Enterprise Surveys
Country Note Series

UZBEKISTAN

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Running a Business in Uzbekistan

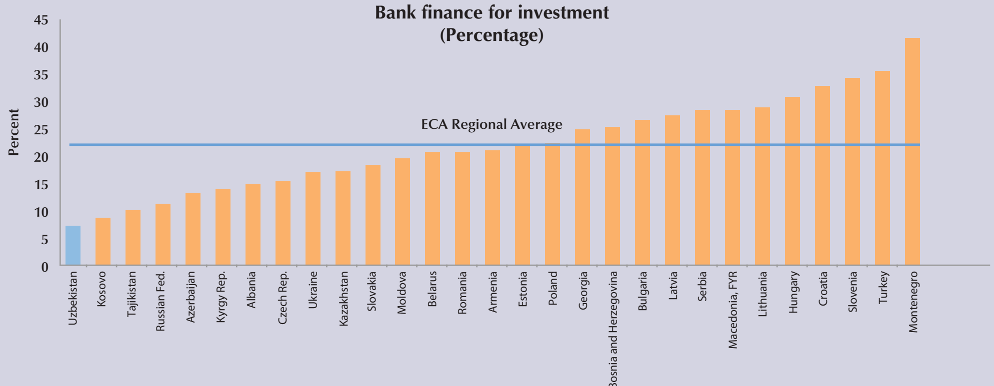
New data from Enterprise Surveys show that corruption is common in Uzbekistan. Fifty-nine percent of firms report that informal payments (bribes) are expected to be paid to officials in order to get things done. This is the highest percentage in Eastern Europe and Central Asia (ECA). Electrical infrastructure is lacking. Uzbekistan is the country with the longest power outages in the region. Among Uzbek firms, external financing is the exception, not the rule. Uzbekistan is the country with both the highest level of internal financing for investments and the lowest level of banking financing in the region (figure 1). The percentage of exporting firms in Uzbekistan is the lowest in the region. However, there is improvement regarding tax regulations–both the visits from tax inspectors and related informal payments became less frequent between 2005 and 2008.

The Enterprise Surveys[1] use standard survey instruments to capture data on the business environment and its effect on competitiveness and firm performance, the relative importance of various constraints to employment and productivity, and the business perceptions of the biggest obstacles to enterprise growth. The survey is designed to be representative of a country's private non-agricultural economy, and firms sampled are stratified by size, location and sector (figure 2)[2] to ensure that most major types of firms are covered. Only firms with five employees or more are included in the sample. In Uzbekistan, 366 firms were surveyed from May to August 2008. The information collected refers to the characteristics of the firm at the moment of the survey or to fiscal year 2007.

What is the average firm in Uzbekistan?

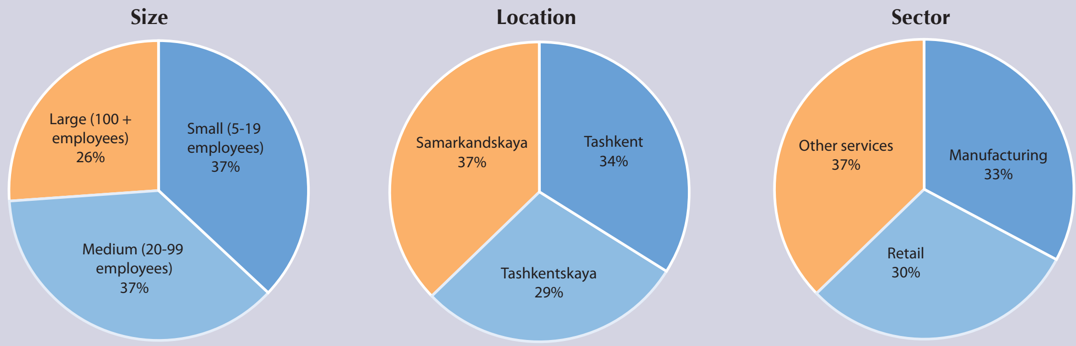
Small firms are the norm in Uzbekistan. The average firm[3] has 24 full-time permanent workers, while 50 percent of the firms have 10 permanent employees or fewer. Only Montenegro has fewer full-time permanent workers per firm within the ECA region (table 2). Both the size and the composition of the workforce differ across firm types. For instance, firms with government participation in ownership have on average close to five times as many permanent employees as firms that are completely privately owned. Firms in the retail sector have the fewest number of temporary workers, on average fewer than one temporary worker per firm.

Figure 1 Firms in Uzbekistan finance a smaller percentage of their investments with bank loans than anywhere else in the region



Source: Enterprise Surveys.

Figure 2 Characteristics of the firms interviewed



Source: Enterprise Surveys.

Half of the firms in Uzbekistan that have five or more employees are sole proprietorships. There are, however, several exceptions: large firms and firms with government participation in ownership are more likely to be publicly listed companies, and firms in Tashkent are more likely to be limited partnerships.

Only 11 percent of firms have a female top manager, making Uzbekistan the third to last country in the ECA region on this indicator.

Within Uzbekistan, firm age and top manager experience vary considerably depending on the firm size, the location of the firm (by region), and the gender of its top manager. First, half of the small firms have been in operation for at most 10 years, but over three-quarters of large firms have been in business for more than 10 years. Although large firms are significantly older than medium or small firms, there are no significant differences across firm size in the years of experience of the top manager. Second, managers in Samarkandskaya are less experienced by almost four years than managers in the rest of the country. Third, firms with a female top manager are on average three years younger. Female top managers tend to be less experienced than their male counterparts by approximately four years.

Table 1 How does Uzbekistan 2008 compare with Eastern Europe and Central Asia?

Ranking 1 assigned to the largest value	Descending ranking (out of 29 countries)
Percent of firms formally registered when started operations in the country	1
Private domestic ownership (%)*	6
Private foreign ownership (%)*	24
Government/state ownership (%)*	4
Percent of firms with female participation in ownership	13
Bank finance for investment (%)	29
Percent of exporter firms	29
Domestic sales (% of Sales)	1
Percent of firms with internationally recognized quality certification	29
Percent of firms with annual financial statement reviewed by external auditor	21
Capacity utilization (%)	20
Percent of firms using their own Web site	29
Percent of firms using e-mail to communicate with clients/suppliers	29
Ranking 1 assigned to the smallest value	**Ascending ranking (out of 29 countries)**
Value of collateral needed for a loan (% of the loan amount)	16
Number of power outages in a typical month	25
Senior management time spent in dealing with requirements of government regulation (%)	17
Average number of visits or required meetings with tax officials	5
Incidence of graft index **	29
Losses due to theft, robbery, vandalism and arson against the firm (% of sales)	23

Source: Enterprise Surveys.
Note: This table presents a ranking out of 29 economies for each of the listed indicators. The numbers are ranks as opposed to the actual value of the indicator.

Table 2	The average firm in Uzbekistan 2008		
	Uzbekistan	**ECA†**	**EU-10‡**
Age (years)	14.3	13.9	13.9
Percent of firms formally registered when started operations in the country	100.0	96.8	98.7
Most common legal form	Sole Proprietorship	Closed Shareholding Co.	Closed Shareholding Co.
Private domestic ownership (%)*	94.0	91.3	90.3
Private foreign ownership (%)*	3.3	6.2	7.4
Government/state ownership (%)*	1.9	1.1	0.5
Percent of firms with female participation in ownership	39.8	36.7	39.0
Percent of firms with female in top management position	11.4	18.9	22.2
Experience of the top manager (years)	13.3	16.1	17.2
Average number of temporary workers	1.6	3.2	2.5
Average number of permanent, full-time workers	23.6	43.4	36.4
Percent of full-time female workers	34.1	38.5	40.1

Source: Enterprise Surveys.

Only 11 percent of firms have a female top manager, making Uzbekistan the third to last country in the ECA region on this indicator. Only Kosovo and Azerbaijan have fewer female top managers. Uzbekistan fares better in female participation in ownership and in the workforce and is closer to the regional average on these indicators. Small and medium-size firms are more likely to employ women (34 and 36 percent, respectively, versus 25 percent in large firms). In half of all firms, at least 28 percent of the workforce is female.

Only two percent of firms export, while 30 percent of firms import.

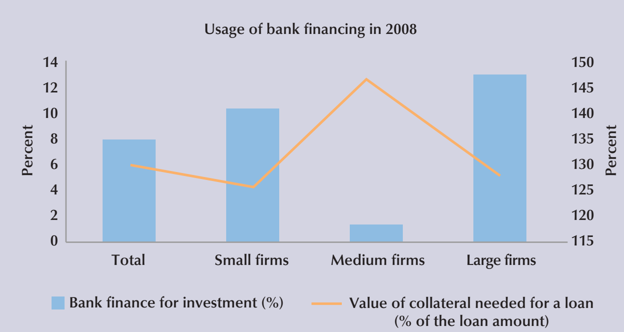
Foreign ownership is uncommon and it is among the lowest in the region. Less than 5 percent of firms have any foreign ownership participation, while the average firm has only 3 percent of foreign-owned equity. Manufacturing firms are more likely than retail firms to have foreign ownership. Government participation in the ownership of private sector firms is high in Uzbekistan. Five percent of firms have government participation in ownership, and in nearly 2 percent of firms the government owns at least 50 percent of equity. This is among the highest levels of government participation in private firms across the region; only Belarus, Azerbaijan and Tajikistan have higher numbers (table 1). Overall, 88 percent of firms are fully private domestic firms.

How do businesses operate in Uzbekistan?

Use of external finance is rare. Uzbekistan has both the highest level of internal financing for investments and the lowest level of banking financing in the region (figure 1). The average firm gets 91 percent of its financing for investments from internal sources and most of the remaining financing from banks (table 3). Only 8 percent of firms actually use bank financing for investments, and only 10 percent have a line of credit or bank loan. This is in fact the lowest value in the region for both indicators. Ninety-nine percent of loans are backed by collateral and in all these cases the collateral is at least 100 percent of the loan value, making Uzbekistan the country with the highest percentage of loans backed by collateral in the region. The limited use of bank financing may be a driving force behind the high level of prepaid sales. Uzbekistan has the highest percentage of sales that are prepaid in the region, at 54 percent, and the third lowest percentage of sales that are sold on credit in the region, at 23 percent; only Kosovo and Georgia have lower numbers.

Financing investments may be harder for medium-size firms—they use less bank financing (only 1 percent, compared to 13 percent for large firms) and are expected to provide higher collateral (146 percent of loan value, compared to 128 percent for large firms) (figure 3). However, financing investments is easier for firms in Tashkent. They use less internal financing and more bank financing than elsewhere in the country; 21 percent of their investment is financed through banks versus 8 percent for the country as a whole.

Figure 3 Lower credit for medium-size firms



Source: Enterprise Surveys.

Table 3 Choices by the average firm in Uzbekistan 2008

	Uzbekistan	ECA†	EU-10‡
Internal finance for investment (%)	91.2	59.7	58.8
Bank finance for investment (%)	7.7	22.9	25.7
Value of collateral needed for a loan (% of the loan amount)	129.7	132.2	123.4
Loans requiring collateral (%)	98.7	81.0	74.2
Percent of firms with a checking or savings account	93.8	88.9	85.2
Percent of exporter firms	2.1	22.1	29.1
Domestic sales (% of sales)	99.3	90.8	88.3
Sales exported directly (% sales)	0.4	7.1	9.5
Sales exported indirectly (% sales)	0.3	2.0	2.2
Sales that are pre-paid (%)	54.3	23.0	11.2
Sales sold on credit (%)	23.2	49.4	66.3
Percent of firms with internationally recognized quality certification	1.3	20.0	25.8
Percent of firms with annual financial statement reviewed by external auditor	25.9	37.9	38.6
Capacity utilization (%)	72.3	73.7	81.3
Percent of firms using their own Web site	6.6	48.5	63.6
Percent of firms using e-mail to communicate with clients/suppliers	18.1	73.1	88.3

Source: Enterprise Surveys.

Most likely, the average firm will not export its sales or import its inputs. Only 2 percent of firms export, while 30 percent of firms import. These are the lowest levels of foreign exposure in the region. Only 17 percent of inputs are imported; this is the second lowest in the region after Ukraine at 16 percent. The low average size of firms in Uzbekistan goes hand in hand with low foreign exposure; less than 1 percent of small firms export, but 15 percent of large firms export.

Exporters tend to be better positioned than non-exporters. For instance, exporters have higher capacity utilization, are more likely to use technology licensed from foreign companies (42 percent of exporters use this technology versus 10 percent for non-exporters), and are more likely to use their own Web site or e-mail to communicate with clients or suppliers.

The use of technology is limited: only 1 percent of firms have internationally recognized quality certification, 18 percent of firms use e-mail to communicate with clients or suppliers, and less than 7 percent have their own Web site. These three numbers are by far the lowest in the region. For instance, in Azerbaijan, the second to lowest in e-mail usage, 40 percent of firms use e-mail to communicate with clients. None of the small firms in Uzbekistan has international certification, and only 3 percent of them have their own Web site. Furthermore, in the manufacturing sector only 72 percent of production capacity is utilized. Although large firms perform better than small firms when it comes to the use of technology, there are no significant differences across firm size when it comes to capacity utilization.

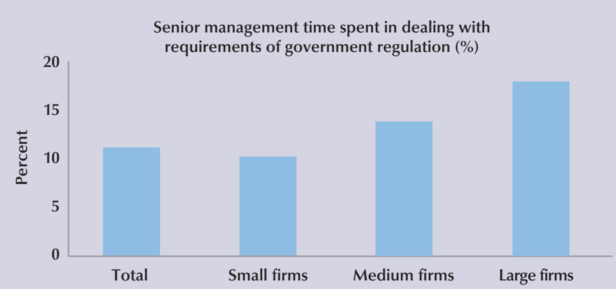
Fifty-nine percent of firms report that informal payments to public officials are necessary to get things done.

What constrains firms in Uzbekistan?

Running a business in Uzbekistan takes more than dealing with customers, suppliers, creditors, employees and owners—managers have to deal with the government and face less than ideal infrastructure and security conditions (table 4).

Compared to the rest of the ECA region, firms in Uzbekistan report more frequent requests for informal payments (bribes) in order to get things done. Fifty-nine percent of firms report that these types of payments are necessary. Similar percentages of firms report that bribes are expected to be paid when obtaining an operating license (59 percent) and when meeting with tax inspectors (52 percent). Both of these numbers are also the highest in the ECA region and result in the third highest incidence of graft in the region.

Figure 4 Larger firms spend more time on government regulations



Source: Enterprise Surveys.

Table 4	Constraints on the average firm in Uzbekistan 2008		
	Uzbekistan	ECA†	EU-10‡
Number of power outages in a typical month	6.1	5.2	2.1
Senior management time spent in dealing with requirements of government regulation (%)	11.1	10.6	9.5
Average number of visits or required meetings with tax officials	0.7	1.6	1.1
Percent of firms expected to pay informal payment to public officials (to get things done)	59.5	23.1	12.7
Incidence of graft index**	50.3	13.5	6.8
Losses due to theft, robbery, vandalism, and arson against the firm (% of sales)	0.7	0.5	0.4
Percent of firms paying for security	29.7	57.7	62.2

Source: Enterprise Surveys.

Although firms report a high cost of regulations, they do not report spending a considerable amount of time dealing with these regulations. In the average firm, senior managers spend 11 percent of their time dealing with government regulation, which is close to the regional average. Furthermore, only 14 percent of firms report that senior management spends at least a quarter of its time dealing with government regulations. Small firms and firms in Tashkent spend less time dealing with business regulations (figure 4). The number of visits from tax officials is also low when compared to the rest of the region—only Slovenia, Estonia, Poland, and Georgia report fewer visits.

Domestic firms have fewer workers in 2008 than in 2005.

The electrical power infrastructure needs improvement. The average business faces six power outages per month. This is the fifth highest frequency of power outages in the region. Furthermore, these power outages last on average close to 15 hours, making them the longest power outages in the region. Power outages lead to losses valued at, on average, close to 5 percent of sales. Nevertheless, the median firm reports only 1 percent of sales lost as result of unreliable electrical infrastructure. Small firms report similar numbers of power outages to large firms (6 for small firms versus 4.5 for large ones), but large firms report longer duration (14 hours for small firms versus 21 hours for large ones). Overall, small firms report higher losses from power outages than large firms. In the capital city, Tashkent, electrical infrastructure is likely to work better; firms there report a shorter duration of power outages and less frequent power outages.

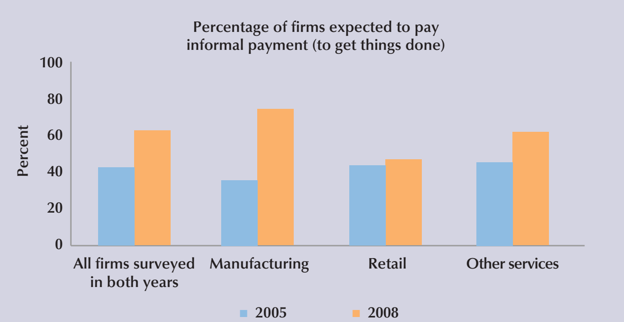
Crime and security do not stand out as constraints for firms in Uzbekistan. Thirty percent of firms pay for security. This is the second lowest percentage in the ECA region—only Montenegro has lower numbers. Firms that report a higher cost of security also report larger losses due to theft.

How has the business environment changed over the past three Years?

The Enterprise Surveys data provide the tools to monitor business environment progress across different rounds of surveys. Of 366 firms surveyed in 2008, 112 were previously surveyed in 2005.[4] Since the same firms are interviewed over time, this subset of data is more appropriate to evaluate the evolution of the business environment and the impact of business environment reforms than the full data sets for both years. Considering the full data sets would introduce effects that are the result of variations in the sample composition over the two years.[5] Therefore, the following analysis refers only to these firms that were interviewed in both rounds of surveys.

Firms changed over time. Between 2005 and 2008, firms became smaller and have less foreign ownership. Domestic firms reduced the number of workers by an average of 25 permanent workers per firm among the firms surveyed in both years. Small and medium firms also suffered significant reductions in their permanent workforce. Foreign ownership decreased over time—for the 95 firms that answered this question in both years, the percentage of private foreign equity decreased 3 percentage points. This reduction was driven by medium firms and firms in the manufacturing sector. Furthermore, the percentage of firms that export decreased from 19 percent to 13 percent.

Figure 5 **Manufacturing firms are more likely the target of "gift requests"**



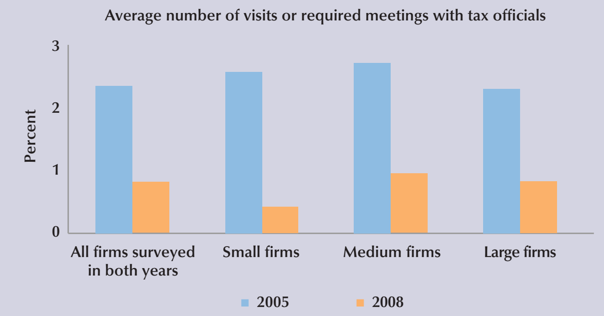
Source: Enterprise Surveys.

"Gift requests" from officials to get things done have increased over time. The percentage of firms expected to make informal payments to get things done increased from 43 percent to 65 percent between 2005 and 2008. Manufacturing and medium firms were more likely to have faced this increase(figure 5). Informal payments are not the only rising cost in Uzbekistan—security costs, as a percentage of sales, increased by more than four times from 2005 to 2008.

Although businesses report a less than conducive business environment in 2008, some changes in the business environment were positive. Uzbekistan reformed its business tax system, which seems to have positively affected firms. The reform included, for instance, a reduction in the corporate income tax from 18 percent in 2004 to 12 percent in 2006, as described in the *Doing Business 2008* report. The reduction in the number of annual visits from tax officials (from 2.4 to less than 1 among the firms surveyed in both 2005 and 2008) suggests that tax reforms may have reduced the regulatory burden on firms (figure 6). Furthermore, within the same set of firms, the percentage of firms that expected to give gifts when meeting with tax officials has also significantly decreased, from 76 percent to 52 percent.

To summarize, firms in Uzbekistan face more constraints than the average firm in the ECA region and fare below the regional averages across most of the variables presented in this note. Improving infrastructure and streamlining regulation to diminish opportunities for bribe collection are two possible ways of overcoming these challenges.

Figure 6 **Tax reform is making life easier among firms surveyed in both years**



Source: Enterprise Surveys.

Notes

1. The Enterprise Surveys, when implemented in Eastern Europe and Central Asia countries, are also known as Business Environment and Enterprise Performance Surveys (BEEPS) and in this region are conducted jointly by the World Bank and the European Bank for Reconstruction and Development.
2. This figure presents the unweighted distributions by size, sector, and location of the firms interviewed without any inferences to the whole economy.
3. The term "average firm" is used to convey the average firm characteristics from the Uzbekistan 2008 Enterprise Survey. The sample of firms interviewed is representative of the manufacturing and services sectors of the economy. For more information on the survey methodology please consult http://www.enterprisesurveys.org/Methodology/.
4. The information collected in 2005 refers to the characteristics of the firm at the moment of the survey or to fiscal year 2004.
5. The firms surveyed in both years may not be representative of the Uzbekistan's private non-agricultural economy since these are a subset of the full sample. Firms with fewer than five employees may be included among the firms surveyed in both years. The analysis presented is purely descriptive and does not aim at establishing causality between reforms and their intended effects.

† ECA includes Albania 2009, Armenia 2009, Azerbaijan 2009, Belarus 2008, Bosnia and Herzegovina 2009, Bulgaria 2009, Croatia 2009, Czech Republic 2009, Estonia 2009, Georgia 2008, Hungary 2009, Kazakhstan 2009, The Republic of Kosovo 2009, Kyrgyz Republic 2009, Latvia 2009,Lithuania 2009, FYR Macedonia 2009, Moldova 2009, Montenegro 2009,Poland 2009, Romania 2009, Russian Federation 2009, Serbia 2009, Slovak Republic 2009, Slovenia 2009, Tajikistan 2008, Turkey 2008, Ukraine 2008,and Uzbekistan 2008.

‡ EU-10 includes 2009 data from Bulgaria, Czech Republic, Estonia,Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.

* The ownership variables represent the average ownership composition within a firm. These variables do not represent the ownership composition across firms.

** The Incidence of Graft Index is the percentage of instances in which a firm was either expected or requested to provide a gift or informal payment during solicitations for public services, licenses or permits. This Index uses data from 6 survey questions for each firm. For purposes of Index computation, a refusal to answer a particular survey question is considered an affirmative answer. This Index is a modified version of the Graft Index defined in A. Gonzalez et. al. (2007) World Bank Policy Research Working Paper #4394.

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