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**POLICY BRIEFING**  
**UZBEKISTAN**

# International best practices in SME promotion – Overview of 8 instruments that have proven to be efficient, low-cost and easy to implement

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# Structure

1. Motivation
2. Overview of the instruments
3. Best practice SME promotion instruments
4. SME promotion: Don'ts
5. SME promotion: Outlook

Annex 1: Extract from German law public on public procurement

Annex 2: SME definition of European Union as an example

# 1. Motivation

## Background

- » The Ministry of Economy and Finance is drafting a strategy for the development of entrepreneurship and small and medium-sized enterprises (SMEs) in Uzbekistan until 2030
- » In this context, GET has provided recommendations on a possible structure and methodology of a modern SME strategy (see Technical Notes TN/01/2024 and TN/04/2024)

## Purpose of this Policy Briefing

- » This policy briefing aims to further support the strategy drafting process by providing an overview of international best practice in SME promotion
- » From the large variety of international best practices, we have selected instruments that are suitable for the current situation of Uzbekistan because
  - Implementation is feasible until 2030
  - Implementation does not require high public spending
  - Implementation does not require large institutional capacities
  - Risks of misuse are low
  - Positive impact on the SME sector development is expected to be significant by 2030

## 2. Overview of the instruments

| Objective  | Instrument   | Reach within SME sector | Additional budget expenditures | Implementation |
|--|--|-------------------------|--------------------------------|----------------|
| Improving access to public procurement               | (1) Splitting public procurement into lots                                 | wide                    | none                           | fast & easy    |
| Improving access to finance                          | (2) Strengthen internal liquidity of SMEs by efficient taxation procedures | wide                    | none                           | fast & easy    |
|  | (3) Regulatory and institutional framework for advanced financing          |                         |                                |                |
| Improving access to commercial sites                 | (4) Subsidised business parks for SMEs                                     | wide                    | moderate                       | complex        |
| Improving access to foreign markets                  | (5) SME export promotion programme   | wide                    | moderate                       | fast & easy    |
| Reducing the administrative burden of tax regulation | (6) Simplified accounting and reporting standards                          | wide                    | none                           | fast & easy    |
| Improving SMEs resilience                            | (7) Flexibilising labour contracts for SMEs                                | wide                    | none                           | fast & easy    |
| Facilitating entrepreneurial networking              | (8) Business Plan Competition  | wide                    | moderate                       | fast & easy    |

Source: own Illustration

# 3. Best practice SME promotion instruments

## (1) Improving access to public procurement

|   |  |
|---|--|
| <b>Impediment</b><br>What is the issue? | <ul style="list-style-type: none"> <li>SMEs are at a disadvantage when it comes to access to public procurement contracts, mainly because they are not able to fulfil large volumes of orders</li> </ul>   |
| <b>Tool/Measure</b>                     | <ul style="list-style-type: none"> <li><b>Splitting public procurement into lots</b></li> </ul>  |
| <b>Description</b>                      | <ul style="list-style-type: none"> <li>All contracting authorities are obliged to split procurement tenders into lots that are as small as possible so that SMEs with low production or supply capacities can also participate in the tender</li> </ul> <p><u>See also Annex 1: extract from German law public on public procurement</u></p> |
| <b>Expected results</b>                 | <ul style="list-style-type: none"> <li>High participation of SMEs in the bidding process</li> <li>Prevention of discrimination against SMEs</li> </ul>   |
| <b>Success factors</b>                  | <ul style="list-style-type: none"> <li>Good planning and structuring of public procurement tenders</li> <li>Widespread information about public procurement tenders</li> <li>Easy (digital) access for SMEs to public procurement tenders</li> </ul>   |
| <b>Risks</b>                            | <ul style="list-style-type: none"> <li>No risk of misuse/corruption</li> <li>No risk of distortion of competition</li> </ul>   |
| <b>Assessment</b>                       | <ul style="list-style-type: none"> <li>Wide reach, requires no additional budget expenditure, fast and easy implementation</li> <li>Good way to help SMEs to overcome market entry barriers</li> </ul>   |

## (2) Improving access to internal finance

|   |   |
|---|---|
| <b>Impediment</b><br>What is the issue? | <ul style="list-style-type: none"> <li>SMEs are at a disadvantage when it comes to access to external debt finance such as bank loans because of less or no collateral and credit history</li> </ul>                        |
| <b>Tool/Measure</b>                     | <ul style="list-style-type: none"> <li>Strengthen internal liquidity of SMEs by efficient taxation procedures, i.e. facilitation of capability of businesses to use their own cash-flow as financial source</li> </ul>      |
| <b>Description</b>                      | <ul style="list-style-type: none"> <li>VAT debit is based on paid invoices (instead of based on issued invoices)</li> <li>VAT refund is paid within a couple of days</li> <li>Favourable depreciation rules etc.</li> </ul> |
| <b>Expected results</b>                 | <ul style="list-style-type: none"> <li>Access for SMEs to their own internal liquidity instead of SMEs lending to the state</li> </ul>  |
| <b>Success factors</b>                  | <ul style="list-style-type: none"> <li>Efficient tax administration and treasury</li> <li>Modern risk management approach for tax inspections</li> </ul>  |
| <b>Risks</b>                            | <ul style="list-style-type: none"> <li>Little risk of misuse/corruption</li> <li>No risk of distortion of competition</li> </ul>  |
| <b>Assessment</b>                       | <ul style="list-style-type: none"> <li>Wide reach, requires no additional budget expenditure, fast and easy implementation</li> <li>Good way to help SMEs to overcome liquidity constraints</li> </ul>                      |

Source: own Illustration

## (3) Improving framework for access to finance

|   |  |
|---|--|
| <b>Impediment</b><br>What is the issue? | <ul style="list-style-type: none"> <li>SMEs are at a disadvantage when it comes to access to external debt finance such as bank loans because of less or no collateral and credit history</li> </ul>   |
| <b>Tool/Measure</b>                     | <ul style="list-style-type: none"> <li><b>Regulatory and institutional framework for advanced financing</b></li> </ul>   |
| <b>Description</b>                      | <ul style="list-style-type: none"> <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> |
| <b>Expected results</b>                 | <ul style="list-style-type: none"> <li>Access for SMEs to sources of financing other than bank financing</li> </ul>  |
| <b>Success factors</b>                  | <ul style="list-style-type: none"> <li>International best practice for equity finance legal framework</li> <li>Jurisdiction and courts for the enforcement of the law</li> </ul>   |
| <b>Risks</b>                            | <ul style="list-style-type: none"> <li>Little risk of misuse/corruption</li> <li>No risk of distortion of competition</li> </ul>   |
| <b>Assessment</b>                       | <ul style="list-style-type: none"> <li><b>Wide reach, requires no additional budget expenditure, fast and easy implementation</b></li> <li><b>Good way to help SMEs to access diverse sources of finance</b></li> </ul>  |

Source: own Illustration

## (4) Improving access to commercial sites

|   |   |
|---|---|
| <b>Impediment</b><br>What is the issue? | <ul style="list-style-type: none"> <li>SMEs are at a disadvantage when it comes to access business premises and commercial sites</li> <li>SMEs do not have sufficient funds to set up commercial sites on their own</li> </ul>  |
| <b>Tool/Measure</b>                     | <ul style="list-style-type: none"> <li><b>Publicly subsidised business parks for SMEs</b></li> </ul>  |
| <b>Description</b>                      | <ul style="list-style-type: none"> <li>State assures access to affordable premises and commercial sites for SMEs</li> <li>Business parks possess necessary infrastructure such as reliable energy supply, water supply, waste management, access to transport network etc.</li> </ul> |
| <b>Expected results</b>                 | <ul style="list-style-type: none"> <li>Ensuring a level playing field for SMEs in terms of access to sites and infrastructure</li> </ul>  |
| <b>Success factors</b>                  | <ul style="list-style-type: none"> <li>Fit between local demand and supply</li> <li>Transparency on the quantity and quality of available commercial sites, e.g. through publicly accessible lists and the introduction of a site monitoring system</li> </ul>                        |
| <b>Risks</b>                            | <ul style="list-style-type: none"> <li>Moderate risk of misuse/corruption</li> <li>Little risk of distortion of competition</li> </ul>  |
| <b>Assessment</b>                       | <ul style="list-style-type: none"> <li><b>Wide reach, moderate budget and complex implementation</b></li> <li><b>Good way to help SMEs to start operations and manufacturing quickly</b></li> </ul>   |

Source: own illustration



## (5) Improving access to foreign markets

|   |  |
|---|--|
| <b>Impediment</b><br>What is the issue? | <ul style="list-style-type: none"> <li>The costs of establishing international business relationships are fixed costs</li> <li>SMEs are at disadvantage because fixed costs are high in relation to small and medium-sized export volumes</li> </ul>   |
| <b>Tool/Measure</b>                     | <ul style="list-style-type: none"> <li><b>SME export promotion programme</b></li> </ul>  |
| <b>Description</b>                      | <ul style="list-style-type: none"> <li>Provision of information on international markets</li> <li>Assistance with participation in international trade fairs</li> <li>(Partial) subsidisation of business trips and trade fair fees</li> <li>Facilitating the establishment of international business relationships</li> </ul> |
| <b>Expected results</b>                 | <ul style="list-style-type: none"> <li>Reducing the cost of international market exploration</li> </ul>  |
| <b>Success factors</b>                  | <ul style="list-style-type: none"> <li>Efficient and transparent administration of the export promotion programme</li> <li>Accompanying access to export financing</li> <li>Accompanying SME manager training</li> </ul>   |
| <b>Risks</b>                            | <ul style="list-style-type: none"> <li>Limited knowledge and skills at SME management level in international operations</li> <li>Moderate risk of misuse/corruption</li> </ul>   |
| <b>Assessment</b>                       | <ul style="list-style-type: none"> <li><b>Wide reach with moderate budget, fast and easy implementation</b></li> <li><b>Immediate positive impact on SME development</b></li> </ul>  |

Source: own Illustration

## (6) Reducing administrative burden of tax regulation

|   |  |
|---|--|
| <b>Impediment</b><br>What is the issue? | <ul style="list-style-type: none"> <li>• Tax regulation, primary documentation and reporting requirements cause fixed administrative costs</li> <li>• SMEs suffer more from administrative burdens because fixed costs are high in relation to small and medium-sized sales volumes</li> </ul>                         |
| <b>Tool/Measure</b>                     | <ul style="list-style-type: none"> <li>• <b>Simplified accounting and reporting standards</b></li> </ul>   |
| <b>Description</b>                      | <ul style="list-style-type: none"> <li>• Simplified accounting instead of balance sheet accounting</li> <li>• Simplified primary documentation</li> <li>• Simplified tax regulation, e.g. regarding deductions etc.</li> <li>• Tax inspections and fines are appropriate in relation to small sales volumes</li> </ul> |
| <b>Expected results</b>                 | <ul style="list-style-type: none"> <li>• Reducing fixed costs for SMEs</li> </ul>  |
| <b>Success factors</b>                  | <ul style="list-style-type: none"> <li>• Efficient tax administration with modern risk management approach for tax inspections</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>Assessment</b>                       | <ul style="list-style-type: none"> <li>• <b>Wide reach, requires no additional budget expenditure, fast and easy implementation</b></li> <li>• <b>Immediate positive impact on SME development</b></li> </ul>  |

Source: own illustration

## (7) Improving SMEs resilience

|  |   |
|--|---|
| <b>Impediment</b><br><b>What is the issue?</b> | <ul style="list-style-type: none"> <li>• SMEs are more vulnerable to economic crises because they cannot build up reserves and therefore have to adjust labour costs immediately in response to a decline in sales</li> <li>• Labour law is often quite inflexible, which makes dismissals difficult</li> <li>• SMEs are at disadvantage in terms of retention of high skilled employees</li> </ul>                 |
| <b>Tool/Measure</b><br><b>Description</b>      | <ul style="list-style-type: none"> <li>• <b>Flexibilisation labour contracts for SMEs</b></li> <li>• Notice period for labour contracts of only 14 days</li> <li>• Permission to include a provision in individual employment contracts obliging employees to contribute to the costs of vocational training measures if the employee quits the employment relationship shortly after a training measure</li> </ul> |
| <b>Expected results</b>                        | <ul style="list-style-type: none"> <li>• Helping SMEs to better cope with economic turbulence and crises</li> </ul>   |
| <b>Success factors</b>                         | <ul style="list-style-type: none"> <li>• Maintaining and enforcing employee rights and protection</li> <li>• Accompanying SME manager training in Human Resource Management</li> </ul>  |
| <b>Risks</b>                                   | <ul style="list-style-type: none"> <li>• Limited knowledge and skills at SME management level, especially when dismissals are seen as the only HR management tool</li> </ul>  |
| <b>Assessment</b>                              | <ul style="list-style-type: none"> <li>• <b>Wide reach, requires no additional budget expenditure, fast and easy implementation</b></li> <li>• <b>Immediate positive impact on SME development and as well as on de-shadowing</b></li> </ul>  |

## (8) Facilitating entrepreneurial networking

|   |   |
|---|---|
| <b>Impediment</b><br>What is the issue? | <ul style="list-style-type: none"> <li>• Founders have small or no professional networks</li> <li>• Founders receive little emotional support</li> </ul>  |
| <b>Tool/Measure</b>                     | <ul style="list-style-type: none"> <li>• <b>Business Plan Competition</b></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 keynote speakers and laudatory speakers</li> </ul> |
| <b>Expected results</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 to increase the quality of business plans</li> <li>• Media coverage of events and winners</li> <li>• Involve universities and commercial banks</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>Assessment</b>                       | <ul style="list-style-type: none"> <li>• <b>Wide reach with moderate budget, fast and easy implementation</b></li> <li>• <b>Good way to achieve visibility and build credibility for the SME policy</b></li> </ul>  |

## 4. SME promotion: Don't's

The following SME support instruments have proven to be inefficient in the context of transition countries.

| Instrument                     | Reach within SME sector | Additional budget expenditures | Implementation | Comment  |
|--------------------------------|-------------------------|--------------------------------|----------------|--|
| Tax rate reductions            | wide                    | high                           | complex        | <ul style="list-style-type: none"> <li>- Only short-term effects on SME sector</li> <li>- High risk of long-term growth-barrier</li> <li>- High risk of corruption and misuse</li> </ul>                       |
| Subsidised loan interest rates | wide                    | high                           | complex        | <ul style="list-style-type: none"> <li>- Only short-term effects on SME sector</li> <li>- High risk of insolvencies when subsidies expire</li> </ul>   |
| Grants                         | limited                 | high                           | complex        | <ul style="list-style-type: none"> <li>- Negative experiences with grants for micro businesses in UK and other countries (negative growth)</li> <li>- High risk of corruption and misuse</li> </ul>            |
| State incubators               | limited                 | high                           | complex        | <ul style="list-style-type: none"> <li>- Requires enormous institutional capabilities and long-term financing</li> <li>- No international case of a state incubator that operates without subsidies</li> </ul> |

Source: own Illustration

## 5. SME promotion: Outlook

The following SME support instruments have caused mixed experience in the context of transition countries. The listed instruments could be of interest for Uzbekistan in the long-run, e.g. for the SME strategy 2030-2035.

| Instrument   | Reach within SME sector | Additional budget expenditures | Implementation | Comment   |
|--|-------------------------|--------------------------------|----------------|---|
| Vouchers for training, counselling, advisory service | wide                    | high                           | complex        | <ul style="list-style-type: none"> <li>- Short-term and long-term effects on SME sector development</li> <li>- Accompanying opportunity to develop the private sector of professional training and consulting</li> </ul>  |
| Credit guarantees                                    | wide                    | high                           | complex        | <ul style="list-style-type: none"> <li>- Short-term and long-term effects on SME sector development</li> <li>- Requires enormous institutional capabilities and long-term financing</li> <li>- Failed implementation projects in some transition countries</li> </ul> |
| Trade facilitation programmes                        | wide                    | high                           | complex        | <ul style="list-style-type: none"> <li>- Long-term effects on SME sector development</li> <li>- Requires SMEs export potential</li> <li>- Failed implementation projects in some transition countries</li> </ul>  |

Source: own Illustration

# About the German Economic Team

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.*

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# Annex 1:

## Public procurement – extract from German law

- » German Competition Law (*Gesetz gegen Wettbewerbsbeschränkungen*) stipulates

### § 97 Principles of public procurement (*Grundsätze der Vergabe*)

“ ...

(4)

SMEs' interests must be given priority when placing public contracts.

Services are to be split in terms of quantity (partial lots) and tendered separately according to type or speciality (specialist lots). Several partial or specialised lots may be jointly contracted if economic or technical reasons require this.

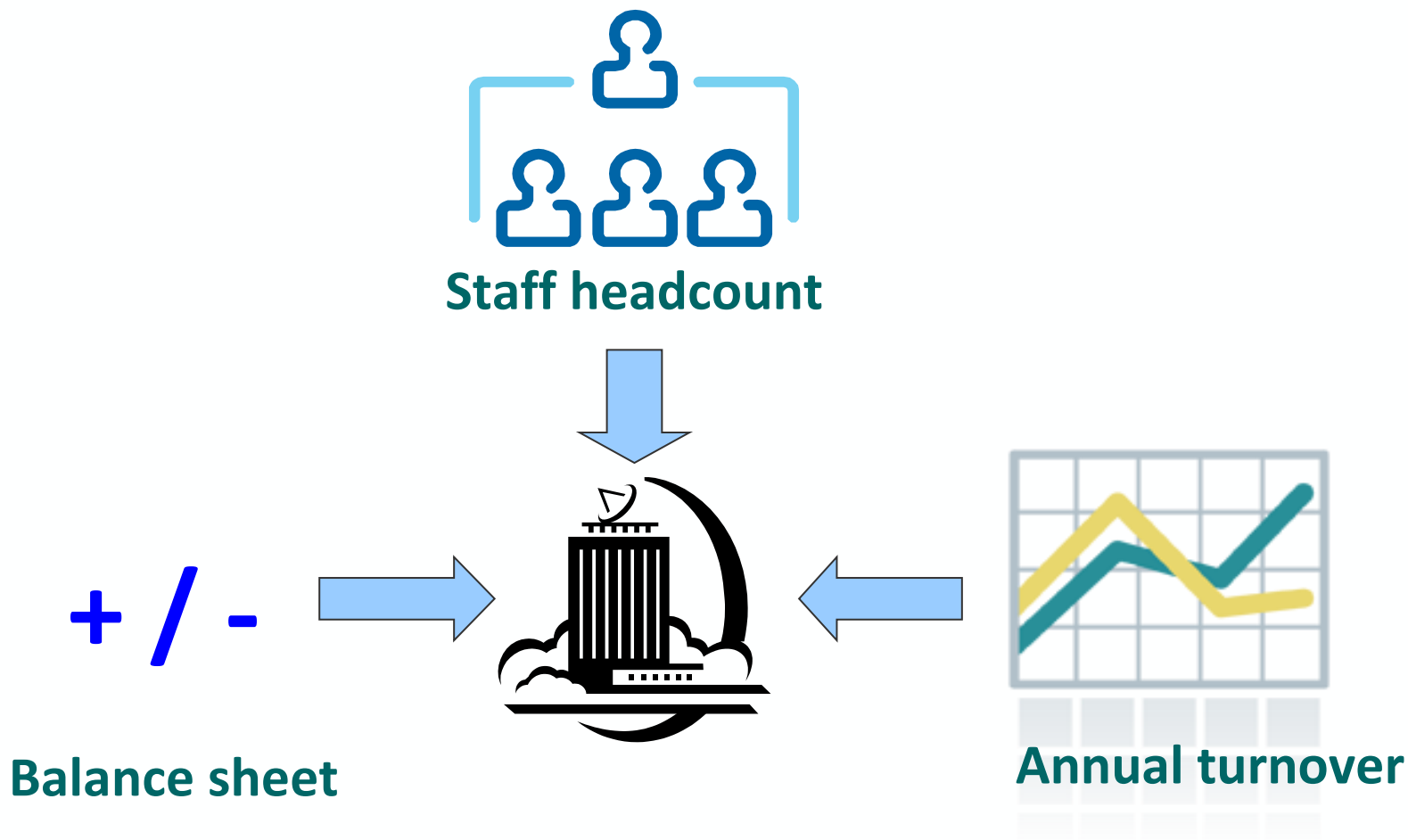
...”

- » Any SME can appeal to a specialised judicial body (*Vergabekammer*) if they believe they have been treated unfairly in the procurement process. The specialised judicial body must then review the procurement procedure.
- » In case the SME is not content with the result of the review of the specialised judicial body (*Vergabekammer*), it can take the case to a higher court.



## Annex 2: SME definition of the EU as an example

Factors to take into account for defining SME



## Annex 2: SME definition of the EU as an example

- » SME must meet 2 criteria
- » **Either:** Headcount threshold and turnover threshold
- » **OR:** Headcount threshold and balance sheet total threshold

| Enterprise category | Headcount: annual work unit (AWU) | Annual turnover  | or | Annual balance sheet total |
|---------------------|-----------------------------------|------------------|----|----------------------------|
| Medium-sized        | < 250                             | ≤ EUR 50 million | or | ≤ EUR 43 million           |
| Small               | < 50                              | ≤ EUR 10 million | or | ≤ EUR 10 million           |
| Micro               | < 10                              | ≤ EUR 2 million  | or | ≤ EUR 2 million            |

Source: User Guide to the SME definition. EU, 2015.

## Annex 2: SME definition of the EU as an example

Examples:

|   | Headcount                   | Annual turnover                  | Annual balance sheet total       | Enterprise category |
|---|-----------------------------|----------------------------------|----------------------------------|---------------------|
| 1 | 200<br>( $< 250$ threshold) | EUR 100m<br>( $> 50m$ threshold) | EUR 20m<br>( $< 43m$ threshold)  | <u>Medium</u>       |
| 2 | 200<br>( $< 250$ threshold) | EUR 40m<br>( $< 50m$ threshold)  | EUR 100m<br>( $> 43m$ threshold) | <u>Medium</u>       |
| 3 | 260<br>( $> 250$ threshold) | <i>does not matter</i>           | <i>does not matter</i>           | <u>Big</u>          |

Source: own Illustration

## Annex 2: SME definition of the EU as an example

- » Staff headcount includes full-time, part-time, seasonal staff:
  - Employees
  - Persons working for a company being subordinated to it and considered to be employees under national law;
  - Owner-managers;
  - Partners engaged in a regular activity in the enterprise and benefiting from financial advantages from the enterprise.
- » Headcount does **not** include apprentices and students engaged in vocational training.
- » Staff headcount is expressed in annual working units. Anyone working full-time within enterprise during the entire reference year counts as one unit. Part-time staff or seasonal workers who did not work for the full year are counted as a fraction of a unit

## Annex 2: SME definition of the EU as an example

- » The choice between turnover and balance sheet threshold is provided to take into account sectoral peculiarities:  
e.g. enterprises in the trade and distribution sector have by their nature higher turnover than manufacturing sector
- » Annual turnover is determined by calculating the income the company receives during the year from sales and services after any rebates have been paid out:  
Annual Turnover should not include VAT and other indirect taxes
- » Annual balance sheet total refers to the value of company's assets

## Annex 2: SME definition of the EU as an example

- » An enterprise is 'any entity engaged in an economic activity, irrespective of its legal form'
- » **Share of any state body** must be less than 25%
- » For **Linked Enterprises**  
(more than 50% of shares/voting rights are hold by another enterprise)  
applies the following:  
Staff headcount/turnover/balance sheet total  
of all linked enterprises of one group must be summarized when  
determining its eligibility for SME status
- » For **Affiliated Enterprises**  
(more than 25% but less than 50% of shares/voting rights are hold by  
another enterprise)  
applies the following:  
The parent enterprise must add a proportion of its affiliate's staff  
headcount and financial data to its own when determining its eligibility  
for SME status