

NEWSLETTER

UZBEKISTAN

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SME promotion: the next steps

The promotion of small and medium-sized enterprises (SMEs) is becoming increasingly important within Uzbekistan's economic policy. To date, support has focussed on founders and small businesses. Since 2023, there have been new reform initiatives that point towards further development of SME promotion.

These include an internationally comparable definition of SMEs, which also encompasses medium-sized companies and directs policymakers' attention to their importance in job creation.

The planned establishment of an SME monitor would allow SME policy to be evaluated and adapted.

In line with international practice, the SME strategy, which is also currently being developed, should clearly distinguish between the promotion of growth and export-oriented small and medium-sized enterprises on the one hand and the support of subsistence businesses on the other.

In addition, we recommend expanding the range of support instruments and, in the long term, refraining from the tax reliefs that are still increasingly being used. They are a burden on the state budget and do little to sustainably strengthen the SME sector.

The importance of SMEs

Small and medium-sized enterprises are considered the backbone of the economy in many countries. This was also recognised in Uzbekistan. Since 2019, the government has taken reform steps to establish modern SME promotion. Until now, support has focussed on founders and small businesses. The range of support instruments is still limited and mainly consists of tax reliefs and subsidised loans.

To develop the sector, an important next step would be to focus on growth- and export-oriented small and medium-sized enterprises. To this end, the range of support instruments should be expanded. Since 2023, a number of reform initiatives have emerged that form a basis for that. The initiatives include the introduction of a modern definition of small and medium-sized enterprises, the establishment of an SME monitor and the design of a SME development strategy.

SME definition

The state Statistics Agency collects data on individual entrepreneurs, micro-enterprises and small enterprises. Medium-sized companies are not included as they have

not yet been defined. This is to be changed either as part of a new Entrepreneurship Code or as part of a special SME law by the end of 2024. The new definition, which is largely aligned with the definition of SMEs in the EU, would have several advantages:

1. A definition based on international standards enables the comparability of data on the development of the SME sector with other countries. Among other things, this would make it easier to attract international support for the Uzbek SME sector.
2. A definition is essential for the set-up of support programmes, as it defines the group of eligible beneficiaries and regulates access. The definition must therefore make it explicitly clear that only privately-owned SMEs have access to support programmes. At present, this is not yet a matter of course in Uzbekistan, in contrast to the usual practice worldwide.

SME statistics and SME monitor

In addition to the new SME definition, the reform initiatives include the establishment of an SME monitor. A sound data basis is the prerequisite for an effective SME policy. The first step should be to survey the current situation, especially of medium-sized companies. The SME policy should be regularly evaluated and adapted. For this purpose, it must be possible to determine the effects of the support measures on the development of the sector.

There are many international examples of SME monitors and similar instruments. These include the Global Entrepreneurship Monitor, the OECD's SME Policy Index, the Asian SME Monitor from the Asian Development Bank and the SME Panel and the SME Barometer from Germany. Uzbekistan can therefore draw on a broad range of best practices. It would be effective to build up scientific expertise for the SME Monitor in Uzbekistan and anchor it permanently in an academic institution or department.

SME strategy and focus

The government has also set itself the goal of adopting a SME strategy by the end of this year. It should then cover the period from 2025 to 2030. According to current considerations, this strategy should cover all types of entrepreneurship, including individual entrepreneurs, micro-enterprises, and subsistence businesses.

In this context, it would be important to give special priority to the promotion of growth and export-oriented small and medium-sized enterprises within the strategy.

Their promotion requires different instruments and approaches than the promotion of individual entrepreneurs and micro-enterprises. In particular, SME promotion should be differentiated from support for subsistence businesses.

Types of SME promotion

A modern SME strategy basically pursues two approaches: The first approach consists of removing general barriers to development. The second approach consists of targeted individual financial or in-kind support.

The removal of general obstacles to growth and development, particularly with regard to the regulatory framework, is usually unproblematic from a regulatory policy perspective and generally involves low costs for the state budget.

Direct financial or in-kind subsidies for specific companies, on the other hand, are a burden on the state budget and also potentially distort competition. However, they allow the targeted promotion of SMEs in promising sectors. In order to implement direct promotion programmes, the state would also have to invest in the development of administrative capacities, as access to direct promotion programmes must be protected against corruption and misuse.

When it comes to direct support programs, offering information, training, and advice free of charge or at a subsidised rate is more favourable than solely providing subsidies. This approach is less prone to corruption and misuse, and it also minimises the risk of distorting competition.

International studies show that tax reliefs are generally a poor choice as a support measure for SMEs. They are a burden on the state budget and do not achieve significant sustainable positive effects on the development of the SME sector. Instead of lowering VAT rates for SMEs, for example, the regulation and processes for VAT refunds for SMEs could be improved. This effectively supports SME development and hardly burdens the state budget.

Conclusion

The importance of SMEs for the economic development of Uzbekistan is increasingly being recognised in economic policy discussions. This development is welcomed. The next reform steps towards modern SME promotion are already in the pipeline. The task now is to swiftly finalise the discussions on the reform initiatives and begin with the implementation.

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

Editor

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