

# **Towards a modern service portfolio for the Agency for the Development of Small Business and Entrepreneurship in Uzbekistan**

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# 1. Introduction

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- The newly reorganised Ministry of Economic Development and Poverty Reduction of the republic of Uzbekistan has established the new *Agency for the development of small business and entrepreneurship*
- One of the first tasks of the agency's management is the development of a new and modern strategy for the agency's activities
- The following Policy Briefing aims at supporting the strategy process by
  - providing an overview of the core tasks and instruments of a modern SME agency according to international best practice: The four-pillar-model,
  - describing the instruments of the first pillar *business development services* in more detail,
  - describing briefly, how non-financial and financial support services can be integrated with each other,
  - providing case studies from Germany for the instruments of the first pillar *business development services* (in the appendix)

## 2. Overview: Core tasks and common instruments

### Business development services

- Information provision
- Business plan competition
- Development training for founders
- SME manager and employee training
- Counselling and advice

### Financial support services

- Loans
- Credit guarantees
- Mezzanine capital
- Grants

### Support infrastructure

- Managed community of supporters
- Start-up center/ SME support center
- Technology park/ business park
- Incubator/ Accelerator
- Cluster management

### Research & policy advice

- SME sector monitoring
- Policy advocacy
- Regulatory Impact Assessment from the SMEs' perspective

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Appendix: Case Studies on business development services

## 3.1 Information provision

<b>Target group</b>	<ul style="list-style-type: none"><li>• People planning to open or to expand a business</li></ul>
<b>Description</b>	<ul style="list-style-type: none"><li>• Providing basic information on registration, licensing, taxation and other relevant regulation</li><li>• Providing a list of available premises</li><li>• Instruments: Online-Portal, printed brochures, personal advisers</li></ul>
<b>Objectives</b>	<ul style="list-style-type: none"><li>• Facilitate thorough business planning in advance</li></ul>
<b>Success factors</b>	<ul style="list-style-type: none"><li>• Information is always up to date</li><li>• Personal advisers are competent, friendly and motivating</li><li>• Involve Chambers of Commerce and Industry (<b>best practice Germany</b>)</li></ul>
<b>Risks</b>	<ul style="list-style-type: none"><li>• Low risk of misuse/corruption</li><li>• Low risk of distortion of competition</li></ul>
<b>Implications for Uzbekistan</b>	<ul style="list-style-type: none"><li>• Wide reach with reasonable budget</li><li>• Good way to achieve visibility and build credibility for the agency</li></ul>

## 3.2 Business plan competition

<b>Target group</b>	<ul style="list-style-type: none"><li>• People planning to open a business</li></ul>
<b>Description</b>	<ul style="list-style-type: none"><li>• People submit their business plans to a jury</li><li>• A jury of experienced business managers evaluates the business plans and awards prizes for the best business plans</li><li>• Award ceremonies are big events: all participants are invited, politicians as key note speakers and laudatory speakers</li></ul>
<b>Objectives</b>	<ul style="list-style-type: none"><li>• Facilitate thorough business planning in advance</li><li>• Facilitate networking between business founders</li><li>• Promote a positive image of entrepreneurship</li></ul>
<b>Success factors</b>	<ul style="list-style-type: none"><li>• Transparent evaluation and feedback to the participants</li><li>• Integrate with trainings in order to increase the quality of business plans</li><li>• Media coverage of events and winners</li><li>• Involve universities and commercial banks (<b>best practice Germany</b>)</li></ul>
<b>Risks</b>	<ul style="list-style-type: none"><li>• Low risk of misuse/corruption</li><li>• Low risk of distortion of competition</li></ul>
<b>Implications for Uzbekistan</b>	<ul style="list-style-type: none"><li>• Wide reach with reasonable budget</li><li>• Good way to achieve visibility and build credibility for the agency</li></ul>

## 3.3 Development training for business founders

<b>Target group</b>	People planning to open a business
<b>Description</b>	<b>Best practice from Germany:</b> 3-5 day workshop, combination of <ul style="list-style-type: none"><li>• Assessment Center</li><li>• Training of essential business planning knowledge</li><li>• Soft skill training</li></ul>
<b>Objectives</b>	<ul style="list-style-type: none"><li>• Facilitate thorough business planning in advance</li><li>• Support and motivate founders</li><li>• Select most promising business concepts and founders for more comprehensive/expensive support programs</li></ul>
<b>Success factors</b>	<ul style="list-style-type: none"><li>• Small groups (7-12 participants)</li><li>• Trainers combine business knowledge with soft skill knowledge</li><li>• Peer-group feedback and exchange between participants</li></ul>
<b>Risks</b>	<ul style="list-style-type: none"><li>• Low risk of misuse/corruption</li><li>• Low risk of distortion of competition</li></ul>
<b>Implications for Uzbekistan</b>	<ul style="list-style-type: none"><li>• More expensive tool, but big impact on target group</li><li>• Good way to achieve visibility and build credibility for the agency</li></ul>

## 3.4 SME manager and employee training

<b>Target group</b>	Managers and employees of existing SME
<b>Description</b>	Classroom or Online-Trainings on various business related subjects, such as <ul style="list-style-type: none"><li>• Export market development</li><li>• Management Skills</li><li>• Technical and commercial knowledge</li><li>• Soft skills (e.g. presentation skills) etc.</li></ul>
<b>Objectives</b>	<ul style="list-style-type: none"><li>• Facilitate business development and growth of existing SME</li><li>• Facilitate innovation processes in companies</li></ul>
<b>Success factors</b>	<ul style="list-style-type: none"><li>• Pre-Selection of participants: only train people who can make use of the knowledge</li><li>• Cooperate with experienced third party providers (e.g. voucher system)</li></ul>
<b>Risks</b>	<ul style="list-style-type: none"><li>• Medium risk of misuse/corruption -&gt; requires transparent administration</li><li>• Low risk of distortion of competition</li></ul>
<b>Implications for Uzbekistan</b>	<ul style="list-style-type: none"><li>• Easy to implement by using international experience and cooperation with international development partner organisations</li><li>• Good way to achieve visibility and build credibility for the agency</li></ul>

## 3.5 Counselling and Advice

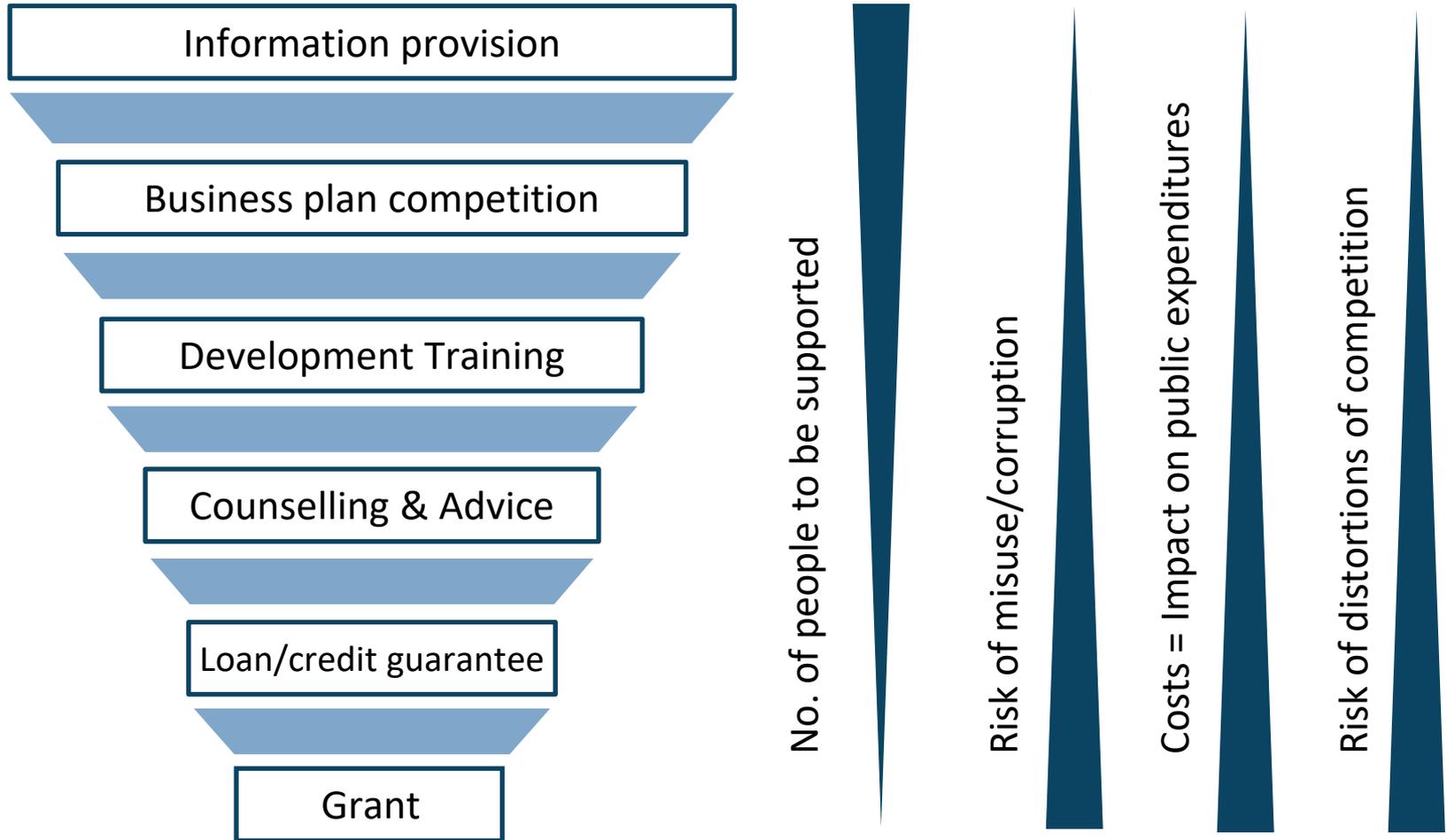
<b>Target group</b>	SME managers, Business founder
<b>Description</b>	<ul style="list-style-type: none"><li>• Experienced business consultants provide advice to business founders and SME managers in medium-term projects (4-12 weeks)</li></ul>
<b>Objectives</b>	<ul style="list-style-type: none"><li>• Facilitate business development and growth of existing SME</li><li>• Facilitate innovation processes in companies</li><li>• Develop a local market of consulting and professional services</li></ul>
<b>Success factors</b>	<ul style="list-style-type: none"><li>• Cooperation with local consultants</li><li>• Sophisticated selection of beneficiaries</li><li>• Quality management of consulting services</li><li>• Precise planning of each consulting project and final report</li></ul>
<b>Risks</b>	<ul style="list-style-type: none"><li>• Medium risk of misuse/corruption -&gt; cost sharing between agency and beneficiary, transparent administration</li><li>• Low risk of distortion of competition</li></ul>
<b>Implications for Uzbekistan</b>	<ul style="list-style-type: none"><li>• More expansive, but good tool, that serves as a catalyst for the development of the local consulting industry</li><li>• Good way for cooperating with international donors and IFI (e.g. EBRD Business Advisory Service)</li></ul>

## 4 . Integration of non-financial and financial support: principles

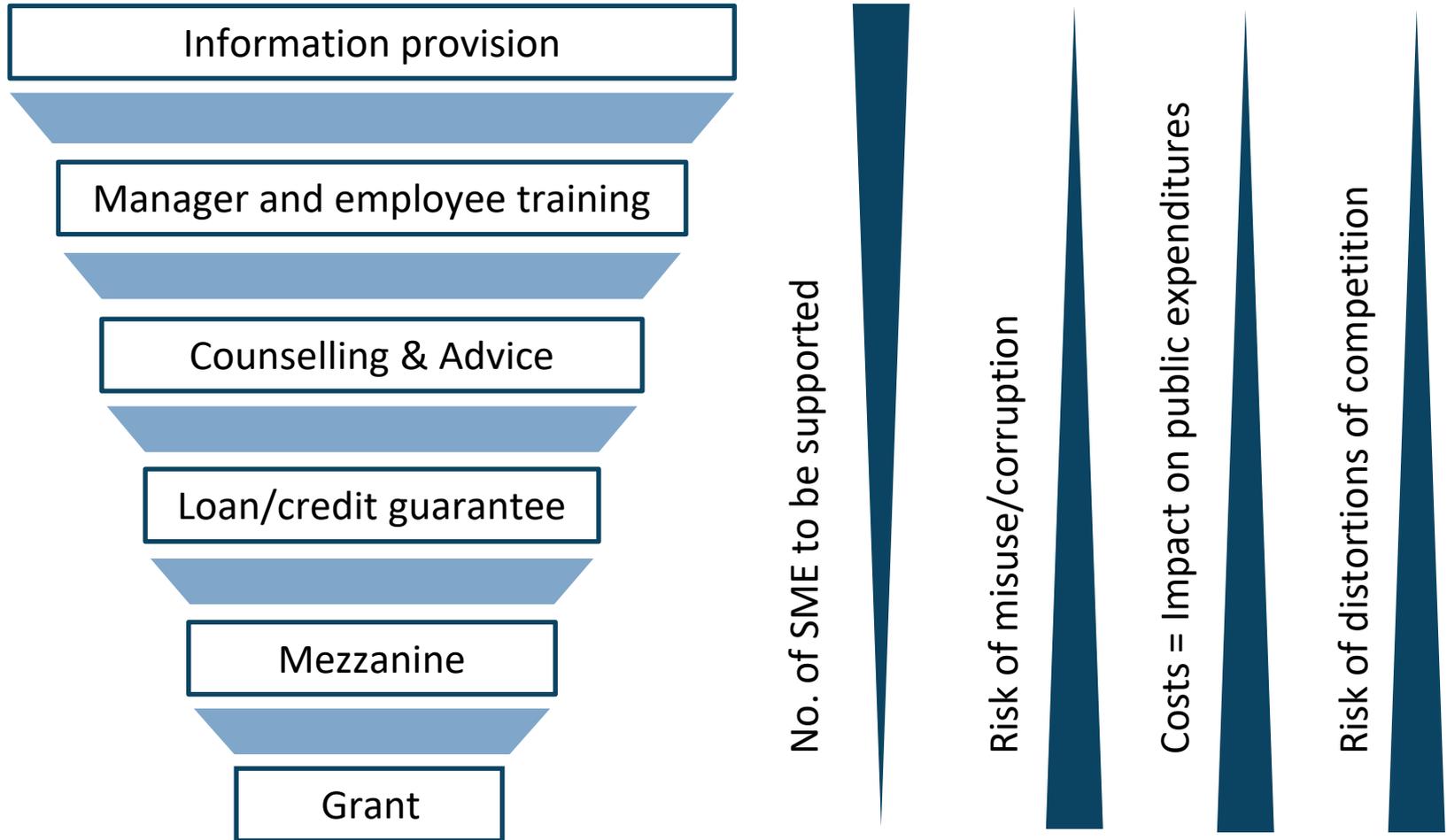
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- The efficiency of financial and non-financial support instruments depends on their reach, costs and associated risks
- Example: Grants
  - Grant is the favourite instrument from the beneficiaries' point of view
  - At the same time grants are the most expensive instruments with the biggest impact on public budget, which means that only a very small fraction of SMEs can be supported
  - The distribution of grants, i.e. selection of beneficiaries, bears a high risk of misuse and corruption and thus requires administrative resources and capacity for preventing misuse and corruption
- Instruments shall be integrated in such a way that each support process for each beneficiary shall start with instruments with low costs and small associated risks.
- The support process can be seen as a funnel through which the beneficiaries pass. Only most promising founders/SMEs are given access to the most expensive and therefore exclusive support instruments at the end of the funnel

# 4. Integration of non-financial and financial support for founders (example)



# 4. Integration of non-financial and financial support for SMEs (example)



## 5. Recommendations for Uzbekistan for fast implementation

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- The implementation of the above discussed instruments requires technical and administrative capacity and experienced personnel. A good division of tasks with experienced external providers and institutions can accelerate the implementation process
- The implementation of the financial support instruments (loans, credit guarantees, mezzanine capital and grants) requires a particularly high level of technical and administrative capacity and banking experience. Therefore, in many countries, the division of tasks with national development banks proved to be a key success indicator:
  - The SME agency is responsible for the implementation of non-financial support services (see slide 4: pillar I, III and IV)
  - The development bank is responsible for the implementation of financial support services (see slide 4: pillar II), often cooperating with commercial banks
  - Division of tasks still requires the implementing partners to coordinate their effort in order to integrate their services with each other

## 5. Recommendations for Uzbekistan for fast implementation

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- In the beginning, it is advisable to focus the agency's effort on building a good reputation for the newly established agency. This means to concentrate on creating visibility and credibility
- In order to create visibility and credibility, the agency's service portfolio in the beginning should prioritise instruments, which promise a wide reach with reasonable budget and low risk of misuse and corruption, such as business development services
- For implementing (non-financial) business development services, the cooperation with private business development service providers is advisable for the following reasons:
  - It accelerates the implementation process. The Agency could launch its service portfolio faster
  - A positive side effect is the promotion of the private market development for business development services
  - International donors do not finance government SME agencies directly (anymore), but finance cooperation with private business development service providers

# Appendix: Case studies on business development services

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Case study RE 3.1: Information provision

Case study RE 3.2: Business plan competition

Case study RE 3.3: Integration of training and counselling for founders

Case study RE 3.4: SME manager and employee training

Case study RE 3.5: Counselling and advice for SME

Case study RE 4: Integration of non-financial and financial support

# Case study RE 3.1: Information provision

## Information service for founders, Chamber of Commerce and Industry of Land Brandenburg, Germany

<b>For whom</b>	People planning to found or to expand a business
<b>What is the support</b>	<p>Brochures and an online portal provide basic information on available premises, registration, licensing, taxation and other relevant regulation</p> <p>Personal advisers free of charge ...</p> <ul style="list-style-type: none"><li>• advise on registration, licensing, taxation and other relevant regulation,</li><li>• examine and assess start-up ideas, start-up concepts, financing plans on the basis of an analysis of the market situation, industry conditions, key business figures, profitability and viability,</li><li>• offer industry information,</li><li>• inform about funding programs,</li><li>• help with the preparation of business plans,</li><li>• prepare expert statements for public institutions on applications for financing or subsidies</li></ul>
<b>Success factors</b>	Personal advisers are competent, friendly and motivating
<b>Lessons learned</b>	Personal advising takes place in the premises of the chamber, personal advisers are employees of the chamber -> no impact on the agency's budget

# Case study RE 3.2: Business plan competition

## Business plan competition Berlin-Brandenburg

<b>For whom</b>	People planning to found a business
<b>Description</b>	<p>Common project of</p> <ul style="list-style-type: none"><li>• Regional administrations of Laender Berlin and Brandenburg</li><li>• SME banks and SME agencies of Laender Berlin and Brandenburg</li><li>• Universities of Laender Berlin and Brandenburg</li><li>• Local banks</li></ul> <p>Consists of:</p> <ul style="list-style-type: none"><li>• Yearly contest with EUR 50,000 prizes per anno</li><li>• Free seminars and workshops, networking events, big award ceremony event</li><li>• Free evaluation and feedback to submitted business plan</li></ul>
<b>Success</b>	<p>Has existed for 25 years</p> <p>In 2019: 879 Participants, 277 business plans, 139 workshops/events, 238 jurors</p> <p>Big impact on positive image of entrepreneurship in the region</p>

# Case study RE 3.3 + 4: Integrating training + counselling for founders

## Development Center and Founder's Pilot Land Brandenburg, Germany

<b>For whom</b>	People planning to found a business
<b>What is the support</b>	<p><b>Step 1:</b> Founder submits application = brief draft of their business concept</p> <p><b>Step 2:</b> Personal interview of agency with founder</p> <p><b>Step 3:</b> Four-days workshop, free of charge: combination of Assessment Center, training of essential business planning knowledge, soft skill development training</p> <p><b>Step 4:</b> Founders pitch</p> <p><b>Step 5:</b> Assessment of the founders' pitches and the progress participants have made since step 1</p> <p><b>Step 6:</b> Selection of most most promising business concepts and participants</p> <p><b>Step 7:</b> Counselling by experienced business consultants, free of charge</p>
<b>Success factors</b>	<ul style="list-style-type: none"><li>• Seven-step approach functions as a funnel and selection mechanism</li><li>• Funnel prevents misuse, therefore no cost sharing needed</li><li>• Quality management of consulting -&gt; consultants must qualify in advance</li><li>• Small groups (7-12 participants) in the workshop</li><li>• Peer-group feedback and exchange between participants of the workshop proved to be key for motivation of founders</li></ul>

# Case Study RE 3.4: SME manager and employee training

## Training program of the SME Agency of Land Brandenburg, Germany

<b>For whom</b>	SME managers and employees, solo entrepreneurs, liberal professional
<b>What is the support</b>	50% reimbursement of costs, but max EUR 3,000 per person, for training of <ul style="list-style-type: none"><li>• Management skills</li><li>• Technical and commercial knowledge</li></ul>
<b>What is not supported</b>	<ul style="list-style-type: none"><li>• Not: training for driving licenses</li><li>• Not: tax advice or legal advice that is guised as “training”</li><li>• Not: conferences, congresses, trade fairs, presentations</li><li>• Not: 1 on 1 training, self-teaching</li></ul>
<b>Success factors</b>	<ul style="list-style-type: none"><li>• Cost sharing prevents misuse</li><li>• Cost sharing results in efficient self-selection of beneficiaries and self-selection of training courses -&gt; little quality control over trainings necessary</li><li>• Instrument is very popular with the target group -&gt; relatively small budget (per beneficiary and in total), but very high positive impact on the agencies visibility and reputation</li></ul>
<b>Lessons learned</b>	Efficient administration decreases the overhead costs per beneficiary and thus the agency’s overhead costs in total

# Case Study RE 3.5: Counselling and advice for SME

## BAFA Consulting for SME, Germany

<b>For whom</b>	<p>All SME, which ...</p> <ul style="list-style-type: none"><li>• are 100% privately owned (no state or public ownership or share) <u>and</u></li><li>• are not consulting companies, tax advisers or legal advisers themselves <u>and</u></li><li>• are not in the process of insolvency</li></ul>
<b>What is the support</b>	<p>80% reimbursement of costs, but max EUR 2,400, for consulting in the areas of business strategy, marketing, business organisation, HR management, supply chain management, financial planning, export market development, innovation management</p>
<b>What is not supported</b>	<ul style="list-style-type: none"><li>• Not: tax advice or legal advice</li><li>• Not: expert statements, e.g. for receiving certificates</li><li>• Not: brokerage fees, referral fees</li></ul>
<b>Success factors</b>	<ul style="list-style-type: none"><li>• Cost sharing prevents misuse</li><li>• Quality management of consulting -&gt; consultants must qualify in advance</li><li>• Instrument is popular with the target group -&gt; small budget (per beneficiary and in total), but very high impact on the agency's visibility and reputation</li></ul>
<b>Lessons learned</b>	<p>Efficient administration decreases the overhead costs per beneficiary and thus the agency's overhead costs in total</p>

# Case Study RE 4: Integration of non-financial and financial support

## EXIST Founder Scholarship, Germany

<b>For whom</b>	Scientist and/or university graduates with innovative start-up projects
<b>What is the support</b>	Combination of grants and non-financial support <ul style="list-style-type: none"><li>• Grant: up to EUR 107,000</li><li>• Business development services, worth EUR 5,000 (voucher)</li><li>• Equipped room in an incubator</li><li>• Advise and support from a public research institute</li></ul>
<b>Success factors</b>	<ul style="list-style-type: none"><li>• Focus on innovative and promising start-ups with long-term growth potential</li><li>• Targets high-educated people</li><li>• Application and approval process is very demanding for the applicants, includes several tiers and external expert statements<ul style="list-style-type: none"><li>-&gt; high drop-out rate during the selection process</li><li>-&gt; prevents misuse and deadweight effects</li></ul></li></ul>
<b>Success</b>	84% of assisted start-ups survived their first five years (as opposed to 20% average survival rate of technology start-ups within the first five years)

# About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

The German Economic Team is financed by the Federal Ministry of Economics and Energy. The consulting firm Berlin Economics has been commissioned with the implementation of the project.

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