>
<td>2 (2)</td>
<td>4 (4)</td>
<td>4 (4)</td>
<td>6 (6)</td>
</tr>
<tr>
<td>Tashkent region</td>
<td>37 (34)</td>
<td>5 (4)</td>
<td>9 (9)</td>
<td>4 (3)</td>
<td>3 (2)</td>
<td>4 (4)</td>
<td>5 (5)</td>
<td>7 (7)</td>
</tr>
<tr>
<td>Ferghana region</td>
<td>43 (40)</td>
<td>6 (5)</td>
<td>10 (9)</td>
<td>4 (4)</td>
<td>3 (3)</td>
<td>6 (6)</td>
<td>5 (4)</td>
<td>9 (9)</td>
</tr>
<tr>
<td>Khorezm region</td>
<td>30 (28)</td>
<td>4 (4)</td>
<td>7 (7)</td>
<td>3 (2)</td>
<td>2 (2)</td>
<td>4 (3)</td>
<td>4 (4)</td>
<td>6 (6)</td>
</tr>
<tr>
<td>Tashkent city</td>
<td>30 (26)</td>
<td>6 (5)</td>
<td>0</td>
<td>4 (4)</td>
<td>3 (1)</td>
<td>5 (5)</td>
<td>5 (5)</td>
<td>7 (6)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>500 (468)</td>
<td>70 (65)</td>
<td>110 (105)</td>
<td>50 (46)</td>
<td>39 (34)</td>
<td>67 (63)</td>
<td>66 (62)</td>
<td>98 (93)</td>
</tr>
</tbody>
</table>

Table 9. Occupation and Gender of Respondents

<table>
<thead>
<tr>
<th>Occupation</th>
<th>WOMEN</th>
<th>MEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>3.8%</td>
<td>16.5%</td>
</tr>
<tr>
<td>Director</td>
<td>3.7%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Deputy director</td>
<td>0.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Finance director</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Executive director</td>
<td>0.3%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Commerce director</td>
<td>0.2%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Chief accountant</td>
<td>29.3%</td>
<td>23.9%</td>
</tr>
<tr>
<td>Other</td>
<td>1.8%</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>39.5%</td>
<td>60.5%</td>
</tr>
</tbody>
</table>

Table 10. Educational Background of Respondents

<table>
<thead>
<tr>
<th>Level</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary school</td>
<td>5.3%</td>
</tr>
<tr>
<td>Vocational college/lyceum/technical college</td>
<td>37.9%</td>
</tr>
<tr>
<td>Institute/University</td>
<td>56.3%</td>
</tr>
<tr>
<td>Postgraduate /Doctorate</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Table 11. Sampled businesses by year of establishment

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-1995</td>
<td>11.2%</td>
</tr>
<tr>
<td>1996-2000</td>
<td>17.8%</td>
</tr>
<tr>
<td>2001-2004</td>
<td>36.0%</td>
</tr>
<tr>
<td>2005</td>
<td>15.6%</td>
</tr>
<tr>
<td>2006</td>
<td>13.4%</td>
</tr>
<tr>
<td>2007</td>
<td>6.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0%</td>
</tr>
</tbody>
</table>
5. UTILIZATION OF THE DATA FROM ENTERPRISE SURVEYS 2008

Data obtained in another study of the business environment by the World Bank Group, Enterprise Surveys, were used in this report in addition to the IFC study data.

Below is brief description of the methodology of Enterprise Surveys, explaining the goals of this study, sampling methodology, total population in the study and survey period. There is a comparative table of the Enterprise Surveys and IFC studies of small private businesses at the end of the section. Differences in the methodologies could have caused differences in comparable indicators of these two studies.

2.1. Summary Description of the Methodology of Enterprise Surveys

Research objectives for Enterprise Surveys:
- Provide comparable indicators describing the investment climate in various countries;
- Assess factors hindering growth of the private sector;
- Create a data panel on the company level to track changes in the business environment over time and assess the impact of reforms;
- Facilitate broad-based dialogue between business and government on essential reforms.

Three questionnaires titled General, Services, and Manufacturing were drafted for the study. Each reflects distinct features of the sector for which it was developed. Each questionnaire included the following sections: infrastructure and services; sales and procurement; degree of competition; innovation; audits; certification; land and permits; crime; finances; relations between businesses and government; labor; business environment, efficiency.

The sample size of the Enterprise Surveys study in Uzbekistan was 366 businesses in 2008. This sample allows conclusions with 7.5 percent statistical accuracy and 90 percent confidence for the percentage of the parent population.

The parent population of the survey of Enterprise Surveys includes non-agricultural private companies, and it excludes several sectors of the economy and companies with fewer than five workers. The sample of Enterprise Surveys was stratified according to three sectors (manufacturing, services, and others); by three regions (Tashkent city, Tashkent oblast and Samarkand oblast); the size of the company (small, medium, and large). To ensure that the comparison between the company size would be comparable, the methodology of Enterprise Surveys contains standard definitions of the businesses: small (5-19 workers), mid-sized (20-99 workers) and large (more than 99 workers).

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141 For more details on this research methodology, see www.enterprisesurveys.org.
142 Indicators of Enterprise Surveys contained in this report were estimated by the IFC Business Environment Enhancement in Uzbekistan Project based on the data provided by Enterprise Surveys. Some of the data contained herein may not coincide with the indicators published on the website of Enterprise Surveys. More detailed information on the indicators of Enterprise Surveys used in this report are available at the following website: www.ifc.org/uzbee.
### Table 12. Comparison of sample sizes of the Enterprise Surveys and IFC studies disaggregated by the sectors, regions, and company size

<table>
<thead>
<tr>
<th>TYPE OF SURVEY</th>
<th>ENTERPRISE SURVEYS</th>
<th>IFC STUDY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>121</td>
<td>70</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-</td>
<td>110</td>
</tr>
<tr>
<td>Construction</td>
<td>37</td>
<td>50</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>28</td>
<td>39</td>
</tr>
<tr>
<td>Retail trade</td>
<td>112</td>
<td>67</td>
</tr>
<tr>
<td>Catering</td>
<td>-</td>
<td>66</td>
</tr>
<tr>
<td>Other</td>
<td>68</td>
<td>98</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>366</td>
<td>500</td>
</tr>
<tr>
<td><strong>Region</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Republic of Karakalpakstan</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Khorezm region</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Andijan region</td>
<td>-</td>
<td>34</td>
</tr>
<tr>
<td>Namangan region</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Ferghana region</td>
<td>-</td>
<td>43</td>
</tr>
<tr>
<td>Syrdarya region</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Bukhara region</td>
<td>-</td>
<td>31</td>
</tr>
<tr>
<td>Navoi region</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Kashkadarya region</td>
<td>-</td>
<td>74</td>
</tr>
<tr>
<td>Surkhandarya region</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Samarkand region</td>
<td>136</td>
<td>41</td>
</tr>
<tr>
<td>Jizzakh region</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Tashkent region</td>
<td>105</td>
<td>37</td>
</tr>
<tr>
<td>Tashkent city</td>
<td>125</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>366</td>
<td>500</td>
</tr>
<tr>
<td><strong>Size</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro &lt;5 employees</td>
<td>-</td>
<td>193</td>
</tr>
<tr>
<td>Small &gt;=5 и &lt;=19 employees</td>
<td>101</td>
<td>260</td>
</tr>
<tr>
<td>Mid-sized &gt;=20 и &lt;=99 employees</td>
<td>100</td>
<td>46</td>
</tr>
<tr>
<td>Large &gt;=100 employees</td>
<td>165</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>366</td>
<td>500</td>
</tr>
</tbody>
</table>

The period covered by the Enterprise Surveys study ranges from 3 years (2005-2007) to one year (2007) depending on the issue.