



THE REPUBLIC OF UZBEKISTAN



Country Report

**Industrial Development Planning by Local Government:
Cluster-Based Development Approach Policy Seminar**

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Part I: Overview of Economy and SMEs

1. Macroeconomic Environment

Land

The Republic of Uzbekistan is located in the central part of Central Asia between two rivers: Amudarya and Syrdarya. There are Turan Lowland in the northwest and Tien-Shan and Pamir-Alay mountain ridges in the southeast of the territory. Kyzyl-Kum Desert is in the North. Uzbekistan borders on Turkmenistan, Kazakhstan, Tajikistan, and Afghanistan in the South.

Population

Uzbekistan's population amounts to 26.3 million people, of which 13.1 million are male and 13.2 million are female. Approximately 9.5 million are urban and 16.8 million are rural inhabitants. The overall population density is 51.2 people per square kilometer and population growth rate is 1.1%.

GDP

Dynamics of main macroeconomic indicators for 2000-2006 demonstrate the positive tendency of macroeconomic stabilization and acceleration of the country's economic growth. For example, in 2006 GDP growth rate was 7.3%, which primarily resulted from the increase of investment activity, growth of internal and external demand for the domestically produced goods and services. With investment and construction growth by 9.0% and 10.7%, accordingly, the growth in real sector of economy remained strong and the expansion of industry made up 8.6% and of agriculture 7.1%.

Table 1: Trend of the Key Macroeconomic Indicators 2000-2006

	2000	2001	2002	2003	2004	2005	2006
GDP	103.8	104.2	104.0	104.2	107.4	107.0	107.3
Population	101.4	101.3	101.2	101.2	101.2	101.2	101.2
GDP per capita	102.4	102.9	102.7	103.0	106.2	105.8	106.1
Industrial output	105.9	107.6	108.3	106.0	109.4	107.2	110.8
Agricultural output	103.1	104.2	106.0	107.3	108.9	106.2	106.2
Exports	0.9	-2.9	-5.7	24.6	30.3	11.5	18.0
Investments into main capital	100.9	104.0	103.8	104.8	107.3	105.7	109.1
Refinancing rate of the Central Bank (%)	32.3	26.8	34.5	27.1	18.8	16	14
Inflation (%)	24.9	27.4	27.6	10.3	1.6	6.4	8.7

Agricultural production along with services sector contributed most significantly to the country's GDP's growth. These sectors of economy amounted to about 5 percent points out of 7.3 percents of total GDP growth. Decrease of the net indirect taxes contribution (by 0.8-0.9 percent points) reflected the current process of tax burden reduction on producers and participants of foreign trade activities.

The production structure of GDP in 2006 was not changed substantially comparing to the previous year. As earlier, major sector of national economy was the service sector, share of

which in GDP has constituted 36.7%. The share of an agriculture reduced by 0.5 percentage points, while the share of an industry increased up to 22.1%.

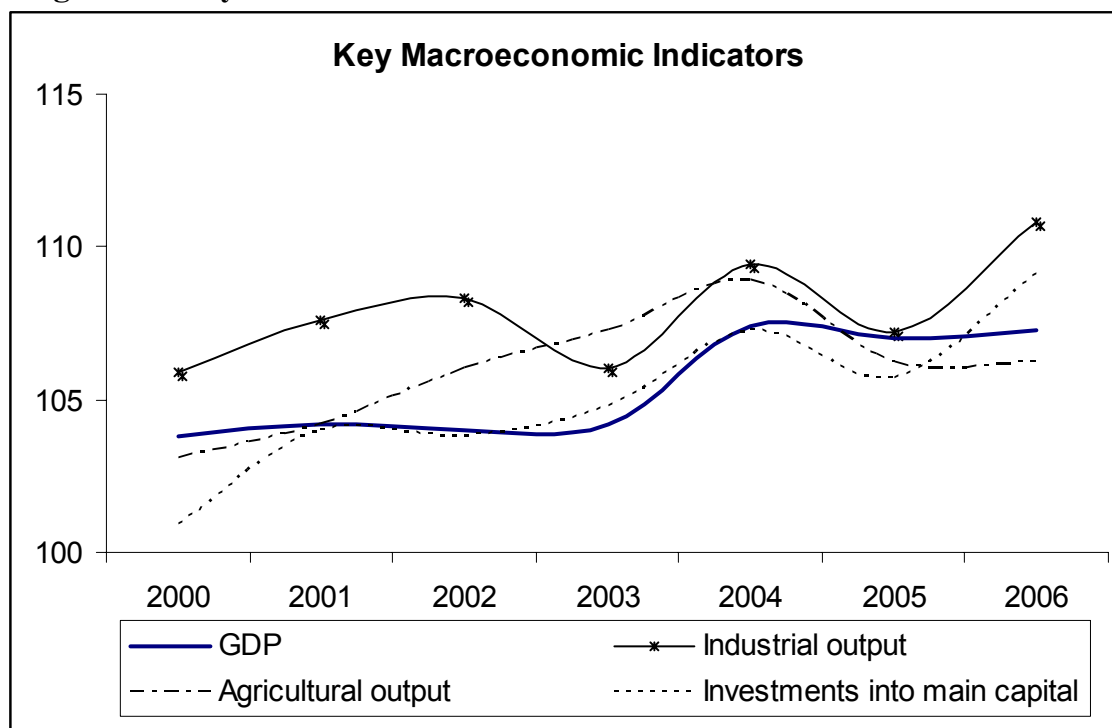
In the structure of expenditures, internal demand growth was lead by retail trade and services (12.5% and 15.0%, accordingly). In 2006 export extended with rate of 14% per annum.

In general, steady economic growth was achieved as the result of improved balances of government budget and payments, lower inflation, growth of real incomes of population , moderate devaluation of national currency, strengthening of banking system, and improved financial intermediation that helped to increase saving and investment..

Macroeconomic policy

Moderate monetary policy being implemented in Uzbekistan continues to ensure stable macroeconomic parameters. 2006 inflation rate in Uzbekistan stood at 6.8 percent. In order to lower the cost of commercial banks' loans the interest rate of the Central Bank was established at the level of 14% per annum since July 15, 2006. Thus, the aggregate assets of commercial banks have increased by 29% and were about 7 207 billion soums. The aggregate capital of commercial banks has increased by 12% and reached 1 070 billion soums.

Diagram 1: Key Macroeconomic Indicators of Uzbekistan 2000-2006



Tax burden declined by 2.0 percentage points in 2006 to almost 20% to GDP and by 8 percentage points in comparison with 2000.

Government measures to lower tax burden, simplify taxation, raise the responsibility of tax and financial structures enabled to stabilize financial state of many firms, extend investment activity, provide stable tendency of growth in retail and foreign trade turnover, as well as to stimulate growth of number of firms in small business services.

The incomes (profit) tax rate for legal entities was lowered from 15% to 12%. Along with that many expenditure items are excluded from profit tax base.

Table 2: Key Macroeconomic Indicators (2006 against 2000)

№	Indicators	unit	2000 to previous year	2006 to previous year	2006 to 2000
1.	Gross Domestic Product (in % to the previous year)	%	103.8	107.3	139.3
2.	GDP per capita	%	102.4	106.1	126
3.	Structure of GDP:				
	Industry	%	14.2	22.1	x
	Agriculture	%	30.1	23.9	x
	Services	%	37.2	39.5	x
4.	Industrial Production (in % to the previous year)	%	105.9	110.8	1.6 times
5.	Share of basic branches in Industry	%	84.4	89.6	x
6.	Productivity of labor in Industry (in % to the previous year)	%	x	x	1.7 times
7.	Agricultural Production (in % to the previous year)	%	103.1	106.2	1.5 times
8.	Production of Consumer Goods (in % to the previous year)	%	107.7	120.6	2.2 times
9.	Paid Services (in % to the previous year)	%	113	119.3	x
10.	Inflation (December to December)	%	28.2	6.8	x
11.	Foreign Investments, including:	USD mln.	721.2	895.7	124.2
	foreign direct investments	USD mln.	73.4	683.8	9.3 times
	in % to the total volume of foreign investments	%	10.2	76.3	x
12.	Foreign trade turnover	USD bn.	6.2	10.8	1.7 times
13.	Exports	USD bn.	3.3	6.4	1.9 times
14.	Foreign trade balance	USD bn.	0.3	1.98	6.6 times
15.	Share of small business in GDP	%	31	42.1	x
16.	Share of employed in small business	%	28.1	69.3	x
17.	Growth of real income of population	%	x	x	2.5 times
18.	Growth of real wages	%	x	x	4 times
19.	Employment in the economy	Thous. people	8983	10467	1.2 times
20.	Share of the employed in:	%			
	industry	%	13	13.4	x
	agriculture	%	34.1	28.3	x
	services	%	52.9	58.3	x

Tax rate on the dividends and interests was reduced even more considerably from 15% up to 10%. Reduction of the scales of average and top rate of the tax on personal income by 1 percentage point from the beginning of 2006 has allowed to increase the disposable incomes of the population by 12.9 billion sums.

Additionally, substantial decrease of single social payment (from 31% up to 25%), aimed at ensuring increase of wages provided additional sources of money (more than 172 billion soums).

The whole set of undertaken measures on tax burden reduction released funds that have become an additional source of investment growth, acquisition of additional current assets, and salary increase. The growth of the companies' investments in economy made up 8.5 per cent, by population 9.8 percents in the last year.

In the whole, public expenditures were aimed to solve social issues and to realize effective structural and investment policy. The investment expenditures of the state were mainly concentrated on social infrastructure. It should be mentioned that complex construction of new schools, academic lyceums and professional colleges remain to be one of the key priorities of state investment policy.

The inflation (CPI) in 2006 was at the rate of 6.8 percent. According to the data released by international financial institutions the country's external debt significantly decreased from 44% of GDP in 2002 to 26% in 2006, against 70% in Kazakhstan and 82% in Kyrgyzstan.

Moreover, conduct of effective currency policy was directed to ensure stability of national currency. In 2006, the nominal exchange rate was devaluated by 6%. Gold and foreign currency reserves reached the level of 12-month import.

Effective fiscal policy in 2006 allowed to achieve budget surplus of 0.5% to GDP.

Industrial policy

Orientation on industrial development in near future is to prioritize development of electricity and processing industries (textile and garment, wood processing, construction material, food processing and so on) catering to domestic consumption and export, while it is essential to continue promoting mining and selectively developing some industries serving agricultural and rural economic development, such as fertilizer, garments, food processing and others.

The government will continue either amending existing or issuing more coherent policies to promote the private sector and encourage further allocation of foreign investments in developing industries. Additionally, the government will implement development policies for industries using domestic materials to increase the value-added and promote potential strengths for economic development.

In Uzbekistan accelerated growth of industry was partly achieved due tremendous inflow of direct foreign investment which increased 9.3 times since 2000 and comprised 683 million dollars in 2006.

Industries with comparative advantage

The comparative-advantage industries in Uzbekistan are electricity, mining (gold, copper, gas) and some processing industries (textile and garment, wood processing, agro-processing, beverage industries).

Major export and import goods and partners

In 2006 the **foreign trade turnover** increased by 13.5% in comparison with previous year, amounting to more than 10.78 billion USD, the highest level during the years of independence. The trade surplus has exceeded 1.9 billion USD that is the highest indicator for the past 15 years.

In 2006 **export** has increased by 18% amounting to more than 6.3 billion USD. Export growth rate averaged at the level of 10.1% over the past seven years 2000-06. The average value of export per capita was 213.4 USD in 2006.

The main export items of Uzbekistan are gold, cotton, zink, non-organic chemistry, perfumery and cosmetic products, plastics, grains, vegetables and fruits, and automobiles. Also growth of export was supported with diversification of new finished products such as cars, petrochemical production, mineral fertilizers, metal products, textile products, building materials and others.

The main export markets are Russia, United Kingdom, USA, Germany, Turkey, Iran, Kazakhstan, Azerbaijan, Afghanistan and Tajikistan. The share of export to these countries comprised 80% of total exports in 2006.

The growth of export was supported by increase in industrial production that became a basis of qualitative change of foreign trade structure and direction. Export of machinery and equipment has increased by more than 42.7%, chemical products and plastics - 25.2%, foodstuff - more than 2.5 times, production of metallurgy by 1.6 times.

If 31% of exports' growth in 2006 was due to increased volume of exported products, than 11% of the growth was secured by new types of export products.

Expansion and diversification of exports was promoted by the Investment Program and the Localization Program initiated by the Government of Uzbekistan. As a result, economic benefit from import substitution amounted to more than 900 million USD. The exports of goods, produced in accordance with the Localization Program accounted for 24% of export gains.

Import has increased by 7.5%, and amounted to 4.4 billion USD. The growth indices of the following three commodities were higher than the average growth of imports: energy carriers (82.8%), foodstuffs (24.4%) and chemicals (17.8%). Imports of organic chemical compounds, dyes, paints and varnishes, perfumery-cosmetic and washing liquids, transport vehicles, oil and petroleum products have increased significantly.

2. Status of Small and Medium Enterprises (SMEs) in Uzbekistan

Definition of SMEs

In Uzbekistan there are three types of legal entities, micro, small and other. The following fell into micro and small category:

- From 30 to 50 employees - in agriculture, the agro-processing sector and other industrial and manufacturing areas;

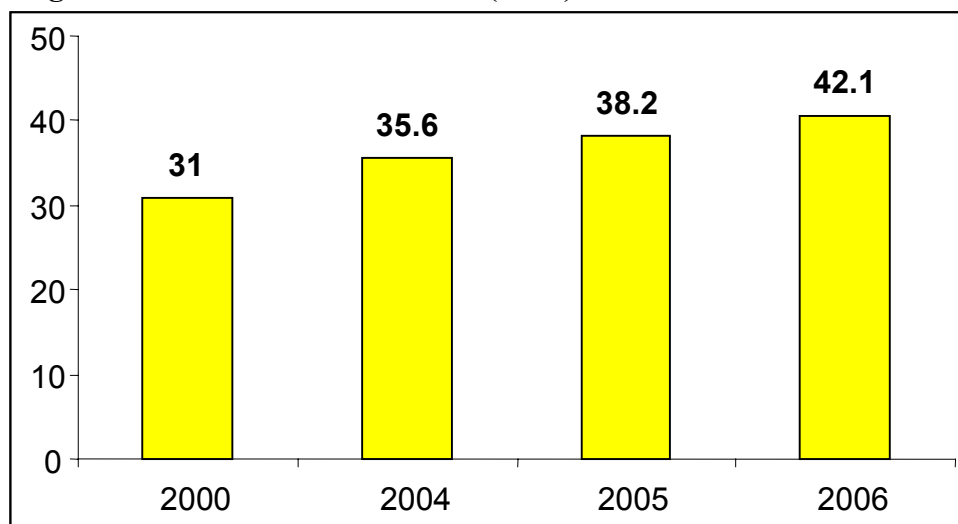
- From 20 to 25 employees – in science, research services, transportation, communications, services (with the exception of insurance companies,) retail trade and other industrial and other non- manufacturing areas.
- More than 50 employees – in mechanical engineering, metallurgy, fuel, and energy sector and chemical industry;
- More than 25 employees - in wholesale trade and public catering.

Current status of SMEs

The data from the State Statistics Committee of Uzbekistan shows that the share of Small Enterprises has been growing. In 2005, more than 38% of the Gross Domestic Product was provided by SMEs. At the same time 66% of the country’s employment was provided by SMEs. In 2005, there were 10 operational small enterprises per 1 000 residents.

The distinctive feature of SME development in 2006 was quite high rates of development in all business activities, including export of products.

Diagram 2: Share of SMEs in GDP (in %)



As of 2006, the share of small business in the Gross Domestic Product in Uzbekistan amounts to 42.1%. As a result, there was an increase in the number of operating enterprises in small and private business, accounting for 346 thousand units, that is 1.5 times more than in 2004. At the same time their share in total number of registered enterprises reached almost 90 %.

It is worth mentioning that in Uzbekistan SMEs account for the main portion of newly created jobs. For instance in 2006, SME sector created over 507 thousand jobs. During 2004-2006, SME sector helped to create nearly 1,4 million jobs in such areas as family businesses, individual labor activities and home-based businesses..and thus accounting for more than 88% of all workplaces created in the economy.

Small businesses produced 94.2% of the total agricultural products, the main share (64,0%) of which belongs to “dehkan” entities. Along with that 51.0% of construction works, 50,9% of paid services and more than 45% of the total retail trade turnover were provided by small enterprises. A positive trend was observed in the growth of small businesses’ share in industrial output that reached 10%.

The fastest development of small businesses was observed in the wood and timber industry, where over 67.5% of total output was produced by small businesses. Increased production of consumer goods by small businesses has continued as a positive trend. Small businesses produced 40% of consumer goods and 10.6% of light-industry products.

In the machinery building industry, small business concentrated in such areas as production of variety of spare parts for large industrial enterprises, thus allowing them save on import expenditures, thereby resulting in the reduction of total production costs. Small businesses accounted for 9.8% of industrial output in the machinery building industry.

Another significant factor in the development of small businesses is their share in total exports, which reached 10.7% in 2006 (7.3% in 2004).

The adoption of the Laws «On Microfinancing» and «On Microcredit Organizations» promoted activation of the micro financing process in Uzbekistan. All these measures allowed to increase scales of micro crediting of business entities considerably. The number of microcredits provided by banks increased by 44,4 % and amounted to about 65 billion soums.

Newly founded "Microcreditbank" and its territorial subdivisions have created the broad base of clients (about 8 thousand) and became one of large commercial banks in the country in quite a short period of time.

SME regulatory framework and policy

In Uzbekistan, there are a number of laws prescribing basic policies for SMEs such as:

- Law of the Republic of Uzbekistan “On Guarantees of Free Entrepreneurial Activity”, May 25, 2000
- Law of the Republic of Uzbekistan “On Business Partnerships”, December 6, 2001
- Law of the Republic of Uzbekistan “On Companies with Limited Liabilities and Additional Liabilities”, December 6, 2001
- Law of the Republic of Uzbekistan “On Private Business Entities”, December 11, 2003

The importance of small and medium enterprises (SMEs) to the economic development in any country can hardly be overestimated. International experience has shown that this sector provides the flexibility an economy requires in order to respond to changes in business conditions. The SME sector in Uzbekistan plays an increasingly important role. According to the data of the Uzbek State Committee on Statistics, the SME sector continues to occupy a growing share of the Uzbek economy. Currently, SMEs contributed 42,1% to the country’s Gross Domestic Product and SME employment compared to previous years increased up to 69,3%.

The importance to liberalize SME sector through granting the sector with additional incentives and simplifying various administrative procedures, reducing administrative and tax burden has always been a high priority of the President of Uzbekistan. In his annual addresses to Cabinet of Ministers and the Parliament, the President highlights significance of the sector and calls upon to further liberalization of the private sector. Moreover, in 2005, the Government of Uzbekistan set the ambitious goal of raising the share of the GDP

contributed by SMEs to 45% in 2007. This once again demonstrates the Government's intentions towards developing the sector.

SME supporting institutions

In order to develop SMEs the President of the Republic of Uzbekistan created in 2004 the State Committee on Demonopolization, Competition and Entrepreneurship development which became main state body responsible for ensuring favorable conditions and capacity building of SMEs. This committee is also a working body of Small Business and Private Entrepreneurship Development Coordinating Council under the Prime-Minister of the Republic of Uzbekistan. This council was created to provide integrated decision making among related ministries and departments, especially Ministry of Economy, Ministry of Finance and Chamber of Commerce and Industry.

In addition, the President of Uzbekistan established the Fund for small and private business support funded by means of financial allocations coming from privatization and management of state property (2% of total amount). In 2006 350 million soums were spent on SMEs support programs. Additionally, 35 billion soums in the form of favorable credits were directed to create jobs in small business entities from the Population employment Fund under Ministry of labor and social security.

Part II: Business Environment of SMEs

1. Legal and Regulatory System

In the last several years, the Government of Uzbekistan has taken several steps to improve the country's business environment in a number of areas such as registration of business entities, permits and licensing, tax administration, business reporting and etc.

There is a list of legislation passed in 2005 to improve the business environment:

- June 2005 – to improve legal protection of businesses¹;
- June 2005 – to improve the system of submitting reports and tax calculations²;
- June 2005 – to introduce a single tax payment³;
- August 2005 – to ensure uninterrupted access to cash⁴;
- September 2005 – to optimize license and permit procedures⁵;
- October 2005 – to reduce and streamline inspections⁶.

¹ Decree of the President of the Republic of Uzbekistan "On the Measures to Further Improve the System of Legal Protection of Businesses" UP-3619 of June 14, 2005.

² Decree of the President of the Republic of Uzbekistan "On Improving the System of Business Reporting and Strengthening Responsibility for its Illegal Demanding" PP-100 of June 15, 2005.

³ Decree of the President of the Republic of Uzbekistan "On Additional Measures to Encourage Development of Microfirms and Small Enterprises" UP-3620 of June 20, 2005

⁴ Decree of the President of the Republic of Uzbekistan "On Guaranteeing Uninterrupted Cash Payments from Bank Deposits" PP-147 of August 5, 2005

⁵ Decree of the President of the Republic of Uzbekistan "On Reducing the Types of and Simplifying Permit Procedures for Conducting Business" PP-186 of September 21, 2005

⁶ Decree of the President of the Republic of Uzbekistan "On the Measures to Further Reduce the Number of and Improve the System of Inspections of Businesses" UP-3665 of October 5, 2005

IFC experts estimate a potential annual effect from the Decree of the President of the Republic of Uzbekistan “On the Measures to Further Improve the System of Legal Protection of Businesses” UP-3619 to the SME sector of \$21 million⁷.

One of the latest decisions made by the Government was further simplification of registration procedures in Uzbekistan. In the course of several years the Uzbek Government initiated a number of decisions to simplify business registration. Among these were the introduction of a “one stop shop” registration in 2001, and the ability to apply for a number of permits in parallel to registration. These arrangements have significantly reduced the problems faced by entrepreneurs during registration.

Moreover, in May 24, 2006 the President of Uzbekistan signed Decree, which approved the Regulation on the Application Based Public Registration and Recording of Businesses. With introduction of this decree, Uzbekistan now applies an application-based public registration. Under this procedure, authorities do not examine the documents presented to them for compliance to the law, but review only the part under their jurisdiction necessary to enforce registration requirements.

A key point of the new registration system is that some functions previously performed by the statistical agencies and internal affairs authorities have now been transferred to the registration authorities. This substantially reduced the legally mandated period of public registration **from 7 to 2 days**.

In the recent years the Government of Uzbekistan has taken a number of steps aimed at improving and simplification of license issuing procedures. One of the latest decisions made by the government of Uzbekistan is an introduction of Decree of the President of Republic of Uzbekistan “On Reducing the Types of and Simplifying the Permit Issuing Procedures for Conducting Business”.

Presidential Decree signed in 2005 improves the situation in this area by reducing the list of publicly issued permits, establishing the minimum term for license validity of five years, and approving the list of 13 types of activity licensed for an indefinite term.

There are 71 types of activities currently subject to licensing in Uzbekistan. Some of these have a number of subcategories of activities subject to licensing. According to the Uzbek legislation, licenses are issued for 5 or more years (i.e. their validity is not limited). A time limit on the validity of a license may be introduced only upon request of the applicant, or in the event the Cabinet of Ministers introduces a monopoly on a particular kind of activity.

According to the Uzbek legislation, a license should be issued within 30 days of the date the application, with all required documents attached, is filed. In the case of license rejection, the licensing authority is required to provide the applicant with a written justification for the denial.

In Uzbekistan taxation has traditionally been one of the most problematic aspects of activity for SMEs. To reduce tax burden and streamline tax administration, the

⁷ Effect is calculated as a sum of (1) additional income SMEs may earn within a year due to the discontinued practice of non-judicial business suspension; (2) penalties previously imposed to SMEs within a year by the Prosecutor’s Office after inspections.

Government of Uzbekistan introduced a single tax payment for small enterprises that engage in the industry and service sectors, effective from the second half of 2005. This type of payment replaces all taxes and mandatory payments to the specialized funds (extra budgetary Pension Fund, the National Road Fund and extra –budgetary Schooling Fund). The Government of Uzbekistan is considering further reduction of the tax system. Specifically, the Cabinet of Ministers’ meeting on August 11, 2006 discussed the main approaches and lines of activity for further improvements in the tax policy for 2007, which assumed both tax rates cuts and simplification of tax administration.

It should be mentioned that in Uzbekistan, entrepreneurs cannot be required to file various reports more frequently than on a quarterly basis. Financial reports- severe sanctions are imposed on state officials who illegally demand additional financial reports. Statistical reports- SMEs submit statistical reports quarterly. Tax returns - all tax returns are submitted on a quarterly or annual basis on the 25th of the month due. Additional documents- regulatory authorities cannot demand documentation from SMEs over and above the standard financial and statistical reports. Additional documents can only be requested during a tax audit of the firm.

It should be mentioned that export import operations in Uzbekistan have always been important for the country’s economy. In recent years, Uzbekistan is actively taking steps to promote the exports and services and overcome the barriers to export operations.

2. Business Development Services

Many countries have focused on enhancing the quality of public decision-making in the area of business regulation. When developing such regulations, it is important to consider the interests of all parties and the consequences that the decision may entail for all the stakeholders (i.e., businesses, society and the state).

In Uzbekistan, like in any other transition economy, public authorities at all levels regularly influence the business environment through decisions that they make. IFC experts estimate that the President and the Government in 2005 made more than 40 decisions affecting the way businesses operate. Therefore, it became necessary to create a system that would make a comprehensive assessment of:

- a possible impact of the regulatory decisions on the state, business and society;
- whether the intended objectives have been met efficiently.

Many countries have addressed similar issues by introducing the Regulatory Impact Analysis (RIA) system. The IFC survey has helped make a partial assessment of the effectiveness of the decisions made in 2005 to improve the business environment in Uzbekistan. However, that is only one of the assessment tools available. Many countries widely employ a Regulatory Impact Analysis (RIA) aimed at enhancing the quality of the decisions made in the area of business regulation.

The system assumes the following:

- streamlining the regulation system;
- helping enhance rule-making activity of the central and local governments in business regulation;
- identifying, abolishing and preventing introduction of economically unreasonable and ineffective regulations;

- substantiating the need for state intervention in business activities, based on the principle of justified state intervention into economic processes;
- reducing administrative, economic and organizational barriers for business development.

International Experience

Regulatory Impact Analysis (RIA) is a term used to describe the process of systematically and coherently assessing public decisions in terms of the effect they have on the business environment, broad social groups (consumers, employees, population) and the extent to which they match the interests of the state. This assessment is done via the application of various analytical techniques and a wide discussion of the impact expected from the decisions.

Both the analysis and communication aspects of RIA are equally important. This process should start as early as possible at the initial stages of the public decision-making process, so that RIA can be used to assess impacts of new regulation as well as the existing regulation stock.

The first RIA elements were developed in a number of Western countries at the end of the 1970s to assess the effectiveness of public decisions that impacted the business community. This system is now employed in many developing countries, including Bulgaria, Croatia, Serbia, Romania, Estonia, Lithuania, Latvia, Poland, other EC countries, South Korea, Mexico and the Philippines, and is being introduced in CIS countries such as the Russian Federation, Ukraine, and Moldova.

3. SME Financing

Substantial growth of SMEs' along with increase of production and new services creates potential demand for various forms of SME financing such as leasing, bank credits and microcredits.

In the recent years, the Government of Uzbekistan has undertaken a number of measures to create favorable conditions to develop the leasing market in Uzbekistan. These measures resulted in further impetus to develop the leasing sector in Uzbekistan and undoubtedly became an alternative resource of financing. It is to be mentioned that the leasing sector in Uzbekistan continued growing in 2006. According to the IFC Central Asia Leasing Facility TA Project the volume of new leases in 2006 grew over 131.1 billion soums (UZS 90.6 billion in 2005).

Over 5,600 leases worth UZS 131.1 billion (US\$ 107.5 million equivalent) were made in Uzbekistan in 2006 against 4,078 leases for US\$ 81.5 million equivalent in 2005. Leasing companies implemented over 4,100 deals for 69.9 billion soums in 2006 whereas there were 3,200 deals for 66.0 billion soums in 2005. Last year commercial banks implemented new leases worth 56.5 billion soums (21.3 billion soums in 2005). This represented over 2.6 times growth. Other lessors, that conduct regular leasing operations, made leases worth 4.8 billion soums.

Today 14 leasing companies and 18 commercial banks render leasing services in the country. Because official statistical agencies do not collect regular statistics on lease

transactions, the information on cross-border leases and leases conducted by companies for which leasing is not the main activity is not available.

According to the official data from the Central Bank of Uzbekistan as of October 2006 number of credits provided by the Uzbek banks to SME sector increased by 38,5%, which is equal to 976,1, billion soums.

In addition, in order to satisfy the growing demand of SME's on financial products the government of Uzbekistan established a specialized "Microcreditbank" assigned to provide credits for representatives of SME sector. The bank operates through 74 branch offices and 164 mini-banks across the country.

Moreover, credit unions in Uzbekistan continue to play a crucial role in SME financing. According to the Association of Credit Unions of Uzbekistan there are 37 credit unions operating in the country. It is worth to be mentioning that 10 credit unions were registered in 2006. Since 2002 credit unions in Uzbekistan helped to create 12,000 new working places and provide entrepreneurs with simplified access to financing and ensuring further growth of SMEs.

Part III: Industrial Cluster

1. Situation of Industrial Cluster in Uzbekistan

Up to the present moment, industrial cluster in the form of sectorial and geographical concentration of enterprises in particular sub-sector in Uzbekistan does not exist. However, the government is encouraging industrial enterprises operating in the same industrial sector to form associations or groups.

Under the supervision of Uzbekistan Chamber of Commerce and Industry, the following number of industrial associations has been established: textile and garment, construction material, food production, handicraft and so on.

2. Perspective of Industrial Clusters in Uzbekistan

Realizing that the cluster of industrial enterprises is an effective form of industrial organization to meet the challenges arising from the operation of free market force the Department of Industry, Ministry of Economy, has been taking initiative in developing legal framework for development and operation of Industrial Clusters. Also Ministry of Foreign Economic Relations, Investment and Trade has already started promoting of so called "**Localization Program**", in the areas like Fergana valley and Tashkent region. The value of goods, produced in accordance with the Localization Program equaled to 1 635.1 billion soums (1 341.7 million USD). The contribution of the Localization Program accounted for 11.3% of industrial production.