

PN-ABN-301  
80861

**Supporting  
Private  
Enterprises in  
Uzbekistan:**

**Challenges and  
Opportunities**

GEMINI Technical Report No. 49B

**GEMINI**

**GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS  
7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814**

**DEVELOPMENT ALTERNATIVES, INC. • Michigan State University • ACCION International •  
Management Systems International, Inc. • Opportunity International • Technoserve • World Education**

# Supporting Private Enterprises in Uzbekistan: Challenges and Opportunities

by

Nan Borton  
John Magill  
Neal Nathanson  
Jim Packard Winkler

November 1992

This work was supported by the U.S. Agency for International Development through a buy-in to the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, contract number DHR-5448-Q-53-9081-00.

## PREFACE

The following report was prepared for the U.S. Agency for International Development as one of five assessments of private sector development opportunities in the former Soviet republics carried out for the NIS<sup>1</sup> Task Force. The purpose of this report is to provide a brief overview of the current and prospective status of small private businesses in the evolving political and economic systems of Uzbekistan and to propose a short- and a medium-term strategy for supporting private sector enterprise growth and development in the country.

A GEMINI Project Assessment Team — Nan Borton, John Magill, and James Packard Winkler from Development Alternatives, Inc. (DAI), and Neal Nathanson from the National Rural Development and Finance Corporation — visited Uzbekistan from September 28 through October 16, 1992. The team members met with U.S. government officials, other international donor representatives, Uzbekistan government officials, representatives of private sector associations and educational institutions, municipal officials, and private sector businessmen.<sup>2</sup> These interviews were carried out in Tashkent, Samarkand, Bukhara, Jizzakh, and Andijan.

Two things must be kept in mind when reading the report. First, the definitions of "private" and "public" are extremely confused in Uzbekistan, so that the specific criteria used to categorize an organization need to be clearly stated. Very few truly "private" businesses exist in the country, and even newly privatized businesses maintain relationships with the state that would not be found in Western countries. Second, it is essential to recognize that neither the full range of organizations nor the full complexity of the current public and private business context could be adequately assessed in only two weeks. The report should be read with the understanding that the GEMINI team has, at best, touched the surface of a complex, contradictory, and rapidly changing environment. Most of the information obtained could not be independently verified and, therefore, should be accepted with some caution.

The Assessment Team wishes to express its appreciation to all the individuals and institutions that so graciously shared their knowledge, insights, and aspirations under difficult interview circumstances. In particular, we wish to thank our interpreters — Ms. Dilya Zuparjodjaeva, Ms. Elmira Muratova, Mr. Andrei Koust, and Mr. Paul Ionin — for the outstanding assistance provided during the visit.

The findings, conclusions, and recommendations presented in this report are those of the authors and should not be construed to represent the official or unofficial opinions or positions of the U.S. government, the government of Uzbekistan, or the officials interviewed.

---

<sup>1</sup> Newly Independent States

<sup>2</sup> A listing of persons interviewed appears in Annex A.

## TABLE OF CONTENTS

	<u>Page</u>
<b>EXECUTIVE SUMMARY</b>	v
<b>INTRODUCTION</b>	1
 <b>PART ONE</b>  	
<b>THE NATIONAL CONTEXT FOR SMALL ENTERPRISE DEVELOPMENT IN UZBEKISTAN</b>	3
<b>OVERVIEW OF NATIONAL ECONOMIC CONDITIONS AND REFORMS</b>	3
General Overview of the Economy	3
Direction and Status of Relevant Reform Activities	5
<b>POLICY AND REGULATORY FRAMEWORK</b>	6
National Policies	6
Local Governments	7
<b>SMALL BUSINESS CREDIT AND FINANCIAL SERVICES</b>	7
Survey of the Banking System	7
<b>PRIVATIZATION AND PRIVATE ENTERPRISE</b>	9
Privatization Plans	10
Other Sources of Private Businesses	11
Problems and Issues	12
Opportunities for Assistance	13
<b>INSTITUTIONAL SUPPORT FOR PRIVATE BUSINESSES</b>	13
Business Associations	14
Educational Institutions and Business Centers	16
Summary	18
<b>SMALL BUSINESS IN THE AGRIBUSINESS SECTOR</b>	19
Profile of the Agribusiness Sector	20
Privatization of Collective Farms	21
The Benefits of Privatization through Small Farmers	21
Vertical Integration in Agribusiness	23
Constraints on Agribusiness	23
Foreign Investment and Joint Ventures	24
Opportunities for Expanding the Role of Small Private Farmers	26
Policy Reform	26
Training Government Officials	26
Assistance for Private Small Farmers and Entrepreneurs	27
<b>OTHER INTERNATIONAL ASSISTANCE</b>	27

**PART TWO**

**A STRATEGY TO PROMOTE SMALL-SCALE  
PRIVATE SECTOR DEVELOPMENT IN UZBEKISTAN** 29

<b>SETTING</b>	<b>29</b>
<b>A FRAMEWORK FOR A.I.D. SUPPORT</b>	<b>30</b>
<b>A PROPOSED SHORT-TERM PROGRAM</b>	<b>31</b>
Short-Term Advisory Services	31
Symposium	32
Refinement of Long-Term Strategy	33
<b>ELEMENTS OF AN INTEGRATED LONG-TERM PROGRAM DESIGN</b>	<b>33</b>
Long-Term Policy Advisors	33
Business Assistance Centers	35
Financial Systems Development	36
<b>SUMMARY</b>	<b>36</b>

<b>ANNEX A: PERSONS CONTACTED</b>	<b>A-1</b>
-----------------------------------	------------

## EXECUTIVE SUMMARY

In Uzbekistan, as in most other countries of the former Soviet Bloc, the establishment of a dynamic small-scale private enterprise sector is critical to the success of any attempt to transform the economy.<sup>1</sup> Privatization of the inefficient large-scale enterprises will inevitably lead to widespread unemployment. In the absence of alternatives, most of those displaced by the privatization process will turn to home-based businesses or other microenterprise forms to earn an income during the transition period.<sup>2</sup> In Uzbekistan, as in Poland and as in other former Soviet republics where GEMINI has worked, the small-scale enterprise sector represents a social safety net that requires little government intervention, places virtually no demand on scarce government resources, and is absolutely vital to providing employment and income during the transition period.

Few government officials recognize this importance, and little attention is being paid to creating a favorable environment — attitudes, policies, institutions, experience, and financial services — that is necessary for private sector development in the country. Most current attention focuses on the process and procedures of privatization, on attracting joint venture partners, and on developing export contacts. Very few of the new small businesses in the private sector, however, will have joint venture partners or be involved in export markets. Most will be small trading, service, and home-based production enterprises providing basic goods and services to the local population. The needs, problems, and importance of this sector are being ignored at the present time.

The transition from a strongly centralized, planned economy to a pluralistic, private sector-oriented one will be slow and difficult. The U.S. government can assist this transition through a judicious provision of assistance in policy reform, institutional development of business assistance capabilities in the country, and financial service development.

## SPECIFIC FINDINGS

### Role of the State

1. The state is still the dominant actor in the economy, as virtually all industries and most small shops are owned and operated by the state.
2. Because of the elaborate systems of internal subsidies, manufacturing and commercial activities are heavily dependent on state-supplied raw materials and supplies.

---

<sup>1</sup> In the context of this report, "small-scale" is used as a general term for virtually any business other than the large state-owned and -operated industrial plants. Developing a specific definition of "small" based on assets, sales, or employees is less important than understanding that the issues discussed represent problems for all newly formed or newly privatized firms and that firms in the emerging private sector all tend to be small in comparison with the massive enterprises characteristic of the Soviet economic system.

<sup>2</sup> "Microenterprise" generally refers to very small, home-based, or family-run businesses with one to ten employees. Again, the precise definition is less important than the general understanding that very small businesses may face constraints or opportunities different from those faced by larger firms.

3. **The Government of Uzbekistan (GOU) does not have the resources to maintain the subsidy system, and this will complicate the problems of outdated equipment and inadequate supply of raw materials and merchandise to the private sector.**

### **Privatization**

1. **There is a public commitment to privatizing major portions of the economy, especially in the service industry and in trade and commerce, and to moving to a market-oriented economy. There will be a significant level of privatization of at least the very small-scale service and trade sectors within the next two years; January 1, 1993, is the beginning date for the privatization of about 8,000 service industries.**
2. **Privatization of the larger firms will proceed slowly, if at all. The government is leery of privatization because of its potential impact on employment and ethnic hostilities.**
3. **Privatization will take a variety of forms. Some of these may not fit the Western definition of "private" firms, but may be necessary in the context of social, economic, and political factors in Uzbekistan.**
4. **Some of the more progressive collective farms have begun to experiment with alternative forms of land use and individual marketing, within the framework of the collective farm. There are an estimated 17,000 small farmers operating on various individualized leasehold arrangements on collective farms. This form of privatization is beginning to have some impact on agricultural productivity and rural incomes, and the state is collecting higher revenue from them through taxes.**

### **Policy Environment**

1. **The policy environment is in a transition stage and is unstable. The government has passed many laws and regulations favoring privatization, foreign investment, and private economic activities. However, the government has also engaged in a practice of modifying these enactments, leaving private and foreign investors uncertain about the future policy environment.**
2. **Many governmental bodies have been created to review proposed laws and regulations in terms of their impact on businesses. These activities are not coordinated, and the people staffing them do not have practical experience in the private enterprise policy environment.**
3. **There are few restrictions on registering private businesses, with the result that many businesses — an estimated 2,000 to 3,000 — have been registered during the past year. Many of the registered companies are not functioning.**
4. **Although recent legislation favors the establishment of private enterprises, many of the other government policies and regulations constitute a barrier to the long-term viability of the new entities. In particular, there is a significant breakdown between the laws as articulated by the national government and their application by government bureaucracies and municipal officials. The procedures for registering a business at the municipal level, for example, are far more cumbersome than the law intended. The same may be true of the disparity between the intent and the result of tax laws, which act as disincentives to small business.**

### **Characteristics of the Private Sector**

1. Among government officials, managers of state-owned enterprises, municipal officials, political representatives, or even the public itself, there is little comprehension of the way a private market economy works and what it means.
2. The concept of "private" enterprise still has strong negative connotations in a country that, until only recently, considered "private" enterprise to be a crime.
3. Many of the branches of the major ministries have been converted into "companies," which are ostensibly "private," even though they are still operated by the same bureaucracies as before. The ownership structure and central control have not changed.
4. There is, however, a broad spectrum of private enterprise activity in the country. Trading and commerce are strong historical traditions in Uzbekistan and, even in the command economy of the past 70 years, private services and trading have thrived. This sector can be expected to grow rapidly in the next two to three years.
5. Similarly, there is a small, but growing, private commercial banking system. At present, it is undercapitalized and focuses on providing guaranteed credits to state-owned enterprises.
6. One of the most difficult problems facing Uzbekistan and its emerging private sector is the vicious cycle of forced poverty, subsidies, and scarcity. This cycle has so distorted the business situation and climate that there is limited comprehension of business relationships and of the concept of real costs. Overcoming this distortion will be a painful task.

### **Absence of Attention on Domestic Small Firms**

1. The attention of policy makers, government bureaucracies, and local enterprises is focused primarily on joint ventures and export industries. At the same time, public and private representatives have unrealistic expectations of both privatization and joint ventures. Relatively few enterprises will ever have joint venture partners or be involved in export activities.
2. Very little attention has been given to the needs of the vast numbers of small, local businesses — both those newly formed and those soon to be privatized — that will constitute the basis of the private sector economy in the future. It is this newly privatized sector that must be relied upon to maintain or create jobs and provide family income.

### **Banking System**

1. There is no structure for providing financial services to small private businesses. The banking system has traditionally operated to implement centrally planned investment strategies and, even now, the main purpose of the banks is to provide financing for state-owned enterprises. The newly formed "private" banks have little capital and will not constitute a major source of financing for small private enterprises.

2. With low savings rates, high inflation, and a soft currency, the investment environment in Uzbekistan is very poor.

### **Institutional Support**

1. There are no private support mechanisms of any significance in the country. The "business associations" and other groupings purporting to represent business interests are, in fact, part of the governmental structure rather than autonomous associations of independent businessmen. Developing independent interest groups is an important adjunct to the growth and viability of the private sector.

## **MAJOR CONCLUSIONS**

Uzbekistan has a relatively rich natural resource base, including natural gas, gold, and strategic metals. It is capable of making the transition to the market economy and of attaining economic viability in the world community. However, it will be a long time before the country is privatized or a pluralistic democracy exists in Uzbekistan; the current government has adopted a cautious approach to the transition.

Three major problems face Uzbekistan as it attempts to evolve toward a modern market-oriented economy are:

- There are few people in the country — government officials, industrial plant managers, or operators of trade and service outlets — who understand the nature, requirements, and operations of a private market economy or the role of government and small businesses in that system;
- Many, if not most, of the small businesses created during the next two years (whether through privatization or autonomously) will not be viable in the absence of government-supplied inputs at subsidized prices, yet their survival and success are critical to social stability in the country; and
- The policies and institutional structures required to promote and sustain a dynamic private sector are not present in the country.

The government, at all levels, needs assistance in developing a policy framework and a set of regulations that support private enterprise growth and development. It also needs assistance in developing the institutional and financial structure necessary for private sector development.

The U.S. government can play a significant role in encouraging and supporting the transition to a market economy. A.I.D.'s most effective contribution will be in developing a positive climate — legal, regulatory, attitudinal, and institutional — for private enterprise, rather than in providing direct assistance to individual firms.

Given the absence of real private business support organizations, an objective of any A.I.D. activity should be to stimulate the emergence of a business support sector. However, A.I.D. should not itself create these organizations, as the situation is too fluid and too politicized to permit much chance

of success. As above, A.I.D.'s role should be one of creating a favorable climate for the evolution of private sector support institutions, rather than of creating institutions directly.

Any activity should begin slowly. The business and political contexts in Uzbekistan are remarkably complex, and it would be easy to err in approach, partners, or focus. Consequently, early activities should involve relatively basic support — training and technical assistance in basic business concepts. More complicated issues such as policy reform and credit systems should come later. Developing a system for financing small businesses will become increasingly important as the private sector becomes more firmly established.

In conclusion, A.I.D. should promote the development of small private enterprises in Uzbekistan. The prospects for achieving successes in the small business sector appear high, and it seems likely that the national economy of Uzbekistan also will stabilize and be competitive in the world markets, particularly in raw materials and energy. Uzbekistan, with its interconnectedness with Afghanistan, Pakistan, and Turkey, and with its potential alliances or conflicts with Iran, should be of great strategic interest to the United States. These factors argue strongly for A.I.D. involvement in the privatization of Uzbekistan's economy.

## **RECOMMENDATIONS**

In summary, the U.S. government can play an important role in helping Uzbekistan make the transition from a highly centralized, state-controlled economic system to a more pluralistic system that fosters small private enterprises. This role is primarily one of exposing Uzbek officials and businessmen to the range of options that have been developed and tested in other parts of the world and to help tailor relevant models to the Uzbek situation.

The U.S. government's support of private enterprise development in Uzbekistan needs to address the three principal constraints to private sector development in the country — the absence of a consensus on private sector objectives, the weakness of the newly formed private businesses, and the absence of a progressive policy and institutional climate. At the same time, any strategy must recognize basic constraints on the level of resources that might be available and consider the potential actions of other international donors. The assessment team recommends a gradual approach that addresses immediate, short-term priorities and establishes the foundation for an expanded, long-term program that addresses the underlying policy and structural problems.

### **Short-Term Strategy**

A short-term program to initiate activities would focus on providing a short-term advisor to one or more Ministries directly involved in privatizing a large number of retail trade and service outlets, and on presenting a symposium on small business development to national and local government officials and associations of businessmen and businesswomen.

The short-term advisor would be assigned to work with one or both of the Ministries that will be significantly involved in the privatization of small-scale enterprises in the next two years.<sup>3</sup> Few of the 13,000 to 20,000 small-scale service and retail outlets to be privatized will be viable entities. At least one of the two Ministries — Uzbitsoyuz — is concerned about the way to help these enterprises make the transition from subsidized state enterprises to successful small businesses. However, it lacks a conceptual framework and appropriate models for carrying this out. Short-term advisory assistance to help develop an understanding of the needs and problems of the new businesses and develop realistic programs to assist them would contribute significantly to the success of the transition. The main objective of this assistance would be to develop, within the Ministry, the ability to provide effective assistance to small enterprises created during the privatization process.

The major purpose of the symposium would be to present the findings and conclusions of several decades of small enterprise assistance work worldwide so that local officials will have a better understanding of the importance and role of small private enterprises in a transitional economy, the problems faced by this sector and the types of assistance it requires, techniques for financing small business development and options for providing assistance to small enterprises, and the role of government in promoting and supporting private business development. The symposium would involve GOU officials from the Council of Ministers, the Ministry of Finance, the Central Bank, Uzbitsoyuz, the Ministry of Light Industries, Ministry of Cottage Industries, and Ministry of Trade; municipal and *oblast* ("district" or "state") officials from Tashkent, Jizzakh, Samarkand, Bukhara, and Andijan; and representatives from various official and semi-official business associations. The purpose would be to present and describe the range of options available to the GOU and to permit a discussion and an assessment of the applicability of each option to the local situation.

### **Long-Term Program**

A long-term program to support private sector development in Uzbekistan would have three principal elements:

- Placement of at least two long-term advisors in strategic locations: the Council of Ministers and the Ministry of Finance or the Central Bank. A third advisor might be placed in the Ministry of Agriculture;
- Creation of, or support for, a network of small business advisory centers with a variety of configurations and locations. This might be carried out in coordination with the U.S. Peace Corps or another A.I.D.-financed private voluntary organization; and
- Support for a small business loan fund housed in the Central Bank but operated through the commercial banking system.

---

<sup>3</sup> The Ministries involved are the former Ministry of Services (now called Uzbitsoyuz), which operates consumer service shops, and the Ministry of Trade, which manages public retail trade shops.

## INTRODUCTION

Occupying an area of 450,000 square miles, Uzbekistan lies on the historically significant trade routes linking Europe with South Asia and the Far East. As the map below shows, Uzbekistan is bordered by Kazakhstan on the north and northwest, Turkmenistan on the southwest, Afghanistan on the south, Tajikistan on the southeast, and Kirghistan on the northeast.

It is the most populous of the Central Asian Republics, with an ethnically diverse population of approximately 21 million people, of whom 70 percent are native Uzbeks, 11 percent are ethnic Russians, and the rest comprises Tatars, Kazakhs, Tajiks, and other minorities. Significant numbers of ethnic Russians are reported abandoning the country following the disintegration of the former Soviet Union, but as Uzbeks already fill most significant political and economic positions in the country, the country has been spared the talent vacuum that typically accompanied the collapse of colonial regimes in Africa and Asia.



The country has rich natural resources — particularly in agriculture and in gold and other rare metals — and, potentially, has significant oil and natural gas deposits. Almost 60 percent of the population is rural. However, because three-fifths of the land is desert or semi-arid, the rural population is concentrated in two fertile river valleys.

Uzbekistan faces the difficult prospect of transforming its entire political and economic structure within the next few years. Nearly three-quarters of a century under colonial domination by Russia and under a command economy that manipulated prices and quantities to satisfy broad strategic objectives complicate this process. Few, if any, government officials have ever experienced working with any structure other than the centrally planned and controlled structure of the former Soviet Union; few, if any, plant managers and supervisors have experience with producing and marketing goods in the absence of a central plan, subsidized inputs, and guaranteed markets; few consumers are prepared for the rapid price increases that will inevitably accompany the abandonment of the system of subsidies that have maintained artificially low prices throughout the country.

The exact form that this transformation will eventually take remains to be seen, but some transformation is inevitable. The artificially manipulated trade patterns of the former Soviet Union have already broken down, leaving the country desperately short of essential raw materials and consumer goods. The government of Uzbekistan lacks the resources to maintain the system of subsidies that have, until recently, dominated all economic activities. The government is actively encouraging foreign joint venture and direct investments.

Private enterprises have an important — even critical — role to play in this transformation. With the inability of the state to continue supplying basic goods and services, private enterprises can be expected to rapidly fill the niche of services and trade that is currently monopolized by state-owned companies. This paper attempts to provide an overview of the current status and prospects for developing successful private sector enterprises in Uzbekistan, identify the major constraints and problems facing private sector development, and outline a strategy for U.S. government support to private sector development during the transition period.

## **PART ONE**

### **THE NATIONAL CONTEXT FOR SMALL ENTERPRISE DEVELOPMENT IN UZBEKISTAN**

#### **OVERVIEW OF NATIONAL ECONOMIC CONDITIONS AND REFORMS<sup>1</sup>**

##### **General Overview of the Economy**

The economy of Uzbekistan is dominated by agriculture and mineral production. Uzbekistan was the leading producer of natural gas in the former Soviet Union, and was the second leading producer of gold. Recent discoveries of oil present the prospect for energy self-sufficiency. Agriculture represents about 43 percent of Net Material Product (NMP). Uzbekistan is the world's fourth largest producer of cotton, amounting to about 40 percent of total agricultural production. About 88 percent of cotton production is shipped out unprocessed.

Most of the agricultural production is on irrigated land, and it has come at a terrible ecological price. The former Soviet Union constructed 170,000 kilometers of irrigation canals to divert the natural flow of the mountain snowmelt. As a result, the Aral Sea has shrunk to about 60 percent of its original size, with its shoreline shifted almost 20 miles from its natural location. In addition, the extensive use of pesticides and chemical fertilizers has left a high level of pollution in the soil and ground water.

Uzbekistan also has a large machinery production industry, concentrated in two major product groups: equipment for cotton harvesting and aircraft. The latter is represented by a single aircraft manufacturing plant in Tashkent that had been operated by the Soviet military establishment. Its future now is uncertain.

Inflation has skyrocketed in the past two years. A broad measure of the inflation rate, the NMP deflator, stood in the range of 4 percent in 1989 and 1990. For 1991, it jumped to 98.2 percent. The inflationary spiral is fed by a process of indexation, which periodically revalues wages, transfer payments, and assets in an effort to maintain a relative degree of stability.

Despite monumental difficulties and complications, the Uzbek economy appears to be holding up reasonably well. There is real growth in many key agricultural sectors. Real agricultural output has increased by about 1 percent per year since 1987. Cotton output has been tending slowly downward over the past several years, but this has been offset by significant growth in the production of fruits, vegetables, and animal products.

At the same time, there is ample reason for pessimism. Many state-owned businesses are probably not covering their costs and are effectively bankrupt. They are kept afloat by credit from the state enterprise banks. The banks are making the credit available based on implicit or explicit guarantees from the state. Unfortunately, the state itself is bankrupt and has no means of covering these guarantees if called upon to do so.

---

<sup>1</sup> A substantial part of the data in this section is derived from "Economic Review Uzbekistan," International Monetary Fund, April 1992.

In 1990 (the last year of complete data), the total population was 20.4 million. Of that, 10 million people were of working age and 8.8 million were considered in the active labor force. Actual employment was 6.8 million (77 percent of the active labor force). Of those employed, 5.4 million (79 percent) were employed by the state. Almost certainly, the number of persons employed by the state will decline over the next several years, and many people will become unemployed unless they can find employment in the private sector.<sup>2</sup> Women represent 43.8 percent of the labor force. The employed labor force in 1990 was distributed in the following fashion:

---

Agriculture	29 percent
Industry	18 percent
Trade and catering	7 percent
Transport and communications	4 percent
Other material sphere	6 percent
Nonmaterial sphere	30 percent
<u>Other</u>	<u>6 percent</u>
Total	100 percent

---

The macroeconomic picture in Uzbekistan appears muddled and convoluted, at least from the perspective of conventional Western analysis. There are two principal reasons that account for this. First, even today virtually all businesses are government-owned, so there is little distinction between government income and NMP. In the macroeconomic data, it is very difficult to separate revenue and expenses attributable to the types of government activities familiar to us. Second, the pricing structure of products has not represented true costs and market factors in familiar ways.

The Soviet Union often paid state-owned businesses in Uzbekistan a price for commodity outputs far below the world market price, and then resold these products on the export market at a large profit. The government of Uzbekistan continues this practice essentially unchanged, though it does permit the businesses to sell some output at world market prices. On the other hand, in 1991, the Soviet Union contributed 12 billion rubles — representing almost 20 percent of Uzbekistan's total gross domestic product (GDP) — to the Uzbek social fund. Furthermore, the Soviet Union supported a major capital construction program in Uzbekistan until the Union break-up. According to one banker, the termination of this construction program has left Tashkent with the largest number of partially completed buildings in the NIS.

With the termination of the USSR contribution, the Uzbek government faces a substantial budget deficit. As a result, it faces a significant dilemma as it privatizes. While there appears to be general support for market liberalization, the Uzbek government maintains a high level of taxation on privatized and new enterprises. As businesses are privatized, or as new businesses are formed, they are subject to taxes and rents designed to replace the revenues lost because of privatization. Businesses now pay an employee tax of 37 percent of total wages into the State Insurance Fund to cover the cost of health insurance, disability, and old age pensions.

---

<sup>2</sup> These data are distorted by the employment category "Other," consisting of 1.4 million persons, or 20 percent of the labor force. According to the data, these persons are neither "employed" nor "unemployed."

### **Direction and Status of Relevant Reform Activities**

There appears to be widespread support for the concept of market economics and little appetite for a return to a centralized, planned economy. However, the process of moving toward a totally free market will take a considerable amount of time and will not follow a straight path.

The government has stated that it has no intention of fully freeing production or moving to a totally private market system. Farmland, mineral output and other raw materials, the communications infrastructure, and major transport will continue to be state owned. Although land is not being privatized, a degree of liberalization is being introduced into the state farms. Previously, 95 percent of the output had to be sold to the state at controlled prices; farms are now permitted to sell 25 percent to 40 percent of output on the open market and keep the proceeds (after paying a variety of government taxes and rents on the proceeds). Even this limited liberalization has apparently produced a significant increase in income for the more progressive state farms and cooperatives.

There are no legal limitations on the creation of small private businesses, except for the sectoral limitations mentioned above. However, there are at least three types of barriers new businesses face. These are:

- A high level of taxation and rents on the use of government-owned land and facilities;
- Regulatory barriers, taxes, and bribes exacted by regional and municipal governments; and
- Extremely limited access to financial capital.

On January 1, 1993, by government decree, the first 8,000 of 13,000 small service and commercial establishments will be transferred from government ownership to private ownership. The total employment of this group is unknown, but it is probably in the range of 100,000 to 200,000 persons. The employees of these newly privatized enterprises cease being government employees and become responsible for their own livelihood. There is no program in place to help this group of new businesses deal with their changed circumstance. Undoubtedly, many will fail, adding to the unemployment rate. Viewed differently, this group could be a universe of new enterprises ripe for growth, with an effective intervention of appropriate technical and capital assistance.

Another sector offering potential for new small enterprise development is the agricultural processing sector. Currently, almost 80 percent of agricultural products are sold in an unprocessed form. There are real opportunities for growth in business revenues and employment through value-added processing. The government is approaching this sector almost entirely from the perspective of larger scale joint ventures with state farms. However, there is also room within this sector for a substantial number of smaller producers engaged in lower technology processing, storage, transportation, and marketing. By targeting an intervention on this group, new small businesses and increased employment could be created in the rural areas.

## **POLICY AND REGULATORY FRAMEWORK**

Seventy years of a centralized command economy, in which private business was illegal, has left a policy vacuum. Until two years ago, the GOU had no policies at all to support, promote, encourage, or even permit the operation of private business entities. The policy and regulatory framework is, therefore, in a very embryonic state.

### **National Policies**

The GOU has announced a policy of promoting a private market economy — to encourage the formation of private businesses and provide for the privatization of state-owned enterprises. New laws passed during the past two years provide simplified procedures for registering new businesses and are generally supportive of a private market economy. Several individuals and committees in the government — although it is not exactly clear who, or under what authority — have the responsibility of examining proposed laws for their impact on business.

Specific legal and regulatory policies that have an adverse impact on business development include:

- Taxation laws that impose extremely restrictive and anticompetitive conditions on businesses, especially very small private businesses; and
- The absence of private property — and unclear rules on chattel, collateral, and contracts, which are essential to develop formal sector financial services for small businesses.

Other more general policy and regulatory issues which will impede new business development include:

- The absence of operational policies — most of the rules issued to date are theoretical and legalistic, rather than practical or operational;
- The absence of implementing procedures or authority — it is not clear who is responsible for implementing the laws, or under what conditions; and
- The absence of a legal system and tradition that can uniformly enforce property rights, contracts, and other aspects of a commercial code.

In addition, the variety of "official" business associations represent de facto approaches for perpetuating central government control rather than organizations to identify and articulate legitimate private business concerns.

The approach to policy formulation is legalistic. Officials who have never run private businesses are reading laws from other countries and adopting those that seem to represent what they want to accomplish. There is no market test for the new policies. Likewise, the procedures for implementing new policy measures have not yet been established.

Providing an experienced long-term policy advisor — to help national and municipal officials develop and implement small-business oriented policies — would be a valuable contribution on the part of the U.S. government.

### **Local Governments**

Uzbekistan is divided into *oblasts* (districts or states), *rayons* (somewhat similar to rural counties or townships), and municipalities (in the larger cities). In most cases the *rayons* cover the areas outside of the major cities in each *oblast*, although Tashkent comprises 11 *rayons* within the urban area. Each of these subdivisions is ruled by a mayor (*hokim*). Only the mayor of Tashkent is elected; all others are appointed by the national president.

As in other countries, much of the regulation of small private businesses occurs at the local level. Local governments are responsible for registering businesses; other responsibilities are not detailed.

One of the major problems in the regulation of small businesses is the breakdown between intent at the national level and implementation at the local level. Although national law places few barriers on business registration, municipal authorities impose additional restrictions and bureaucratic procedures, and often use these as a means of extracting bribes to facilitate processing of paperwork.

Municipal governments have the potential to play a valuable role in promoting and fostering private business development. A decentralized form of small business administration, operating through business centers at the municipal level, might prove to be an effective mechanism for providing needed technical assistance and training to fledgling private businesses.

## **SMALL BUSINESS CREDIT AND FINANCIAL SERVICES**

### **Survey of the Banking System<sup>3</sup>**

There are two types of banks in Uzbekistan: government enterprise banks and private commercial banks. The government enterprise banks are spin-offs from the original Soviet centralized bank. There are two government enterprise banks in Uzbekistan, known as the Industrial Bank and the Agro-Industrial Bank. The Industrial Bank is the largest in the country, with 60 branches, 4,000 employees, and lending of 100 billion rubles per year. The second largest is the Agro-Industrial Bank, which — as its name implies — lends principally for agricultural processing activities. Both of the government enterprise banks lend only to state-owned enterprises. The Agro-Industrial Bank has established a new department with six to eight employees for small enterprise lending. However, the principal orientation of both banks is toward larger ventures and joint ventures with international firms. Both indicated that their principal need was in having hard currency credit that could be used to purchase new technology from outside the country. The Industrial Bank wants no technical assistance. The Agro-Industrial Bank would accept technical assistance in the evaluation of certain types of equipment and technology, but would greatly prefer hard currency credit.

---

<sup>3</sup> The information in this section was drawn from interviews with seven banking institutions: two state-owned banks, four private commercial banks, and the Central Bank of Uzbekistan.

Private commercial banks operate under private banking legislation passed in November 1991 and modified in July 1992. The Central Bank has the authority to charter new banks and to regulate their operations. In just one year, 28 commercial banks have been chartered. They are all small in comparison with the government enterprise banks, so their lending capacity is quite limited. Still, they have a much greater orientation toward small and private enterprises.

The largest commercial bank is the Uzbek Innovative Bank. Its shareholders are an unusual mix, including the Spiritual Board of Muslims of Central Asia, the Tashkent Metro Department, the Monuments Design and Manufacturing Factory, two large state farms, and other state-owned manufacturers. Its lending preference favors state-owned enterprises (95 percent of total lending), which it believes are safer because of an implicit or explicit guarantee of the government. Its average loan is 10 million rubles with a term of three to six months at about 32 percent annual interest. Shareholders receive financing on more favorable rates.

The StroyCommerbank (Building Construction Bank) is another of the larger commercial banks. Its principal stockholders are medical clinics, hospitals, and rest homes that have restructured themselves as "cooperatives." Its principal market is financing for these hospitals and medical clinics, usually for upgrading of equipment and facilities. It is more sympathetic to the needs of small enterprises but reluctant to lend to them without guarantees. It would like to develop a market in the financing of agricultural processing equipment, but needs a means of obtaining hard currency so that its clients can buy equipment from abroad. This bank appears less enchanted with the prospect of outside joint ventures supplying capital and technology. It also noted that the equipment available within the ruble zone is too large in scale and is not appropriate for the smaller processing enterprises the bank wants to support.

The Rustam Bank is a private bank formed by Mr. Rustam Ustanov, an entrepreneur who claims to have made a great deal of money over the past few years by producing honey and raising and selling red California earthworms. He has used his fortune to capitalize his bank at 150 million rubles. The bank was chartered in May 1992, and is just beginning operations. He and some partners are also starting a private business school and he plans to use this school as a way of feeding business clients into his bank. This bank appears to seek out a more entrepreneurial clientele.

The Bank of Trade Unions is an interesting smaller commercial bank. Technically, it is not a private bank because its shareholders are government-supported entities. It is owned by three trade unions that have invested 10 million rubles to create the bank. The three unions are the Union of Hospital, Hotel, Rest Home and Sanatorium Workers; the Union of Employees of State Farms; and the Union of Transport Workers. Unions themselves are not eligible to borrow because they are on the government budget. The bank's lending orientation is almost entirely private, although in the bank's terms, "private" also can mean a privatizing enterprise. One client cited in the discussion was a medical clinic being converted into a worker cooperative, which then borrowed funds to modernize equipment. At this bank we also met a "model entrepreneur." This individual started a sewing company two years ago and now employs 50 individuals. He borrowed 5 million rubles to purchase materials in Russia for a line of handbags.

Almost none of the lending capital of smaller private banks comes from deposits. There is a State Bank for Savings, a spin-off from the Soviet Central Bank. This bank pays 12 percent on savings and periodically revalues accounts for inflation. However, according to an International Monetary Fund researcher, individuals are not permitted to withdraw funds because there is insufficient liquidity to cover deposits. One bank, the StroyCommerbank, is considering offering 40 percent interest to depositors to attract new funds.

The Central Bank of Uzbekistan provides virtually all of the lending capacity of the banking system. It will lend up to twenty times a bank's starting capital, meaning that a bank with 10 million rubles of investors' capital can obtain up to 200 million rubles for relending. A private bank pays the Central Bank about 28 percent for the funds and is permitted to relend with a 4 percent spread.

It seems clear that credit for smaller enterprises is an extremely limited commodity. Furthermore, without some outside intervention in the form of direct credit support or guarantees, credit for smaller private enterprises will continue to be largely unavailable.

Should A.I.D. choose to address the problem of business credit, there would be a receptive audience within the Central Bank of Uzbekistan. The Central Bank representative expressed interest in having a hard currency loan that could be used principally for two purposes:

- Financing the purchase of capital equipment from outside the country; and
- Financing the purchase of raw materials from outside the country when the materials are for hard currency export.

The Central Bank representative would also be interested in some form of guarantee arrangement to facilitate the provision of credit to small enterprises.

Any initiatives that seek to provide small enterprise credit should avoid placing that credit within the large state banks. These institutions have very little orientation toward newer small private businesses and would continue to feed credit to the older state-owned enterprises. It is also doubtful that the Government of Uzbekistan would permit the creation of a free-standing credit structure that operates outside the private banking system. Furthermore, any credit program should seek not only to provide business credit but also to strengthen the fledgling private banking system.

In practical terms, however, the Uzbek economy is probably not quite ready for a credit intervention initiative. Over the next year or two, as privatization takes hold and reforms become more rational, credit programs may have merit. Without some form of credit enhancement, bank credit will continue to be largely unavailable to the small business sector. However, credit should be introduced only as part of a larger effort to improve the policy environment and technical support for private enterprise.

The Central Bank is also interested in having a technical advisor who could help it address certain operating deficiencies noted by the World Bank in a recent report. By placing an advisor in the Central Bank, A.I.D. could have an advocate for small enterprises and private banking in a very strategic government institution.

## **PRIVATIZATION AND PRIVATE ENTERPRISE**

Under the centralized command economy of the past 70 years, nearly every trade, service, and productive activity was under the control of the state. All retail outlets, from the smallest streetside kiosk to the largest department store, were state-owned stores. All services, from home repairs to knife sharpening in the bazaars, were performed by state employees. All industries, large and small, were state enterprises. All agricultural lands were owned by the state and allocated to collective farms. Some houses, however — especially in Tashkent — are privately owned, and have been for at least the past

thirty years. And some private trading activity of foodstuffs takes place in the public bazaars. There also appears to be a very active underground economy made up of both home-based producers and moonlighting service providers.

### **Privatization Plans**

The GOU has announced its intention to privatize a large segment of the state-owned enterprises. Laws governing privatization have been passed; initial plans to nationalize some of the smaller industries have been announced; and privatization committees have been formed at the national, district, and municipal levels. The line ministries that have managed the state-owned firms are changing their names to associations, and the names of many of the specific branches of these ministries have been changed to "companies." Some privatization of public-owned housing is occurring in Tashkent.

In the agricultural sector, small land plots are being distributed on a hereditary leasehold basis to farmers on the collectives. Even more important, however, is the fact that the collectives themselves are beginning to adopt alternative production methods that border on privatization. Some of the more progressive collective farms are renting parcels of land to their individual members and allowing these members to farm them individually and keep any proceeds in excess of rent payments.

The course of this privatization is difficult to predict. There is a lot of talk about it, a lot of external pressure to do something about it, numerous top-level pronouncements in favor of it, and considerable internal bureaucratic resistance impeding it. The government is especially concerned about the possible impact of privatization on unemployment, ethnic conflicts, and prices, and is reluctant to move very rapidly in the area of privatization. At the present time it appears that:

- Small retail shops and service businesses now under the control of the former ministries of Trade and Services will be privatized in the relatively near future. The Ministry of Trade, which operates some 14,000 small, medium, and large retail outlets, has already privatized about 400 of these and is scheduled to privatize a total of 1,000 before the end of 1992. The Uzbek Service Center, which operates about 20,000 service businesses (shoe repairs, laundry and dry cleaning, barbers and beauty shops, photo finishing, and general repair works) plans to privatize 13,000 of the smaller units (with 1 to 4 workers) within the next two years;
- Smaller businesses under the Ministry of Light Industries and Ministry of Local Industries (approximately 2,000 in number) may be privatized in the next two years.<sup>4</sup> The Ministry of Light Industries — which produces cloth, clothing, hats, shoes, and china for consumers — plans to privatize about 50 percent of its 500 industries;
- Many collective farms will adopt new production styles that permit considerable individual control and initiative, but within the framework of the collective itself; and
- Privatization of larger industries will proceed at a slow pace, if at all.

It is important to keep several facts in mind in any discussion of privatization. First, some of the resultant enterprises may not look "private" to outside observers. The government has talked about

---

<sup>4</sup> The Ministry of Local Industries now called the Ministry of Cottage Industries.

numerous forms of privatization, including options such as "collective ownership of the private shares of the company," which does not, at first glance, appear to be privatization at all. In our opinion, the structural form of privatization is probably less important in the short run than the freeing of the firms from state control over supply, pricing, and marketing activities.

Second, there will continue to be a strong relationship between the state and the newly privatized industries. The state ministries have been planning service contracts, supply contracts, and even management contracts for the newly privatized firms. The price distortions and shortages caused by 70 years of an exploitative centrally planned economy will force most new companies into a dependency on the state for essential supplies and materials and will have a profound impact on the resulting private sector.

Third, the government control structures are not likely to disappear in the near future. Organizations such as the Union of Entrepreneurs, the Trade Union of Entrepreneurs, the Association for the Promotion of Young Entrepreneurs, and various businessmen's associations, are in fact government organizations that provide government a mechanism for controlling business activities rather than independent associations.<sup>5</sup>

#### **Other Sources of Private Businesses**

Not all of the new private businesses in the country will result from privatization activities, however. In addition, new private firms will result from:

- The individuals engaged in clandestine trade and service activities during the past ten to twenty years who will begin to operate these activities openly; who
- Individuals (mostly former government officials) who will attempt to form private companies as an alternative to government employment.

There has been an active private sector in the country during the past ten years or so, even though these activities have been illegal. Historically, Uzbekistan has been a trading country, and private retail trade is in evidence throughout the country. Most of the bazaars are populated by private vendors selling foodstuffs produced on family plots, items brought in through cross-border trade, and even locally produced handicraft and industrial goods. The huge Sunday bazaar in the hippodrome is an excellent example of this private sector trading activity.

Perhaps even more important, as in the other republics, the difficulty encountered in obtaining services through official government channels has led to an active underground service sector, with skilled artisans providing services to individuals and families for cash or for barter goods. These activities have been illegal and, therefore, clandestine, but can be expected to be far more visible as the ability of the state to continue providing subsidized services declines. Many of these individuals in trade and service activities have considerable experience in operating private businesses (although they have not called them "businesses") and in pricing services to cover costs, and can be expected to be successful in making the transition to an open market situation.

---

<sup>5</sup> Note: the term "man" or "men" throughout this report should not be taken as solid indication of gender, but as how the translation was presented.

There are already many private companies that have been set up. Many of these, or at least the ones to which the Assessment Team was exposed, focus on schemes to service foreign businesspersons and serve as intermediaries for joint ventures. Many of these advertise translation, car hire, facilitation of appointments, office facilities, and other similar services for businesspersons visiting Tashkent. Others offer to put venture capitalists in touch with local joint venture partners, publish business directories, prepare compendiums of the new business laws, and provide other similar services.

The presence of the active sideline business tradition represents a base out of which a legitimate entrepreneurial group may grow. At the same time, it contributes to a clouded image of business activity in Uzbekistan. These sideline operators are often operating illegally. Because they already operate illegally, they often move further into illicit practices such as stealing, bribery, extortion, and fraud. These practices have tended to validate the communists' contentions that private enterprise gives rise to socially unacceptable practices. There is also some hesitancy for these businesses to "come out of the closet," out of fear that the government will crack down on their previously illegal activities. Consequently, there is a need for a widespread program of public education aimed at improving the image of business operations and setting forth a baseline standard for acceptable business practice.

In summary, the three major sources of private enterprises in the country will be:

- The individuals engaged in clandestine trade and service activities during the past ten to twenty years who will begin to operate these activities openly;
- Small-scale trade and service outlets operated by the line ministries that will be turned over to private ownership; and
- Individuals — most often, former government officials or managers in state enterprises — who will attempt to form private companies as an alternative to government employment.

### **Problems and Issues**

All these groups face an extremely precarious environment in Uzbekistan, although the specific problems each faces may vary. Perhaps the most serious problem that each faces is the absence of experience in planning, managing, and operating a private business. There is no pool of trained managers to draw from, and there is little familiarity with pricing, marketing, or making business decisions. Working as the manager of a state-owned beauty shop, for example, does not provide the managerial experience to operate a successful private beauty shop.

The second problem that at least the privatized companies face results from the vicious relationship between wage rates, subsidies, and scarcity. The depressed wage rate under the previous system meant that individuals had little disposable income to pay for goods and services. Supplies of all goods and services were heavily subsidized, keeping prices in line with the depressed wage rates. But this meant that goods were in scarce supply and of inferior quality. Moreover, vendors could not obtain free-market substitutes and would not have been able to charge the premium required by those items. As these industries privatize, they will find that the state is unable to continue to supply subsidized materials, yet the public lacks the income to pay for market-rate substitutes. Most of the trade and service businesses spawned by the privatization process will not be viable unless they make fundamental changes in the way they operate.

The clandestine service and trade businesses have adjusted somewhat to scarcities in supplies, but are still heavily dependent on corruption and bootlegging for materials and supplies.

### **Opportunities for Assistance**

Most of the attention of policy makers, donor agencies, and a new wave of entrepreneurs in Uzbekistan is focused on the mechanics of privatization (especially of large firms), joint ventures, and foreign trade. Yet, relatively few of the new private firms in the country — whether created by privatization or the emergence of heretofore clandestine operations — will ever have joint venture partners or be engaged in export trade. Most of the firms created will be small service and retail outlets — barber and beauty shops, shoe repair shops, laundry and dry cleaning services, and the like. And these small locally oriented businesses must create and provide job opportunities for the majority of Uzbeks in the future — both to sustain the employment of individuals currently engaged in these occupations and to absorb surplus workers from the inefficient state-run operations. Most of these businesses are not viable under current conditions and will have a high failure rate, but the stability of the country and its ability to provide jobs to its population depend on their success.

### **INSTITUTIONAL SUPPORT FOR PRIVATE BUSINESSES<sup>6</sup>**

The organizations that are supporting, or could support, private sector businesses in Uzbekistan fall into four rough categories, using an American taxonomy:

- Governmental ministry offices and officials charged with assisting in the transformation to a free market economy;
- Educational institutions;
- Associations of businesspersons; and
- Private businesses or persons claiming or planning to provide services to current or potential entrepreneurs.

The governmental structures with responsibility for issues of private business are detailed elsewhere in this report. In this chapter, specific attention will be paid to the "private" organizations supporting small enterprises, the educational institutions getting into business training, and the individuals who plan to create groups or support mechanisms for businesses but have not gotten beyond the discussion stage.

---

<sup>6</sup> The information in this section is drawn from interviews with nine governmental, four parastatal, and four private organizations relating to the creation or support of private enterprises in Tashkent, Jizzakh, and Bukhara oblasts of Uzbekistan. Interviews were held from October 6 to October 16, 1992.

## **Business Associations**

The small business sector in Uzbekistan has created no associations or representative organizations for itself. With one exception, the six business associations that were interviewed were created by the state and serve as a conduit for information between the government and the association members.

The common mission of the government-formed organizations is to represent the workers' rights in setting governmental policy and regulation and to interpret government regulations and policies to association members. Some also listed training as part of their mission.

In no instance did these associations focus services at the individual or the firm level, but only at an industry-wide level; this is the significant difference between them and the single independent business association we found. The parastatal business organizations, to some extent at least, were created by the government for the government, with the workers as audience. It is probably not going too far to suggest that these organizations may be more a form of residual control over the private business sector than associations of assistance for the private sector. Some, like the Union of Entrepreneurs, have some plans that indicate intent to provide individualized services to members, but this change in focus remains in the planning stage.

The structure was similar for these organizations, with the workers or their factories and collectives paying membership dues on a sliding scale based on income. In some instances, this fee was characterized as voluntary. In most cases, the salary of the head of the organization was said to come from member dues rather than from government. The staff of the Young Entrepreneurs, including its director, was paid by the government. However, this may be because the organization is new. Even in those cases where salaries came from private sources, the office space and operating expenses were usually provided by the state.

The heads of these organizations are often politically very powerful. Some are members of Parliament; others have personal connections high in government. This is true even in those rare instances of self-organized business groups. The self-created group of drycleaning, photography, and hairdressing shop owners in Bukhara, for instance, has elected a politically well-connected Russian to head their union. Clearly, the members themselves see political access and clout as a primary goal for their associations. Also clearly, this gives a highly political cast to these organizations and makes them potentially undesirable as counterparts or cooperants for A.I.D. in any program of assistance to the small business sector.

In addition to political access, these associations assert that they provide a relatively standard list of other services, including acting as a broker between private companies and foreign partners (although no evidence of this was produced), "consulting services" (this appears to be providing general advice on dealing with the current system), and training. One group, the Union of Entrepreneurs, had gone considerably further in services and claims to provide firm-specific assistance in market forecasting and feasibility studies for a very small fee; the one example it provided was of an enormous government firm, Menatep, which needed assistance with tax codes affecting its trade with Russia. In addition, this association says it has a new tax-free fund from which it provides loan guarantees to banks for entrepreneurs seeking to open new businesses. However, this seems still to be a plan and not a reality.

These associations offer — or, more frequently, plan to offer — formal training. For example, the Young Entrepreneurs have a vice president who is actively engaged in planning much training, with the intention of creating schools of formal business instruction at the lycee, college, and M.B.A. level. As discussed below, the intended audience for this training appears to be traditional students with no work

experience or government staff enlisted for retraining. The subjects to be offered (marketing, packaging, advertising, and the like) and the nature of the classes (full-time, daytime, and text-based) seem inappropriate for entrepreneurs buying or starting small businesses. Again, these training classes seemed, on close questioning, most often to be only in the early planning stages.

The sizes of these parastatal worker or business associations vary significantly, from the claimed 100 members (individual and company) of the ten-month-old Young Entrepreneurs to the 1,000 in the Union of Entrepreneurs and the 6,000 in the Trade Union of Entrepreneurs, which is over 50 years old. Equally varied are their ranges: the Association of Subsidiary Farmers claims a network of branches reaching to the village level; the Young Entrepreneurs has a claimed network too new to be functioning in all regions of the country.

Of these organizations, only one would be classified as a genuinely private organization under the tax and corporate definitions used in the United States. Interestingly enough, that one organization — the Business Women's Association of Uzbekistan — considers itself a non-profit organization. Unfortunately, time did not permit gathering data on non-profit legislation in Uzbekistan. The head of that organization said there is no such legal or tax distinction made in Uzbekistan, but this statement is unverified.

The Business Women's Association of Uzbekistan was founded by an Uzbek businesswoman in 1991. The association claims 8,000 women members and a paid staff of 15. Unlike the parastatals discussed above, its primary mission is to assist individual members in registering their businesses and to help them understand and overcome the many constraints facing small businesses: property and tax law, banks and banking, absence of credit for private businesses (to which banks will not make loans), and ignorance of foreign economic business activity.

In addition, this association offers training for women, largely in such traditional skill areas as rug weaving, dressmaking, and handicrafts. The products of the trainees and of other members of the association are offered for sale in an attractive private crafts shop owned by the association's founder and operated by the association in Tashkent.

The founder reports that she had significant difficulty in getting her association registered. She has made three personal appeals to the President of Uzbekistan for a revolving credit fund to help women found businesses, but has yet to receive a reply.<sup>7</sup> (This should be contrasted with the experience of the Union of Entrepreneurs, which says it received government funding for a revolving fund for business start-ups — although we did not verify that independently.) A women's legal defense fund she tried to found was forbidden by the government. The intent for the fund was to represent individual women whose businesses were being closed or harassed by government — which apparently occurs regularly. She feels that women face greater hardships than men in starting or buying small businesses. She attributes this to the culture, to immovable state structures with which women are not accustomed to dealing, and to lower expectations women have of their capacity to operate businesses.

---

<sup>7</sup> Three associations, including this one, claim to have made personal appeals to the President for funding or other support for their groups. If this is the avenue for getting government support, it represents a significant constraint in the development of associations. It also explains why politically powerful persons are sought as group leaders.

The association also helps women with business plans and assists in such necessary business techniques as bartering for raw materials (setting up countertrade deals for its members) and providing an information exchange of commercial secrets.

This association is creating branches in several regions throughout Uzbekistan, as the situation for women entrepreneurs is said to be even more difficult in the regions than it is in Tashkent. We were unable to find representatives in Samarkand or Jizzakh, however, and could not visit the representative outside Bukhara.

We also heard of two more associations being founded, both said to be private. One is being founded by the rector of the Business and Diplomacy International University and the founder of the Rustam Bank and will be called the Association of Owners of Private Businesses. The second will be called the Association of Businessmen. It will be interesting to see whether these associations have the same problems in getting established as did the women's groups.

There are assorted other nascent or tangential associations, which may evolve and mature into useful support mechanisms for small entrepreneurs. There is a Businessman's Political Party, but only 38 percent of its members are businessmen. The new owners of small private service businesses in Karasaray District of Tashkent City are said to have organized themselves — entirely without government impetus or subsidy — into a problem-solving club. If that is so, it is a more promising type of association for the future than are the parastatals or large industry-serving associations discussed above. In general, however, it is safe to say that this kind of organization is too small, too inexperienced, and too hard to find to consider using as a counterpart for an A.I.D. program at this point.

Finally, until two months ago there was a Chamber of Commerce and Industry, started in 1957, which was ministering to 450 "small" businesses. Services included location of investment partners, sponsoring of trade shows and exhibitions, translation of document, and testing of products. It was part of the Ministry of Foreign Economic Relations, with no pretense of privateness. It has not been replaced and government does not intend to replace it, although some of its functions, particularly those related to patents and licenses, have been switched elsewhere in government. More to the point, the government has recently decided, for the second time, not to allow the formation of a Chamber of Commerce on the U.S. model.

### **Educational Institutions and Business Centers**

Training is a widely recognized need for private sector development in Uzbekistan, and dozens of business training courses, schools, and centers are being planned. A far smaller number are already operating, but as is the case with consulting firms, it is clear that "business schools" are a growth industry in the nation.

However, as in the case with the associations, the reality of the scene is not encouraging for A.I.D. collaboration. There are two dominant problems. First, the intended audience of virtually all of these schools is full-time day students, usually young, with no previous or current connection with enterprises. Some retraining is planned, but that is largely intended for government staff, not for business operators. Furthermore, the subjects offered are geared toward large, and probably international, businesses rather than to small business people. Courses in marketing, packaging, and international financing are being planned, not courses in how to buy a small business or price a neighborhood service.

Second, as may be expected, those who plan to teach these courses are in no way qualified to do so. Through a World Bank program and other programs, perhaps 50 to 75 Uzbeks have been sent to the United States on programs ranging from a couple of weeks of study tours of modern business to formal multiyear business school training. Other than that, however, the only private business experience in the country is in the informal sector and has been garnered through illegal commerce and trade. Consequently, those planning to teach business do not have relevant experience in it; even management is profoundly different in a market economy than it is in a state industry.

All the educational institutions visited were public, except for the Business and Diplomacy International University, which is being founded by two entrepreneurs, one of whom is also the founder of a private bank discussed elsewhere in this report.<sup>8</sup> This school plans to offer B.A., M.A., and Ph.D. programs, including international tourism, transportation, and banking and credit; the first class of 150 students was selected in October 1992. Of those, two will be Ph.D. candidates, 30 M.A. students, and the rest undergraduates.

This school has fees of roughly \$200 per year, which a founder acknowledges is enough for only half a year. The school plans to make up the difference through profit-making activities of its own, including an information center, a business center, and a marketing center, which will provide services for fees. None has begun. The school hopes to get some teachers from the Peace Corps and is negotiating others from the United Kingdom, Belgium, and Australia. In addition, it has requested but has not received financial assistance from the government.

Perhaps the most interesting of the schools discussed or visited is the Tashkent State University of Economics, whose rector and vice rector were interviewed. The school was founded 60 years ago and has 70,000 graduates. The rector has a very clear sense both of the enormity of the way of transforming a communist economics university into a free market economics university and of the way to go about it. Unlike most of the other educators interviewed, he has a focused plan, already being implemented, for connecting his school with other schools abroad. He has a guiding belief that people have to be trained before they can be given property. He believes that one of the essential elements in this training is the creation of linkages and contacts between small businesspersons in the United States and in Uzbekistan.

The rector has already made three trips to the United States and has quite advanced connections with the University of Arkansas. At present, 25 Uzbek university students are at schools in Arkansas, and 10 Arkansas businessmen are scheduled to visit Tashkent in November 1992. In addition, the University of Arkansas will offer seven weeks of summer business school for Uzbek students; and 40 university teachers from the Tashkent State University of Economics will go to the United States for additional training under a World Bank program.

The rector also has contacted Harvard and Tufts, and a few other Boston-area schools, and believes that the Schooner Company of Boston has agreed to open and provide financial support for a Business Academy through the Tashkent State University of Economics. (Unfortunately, foreign partners are not always as committed to these undertakings as Uzbeks are led to believe, and this information has not been verified.) The rector also has plans to provide short-term retraining courses for businesspersons. However, most of these courses appear geared to employees of very large businesses rather than to the owners of very small ones.

---

<sup>8</sup> The Business Women's Association of Uzbekistan has created a business college for women, which is also private, but we did not visit it.

Because of the rector's initiative in arranging connections to U.S. schools and because he has a well-considered strategy in planning training, the Tashkent State University of Economics seems a potential collaborator for an A.I.D. training program. Further study would have to be given to the political implications of such a choice. It is a government school, and the current rector is a member of Parliament.

The other training available through the various associations and the municipal government offices — the two offices visited have training programs for businesspeople in place or planned — will be sorted out over time. Many will never get started, and most will fail. The act of meeting faculty payroll will be more than most can manage. However, the situation should clarify fairly quickly, particularly as the Peace Corps, U.S. private voluntary organizations (PVOs), and international universities make skilled and experienced teachers and course materials available. Within a year, the business education capacities of various organizations should be clearer.

The most important implication for A.I.D. in this tumultuous business education scene is that virtually none of the planned training targets owners of small businesses. Furthermore, the education system is such that the need for less formal training outside regular classroom hours is unlikely to be recognized and is, therefore, likely to remain unmet — except by external agents — for some time to come.

Business centers deserve a brief mention. The Tashkent City International Trade and Exhibition Center is a big, formal government undertaking that will include hotels, offices, and cottages. Information services for this undertaking are being provided by Uzinformtech, formerly part of the Ministry of Foreign Economic Relations, but now "privatized." The privatization has resulted from the inability of the Ministry to pay for the services it has contracted. The employees of this very dynamic computer software group have been unpaid for two months. However, they have created a database they say contains information on every registered business in Uzbekistan, and another on trading partners. They can find no purchaser of this information at present. The director is planning to take this group public with a stock offering.

Most business centers, which are proliferating as much as business schools, are chimerical. Some are individuals hiring out as expeditors to foreign firms; others are planned to be more oriented to communications. Virtually all, however, are aimed at international business, especially foreign investors. With a couple of very small exceptions, none seemed aimed at the microenterprise or the small entrepreneur.

## Summary

Uzbekistan does not offer many choices of private institutional partners for an A.I.D. program of microenterprise development. There is not a clear distinction between what is governmental and what is private, and the agencies of government remain suspect. Institutions and associations under the old regime were created by and served the state. Even the Trade Union of Entrepreneurs, a body established in the 1917 Constitution, is essentially the means by which the State interacts with its salaried employees in factories. It is an answer to workers' involvement in a government that forbade strikes, unions, and arbitration; these associations were designed for control rather than for support and they were designed to work at an industry level rather than at the level of the individual worker (now entrepreneur).

There is widespread recognition that training is an essential precursor to a full-fledged market economy, but there is very little understanding of what this entails. The country has no history of providing this kind of training, and no experience in what should be taught, to whom, and how.

However, a vibrant market economy really needs a vibrant private sector of organizations representing and supporting businesses, including very small ones. This sector is needed to advocate with governments, provide leverage for members, create solidarity, and act as a forum for learning democratic habits and procedures.

We heard of several small private groups whose emergence may herald the beginning of this sector. Experience indicates that genuine private support and assistance organizations have to emerge from the business sector itself, without direct impetus from governments. However, we believe there is a role for A.I.D. in helping to create a climate where these nascent organizations can flourish.

- Any A.I.D. undertaking in Uzbekistan should have, as an additional output, the creation of networks of micro-entrepreneurs. These networks will spring up naturally if business people are given a chance to meet at A.I.D.-sponsored conferences, seminars, business centers, training courses, PVO undertakings, or the like. That is the first step.
- In addition, A.I.D. can, through a business adviser, provide the initial secretariat services that these networks need by producing mailing lists, providing services such as photocopying and desktop publishing for newsletters and other communications, and continuing to create the events at which the network can be nourished.
- A.I.D. can improve the policy and regulatory environment for business support organizations; needs in the not-for-profit tax and governance areas could be assayed fairly quickly. Certainly, the experience of the Business Women's Association of Uzbekistan indicates there is room for improvement in this area.
- At this time, A.I.D. should not try to create these organizations itself or fund U.S. PVOs to create them. The situation is too complex, too highly politicized, and too far removed from our U.S. experience for us to be able to make sound judgements of partners at this point.

### **SMALL BUSINESS IN THE AGRIBUSINESS SECTOR**

Agribusiness in Uzbekistan is still heavily influenced by the centrally planned economic system of the former Soviet Union. The sector is still dominated by more than 2,500 large collective farms (also called cooperatives) — averaging 1,000 to 3,000 workers — that work on 3 million arable hectares and government enterprises that retain monopolistic control of critical services provided to the sector, including transportation, agricultural inputs such as seeds and fertilizers, distribution, processing, and trade.

Privatization in agribusiness is defined more broadly here than as just majority private ownership of an enterprise; it includes lease arrangements, management contracts, and the private purchase of minority shares of an enterprise. Private involvement and profitability in agribusiness are not always transparent. Government subsidizes on agricultural inputs, fuel, transportation, labor markets, and sales

make it difficult to determine what is private and, more important, what is profitable. Private enterprise is still distorted by explicit and implicit subsidies from the state.

The privatization begun in early 1992 has created an estimated 11,000 registered small farmers. Early indications are that productivity is increasing noticeably because of small private farmers. As economic liberalization and vertical integration of agriculture progress, there will be more opportunities for small private farmers and entrepreneurs who will bring innovation and growth to the sector. But there are still many economic policy, infrastructure, and technology constraints that must be addressed so that private farmers can participate in agricultural and agribusiness development.

### **Profile of the Agribusiness Sector**

During the past 70 years, Uzbekistan provided the Soviet Union with much of the Soviet Union's raw agricultural imports, including more than 60 percent of the Soviet Union's raw cotton, 10 percent of fresh fruits, 10 percent of fresh vegetables, 10 percent of grapes, and more than 5 percent of canned goods. Agricultural products were extracted and sent to Moscow for processing, leaving very limited agro-industrial capacity in Uzbekistan. The interdependence of republics, which was promoted by Moscow to hold the Soviet system together, created economies that relied heavily on inputs, value-added processing, and trade agreements with neighboring republics.

The Soviet system also created attitudes that did not promote efficiency and productivity. In addition to not allowing vertical integration in agriculture, which resulted in huge losses, managers were asked to report only production output. Losses resulting from poor distribution, inadequate storage facilities, and negligent postharvest management were never officially recognized or reported.

Today, Uzbekistan is the fourth largest cotton producer in the world. Only an estimated 10 percent of raw cotton is processed in the country, even though cotton accounts for 40 percent of the gross value of agricultural production, 30 percent of inter-republic trade, and 84 percent of foreign trade. Similarly, only 5 percent of all silk and 10 percent of fruits and vegetables are processed in Uzbekistan. The country has an enormous potential for agricultural growth and a great desire to increase processing infrastructure and technology in the sector.

The country's conservative reform approach is influenced by three essentially political factors. First, there is a commitment to move away from the previous heavy reliance of the economy on the production and export of raw cotton. The government recently distributed over 500,000 hectares of land previously used for cotton production to private farmers. Second, the government wants to ensure a steady supply of affordable food products to feed the population — 50 percent of which is under the age of 19. Third, the government wants to minimize the risk of social unrest that might be fostered by reform measures. The civil war fueled by Islamic fundamentalists in neighboring Tajikistan is a reminder to government officials that stability is tenuous.

In the Ferghana Valley, one of the most fertile agricultural regions in the former Soviet Union and one of the most densely populated and politically unstable areas in Uzbekistan, unemployment exceeds 40 percent. More than 60 percent of the labor force works in agriculture, but there are constraints on the expansion of employment opportunities because of limited vertical integration. Government officials estimate that an additional 70,000 jobs could be created if agribusiness activities could transform agricultural raw materials into processed goods.

As a result of the government's three main objectives, privatization is moving at a much slower pace than in most other countries in the Newly Independent States, and the government maintains control of prices, supplies, and land ownership of key products and industries, to maintain political and economic stability. Food commodities procured through barter trade are sold at highly subsidized prices. The government requires all producers to sell 85 percent of cotton, 75 percent of silk, and 50 percent of fruits and vegetables to the government at fixed prices well below market rates. The government subsidizes food imports through earnings on cotton exports sold at international prices — for example, the government buys one ton of cotton at 9,000 rubles and sells it at 40,000 rubles through the state monopoly.

### **Privatization of Collective Farms**

There is strong sentiment among government officials that many of the state and collective farms should be returned to the peasants at no cost or at subsidized prices. There is still no ownership of land by farmers, but there are three leasehold schemes, benefiting small farmers, for privatization of collective farms:

- **Long-Term Tenancy Agreements.** Some collective farms are giving their members 100-year leases and interest-free loans.
- **Registered Small Farmers.** Through the local mayors' offices, the government allows collective farm members to register a formal leasehold agreement with the collective farm to rent up to five hectares. The small farmer must have a minimum of 50,000 rubles to invest in the land; several farmers often pool their resources to qualify.
- **Independent Leasehold Agreements.** Some of the more progressive collective farms encourage their members to rent land at very reasonable rates and to take complete responsibility for management of the rented land.

All three of these leasehold arrangements operate within the framework of the collective farm. Private small farmers still live within the same social and economic structure of the collective farm. They draw on agricultural inputs — such as seeds, irrigation, fertilizers, and mechanized equipment for land preparation and harvesting — to work the land. The farmers must sell 50 percent of their production to the government at fixed prices, but they can sell the other 50 percent, through contract agreements, to any buyer. The government gives private farmers a two-year tax holiday.

### **The Benefits of Privatization through Small Farmers**

There are clear indications that privatization increases productivity and efficiency. One of the most progressive and successful collective farms in Uzbekistan, the Gulam Mahmud Abdoolaed Agricultural Cooperative, has had great success through two private farmer leasehold schemes implemented on an experimental basis this year.<sup>9</sup>

---

<sup>9</sup> The collective farm, located just outside Tashkent, was formerly called the Karl Marx Agricultural Cooperative. The new name remembers one of the founders of the collective and is symbolic of the progressive nature of the farm.

Of the collective farm's 800 hectares of arable land, 375 are set aside for private farmers who rent land directly from the collective at 6,000 rubles per hectare. In addition, there are eight private farmers, registered in the local mayor's office, who work forty hectares. Productivity increased dramatically during this privatization experiment, with profits increasing from 12 million rubles in 1991 to 108 million rubles through the first nine months of 1992. Private farmers receive 70 million rubles directly, while 38 million rubles go to the cooperative farm.

It is difficult to determine the real profitability of this collective farm. Some estimate that inflation is around 1,000 percent, which would indicate that output on the collective is more than keeping up with inflation — something many firms are not capable of doing. But subsidized labor, inputs, fuel, and transportation still distort real profitability.

Despite questions about profitability, there appear to be tangible benefits. Through nine months of the year, there are already eight private farmers on the collective who have become ruble millionaires, and most other farmers earned considerably higher incomes than in any previous year. The cooperative recently established a bank, fully equipped with computers bought from the United States, to serve the needs of its membership.

The collective farm also benefits from the increases in productivity and income. The farm will spend approximately 20 percent of its earnings to assist the larger families, and about 30 percent of the funds will be invested in road improvements, teacher salaries, books and other educational materials, and other supplies. The farm is also building a new school, a tea house, a Turkish bath, and three new large storage facilities to reduce crop losses. In addition, the government benefits from increased tax revenues from higher incomes.

Next year, the collective farm will expand its private land holdings and increase rent from 6,000 to 30,000 rubles per hectare. More members are interested in renting land next year because the leasehold arrangement has worked so well.

Even though privatization of the agricultural sector is still in the initial phases, the experience of the Gulam Mahmud Abdoolaed Agricultural Cooperative and other farms with privatization schemes indicates important benefits resulting from privatization of collective farms:

- **Increased Productivity and Incomes.** The most obvious benefit is the dramatic increases in incomes and productivity resulting from private "ownership" of land. Workers are more motivated — they are willing to put forth the extra effort because they earn more and benefit directly from their work for the first time.
- **Greater Investment in Productive Enterprise.** It is still too early to determine the investment benefits resulting from higher incomes, but savings mobilization is already under way and indications are that private farmers will invest profits in other productive enterprises. Small private farmers recognize the need for appropriate technology for small-scale operations to further increase productivity, and they recognize the need to reinvest in the new operations.
- **Innovation.** Private farmers are a new source of innovation and diversification. One should not underestimate the innovation and resourcefulness of private farmers, even though they have lived under a planned economic system and on collective farms. One small farmer was raising poisonous snakes, whose venom sells for \$4,000 per gram on

international markets, and turtles, which sell for \$25 each on the local market, in addition to traditional crops such as fruits and vegetables.

- **Less Burden on Government.** The ability of a collective farm to build new schools, repair roads and infrastructure, invest in storage facilities and processing equipment, and repay loans will allow the government to reduce subsidies and services. The successes of privatization, even on an experimental basis, have fostered greater independence at a time when the government is running out of money and looking to reduce its financial and social obligations.

### **Vertical Integration in Agribusiness**

Two of the biggest challenges in the agricultural sector are to increase value-added activities through agribusiness enterprises and to reduce the high rate of produce losses. Experts say there is a 40 to 60 percent loss of crops in the agricultural sector because of inadequate storage facilities and insufficient agro-industrial enterprises for processing. Cotton, fruits and vegetables, silk, leather, and other agriculturally based products offer enormous potential for vertical integration and value added.

Unless there is increased investment in value-added enterprises and in vertical integration of agricultural activities, there will be severe constraints on growth through small private farmers. There is already very limited capacity to store and process large amounts of raw agricultural produce. Processing fruits and vegetables; ginning cotton; manufacturing ready-made cotton garments; processing leather skins and hides for shoes, handbags, and clothing; and producing silk products would not only allow efficient utilization of increased productivity from a growing number of small farmers but would also create new jobs in agribusiness.

### **Constraints on Agribusiness**

The current agro-industrial base is extremely limited and the technology and equipment produce very low-quality products. The Soviet system, which extracted as much as 90 percent of agricultural production for processing in Russia, placed little emphasis on agro-industry. The entire agricultural sector's infrastructure still focuses on extraction of raw materials rather than on processing, value added, and vertical integration.

Despite the great potential of the agricultural sector, many constraints hamper agribusiness development:

- **Raw Material Inputs.** The quality of much of the produce is low because of poor cultivation techniques and low-grade seed varieties. Yields are very low. For example, farmers plant 4 to 5 tons of potato seed per hectare and harvest about 10 tons of potatoes, compared with 2 to 3 tons of seed and a yield of about 50 tons of potatoes in the United States.
- **Storage.** There is very limited storage capacity, resulting in excessively high spoilage and loss. The hot temperatures during the harvest season of June to August further exacerbate the losses of fresh produce. Collective farms that have storage facilities drastically reduce their losses.

- **Packaging.** One of the biggest constraints is the lack of packaging materials and technology. Bottles and jars are always in short supply and are often acquired through inter-republic barter trade agreements. Proper labels and cardboard and plastic packaging material are difficult to acquire. Approximately 20,000 tons of plastic are needed each year for the processing industry, but there is an extreme shortage. Uzbekistan does not have the technology for containers with screw-on lids, making most bottled processed goods unacceptable to international buyers — although they are accepted in other republics of the Newly of Independent States.

**Technology and Equipment.** Much of the current agroprocessing equipment and technology was acquired from Russia, although there is also some equipment from Germany, Italy, Sweden, and China. The Russian equipment is prone to frequent breakdowns, and local technicians often can make only simple repairs because of a lack of spare parts and know-how. Breakdowns during harvest season cause huge losses. Machinery and spare parts are extremely expensive because they are purchased with foreign currency.

**Quality Control.** There is a general lack of quality control and standards in agroprocessing. Workers usually are not trained in sanitary procedures and there are inadequate quality standards and inspection by state authorities or production foremen. The quality of processed products is generally acceptable for the local and NIS markets, but unacceptable for export markets.

**Transportation and Distribution.** Most of the products are shipped by truck or rail in government-owned vehicles and are distributed through state-owned stores. The vast majority of exports of fruits and vegetables are fresh, with high spoilage rates. Transportation costs have skyrocketed in the past year because of shipments of oil from Russia have been curtailed. A year ago, one liter of gasoline cost less than one ruble. Today, one liter costs 20 rubles, and the government will double prices soon after the cotton harvest in 1992.

In addition to these constraints, government policies mentioned earlier prevent price levels and market opportunities that would further stimulate agricultural production.

### **Foreign Investment and Joint Ventures**

Despite the constraints discussed above, there are indications that real agribusiness opportunities exist that could provide the impetus for further growth in the agricultural sector. The one consistent and overarching theme mentioned by government officials is the need for foreign investment and technology in agribusiness.

The government strongly believes that foreign investment is necessary to modernize plants and equipment and provide the processing technology that will allow production of goods acceptable by Western standards. The government provides three-year tax holidays for enterprises established in rural areas. Joint ventures do not need licenses for import and export and there are no taxes on imports. However, 60 percent of all foreign currency must be exchanged for rubles at the government's official rate.<sup>10</sup>

---

<sup>10</sup> The official exchange rate in mid-October 1992 was US\$1 = 260 rubles.

Several joint ventures indicate a conservative, but emerging, interest from foreign investors:

- McDonald's has established a 9 hectare experimental plantation of onions near Namangan, in the Ferghana Valley, to supply its largest restaurant in the world, located in Moscow. This U.S. corporation is working with German consultants to test the dehydration quality of government-owned processing facilities. If dehydrated onions meet U.S. standards, McDonald's plans to expand production next year to 40 hectares. McDonald's will purchase the finished dehydrated product through a contract agreement.
- An Italian company purchases tomato paste in bulk containers from a modern, Italian-constructed tomato paste processing plant, owned by the government, near Andijan. The plant has the capacity to process 900 tons of tomatoes per day, but there is insufficient supply of raw material inputs. Again, the Italian firm limits its exposure by purchasing the final product through contract agreements.
- Continental Grain is setting up joint ventures for processing of agricultural produce. The U.S. firm will provide processing equipment for grain, cotton, and fruit and will organize broiler and clothing production, and Uzbekistan will supply cotton.
- A joint venture between Western-Ag Resources — a U.S.-based firm — and two local private firms is experimenting with hybrid seed varieties of potato, tomato, corn, watermelon, squash, beans, and cucumbers on 150 hectares of land leased from a collective farm. Farmers are provided with hybrid seed, technical assistance, and management oversight to produce the quality of potato required for export markets. Testing of hybrid seeds will allow selection of the most appropriate varieties that produce the best yield and quality in Uzbekistan. Next year, the joint venture plans to expand production to 500 hectares and build processing plants with government equity participation for export-quality output.

There are several similarities between these and other joint ventures in Uzbekistan:

- The serious investors are taking a conservative approach because of the uncertainty of laws and policies in Uzbekistan. There is no private ownership of land, and the government has very limited experience working with foreign corporations.
- Although foreign investors are hesitant to invest large amounts of capital because of the uncertain laws and policies, they are exploring the investment environment through experimental plantations and limited investments to test the local expertise, the potential for producing export quality products, and the response of the government.
- Many of these joint ventures stimulate agricultural productivity to supply agroprocessing plants with quality raw materials to produce exportable products. Small farmers can grow export-quality onions, tomatoes, and other fruits and vegetables if hybrid seeds and other agricultural inputs and technical assistance are provided. Joint venture enterprises are interested in purchasing, on a contract basis, the produce grown by collective farms and private small farmers.

## **Opportunities for Expanding the Role of Small Private Farmers**

There are several areas where A.I.D. might consider assisting in agribusiness development, including training government officials and providing technical assistance. Much of this assistance will directly or indirectly benefit small private farmers and businesses. In addition, there are several areas in which a long-term policy advisor under the GEMINI project could play a useful role in addressing business environment and policy issues that affect all enterprises, large and small.

### **Policy Reform**

In the area of reform, there are many policies that should be addressed. Among the most important ones related to private small farmers:

- Price liberalization, determination of actual costs of inputs, and termination of state purchases at subsidized prices of production output will stimulate production of profitable crops and processed goods. Higher prices will result in higher agricultural production and fewer distortions.
- As in many other NIS countries, creating a social safety net to protect vulnerable groups from the impact of higher food prices is critical; such a mechanism will make it more politically feasible for the government to liberalize price and supply controls.
- Demonopolization of government controls on transportation, distribution, agricultural trade, and processing, coupled with privatization of processing, wholesale and retail trade in food, and small scale transportation will allow private farmers and entrepreneurs and joint ventures to provide greater efficiency and productivity, and determine what is really profitable.
- The government could provide more incentives for joint ventures that source agricultural products from small farmers and provide them with agricultural inputs and technical assistance.

### **Training Government Officials**

Government officials are extremely naive about foreign investors and international business. The most basic training in the following areas will enhance prospects for vertical integration through foreign investment and trade:

- Training key government officials on the fundamentals of negotiations with foreign investors, basic elements of a fair contract, and elementary cost/benefit analysis of joint venture opportunities would give foreign investors greater confidence that government understands and values foreign investment.
- While government officials are eager to increase value added in agriculture production, there is no strategy for vertical integration. Basic training on vertical integration of specific industries could avoid major errors in purchases of foreign-manufactured equipment and processing techniques and could facilitate foreign investment. GEMINI's subsector approach offers a useful analytical tool for exploring key industries.

### **Assistance for Small Private Farmers and Entrepreneurs**

There is very little appropriate technology available for small farmers in Uzbekistan — and in all the countries of the Newly Independent States. The government is committed to promoting small-scale technology and processing but has had no experience in this area. Providing basic information about U.S. programs that promote small business development and manufacturers of appropriate technologies will be very helpful. The government's Committee on Science and Techniks is a useful organization to work with to match local needs with international resources for appropriate technology.

Appropriate technology could be applied to many cottage industries, including processing of fruits and vegetables, tanning of hides and skins, raising of silk cocoons, and many other agriculturally related activities.

Uzbekistan has a scientific research and development capacity and there are some excellent agricultural research efforts in the region, but little capacity to apply them through extension activities. One of the most important contributions in agriculture would be to apply to agricultural production better agricultural inputs and techniques developed at universities and research programs in the region. A.I.D., in collaboration with USDA and U.S. land grant universities, could assist through training and technical assistance on setting up agricultural research and extension programs.

Another fascinating opportunity exists on the more progressive collective farms that have put forth privatization programs. The boom in production and increased incomes offers the opportunities for setting up credit unions, village banks, and other schemes for savings mobilization that can facilitate further productive investment. The U.S. Peace Corps might be interested in exploring the opportunity for Peace Corps volunteers to work with one or more of these progressive collective farms.

### **OTHER INTERNATIONAL ASSISTANCE**

The international donor community is gradually becoming involved in Uzbekistan. Two major World Bank missions, a mission from the European Bank for Reconstruction and Development (EBRD), and some national governments are exploring opportunities for assisting the new country. A.I.D.'s development strategy in Uzbekistan needs to take these activities into account. Two programs that have immediate relevance to an A.I.D. initiative for small business development are a major World Bank program in privatization and small business development and a small business program planned for the U.S. Peace Corps.

The World Bank is designing a major privatization and small enterprise development program. Although the precise details of this program are not yet known, credit resources for small businesses may be in the range of \$20 million, with \$3-4 million in technical assistance to local financial institutions. If this program is realized, A.I.D. would have less of a need to be directly involved in developing credit programs for small businesses. However, the World Bank's definition of small business is such that few of the businesses discussed in this paper would be affected, and the credit program will probably focus on medium-scale and larger "small-scale" enterprises. A.I.D. should consider coordinating assistance efforts with the Bank to facilitate access by smaller enterprises to the lines of credit funded through local financial institutions.

The Peace Corps plans to bring 25 mid-career volunteers to provide assistance to small businesses. These volunteers should be in place by late March 1993. Although still in the planning phase, one option available to the Peace Corps is to place volunteers in the major municipalities to provide assistance to local businesses. Coordinating A.I.D.'s program with the Peace Corps' program might enhance the effectiveness of both. The Peace Corps would be able to provide a significant staff presence at the municipal level that A.I.D. could not afford to duplicate. A.I.D. could provide an organizational framework, technical backstopping, and support in activities such as office equipment and translations of small business materials that would increase the effectiveness of the Peace Corps volunteers.

Program intentions of the other European donors have not been announced. Based on experience in Poland and other Eastern European countries, the European Community and the EBRD can be expected to develop assistance programs in finance and business advisory services.

## PART TWO

### A STRATEGY TO PROMOTE SMALL-SCALE PRIVATE SECTOR DEVELOPMENT IN UZBEKISTAN

#### SETTING

In Uzbekistan, as in most of the other countries of the former Soviet Bloc, the establishment of a dynamic small-scale private enterprise sector is critical to the success of any attempt to transform the economy.<sup>11</sup> Privatization of the inefficient large-scale enterprises will inevitably lead to widespread unemployment. In the absence of alternatives, most of those displaced by the privatization process will inevitably turn to home-based businesses or other microenterprise forms to earn an income during the transition period.<sup>12</sup> In Uzbekistan, as in Poland and other Eastern European and NIS countries where GEMINI has worked, the small-scale enterprise sector represents a social safety net that requires little government intervention, places virtually no demand on scarce government resources, and is absolutely vital to providing employment and income.

Few government officials recognize this importance, and little attention is being paid to creating a favorable environment — attitudes, policies, institutions, experience, and financial services — that is necessary for private sector development in the country. Most current attention focuses on the process and procedures of privatization, on attracting joint venture partners, and on developing export contacts. Very few new small businesses in the private sector, however, will have joint venture partners or will be involved in export markets. Most will be small trading, service, and home-based production enterprises providing basic goods and services to the local population. The needs, problems, and importance of this sector are being ignored at the present time.

The three major short-term problems facing Uzbekistan as it attempts to evolve toward a modern market-oriented economy are:

- There are few people in the country — government officials, industrial plant managers, or operators of trade and service outlets — who understand the nature, requirements, and operations of a private market economy or the roles of government and small businesses in that system;

---

<sup>11</sup> In the context of this report, "small-scale" is used as a general term for virtually any business other than the large state-owned and -operated industrial plants. Developing a specific definition of "small" based on assets, sales, or employees is less important than understanding that the issues discussed represent problems for all newly formed or newly privatized firms, and that firms in the emerging private sector all tend to be small in comparison with the massive enterprises characteristic of the former Soviet economic system.

<sup>12</sup> "Microenterprise" generally refers to very small, home-based, or family-run businesses with one to ten employees. Again, the precise definition is less important than the general understanding that very small businesses may face constraints or opportunities different from those faced by larger firms.

- Many, if not most, of the small businesses created during the next two years (whether through privatization or autonomously) will not be viable in the absence of government-supplied inputs at subsidized prices, yet their survival and success is critical to social stability in the country; and
- The policies and institutional structures required to promote and sustain a dynamic private sector are not present in the country.

### **A FRAMEWORK FOR A.I.D. SUPPORT**

The U.S. government can play an important role in facilitating the transformation from a highly centralized, state-controlled monopolistic economy to a successful decentralized private sector economy. This role is one of introducing Uzbekistan to the variety of options that have been developed and tested around the world — in the United States as well as in developing countries — for supporting small-scale private enterprises. These include different models of government support for private enterprises, alternative methods for providing technical assistance and other needed support services, and options for financing small business development.

The challenge is to do something that has an immediate, short-term, positive impact on fledgling private companies in the country and, at the same time, creates the environment for a sustained successful expansion of the private sector. The Assessment Team recommends a gradual approach that addresses immediate short-term priorities and establishes the foundation for an expanded long-term program to address the underlying policy and structural problems. At the same time, any support provided by the U.S. government must recognize basic constraints on the level of resources that might be available and most consider the potential actions of other international donors. The three major components that would constitute a coordinated approach to private sector development during the transition phase are:

- A policy component — to assist in developing a policy and regulatory environment at the national, district, and municipal government levels that is appropriate to the needs of the private sector;
- A business services component — to provide immediate practical assistance to existing and new small private businesses, help develop a sustainable institutional network that will continue to provide practical guidance and assistance to existing and new private businesses, and encourage the formation of private business associations to serve an effective advocacy role in the new economic environment; and
- A finance component — to help develop mechanisms for financing small businesses and to establish a pattern of providing financial services to small private businesses.

Some activities to implement this program could be carried out within a relatively short time frame; others require a longer planning and implementation period.

## A PROPOSED SHORT-TERM PROGRAM

Short-term activities in support of private sector development in Uzbekistan need to focus primarily on developing a basic understanding of the need for and skills in promoting, establishing, and providing services to local-oriented small-scale enterprises. These activities would be designed to demonstrate the practical benefits of proposed programs, build consensus among government officials and private sector representatives about the need for basic policy and institutional developments, and establish a foundation for refining a long-term strategy for assisting private sector development in the country. Two potential activities that would meet these criteria and serve as a basis for a longer-term strategy are providing a short-term advisor to work with ministries that have the responsibility for privatizing a number of small businesses in the near future and conducting a symposium on small enterprise development options for government officials and local business associations.

### Short-Term Advisory Services

First, A.I.D. should provide assistance, in the form of a short-term advisor to one or both ministries that will be significantly involved in the privatization of small-scale enterprises in the next two years.<sup>13</sup> As mentioned earlier, 13,000 to 20,000 of these small enterprises will be privatized within the next two years. Few will be viable entities, as they are highly dependent on the subsidized supply of inputs from the government.

At least one of the two ministries — Uzbitsoyuz — is concerned about the way to help these enterprises make the transition from subsidized state enterprises to successful small businesses. However, it lacks a conceptual framework and appropriate models for carrying this out. Short-term advisory assistance to help develop an understanding of the needs and problems of the new businesses and develop realistic programs to assist them would contribute significantly to the success of the transition effort.

The main objective of this assistance would be to develop, within the ministry, the ability to provide effective assistance to small enterprises created during the privatization process. However, providing a short-term advisor to assist in this effort would have a number of other benefits. The advisor would be well placed to generate an understanding of the issues raised by small-firm privatization — and to raise those issues — not only in the particular ministry, but at the senior ministerial level. Second, by working through the branch offices of Uzbitsoyuz in the municipalities, the advisor would develop relationships with municipal offices responsible for small business regulation — relationships that are essential for implementing other components of the long-term strategy.

To carry out these programs, A.I.D. would provide an advisor for a period of up to three months in early 1993. The advisor would work with the ministry to develop a methodological approach for assessing the viability of newly privatized enterprises, determining the problems and needs of the new enterprises, and developing approaches for providing appropriate assistance to them.

---

<sup>13</sup> The ministries involved significantly in this privatization are the former Ministry of Services (now called Uzbitsoyuz), which operates consumer service shops, and the Ministry of Trade, which manages public retail trade shops.

## Symposium

Second, A.I.D. should sponsor a symposium on the roles of national and local government organizations in supporting small-scale enterprises in a private economy. The major purpose of this symposium would be to present the findings and conclusions of several decades of small enterprise assistance work worldwide so that local officials will have a better understanding of the importance and role of small private enterprises in a transitional economy, the problems faced by this sector and the types of assistance it requires, and the role of government in promoting and supporting private business development.

The symposium would involve GOU officials from the Council of Ministers, that Ministry of Finance, the Central Bank, Uzbitsoyuz, the Ministry of Light Industries, the Ministry of Cottage Industries, and the Ministry of Trade; municipal and *oblast* officials from Tashkent, Jizzakh, Samarkand, Bukhara, and Andijan; and representatives from various official and semi-official business associations.<sup>14</sup> Topics would include:

- The role of small private businesses in a market economy;
- The problems and needs of small businesses;
- Techniques for financing small business development, including loan guarantees and discount and rediscount programs, microenterprise credit program experiences, techniques for reducing the cost of administering credit to small businesses, techniques for increasing the income from small enterprise lending, and managing risk;
- Options for providing assistance to small enterprises, including business centers, incubators, the experience of the Small Business Administration (SBA), and models from the developing world; and
- The role of government.

The purpose would be to present and describe the range of options available to the GOU and to permit a discussion and an assessment of the applicability of each option to the local situation.

The symposium would take place during a two- to three-week in-country visit. During this period, symposium participants would present additional consultations or technical workshops to address specific problems that have been or may be identified. These would be structured as group activities provided to a targeted, relatively homogeneous audience on subject matter of specific interest to the audience. These would be in the form of two- to four-day engagements, and could include:

---

<sup>14</sup> Because Tashkent is the major regional conference center in Central Asia, additional leverage of resources might be achieved by inviting participants from Kazakhstan, Kirghistan, Tajikistan, and other Central Asian republics.

<u>Topic</u>	<u>Audience</u>
Evaluation of laws bearing on small business	Council of Ministers, Ministry of Finance
Management information systems for small-scale enterprise lending	Central Bank, private banks
Building and managing associations	Existing or newly created associations of entrepreneurs, businesswomen, or other groups.
How to organize a business assistance center	<i>Oblast</i> officials, municipal officials, associations
Various topics on bank operations such as credit analysis and management systems	The private banking sector

### **Refinement of Long-Term Strategy**

In addition to working with the Ministry of Trade and the former Ministry of Services, the short-term advisor would also have the responsibility of working with the Council of Ministers and local government officials to refine plans for a longer-term project involvement. This could be supported by periodic visits of other short-term specialists to meet with ministries, associations, and other institutions to maintain the programmatic relationship, monitor the effectiveness of the workshops and technical assistance, and assess the prospects for a more intensive program over the subsequent time period. If circumstances appear ripe, then preliminary negotiations could be undertaken to confirm the likelihood of a successful long-term program and modify the design as appropriate.

### **ELEMENTS OF AN INTEGRATED LONG-TERM PROGRAM DESIGN**

Over the longer run, the U.S. government should support the development of a policy, legal, regulatory, and support environment that is conducive to the success of private enterprises. Three separate activities, including long-term policy advisors, business centers, and financial systems development, could contribute significantly to that effort.

#### **Long-Term Policy Advisors**

First, A.I.D. should supply one to three long-term policy advisors for approximately two years each.

The first advisor would be assigned to the Council of Ministers to work with the Deputy Prime Minister for Economic Affairs, who has primary responsibility for policy making in Uzbekistan. Major policy evolution is required to develop a positive climate for private sector growth in the country. This will be a slow process, as few, if any, people in government have experience in supporting private

businesses or are aware of industrialization strategies involving private producers, distributors, wholesalers, and retailers. The long-term advisor would work with the Council of Ministers and with key district or municipal mayors to develop an understanding of the nature of the problems and needs of small private enterprises and to help with the analysis and drafting of policies, regulations, and programs to support small enterprises.

The second advisor would work within the Ministry of Finance or the Central Bank. The Ministry of Finance has recently created a new unit that has the following responsibilities:

- Creation of a financial market and establishment of procedures for the marketing of securities;
- Review of laws to determine their impact on the economy and the business community;
- Establishment of policy on taxation of banks and small enterprises; and
- Regulations and policies related to new forms of private property.

As mentioned, as an alternative, the second advisor could be placed in the Central Bank. The Bank indicated a need for such an advisor, principally to assist with overcoming some serious internal management deficiencies pointed out by the World Bank in a recent evaluation report. In addition, however, the Central Bank is receptive to special mechanisms to support small business, and the advisor would help with that function. This advisor, aided by some short-term trainers, could conduct management workshops to strengthen the private commercial banking sector.

The third long-term advisor would work in the Ministry of Agriculture to help develop approaches to assist private sector businesses within the framework of the collective farms. The government's controls on the prices and supply of agricultural production, transportation, distribution, processing, and trade severely restrict private sector participation. Although there is very slow liberalization of policies and government monopolies, government ministries have little, if any, appreciation of market forces that influence prices and supply or the way policies determine incentives or disincentives for producers.

Placing a long-term advisor in the Ministry of Agriculture — to work with top officials to understand the market economy and how it can achieve the objectives the government has always pursued through the planned economic system — would reduce inefficiencies and stimulate private sector involvement in the agricultural sector. The State Concern for Vine and Horticulture, under the Ministry of Agriculture, which manages more than 60 state-controlled agroprocessing factories and 350 collective farms, is a potential beneficiary of such policy guidance. This government entity controls the purchase and sale of 50 percent of all production of fruits, vegetables, and processed goods through state stores, inter-republic trade, and foreign trade.

A long-term advisor would assist the Ministry of Agriculture in the following areas:

- Review current agricultural policies, pointing out implicit and explicit subsidies and how they distort inputs, production, supply, government revenues, and prices;
- Develop greater understanding of an agribusiness strategy for vertical integration — linking state-owned and privately managed producers, processors, and distributors, and

the economies of scale associated with appropriate linkages between small and large producers;

- Assess current foreign investment agreements and contracts to provide guidance on the way the government can better achieve its stated goal of attracting foreign investment and technology and to evaluate potential foreign investors through cost/benefit analysis; and
- Address government concerns about supplying affordable food products to a vulnerable population, providing alternative solutions to the existing controls on prices and supply to feed the population.

### **Business Assistance Centers**

As might be expected, there is widespread lack of knowledge about normal business practices, feasibility analysis, basic accounting, pricing, marketing, and many other basic business processes. Furthermore, there is no institutional structure in the country to provide practical assistance or training in these topics. A network of business assistance centers that could provide ongoing training and individualized technical assistance services to small businesses — much like the way the SBA operates in the United States — could greatly increase the survival rate and viability of the myriad of small businesses that will be created during the next few years.

A.I.D. could assist a limited number of municipalities in developing business assistance centers.<sup>15</sup> These centers would function on the model of local SBA information, technical assistance, and training programs in the United States to help potential and existing small private businesspersons deal with issues of starting, financing, and running a successful private business. Services provided by the centers, on a fee basis, would include:

- Short courses on starting and running a business;
- Slightly more in-depth courses on practical business matters — such as inventory management, cash-flow analysis, pricing, marketing, accounting, and other similar topics;
- Individualized technical assistance to private businesses in areas such as preparation of business and marketing plans, preparing and applying for credits, and production management; and
- Information and brochures on technical aspects of organizing and running a business.

Short-term advisors and trainers would be needed to build this network and develop local capacity to continue the assistance activities. The project would provide minimal equipment — computers, copiers, and telecommunications equipment — for the centers, and would facilitate translation of materials into Russian and Uzbek. Coordinating this work with local business associations and the Peace Corps can enhance its effectiveness.

---

<sup>15</sup> Another term for these might be "business centers," but this term has been used indiscriminately by a variety of donors and consultants to describe such a variety of organizations and services that it no longer conveys an accurate description of the function to be performed.

Finally, efforts at developing local support networks for small businesses could include efforts to increase the capacity of local institutes, universities, and other entities organize business programs.

### **Financial Systems Development**

There is very little financial capital available to small enterprises in Uzbekistan. In general, availability of capital is very limited and, of the little that is available, at least 95 percent goes to state-owned enterprises and collective farms. This is in large measure due to the perception or reality that these enterprises are safer loans because of guarantees provided by the State.

The World Bank is developing a major loan program to support privatization and small enterprises. While A.I.D. should not attempt to duplicate that program, it could play an important role in helping implement the program. In particular, A.I.D. could provide the services of a long-term financial systems advisor to help extend financial services — particularly credit services — to newly created or newly privatized small enterprises. This advisor would work with the local banking system to develop mechanisms for banks to profitably provide financial services to small private businesses. Major activities would include:

- Assisting the Ministry of Finance and the Central Bank in developing appropriate regulations and procedures for small enterprise lending through commercial banks;
- Training bankers in profitable small business financial services, and assisting in the development of internal policies and procedures for lending to small businesses;
- Establishing mechanisms for training small businesspersons in the ways to deal with bankers; and
- Working with the Central Bank to establish a small enterprise loan guarantee fund.

### **SUMMARY**

The U.S. government can play an important role in helping Uzbekistan make the transition from a highly centralized, state-controlled economic system to a more pluralistic system that fosters small private enterprises. That role is primarily one of exposing Uzbek officials and businesspersons to the range of options developed and tested in other parts of the world and of helping tailor relevant models to the Uzbek situation.

A short-term program to initiate activities would focus on providing a short-term advisor to one or more ministries directly involved in privatizing a large number of retail trade and service outlets and on presenting a symposium on small business development to national and local government officials and associations of businessmen and -women. A long-term program to support private sector development in Uzbekistan would have three principal elements:

- Placement of at least two long-term advisors in strategic locations: the Council of Ministers and the Ministry of Finance or the Central Bank. A third advisor might be placed in the Ministry of Agriculture;

- **Creation of a network of small business advisory centers with a variety of configurations and locations; and**
- **Support for a small business loan fund housed in the Central Bank but operated through the commercial banking system.**

**ANNEX A**  
**PERSONS CONTACTED**

## ANNEX A

### PERSONS CONTACTED

#### Cabinet of Ministers

Grohovskaya, Rita J. Senior Expert, Expert Group under the Prime Minister on Work with Foreign Companies and Entrepreneurs.  
Bekkulbekov, Dr. Alisher F. Economic Department.

#### Committee of Economic Reforms, Budget Control and Local Governments

Hodjaev, Erkin. Chairman.

#### Ministry of Foreign Economic Relations

Boshko, Dr. Sergey M. Head, The USA, Canada and the Latin American States Department.  
Shaikov, Dr. Alisher A. Head of the General Department of Analysis and Foreign Economic Policy.  
Ashonov, Bahadur A. Head, Department of the International Economic and Financial Organizations.  
Lavrova, Olga. Former Head of Department of Foreign Economic Relations of the Chamber of Commerce and Industry, a 35-year old government entity dissolved in 1992.  
Khudoyorov, Sarvar. Head of Regional Department of Ministry of Foreign Economic Relations, Jizzakh Region.

#### Ministry of Finance

Evonina, Irena. Deputy of a new unit dealing with new structures in the economy.

#### Ministry of Light Industries

Rizaiev, Anvar A. Vice Chairman, Uzbek State Association of Concerns for Light Industries Production UZBEKLEGPROM.

#### Ministry of Trade

Halibaev, Akram. General Director of the firm Tijorat.

#### Ministry of Cottage Industries<sup>1</sup>

Youldashev, Takhir A. Chief of Department of Production Development, Ministry of Small-Scale Industry.  
Baragunov, Israil. First Deputy Minister.

#### Uzbek Service Center

Sabirov, Zakhid T. Chairman, Uzbekistan Republic UzbitSoyuz.  
Shanasirov, Nigmat R. Vice Chairman, Uzbekistan Republic UzbitSoyuz.  
Azimov, Anvar. Director of the Department of UzbitSoyuz/Tashkent.  
Rafikov, Marat. Counselor of the Chairman.  
Shugaev, Vitali. Director of UzbitSoyuz/Bukhara.

---

<sup>1</sup> Formerly, the Ministry of Local Industries

**Office of the Mayor of Tashkent**

Yuldashev, Anvar U. Director General, Tashkent International Business Center.  
Maksumov, Maksum D. Mayor's Councillor.  
Ogonyants, Boris A. Head of Methodology and Organization of Private Enterprises.  
Turaev, Aziz B. Head of Industrial and Transport Privatization.  
Askarhodjaeva, Gulnora. Lawyer for Privatization.  
Ahmedov, Shuhrat R. Head of the Department of Auctions.  
Belousova, Svetlana N. Lawyer.  
Osmanov, Abdulmajid. Deputy Mayor for Economic Programs of Karasaray Rayon.  
Saifullayev, Talib. Mayor's Deputy for Organization, Mothers and Religion, Karasaray Rayon.

**State and Commercial Banks**

Kasymov, Sergei V. International Division Director, Uzbek Innovation-Commerce Bank.  
Rahkhimjonov, Rashid T. Chief, Department of Foreign Economic Relations and Currency Transactions, Agro-Industrial Bank.  
Akhatjonov, Bakhtior. Senior Economist, Department of Foreign Economic Relations and Currency Transactions, Agro-Industrial Bank.  
Karimov, Nariman. Central Bank.  
Mukhortov, Mikhail D. President, Stroycommerbank.  
Usmanov, Rustam. President, Rustambank.  
Asimov, Temur S. Chairman of the Board, Uzbek Stock-Commercial Industrial Constructing Bank.  
Astahov, Vladimir A. Deputy Chief of the Department, Uzbek Stock-Commercial Industrial Constructing Bank.  
Stashis, Vladimir Eduardovitch. Uzbek Stock-Commercial Industrial Constructing Bank. Formerly Deputy Chairman of the UzSSR State Committee for Construction Monitoring.  
Petrova, Lubov. Deputy Chairman of the Board, Bank of Trade Unions.

**Association of Owners of Small Subsidiary Farms**

Allayorov, Normat. Deputy Director.  
Muhamethanof, Ulugbek.

**Committee of Science and Technology**

Yusufbekov, Nadirbek. Head.

**Young Entrepreneurs Promotion Association**

Agzamhodjaev, Alisher An. Head, Department of Youth Problems (Supreme Soviet Committee on Youth Policy of the Office of the President) and Member of Parliament. Head of the Association.  
Maksudov, Farkhad N. Vice President.  
Madjitov, Mirzakhid Ph. Vice President.

**Business Women's Association of Uzbekistan**

Alimbekova, Dildora Makhmoudovna. President.

**Union of Entrepreneurs**

Hodjaev, Erkin. President.

Vlasova, Alexandra Alexandrovna. Union of Entrepreneurs of Samarkand.

Vakhidov, Kadyr A. Director General, Foundation for Support of Enterprises,  
Uzbekistan Union of Businessmen.

**Business and Diplomacy International University**

Tursunov, Bakhtiar. General Director, Algorithm and Founder/Rector/Owner,  
Business and Diplomacy International University.

Ismailov, Prof. Abdullah. Head, English Dept.

**Tashkent State University for Economics**

Gulamov, Saidahrar S. Rector.

Abdurakhmanov, Kalandar H. Vice Rector.

**Uzinformtech**

Mukhitdinov, Alisher. Director.

**State Enterprises**

Valiev, Turgun A. General Director and Deputy Chairman, State Cooperative  
Vine and Horticulture Concern.

Shukhrat Yusupov. Chief of Department, Andijan Regional Department of  
Privatization.

**Private Businesses**

Sogonov, Galey L. General Director, Soviet-American Joint Venture Invariant.

Rivard, James E. Goodwill Trading International, Limited.

Talyanski, Vladimir. Deputy President, Fort.

Leshevich, Vladimir. President, Fort.

Rakhimov, Mirzanazir. Deputy Director, Fund Company.

Saidaminova, Zukhra. President, Sukhro Ltd.

Nurmatov, Orzuman A. Deputy Director, MASHPROM.

Maksudov, Farkhad N. Director, Consulting Service T.

Fosilov, Ravshan A. Director General, Business Concern UzrembytTechnica."

Tirmizi, Javed H. Resident Director, Arfeen International (pvt.) Ltd.

Hakimov. Dr. Hatam, Sado Firm. Also President of the Association of Young  
Scientists.

Ozlevent, Cafir Sadak. Karınca Ltd. Co.

Vesmanov, Sergei. Managing Director, Business and Education Center, Joint  
Venture

Yuldashev, Shuhrat. Private Farmer and Member, Gulam Mahmud Afdoolae  
Agricultural Cooperative

John Peterson. President, Western-Ag Resources, Kennewick, Washington.

Stan Fendley. Attorney, Popham, Haik, Schnobrich & Kaufman, Ltd.,  
Washington, D.C.

Koust, Alexander G. Director, Trade and International Economic Relation,  
Uzbekistan Innovation Corporation.

Salihov, Mirabit. General Director of private consulting firm "Amali

**Hamkorlik."**

Gabrielan, Armais. Director of Joint Stock Enterprise "Photobitkimchistka" in Bukhara.

**Businesspersons and Other**

Ilkhamov, A.A. Head of Businessman's Political Party.

**Trade Union of Entrepreneurs**

Yakubov, Muzafar Muhsinovich. Chairman, Bukhara.

**Businessmen Association of Samarkand**

Akhmedjanov, F'narhad. Chairman

Bakaev, Amin. Doctor of Economy at Samarkand State University.

## GEMINI PUBLICATION SERIES

### GEMINI Working Papers:

1. "Growth and Equity through Microenterprise Investments and Institutions Project (GEMINI): Overview of the Project and Implementation Plan, October 1, 1989-September 30, 1990." GEMINI Working Paper No. 1. December 1989. [not for general circulation]
- \*2. "The Dynamics of Small-Scale Industry in Africa and the Role of Policy." Carl Liedholm. GEMINI Working Paper No. 2. January 1990. \$5.50.
3. "Prospects for Enhancing the Performance of Micro- and Small-Scale Nonfarm Enterprises in Niger." Donald C. Mead, Thomas Dichter, Yacob Fisseha, and Steven Haggblade. GEMINI Working Paper No. 3. February 1990. \$6.00.
4. "Agenda Paper: Seminar on the Private Sector in the Sahel, Abidjan, July 1990." William Grant. GEMINI Working Paper No. 4. August 1990. \$3.00.
- \*5. "Gender and the Growth and Dynamics of Microenterprises." Jeanne Downing. GEMINI Working Paper No. 5. October 1990. \$10.50.
6. "Banking on the Rural Poor in Malaysia: Project Ikhtiar." David Lucock. GEMINI Working Paper No. 6. October 1990. \$3.30.
7. "Options for Updating AskARIES." Larry Reed. GEMINI Working Paper No. 7. October 1990. \$3.50.
- \*8. "Technology — The Key to Increasing the Productivity of Microenterprises." Andy Jeans, Eric Hyman, and Mike O'Donnell. GEMINI Working Paper No. 8. November 1990. \$3.60.
9. "Lesotho Small and Microenterprise Strategy — Phase II: Subsector Analysis." Bill Grant. GEMINI Working Paper No. 9. November 1990. \$15.50.
- \*10. "A Subsector Approach to Small Enterprise Promotion and Research." James J. Boomgard, Stephen P. Davies, Steven J. Haggblade, and Donald C. Mead. GEMINI Working Paper No. 10. January 1991. \$3.10.
11. "Data Collection Strategies for Small-Scale Industry Surveys." Carl Liedholm. GEMINI Working Paper No. 11. January 1991. \$1.30.
12. "Dynamics of Microenterprises: Research Issues and Approaches." Carl Liedholm and Donald C. Mead. GEMINI Working Paper No. 12. January 1991. \$6.50.
13. "Dynamics of Microenterprises: Research Priorities and Research Plan." Carl Liedholm and Donald C. Mead. GEMINI Working Paper No. 13. August 1990. [not for general circulation]

---

\*Publications of general interest

42

14. "Review of Year One Activities (October 1, 1989 to September 30, 1990) and Year Two Work Plan (October 1 to November 30, 1990)." GEMINI Working Paper No. 14. January 1991. [not for general circulation]
- \*15. "The Process of Institutional Development: Assisting Small Enterprise Institutions to Become More Effective." Elaine Edgcomb and James Cawley. GEMINI Working Paper No. 15. February 1991. \$9.70.
16. "Baseline Surveys of Micro and Small Enterprises: An Overview." Donald C. Mead, Yacob Fisseha, and Michael McPherson. GEMINI Working Paper No. 16. March 1991. \$2.60.
17. "Kenya: Kibera's Small Enterprise Sector — Baseline Survey Report." Joan Parker and C. Aleke Dondo. GEMINI Working Paper No. 17. April 1991. \$6.40.
- \*18. "A Financial Systems Approach to Microenterprises." Elisabeth Rhyne and Maria Otero. GEMINI Working Paper No. 18. April 1991. \$3.00.
- \*19. "Agriculture, Rural Labor Markets, and the Evolution of the Rural Nonfarm Economy." Steve Haggblade and Carl Liedholm. GEMINI Working Paper No. 19. May 1991. \$2.50.
- \*20. "The Microenterprise Finance Institutions of Indonesia and Their Implications for Donors." Elisabeth Rhyne. GEMINI Working Paper No. 20. June 1991. \$3.40.
21. "Microenterprise Growth Dynamics in the Dominican Republic: The ADEMI Case." Frank F. Rubio. GEMINI Working Paper No. 21. June 1991. \$3.10.
- \*22. "Credit Unions: A Formal Sector Alternative for Financing Microenterprise Development." John H. Magill. GEMINI Working Paper No. 22. September 1991. \$3.80.
23. "A Proposed Subsector-Based Monitoring and Evaluation System for CARE/Thailand's Silk Promotion Efforts." Steven Haggblade. GEMINI Working paper No. 23. September 1991. \$3.60.
24. "Steps to the Creation of a Viable Financial Institution for Microenterprise Development in the Philippines: Notes on a Process for the Staff and Board of Tulay sa Pag-Unlad, Inc." Doug Salloum and Nan Borton. GEMINI Working Paper No. 24. November 1991. \$2.00.
- \*25. "Village Banking: A Cross-Country Study of a Community-Based Lending Methodology." Sharon L. Holt. GEMINI Working Paper No. 25. December 1991. \$12.60.
26. "Dynamics of Small- and Micro-scale Enterprises and the Evolving Role of Finance." Carl Liedholm. GEMINI Working Paper No. 26. December 1991. \$3.00.
- \*27. "Opportunities for Intervention in Thailand's Silk Subsector." Steven Haggblade and Nick Ritchie. GEMINI Working Paper No. 27. January 1992. \$3.20.
- \*28. "Apex Study of the Asociacion de Grupos Solidarios de Colombia." Arelis Gomez Alfonso, with Nan Borton and Carlos Castello. GEMINI Working Paper No. 28. April 1992. \$4.60. [See Technical Reports No. 36 and No. 39 for apex studies in Senegal and Thailand.]

29. "The Subsector Methodology, A Field Orientation for CARE/Egypt, January 20-February 7, 1992." William Grant. GEMINI Working Paper No. 29. April 1992. \$9.50.
30. "'Poverty Lending' and Microenterprise Development: A Clarification of the Issues." Mohini Malhotra. GEMINI Working Paper No. 30. May 1992. \$3.60.
31. "The Solidarity Group Experience." Shari Berenbach and Diego Guzman. GEMINI Working Paper No. 31. June 1992. \$5.80.
32. "A New View of Finance Program Evaluation." Elisabeth Ryne. GEMINI Working Paper No. 32. \$\_\_\_\_\_.
33. "The Role of Savings in Local Financial Markets: The Indonesian Experience." Marguerite S. Robinson. GEMINI Working Paper No. 33. \$3.50.

#### **GEMINI Technical Reports:**

1. "Jamaica Microenterprise Development Project: Technical, Administrative, Economic, and Financial Analyses." Paul Guenette, Surendra K. Gupta, Katherine Stearns, and James Boomgard. GEMINI Technical Report No. 1. June 1990. [not for general circulation]
2. "Bangladesh Women's Enterprise Development Project: PID Excerpts and Background Papers." Shari Berenbach, Katherine Stearns, and Syed M. Hashemi. GEMINI Technical Report No. 2. October 1990. \$13.00.
3. "Maroc: Conception d'une Enquête pour une Etude du Secteur Informel." Eric R. Nelson and Housni El Ghazi. GEMINI Technical Report No. 3. November 1990. \$12.50.
4. "Small Enterprise Assistance Project II in the Eastern Caribbean: Project Paper." James Cotter, Bruce Tippet, and Danielle Heinen. GEMINI Technical Report No. 4. October 1990. [not for general circulation]
5. "Technical Assessment: Rural Small-Scale Enterprise Pilot Credit Activity in Egypt." John W. Gardner and Jack E. Proctor. GEMINI Technical Report No. 5. October 1990. \$4.00.
- \*6. "Developing Financial Services for Microenterprises: An Evaluation of USAID Assistance to the BRI Unit Desa System in Indonesia." James J. Boomgard and Kenneth J. Angell. GEMINI Technical Report No. 6. October 1990. \$9.00.
7. "A Review of the Indigenous Small Scale Enterprises Sector in Swaziland." David A. Schrier. GEMINI Technical Report No. 7. October 1990. [not for general circulation]
8. "Ecuador Micro-Enterprise Sector Assessment: Summary Report." John H. Magill and Donald A. Swanson. GEMINI Technical Report No. 8. April 1991. \$10.20.
9. "Ecuador Micro-Enterprise Sector Assessment: Financial Markets and the Micro- and Small-scale Enterprise Sector." Richard Meyer, John Porges, Martha Rose, and Jean Gilson. GEMINI Technical Report No. 9. March 1991. \$16.00.

10. "Ecuador Micro-Enterprise Sector Assessment: Policy Framework." Bruce H. Herrick, Gustavo A. Marquez, and Joseph F. Burke. GEMINI Technical Report No. 10. March 1991. \$11.30.
11. "Ecuador Micro-Enterprise Sector Assessment: Institutional Analysis." Peter H. Fraser, Arelis Gomez Alfonso, Miguel A. Rivarola, Donald A. Swanson, and Fernando Cruz-Villalba. GEMINI Technical Report No. 11. March 1991. \$25.00.
12. "Ecuador Micro-Enterprise Sector Assessment: Key Characteristics of the Micro-Enterprise Sector." John H. Magill, Robert Blaney, Joseph F. Burke, Rae Blumberg, and Jennifer Santer. GEMINI Technical Report No. 12. March 1991. \$19.60.
13. "A Monitoring and Evaluation System for Peace Corps' Small Business Development Program." David M. Callihan. GEMINI Technical Report No. 13. [not available for general circulation]
14. "Small-Scale Enterprises in Lesotho: Summary of a Country-Wide Survey." Yacob Fisseha. GEMINI Technical Report No. 14. February 1991. \$6.40.
- \*15. "An Evaluation of the Institutional Aspects of Financial Institutions Development Project, Phase I in Indonesia." John F. Gadway, Tantri M. H. Gadway, and Jacob Sardi. GEMINI Technical Report No. 15. March 1991. \$8.80.
- \*16. "Small-Scale Enterprises in Mamelodi and Kwazakhele Townships, South Africa: Survey Findings." Carl Liedholm and Michael A. McPherson. GEMINI Technical Report No. 16. March 1991. \$4.60.
17. "Growth and Change in Malawi's Small and Medium Enterprise Sector." Michael A. McPherson. GEMINI Technical Report No. 17. June 1991. \$2.20.
18. "Burkina Faso Microenterprise Sector Assessment and Strategy." William Grant, Matthew Gamser, Jim Herne, Karen McKay, Abdoulaye Sow, and Sibry Jean-Marie Tapsoba. GEMINI Technical Report No. 18. August 1991. Volume One, Main Report, \$7.60; Volume Two, Annexes, \$14.20.
- \*19. "Women in the BPD and Unit Desa Financial Services Programs: Lessons from Two Impact Studies in Indonesia." Sharon L. Holt. GEMINI Technical Report No. 19. September 1991. \$3.80.
20. "Mali Microenterprise Sector Assessment and Strategy." William Grant, Kim Aldridge, James Bell, Ann Duval, Maria Keita, and Steve Haggblade. GEMINI Technical Report No. 20. Volume One, Main Report, \$6.70; Volume Two, Annexes, \$13.00.
21. "A Microenterprise Sector Assessment and Development Strategy for A.I.D. in Zambia." Eric L. Hyman, Robert Strauss, and Richard Crayne. GEMINI Technical Report No. 21. November 1991. \$10.00.
22. "Bangladesh: Women's Enterprise Development Project Paper." GEMINI Technical Report No. 22. August 1991. [not for general circulation]
23. "Peru: Small Business and Employment Expansion Project Paper." GEMINI Technical Report No. 23. November 1991. [not for general circulation]

24. "A Country-wide Study of Small-Scale Enterprises in Swaziland." Yacob Fisseha and Michael A. McPherson. GEMINI Technical Report No. 24. December 1991. \$5.40.
- \*25. "Micro and Small-Scale Enterprises in Zimbabwe: Results of a Country-wide Survey." Michael A. McPherson. GEMINI Technical Report No. 25. December 1991. \$5.00.
26. "The Development Impact of Financing the Smallest Enterprises in Indonesia." GEMINI Technical Report No. 26. January 1992. [not for general circulation]
27. "Midterm Evaluation of the ASEPARE Component of the Small Business II Project, Honduras." Arelis Gomez Alfonso, Wesley Boles, and Donald L. Richardson. GEMINI Technical Report No. 27. February 1992. \$5.80. Also available in Spanish.
28. "Midterm Evaluation of the ANDI/PYME Component of the Small Business II Project, Honduras." Arelis Gomez Alfonso, Wesley Boles, and Donald L. Richardson. GEMINI Technical Report No. 28. February 1992. \$6.60. Also available in Spanish.
29. "The Role of Financial Institutions in the Promotion of Micro and Small Enterprises in Burkina Faso." John McKenzie. GEMINI Technical Report No. 29. February 1992. \$10.40.
30. "Small and Micro Enterprise Development Project No. 262-0212, Egypt. Midterm Evaluation." Katherine Stearns. GEMINI Technical Report No. 30. March 1992. \$7.60.
31. "A Review of the Prospects for Rural Financial Development in Bolivia." James J. Boomgard, James Kern, Calvin Miller, and Richard H. Pattern. GEMINI Technical Report No. 31. March 1992. \$4.60.
32. "The Role of Private Sector Advocacy Groups in the Sahel." William Grant. GEMINI Technical Report No. 32. March 1992. \$2.40.
- \*33. "Access to Credit for Poor Women: A Scale-up Study of Projects Carried Out by Freedom from Hunger in Mali and Ghana." Jeffrey Ashe, Madeline Hirschland, Jill Burnett, Kathleen Stack, Marcy Eiland, and Mark Gizzi. GEMINI Technical Report No. 33. March 1992. \$11.80.
- \*34. "Egyptian Women and Microenterprise: the Invisible Entrepreneurs." C. Jean Weidemann. GEMINI Technical Report No. 34. March 1992. \$11.20.
- \*35. "A Pre-Project Identification Document Analysis of the Lesotho Agricultural Enterprise Initiatives Project." Mike Bess, Don Henry, Donald Mead, and Eugene Miller. GEMINI Technical Report No. 35. April 1992. \$20.00.
36. "Apex Study of the Small Enterprise Development Program of Catholic Relief Services, Senegal." Arelis Gomez Alfonso. GEMINI Technical Report No. 36. May 1992. \$3.00.
37. "The Private Operators' Perspective on an Agenda for Action," Dakar, Senegal, November 22-25, 1991. A Seminar on the Private Sector in West Africa. Organized by the Senegalese National Employers' Union (CNP), the Club du Sahel, CILSS and USAID. GEMINI Technical Report No. 37. May 1992. \$7.00.

38. "Background Documents to the Seminar on the Private Sector in West Africa," Dakar, Senegal. November 22-25, 1991. Technical Report No. 38. May 1992. \$5.00.
39. "Apex Study of the Small Enterprise Development Program of Catholic Relief Services, Thailand." Arelis Gomez Alfonso. GEMINI Technical Report No. 39. May 1992. \$3.20.
40. "Study of Informal Cross-border Trade, Poland." SMG-KRC/Poland. GEMINI Technical Report No. 40. May 1992. \$3.20.
41. "Study of the Informal Commercial Sector, Poland." SMG/KRC Poland. GEMINI Technical Report No. 41. May 1992. \$4.20
42. "Evaluation of the Micro and Small Enterprise Development Project (MSED) in Bolivia." William Fisher, Jeffrey Poyo, and Ann Beasley. GEMINI Technical Report No. 42. June 1992. \$10.60. Also available in Spanish.
43. "Analysis of Funding Mechanisms for the Small and Micro Enterprise Development Project, Egypt." Kenneth J. Angell and John M. Porges. GEMINI Technical Report No. 43. June 1992. \$3.80.
44. "Get Ahead Foundation Credit Programs in South Africa: The Effects of Loans on Client Enterprises." Jennefer Sebstad. GEMINI Technical Report No. 44. June 1992. \$3.00.
45. "Get Ahead Foundation in South Africa: Final Evaluation." Robert Christen, Elisabeth Rhyne, Doug Salloum, and Jennefer Sebstad. GEMINI Technical Report No. 45. June 1992. \$11.00.
46. "Micro- and Small-Scale Enterprises in Botswana: Results of a Nationwide Survey." Lisa Daniels and Yacob Fisseha. GEMINI Technical Report No. 46. August 1992. \$9.40.
47. "The Growth and Dynamics of Women Entrepreneurs in Southern Africa." Jeanne Downing and Lisa Daniels. GEMINI Technical Report No. 47. August 1992. \$3.10.
48. "Small Business Development Programming Trip: Peace Corps/Albania and the Office of Training and Program Support, Small Business Development Sector." Lauren Spurrier and Wesley Weidemann. GEMINI Technical Report No. 48. October 1992. \$6.00.
- 49A. "Small Enterprise Development in the Russian Far East." Martha Blaxall, Yasuo Konishi, Virginia Lambert, Jennifer Santer, and Timothy Smith. GEMINI Technical Report No. 49A. October 1992. \$12.00.
- 49B. "Supporting Private Enterprises in Uzbekistan: Challenges and Opportunities." Nan Borton, John Magill, Neal Nathanson, and Jim Packard Winkler. GEMINI Technical Report No. 49B. November 1992. \$5.60.
50. "Skins and Hides in Four Countries in Africa: The Potential Role for Micro- and Small-Scale Enterprise Development." William Grant. GEMINI Technical Report No. 50. November 1992. \$2.80.

**Technical Notes:****Financial Assistance to Microenterprise Section:**

\*1. Series Notebook: Tools for Microenterprise Programs (a three-ring binder, 1 1/2 inches in diameter, for organizing technical notes and training materials) and "Methods for Managing Delinquency" by Katherine Stearns. \$7.50. Also available in Spanish and in French.

\*2. "Interest Rates and Self-Sufficiency." Katherine Stearns. \$6.50. Available in Spanish.

\*3. "Financial Services for Women." C. Jean Weidemann. March 1992. \$5.00.

**Nonfinancial Assistance to Microenterprise Section:**

\*1. "A Field Manual for Subsector Practitioners." Steven S. Haggblade and Matthew Gamser. \$4.65. Also available in Spanish and in French.

**Special Publications:**

\*1. "Training Resources for Small Enterprise Development." Small Enterprise Education and Promotion Network. Special Publication No. 1. 1992. \$11.00

\*2. *Financial Management of Micro-Credit Programs: A Guidebook for NGOs.* Robert Peck Christen. ACCION International. Special Publication No. 2. 1990. \$19.00

\*3. *The ADEMI Approach to Microenterprise Credit.* A. Christopher Lewin. Special Publication No. 3. 1991. \$15.00

---

Copies of publications available for circulation can be obtained by sending a check or a draft drawn on a U.S. bank to the DAI/GEMINI Publications Series, Development Alternatives, Inc., 7250 Woodmont Avenue, Bethesda, MD 20814, U.S.A.