

nontransparent methods of calculating and paying taxes; (ii) banks operating more as controlling organizations than as effective financial intermediaries; and (iii) lack of transparency in selection criteria of inspections by Government agencies (although inspections are now more selective than all-inclusive). At the same time, SMEs reported that the modified “one-window” registration system generally has been effective.

164. Extensive and complex administrative regulations governing the opening and operation of businesses often create moral hazards for corruption. Like other CIS countries, corruption is a serious problem in Uzbekistan. Uzbekistan scored 2.9 in the 2002 corruption perception index published annually by Transparency International. Its 61st ranking out of 102 countries<sup>54</sup> placed Uzbekistan higher than Kazakhstan and Russian Federation, but far below countries in Eastern Europe. Administrative corruption in Uzbekistan includes the demand for unofficial payments from businesses to get access to public utilities, obtain necessary permits, and avoid repeated inspections.

165. Although significant progress has been made in establishing a legal and regulatory framework for the private sector, considerable weaknesses in enforcement remain. The corpus of commercial laws is still limited in scope, and provisions are open to conflicting interpretations. This is particularly true of the legislation on pledge and bankruptcy. For instance, inconsistencies and ambiguities are evident in the scope for reorganization proceedings and the priority of secured creditors in bankruptcy. The company law does not ensure adequate corporate governance and protection for minority shareholders. The main legal impediments to investments include (i) absence of efficient pledge registration, (ii) complex and sometimes contradictory legal rules coupled with insufficient implementation, and (iii) high level of discretion granted to government officials in interpreting the application of legislation.

166. Uzbekistan has made progress in developing a regulatory framework for competition policy. The State Committee on Demonopolization and Competition Development (CDCD) has been established with the objectives of (i) developing competition and entrepreneurship, (ii) regulating activities of monopolies, (iii) preventing abuse by firms with dominant market positions, and (iv) enforcing sanctions on firms who engage in unfair competition. The primary instrument of competition policy is the register of monopoly enterprises, defined as enterprises with market share of at least 65% (or under certain conditions, 35%) that are considered dominant. These enterprises are required to declare their prices and profits for CDCD approval. However, the basic concepts of competition are still inadequately understood, including those relating to the delineation of product and geographic boundaries. Further, CDCD focuses excessively on price controls as a competition policy instrument. Competition and regulatory policies, as well as the specific goals they are designed to achieve, have not been incorporated fully within the Government’s broader structural and macroeconomic reform process. CDCD’s potential role cannot unfold within the current system of economic management.

## **V. ADB’S PRIVATE SECTOR INITIATIVES IN UZBEKISTAN**

167. ADB views PSD as an effective means to achieve its overarching objective of poverty reduction. Sustainable economic growth, based on increased productivity, is the key to winning the war against poverty. The private sector will be the engine for economic growth, creating jobs and increasing incomes to lift people out of poverty.

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<sup>54</sup> This was a slight improvement over the 2001 score of 2.7, which placed it 71st out of 91 countries.

168. ADB's interventions in support of PSD in Uzbekistan have taken varied forms (Table 21). It has generally encompassed (i) developing rural and microfinance institutions, assisting farm and agribusiness privatization, and providing financial support for microenterprises and SMEs; (ii) supporting legal and regulatory reforms, as well as capacity building in other areas of the financial sector, including insurance, banking, and securities markets; (iii) strengthening the legal and regulatory framework for corporate governance, preparing enterprise restructuring, and developing the institutional framework for competition policy; and (iv) facilitating private sector participation in infrastructure and services.

**Table 21: ADB Activities for Private Sector Development in Uzbekistan**

Rural, Microfinance, and SME Development	Other Financial Sector Development	Corporate Governance, Enterprise Restructuring, and Competition	Private Sector Participation in Infrastructure
<ul style="list-style-type: none"> <li>• Rural Enterprise Development Project (Loan 1504-UZB)</li> <li>• Ak Altin Agricultural Development Project (Loan 1833-UZB)</li> <li>• Grains Productivity Improvement Project (Loan 2017-UZB)</li> <li>• Small and Medium Enterprise Development Project (Loan 1799-UZB)</li> <li>• Small and Microfinance Development Project (Loan 1963-UZB)</li> <li>• TA 4021-UZB: Developing Prudential Regulations and Supervision of Savings and Credit Unions</li> </ul>	<ul style="list-style-type: none"> <li>• TA 3352-UZB Strengthening of the Banking Sector</li> <li>• TA 3488-UZB Development of the Insurance Industry</li> <li>• TA 4146-UZB Financial Market Development</li> <li>• TA 5465-UZB Financial Sector Infrastructure Development</li> </ul>	<ul style="list-style-type: none"> <li>• TA 3562-UZB Corporate Governance Reform Program</li> <li>• TA 4062-UZB Enterprise Restructuring and Corporate Governance</li> <li>• TA 4147-UZB Demonopolization and Competition Development</li> <li>• TA 4265-UZB Strengthening the Policy and Legal Framework for FDI</li> </ul>	<ul style="list-style-type: none"> <li>• TA 4071-UZB Developing a Management Information System for Uzbek Teleco</li> </ul>

SME = small and medium enterprise, TA = technical assistance, UZB = Uzbekistan.  
Source: Asian Development Bank.

169. ADB's lending program in support of PSD in Uzbekistan has focused on developing enterprises in rural areas, inside and outside agriculture. The Rural Enterprise Development Project<sup>55</sup> (Loan 1504-UZB, approved in 1996, for \$50 million) sought to rehabilitate and modernize private enterprises, predominantly SMEs in agro-processing. The Small and Medium Enterprise Development Project<sup>56</sup> (Loan 1799-UZB, approved in 2000, for \$50 million) provided credit lines to finance selected SME investments. The Ak Altin Agricultural Development Project<sup>57</sup> (Loan 1833-UZB, approved in 2001, for \$36 million) includes strengthening of new rural business advisory centers to support private farming. The Small and Microfinance Development Project<sup>58</sup> (Loan 1963-UZB, approved in 2002, for \$20 million) helps to develop a viable and sustainable system of savings and credit unions, and includes a credit line to enhance microfinance services to small and microenterprises. The Grains Productivity

<sup>55</sup> ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Uzbekistan for the Rural Enterprise Development Project*. Manila.

<sup>56</sup> ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Uzbekistan for the Small and Medium Enterprise Development Project*. Manila.

<sup>57</sup> ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan Technical Assistance to Uzbekistan for the Ak Altin Agricultural Development Project*. Manila.

<sup>58</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Uzbekistan for the Small and Microfinance Development Project*. Manila.

Improvement Project<sup>59</sup> (Loan 2017-UZB, approved in 2003, for \$26 million) aims to establish support mechanisms to facilitate the development and growth of private farms and related agribusiness enterprises.

170. ADB also has extended a wide range technical assistance (TA) grants to develop the private sector in Uzbekistan. TA 3352-UZB: Strengthening of the Banking Sector,<sup>60</sup> approved in 1999 for \$1 million, helped to strengthen the capacity of NBU and Asaka Bank for SME lending. The TA also supported the development of a banking sector reform strategy and implementation plan. TA 4071-UZB: Developing a Management Information System for Uzbek Telecom,<sup>61</sup> approved in 2002 for \$400,000, assisted in developing such a system in preparation for Uzbek Telecom's envisioned privatization. TA 3488-UZB: Development of the Insurance Industry, approved in 2000 for \$300,000, helped to strengthen insurance sector legislation, regulation, and supervision. TA 3562-UZB: Corporate Governance Reform Program, approved in 2000 for \$700,000, aimed to strengthen corporate governance in large JSCs and financial institutions. The TA also helped to address other issues of financial sector development, including weak financial disclosure and insufficient protection of creditors' rights. TA 4062-UZB: Enterprise Restructuring and Corporate Governance,<sup>62</sup> approved in 2002 in for \$1,000,000, followed up on TA 3562-UZB by supporting the preparation of the restructuring of selected JSCs in financial distress. TA 4021-UZB: Developing Prudential Regulations and Supervision of Savings and Credit Unions<sup>63</sup> was approved in 2002 for \$400,000 and attached to the Small and Microfinance Development Project. TA 4146-UZB: Financial Market Development,<sup>64</sup> approved in 2003 for \$200,000, aimed to strengthen capital market regulation and supervision. TA 4147-UZB: Demonopolization and Competition Development,<sup>65</sup> approved in 2003 for \$300,000, supported capacity building in CDCD, and regulatory reforms in competition policy. TA 4265-UZB: Strengthening the Policy and Legal Framework for Foreign Direct Investment<sup>66</sup> was approved in 2003 for \$300,000. TA 5465-UZB: Financial Sector Infrastructure Development,<sup>67</sup> approved in 2005 for \$400,000, will assist in analyzing financial sector issues and developing a comprehensive strategy to address them.

## VI. OPTIONS FOR FUTURE PRIVATE SECTOR DEVELOPMENT INITIATIVES

171. As demonstrated in this report and in assessments by other development partners, the impediments to PSD in Uzbekistan are numerous and diverse. Therefore, a wide range of initiatives is needed to address them, from macroeconomic stabilization to specific measures in almost all areas of the economy. While numerous such initiatives have been undertaken, a number of additional initiatives could be considered. One is in SME development. Initiatives in this area have tended to focus on microcredit facilities and reducing trade barriers to enable SMEs to develop more vigorously. In addition to these and other SME promotion initiatives, an

<sup>59</sup> ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Uzbekistan for the Grains Productivity Improvement Project*. Manila.

<sup>60</sup> ADB. 1999. *Technical Assistance to Uzbekistan for Strengthening of the Banking Sector*. Manila.

<sup>61</sup> ADB. 2002. *Technical Assistance to Uzbekistan for Developing a Management Information System for Uzbek Telecom*. Manila.

<sup>62</sup> ADB. 2002. *Technical Assistance to Uzbekistan for Enterprise Restructuring and Corporate Governance*. Manila.

<sup>63</sup> ADB. 2002. *Technical Assistance to Uzbekistan for Developing Prudential Regulations and Supervision of Savings and Credit Unions*. Manila.

<sup>64</sup> ADB. 2003. *Technical Assistance to Uzbekistan for Financial Market Development*. Manila.

<sup>65</sup> ADB. 2003. *Technical Assistance to Uzbekistan for Demonopolization and Competition Development*. Manila.

<sup>66</sup> ADB. 2003. *Technical Assistance to Uzbekistan for Strengthening the Policy and Legal Framework for Foreign Direct Investment*. Manila.

<sup>67</sup> ADB. 2005. *Technical Assistance to Uzbekistan for Financial Sector Infrastructure Development*. Manila.