

# Components of a comprehensive strategy for the development of entrepreneurship in Uzbekistan

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# 1. Introduction

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- The *Agency for the Development of Entrepreneurship* under the Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan is to draft a new strategy for entrepreneurship development in Uzbekistan
- The following Policy Briefing aims at supporting the strategy process by
  - providing an overview of the core components and its elements that a comprehensive strategy for entrepreneurship development should contain according to international best practices
  - describing briefly the major challenges facing Uzbek decision-makers in light of the specific situation in Uzbekistan for each strategy component
  - sketching briefly the expected positive effects on the sector of private entrepreneurs and SMEs in Uzbekistan of each strategy component

## 2. Overview

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According to international best practice, a modern and comprehensive policy strategy for the development of private small and medium-sized enterprises (SMEs) and private entrepreneurship, comprises two perspectives:

### A) Improving the framework conditions for entrepreneurship development

- This perspective is often also referred to as "creating a favorable business environment".

### B) Entrepreneurship promotion

Figuratively speaking, one could say:

- The first policy perspective prepares fertile soil and removes the obstacles to growth.
- The second policy perspective sows the seeds and nurtures the most fragile seedlings.

## 2. Overview (cont.)

### Framework Conditions Perspective

- Regulation
- Taxation
- Level-playing field
- Infrastructure
- Access to finance
- Labor market
- Macroeconomic stability

### Entrepreneurship Promotion Perspective

- Business Development Services
- Financial support
- Promoting entrepreneurial culture, developing entrepreneurial skills and promoting women entrepreneurship
- Promoting SME export/internationalisation
- Promoting innovative and high-tech entrepreneurship

### 3. Improving framework conditions

Component	Regulation
Elements	<ul style="list-style-type: none"><li>• Efficient market entry regulations and procedures (e.g. licenses, permissions)</li><li>• Efficient market exit regulations (liquidating procedures, bankruptcy rules, second chance etc.)</li><li>• Efficient technical (sanitary) regulation and conformity assessment</li><li>• Minimisation of compliance costs and regulatory burden</li><li>• Reduction of burden of supervision on SME</li><li>• Efficient enforcement of private business contracts</li><li>• Secure property rights, especially protection against expropriation</li><li>• Assessment of new regulation of their impact on SME development</li></ul>
Challenges	<ul style="list-style-type: none"><li>• Review existing regulation and practices of relevant authorities against international best practices, change accordingly</li></ul>
Expected results	<ul style="list-style-type: none"><li>• Growth of existing SMEs in terms of sales volume and employment</li><li>• Increase in the number of new businesses</li></ul>

### 3. Improving framework conditions (cont.)

Component	Taxation
Elements	<ul style="list-style-type: none"><li>• Review of the tax burden</li><li>• Reduction of the administrative burden of tax regulation</li></ul>
Challenges	<ul style="list-style-type: none"><li>• Review book keeping requirements and requirements with respect to primary documentation (invoices, receipts ...) against international best practice</li><li>• Review tax incentives against international best practice</li><li>• Review tax procedures against international best practice</li><li>• Change regulation and procedures accordingly</li></ul>
Expected results	<ul style="list-style-type: none"><li>• Growth of existing SMEs in terms of sales volume and employment</li><li>• Increase in the number of new businesses</li><li>• Increase in tax revenues from long-term stable businesses</li><li>• De-shadowing of informal businesses</li></ul>

### 3. Improving framework conditions (cont.)

Component	Level playing field conditions
Elements	<ul style="list-style-type: none"><li>• Non-discrimination of private SME with respect to<ul style="list-style-type: none"><li>○ Access to raw material and other resources</li><li>○ Access to premises</li><li>○ Access to public procurement</li><li>○ Inspections and the fines imposed on non-compliance</li></ul></li><li>• Lifting of remaining price controls</li></ul>
Challenges	<ul style="list-style-type: none"><li>• Review existing regulation and practices of relevant authorities against international best practices, change accordingly</li><li>• Vested groups could form resistance</li></ul>
Expected return	<ul style="list-style-type: none"><li>• Growth of existing SMEs in terms of sales volume and employment</li><li>• Increase in the number of new businesses</li><li>• Increase in tax revenues from long-term stable businesses</li></ul>

### 3. Improving framework conditions (cont.)

Component	Infrastructure
Elements	<ul style="list-style-type: none"><li>• Availability and quality of business premises, land plots, water supply, energy supply, broadband internet access etc.</li><li>• Quality of roads, airports, communication, rail infrastructure etc.</li><li>• Availability of business related professional services</li></ul>
Challenges	<ul style="list-style-type: none"><li>• Takes time to build and modernise necessary infrastructure</li><li>• High public expenditures required</li></ul>
Expected results	<ul style="list-style-type: none"><li>• Growth of existing SMEs in terms of sales volume and employment</li><li>• Increase in the number of new businesses</li></ul>

### 3. Improving framework conditions (cont.)

Component	Access to finance
Elements	<ul style="list-style-type: none"><li>• Facilitation of capability of business to use their cash-flow to finance investment projects (depreciation rules, VAT scheme and effective VAT refund etc.)</li><li>• Legal framework for venture capital investments</li><li>• Secure property rights for (foreign) financial investors</li><li>• Reduction of information asymmetry (e.g. credit history bureau)</li><li>• Legal framework for factoring services</li></ul>
Challenges	<ul style="list-style-type: none"><li>• Review and change existing regulation and practices of relevant authorities</li><li>• Adapt international best practices</li><li>• Interdependency with macroeconomic policy</li></ul>
Expected results	<ul style="list-style-type: none"><li>• Growth of existing SMEs in terms of sales volume and employment</li><li>• Increase in the number of innovative startups</li><li>• Strengthening the resilience of SMEs (higher survival rates in crises)</li></ul>

### 3. Improving framework conditions (cont.)

Component	Labor market
Elements	<ul style="list-style-type: none"><li>• Availability of skilled and experienced workforce</li><li>• Labor costs</li><li>• Labor market regulation (flexibility of labor contracts)</li></ul>
Challenges	<ul style="list-style-type: none"><li>• Analyse demand of private SME in terms of human resources and identify supply-shortages</li><li>• Review existing regulation and change according to international best practice</li><li>• Cooperation with education policy and labor market policy makers required</li></ul>
Expected results	<ul style="list-style-type: none"><li>• Growth of existing SMEs in terms of sales volume and employment</li><li>• Increase in the number of new businesses</li><li>• Strengthening the resilience of SMEs (higher survival rates in crises)</li></ul>

### 3. Improving framework conditions (cont.)

Component	Macroeconomic stability
Elements	<ul style="list-style-type: none"><li>• Growth of aggregate domestic demand</li><li>• Low inflation rate</li><li>• Efficient currency exchange regulation</li></ul>
Challenges	<ul style="list-style-type: none"><li>• Ensuring favorable macroeconomic conditions for entrepreneurship development is usually beyond the scope of entrepreneurship policy makers</li></ul>
Expected results	<ul style="list-style-type: none"><li>• Growth of existing SMEs in terms of sales volume and employment</li><li>• Increase in the number of new businesses</li></ul>

## 4. Entrepreneurship promotion

Component	<b>Business Development Services</b>
<b>Elements</b>	<ul style="list-style-type: none"><li>• Information provision</li><li>• Development training for founders</li><li>• SME manager and employee training</li><li>• Counselling and advice</li><li>• Business support infrastructure</li></ul>
<b>Challenges</b>	<ul style="list-style-type: none"><li>• Develop and implement business development services that are tailored to the specific needs of different target groups within the Uzbek sector of private entrepreneurs and private SMEs</li><li>• Monitor the efficiency of state funded services</li><li>• High public expenditures needed</li></ul>
<b>Expected results</b>	<ul style="list-style-type: none"><li>• Growth of existing SMEs in terms of sales volume and employment</li><li>• Increase in the number of new businesses</li></ul>

## 4. Entrepreneurship promotion (cont.)

Component	Financial Support
Elements	<ul style="list-style-type: none"><li>• Loans</li><li>• Credit facility for commercial banks</li><li>• Finance instruments for small businesses that have insufficient collateral (e.g. credit guarantee fund etc.)</li><li>• Mezzanine capital</li><li>• Grants</li></ul>
Challenges	<ul style="list-style-type: none"><li>• Develop and implement modern instruments of SME finance</li><li>• High public expenditures needed</li><li>• Risk of misuse/corruption</li><li>• Cooperation with donors, such as ADB, EBRD helps to meet the challenges</li></ul>
Expected results	<ul style="list-style-type: none"><li>• Growth of existing SMEs in terms of sales volume and employment</li><li>• Increase in the number of new businesses</li><li>• Increase in the number of innovative startups</li></ul>

## 4. Entrepreneurship promotion (cont.)

<b>Component</b>	<b>Promoting entrepreneurial culture and developing entrepreneurial skills</b>
<b>Elements</b>	<ul style="list-style-type: none"><li>• Business plan competitions</li><li>• Entrepreneurship education in schools and universities</li><li>• Effective dialogue between public authorities and private entrepreneurs</li><li>• Ombudsmen for mediating between authorities and entrepreneurs</li><li>• Transparency of relationships between policy makers and entrepreneurs, anti-corruption campaigns</li><li>• Promoting women entrepreneurship/youth entrepreneurship</li></ul>
<b>Challenges</b>	<ul style="list-style-type: none"><li>• Cooperation with other policy branches needed</li><li>• Long-term positive effects, but short-term effects are unlikely</li></ul>
<b>Expected results</b>	<ul style="list-style-type: none"><li>• Increase in the number of new businesses</li><li>• Increase in the number of innovative startups</li><li>• Increase in the number of nascent entrepreneurs</li><li>• Laying ground for an innovative entrepreneurship ecosystem</li></ul>

## 4. Entrepreneurship promotion (cont.)

Component	<b>Promoting SME export/ internationalisation</b>
<b>Elements</b>	<ul style="list-style-type: none"><li>• Grants for private SMEs taking part in international exhibitions</li><li>• Grants for international fact-finding and match-making missions of private SMEs</li><li>• Export funding / insurance / credit guarantees</li><li>• Promoting the participation in global value chains</li><li>• Trade facilitation<ul style="list-style-type: none"><li>○ Reduction of time and fees for customs release and clearance, border procedures etc.</li><li>○ Reduction of administrative burden related to export</li></ul></li></ul>
<b>Challenges</b>	<ul style="list-style-type: none"><li>• Trade facilitation needs cooperation with other policy branches</li><li>• High public expenditures for grants needed</li></ul>
<b>Expected results</b>	<ul style="list-style-type: none"><li>• Increase in the number of exporting SMEs</li><li>• Growth of existing SMEs in terms of sales volume, export volume</li><li>• Increase in employment in private SMEs</li><li>• Increasing efficiency and competitiveness of Uzbek SMEs</li></ul>

## 4. Entrepreneurship promotion (cont.)

<b>Component</b>	<b>Promoting innovative and high-tech entrepreneurship</b>
<b>Elements</b>	<ul style="list-style-type: none"><li>• Grants for R&amp;D in private SMEs, for startups etc.</li><li>• Startup-Incubators, Accelerators</li><li>• Facilitation of the development of a startup ecosystem</li><li>• Promotion of industrial cluster development</li></ul>
<b>Challenges</b>	<ul style="list-style-type: none"><li>• Adapt international best practices</li><li>• High public expenditures needed</li><li>• Risk of misuse/corruption</li><li>• Risk of inefficient allocation of public resources</li></ul>
<b>Expected results</b>	<ul style="list-style-type: none"><li>• Increase in the number of innovative and high-tech startups, SMEs</li><li>• Increase in employment in private SMEs</li><li>• Increase in the competitiveness of Uzbek SMEs</li></ul>

# 5. Conclusions

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- This policy briefing provides an overview of components a modern entrepreneurship development strategy should contain according to international best practice
- The presented structure could also serve as a blueprint for an outline for a strategy for entrepreneurship development
  - Each of the presented components could present a chapter in the strategy, each of the elements could present a section within the respective chapter
- Additionally, for the implementation of the strategy it would also be useful to define on section/element level
  - Objectives until 2030 and their justification
  - Indicators for measuring the achievement of objectives
  - Sketch of the measures to achieve the objectives
  - Responsible bodies and policy makers

# About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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