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ENHANCING PRIVATE SECTOR DEVELOPMENT IN UZBEKISTAN: STRATEGIES AND IMPLICATIONS

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ABOUT ARTICLE

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Abstract: This study explores avenues to bolster private sector development in Uzbekistan, examining the potential strategies and their implications for the country's economic growth and diversification. Through a comprehensive review of literature, policy documents, and empirical evidence, the research aims to identify key challenges and opportunities facing the private sector in Uzbekistan and propose effective policy measures to foster its growth. The study considers various factors influencing private sector development, including regulatory frameworks, access to finance, infrastructure, entrepreneurship ecosystem, and institutional reforms. Additionally, the research analyzes the role of international cooperation and investment in supporting private sector growth and enhancing Uzbekistan's competitiveness in the global market. By shedding light on the dynamics of private sector development, this study seeks to provide valuable insights for policymakers, practitioners, and stakeholders involved in shaping Uzbekistan's economic trajectory.

INTRODUCTION

The transition from a centrally planned to a market-oriented economy has been a significant undertaking for Uzbekistan since gaining independence in 1991. Over the years, the government has implemented various reforms aimed at liberalizing the economy and fostering private

sector development. However, despite these efforts, challenges persist in unleashing the full potential of the private sector to drive economic growth, innovation, and job creation.

In recent years, Uzbekistan has embarked on an ambitious reform agenda under the leadership of President Shavkat Mirziyoyev, with a renewed focus on accelerating economic liberalization and diversification. Central to this agenda is the imperative to boost private sector development as a cornerstone of sustainable economic growth and prosperity.

The private sector plays a crucial role in driving productivity, fostering competition, and attracting investment, thereby contributing to overall economic dynamism and resilience. Moreover, a vibrant private sector is essential for job creation, poverty reduction, and the promotion of inclusive growth, particularly in transitioning economies like Uzbekistan.

This paper aims to critically examine the opportunities and challenges associated with boosting private sector development in Uzbekistan. By analyzing the policy landscape, institutional framework, and key drivers of private sector growth, the paper seeks to provide insights and recommendations to policymakers, stakeholders, and investors on how to foster an enabling environment for private sector-led economic development.

The paper is structured as follows: the following section provides a review of the literature on private sector development and its relevance in the context of Uzbekistan. Subsequently, the paper examines the current state of the private sector in Uzbekistan, highlighting key strengths, weaknesses, opportunities, and threats. The subsequent sections delve into the policy measures and reforms needed to stimulate private sector growth, including improvements in regulatory frameworks, access to finance, infrastructure development, and investment climate enhancement. The paper concludes with a summary of key findings and recommendations for policymakers and stakeholders to promote a conducive environment for private sector development in Uzbekistan.

Literature review

Theories regarding the private sector have identified specific objectives driving privatization efforts. Kay and Thompson (1986) as well as Mohan (2001) assert that the primary motivations behind privatization typically include one or more of the following: (1) Enhancing operational efficiency and economic performance; (2) Generating additional revenue for the government; (3) Diminishing the government's intervention in the economy by fostering private sector initiatives; and (4) Facilitating the development of capital markets through broader share ownership. It is important to note that there

exists a trade-off among these objectives, and conflicts may arise between them over time (Kay and Thompson, 1986).

Private sector theory presents several compelling rationales in favor of privatization. According to Mikesell (2013), privatization can reduce the government's economic footprint by curbing expenditure on services it doesn't directly provide. Additionally, privatizing State-Owned Enterprises (SOEs) can yield substantial revenue for the government (Mikesell, 2013), while fully privatized firms tend to exhibit higher productivity levels compared to those that are only partially privatized (Brown et al., 2019). Moreover, Megginson and Netter (2001) suggest that the allure of revenue from the sale of SOEs serves as a driving force behind the expedited pace of privatization efforts.

However, the financial crises of 1997 and 2008, namely the Asian financial crisis and the global financial crisis, are widely regarded as significant barriers to economic growth that demand attention. Johnson et al. (2000) assert that the Asian financial crisis eroded private investors' confidence in the financial systems of the most affected economies, leading to a decrease in net capital inflows, subsequent asset devaluation, and stock market collapses. Similarly, research by Campello, Graham, and Harvey (2010) and Carvalho, Ferreira, and Matos (2015) reveals that the 2007–2009 financial crisis altered private investors' sentiments, prompting them to either defer or abandon their investment plans. Consequently, these crises resulted in a downturn in private sector activities, diminished economic engagement, and a subsequent decline in economic output.

The development of private sector theory remains in its infancy, largely rooted in three types of research: case studies, cross-sectional comparisons of private and public sector performance, and statistical analysis of firms before and after privatization.

Despite the allure of revenue generated through privatization, many resource-rich countries have relied heavily on income from natural resource rents. These nations derive a significant portion of their fiscal revenue from sectors related to natural resources.

RESULTS AND DISCUSSIONS

The development of the private sector is crucial for Uzbekistan's economic growth and stability (Khamdamova, 2021). It is necessary to implement strategies and policies that promote entrepreneurship, improve the business climate, and attract domestic and foreign investments. These strategies should focus on reducing bureaucratic barriers, simplifying administrative procedures, and providing incentives and support for small and medium-sized enterprises. Additionally, the

government should strengthen its commitment to enforcing laws and regulations that protect intellectual property rights, maintain fair competition, and ensure a level playing field for all businesses. By doing so, Uzbekistan can create a favorable environment for private sector development, encourage innovation and job creation, and ultimately drive economic prosperity for the country and its people. Investing in infrastructure and improving logistics is also essential to facilitate private sector growth and enhance connectivity within the country and with global markets. Furthermore, fostering collaboration between the private sector and educational institutions can lead to a skilled workforce that meets the demands of modern industries. With the implementation of these strategies, Uzbekistan can cultivate a thriving private sector that not only contributes to economic growth but also enhances social development and stability. By developing a strong private sector, Uzbekistan can diversify its economy, reduce dependence on natural resources, and create sustainable jobs for its citizens.

Uzbekistan is aiming to transfer 20% of public services to the private sector and expand the share of the private sector in its gross domestic product to 80% by 2026. ADB is active in the financial, infrastructure, and agribusiness sectors of Uzbekistan's private sector.

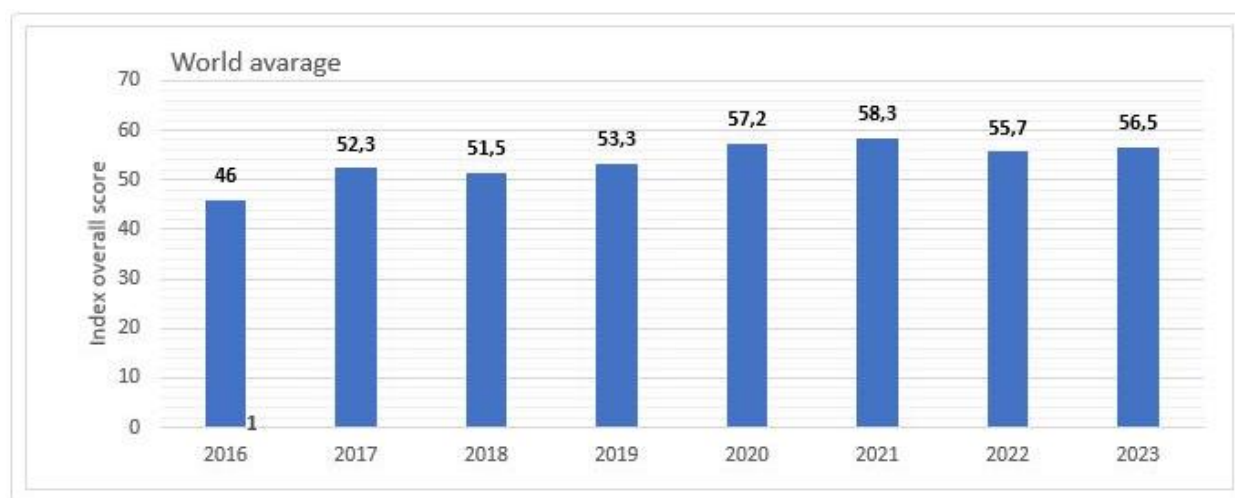


Image-1. Credit ratings of countries (world average)

Source: OECD calculations based on data from the State Statistics Committee of the Republic of Uzbekistan, 2023.

According to World Bank data, Uzbekistan boasts one of the world's most rapidly growing economies. Since 2018, the country has maintained its sovereign credit rating at BB-, a testament to its financial stability. This achievement is attributed to a series of successful reforms that have attracted foreign investment, liberalized the foreign exchange market, and streamlined tax policies.

Uzbekistan has become a hub for numerous transnational corporations, including Veon, Nestlé, Samsung, Rieter, and others. With over 20 free economic zones scattered across the country, Uzbekistan continues to attract investors in various sectors, including pharmaceuticals, agriculture, and industry.

Furthermore, Uzbekistan is actively reducing direct state involvement in the economy while expanding opportunities for the private sector. In March 2021, the government announced its intention to reduce the number of state-owned enterprises by 75% through extensive privatization, as outlined in the country's 2021-2025 strategy.

The increasing level of investments, the resumption of negotiations to join the World Trade Organization, the liberalization of regulations on foreign direct investment (FDI), and comprehensive reforms underscore Uzbekistan's progress.

Available indicators also corroborate the country's growth trajectory. The market liberalization efforts of 2016 and 2017 have spurred the establishment of numerous new firms, with a significant surge observed in 2018 (see image 1). Concurrently, there has been a decline in the number of firms facing liquidation or bankruptcy. While the COVID-19 pandemic has affected performance, sectors such as retail, industry, and agriculture have witnessed notable growth in new business establishments.

However, small and private businesses stand as crucial drivers of the economy, fostering employment opportunities and increasing the income of the population. In recent years, Uzbekistan has bolstered its legislative framework to foster the growth and sustenance of private enterprises. On June 19, 2017, President Shavkat Mirziyoyev signed a decree titled "On Measures of Radical Improvement of the System of State Protection to Legitimate Business Interests and Further Business Development," followed by another decree on April 8, 2022, titled "On the Next Reforms to Create Conditions for Stable Economic Growth by Improving the Business Environment and Private Sector Development" (Presidential Decree).

A pivotal reform in this trajectory has been the simplification of the business registration process, aimed at fostering entrepreneurship across the country. Additionally, reducing the tax burden on small and medium-sized enterprises has been a significant stride. This reduction equips entrepreneurs with more resources to nurture their ventures and attract new investments.

Furthermore, registering a business in Uzbekistan has been streamlined, now requiring only 30 minutes and a minimal set of documents. Small enterprises can access preferential bank loans with subsidized rates, and their interests are safeguarded by the institution of the Commissioner for Protection of Rights

and Legitimate Interests of Entrepreneurs. Uzbekistan has also abolished unscheduled inspections of small businesses and waived all forms of liability for first-time financial and economic offenses. These reforms exemplify the concerted efforts to empower small businesses.

Despite a slight decrease, small businesses remain robust contributors to Uzbekistan's GDP, accounting for 57.2% in January-September 2019 (compared to 60.9% in January-September 2018). Notably, the share of small businesses in GDP has been steadily increasing in recent years, signaling their enduring growth trajectory.

In comparison to developed countries where SMEs contribute 50-60% to GDP, Uzbekistan's SME sector plays an equally vital role in the economy. This sector significantly contributes to GDP and employment, underlining its importance.

As a testament to these reforms, Uzbekistan has advanced in the Index of Economic Freedom by the American research institute Heritage Foundation, ranking 109th with an 8-point growth. Noteworthy improvements have been observed in measures of tax burden, investment freedom, and trade freedom, albeit with some challenges in government spending and fiscal policy.

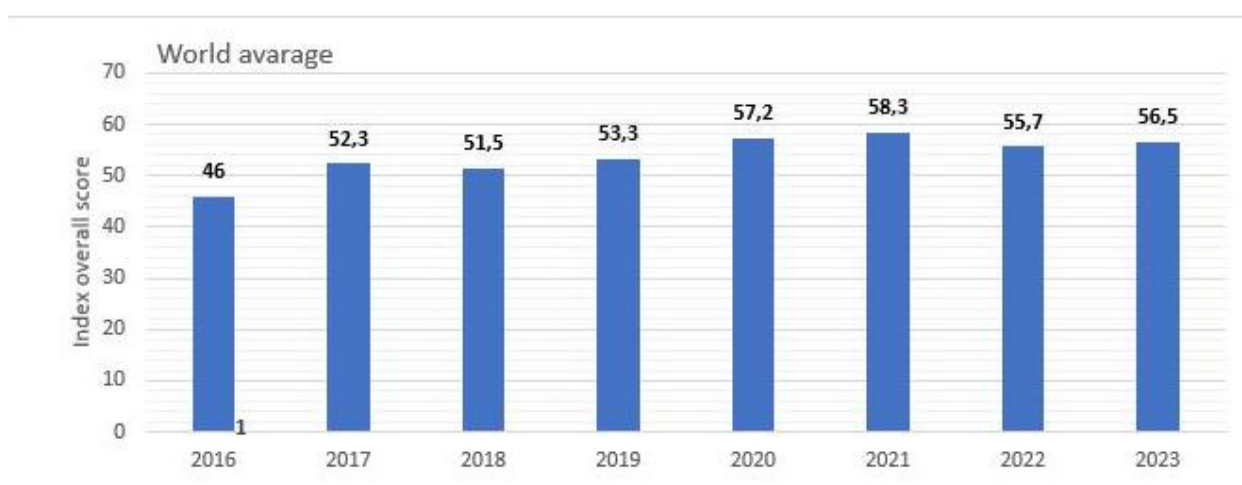


Image 3. Uzbekistan's score in the Index of Economic Freedom, 2016-2023.

Source: OECD calculations based on data from the State Statistics Committee of the Republic of Uzbekistan, 2023.

Uzbekistan is currently focusing on bridging various gaps to foster the further growth of the private sector. Efforts are underway to address the issue of limited financial resources, both internal and external, which have hindered small enterprises from acquiring modern and advanced equipment. Additionally, challenges pertaining to land allocation and utility network access are being actively tackled.

Steps are being taken to optimize the process of obtaining long-term loans, a crucial aspect for sustained business expansion. Uzbekistan is also prioritizing the enhancement of information systems, marketing strategies, management practices, and logistics services. Efforts are being made to bolster ancillary services such as insurance companies, audit firms, trading houses, consulting offices, business centers, and business incubators to support the evolving needs of the private sector.

Furthermore, the country is streamlining bureaucratic procedures and investing in personnel training to align with contemporary demands. These multifaceted initiatives are aimed at ensuring that Uzbekistan is equipped to meet the dynamic requirements of the modern business landscape.

CONCLUSION

Most of the essential prerequisites for successful implementation of IT in Uzbekistan have already been fulfilled. The economy, however, needs heavy restructuring. For example, the institutional framework of the central bank of Uzbekistan has been undergoing significant change and improvements, which starts with the CBU governance. However, more should be done to improve the central bank of Uzbekistan's life as the central bank. The turnaround of the bag of the economy requires developing domestic capital and foreign exchange markets, eliminating the dollarization trend and reduction in the government share in the economy. As a matter of fact, the current government has ownership in more than 90% of banks and 60% of GDP. Not to ignore the allowance policy of government lending markets.

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