

ANALYSIS OF THE DEMAND OF POTENTIAL MSMES AND MIGRANTS TO ESTABLISH A BUSINESS AND FOR EMPLOYMENT

I. Executive Summary

Significant reduction of economic activities in CIS countries such as Russia, Kazakhstan, and Ukraine reduced the demand for labour migrants from Central Asian countries. Although central Asian countries did not face significant challenges of world economic turmoil, returning labour migrants will create social and economic pressure in the labour markets.

Migrants are often the most highly motivated and skilled members of the workforce in the community of origin. For the labour-exporting country, this can mean a loss of young, talented labour. At the same time, out-migration can act as a safety valve, relieving the pent-up pressure of those who are unable to find work in their hometowns, especially young men. While the creation of long-term job opportunities at home should be a high priority in the longer term, easing opportunities to migrate for those who are unemployed, disgruntled and poor in the short to medium term can bring on balance significant benefits to the country and community of origin.

Central Asian countries, including Uzbekistan, may also try to capitalize on labour migration factor and return of their labour migrants. Among the benefits of migration, remittances weigh heavily. It is clear that remittances are important sources of income for many poor families as well as in aggregate terms for the country as a whole. Moreover, migrants return home with new skills. Many open their own businesses that provide new jobs. According to UNDP, in Uzbekistan, new businesses opened by returning migrants have created up to an estimated 350,000 new jobs.¹

Despite strong political declarations placing investment and an improved investment climate among the highest national priorities, and despite some progress in this regard, businesses and investors—including former migrants turned entrepreneurs — encounter numerous difficulties in Uzbekistan. The survey conducted by authors within the scope of this assignment and discussions with entrepreneurs confirm several fundamental obstacles. These obstacles include high tax rates, high interest rates for business finance or unavailability of loans for businesses, bureaucracy, corruption, conversion related problems, permits system, and high customs duties. Each slows down or blocks business development and effective utilization of potential benefits of migration for development of the republic.

¹ "UNDP Country Background Study, Uzbekistan" for Central Asia Human Development Report 2005

Unfortunately, worldwide experience shows that once inefficient government, discretionary interventions and corruption have become endemic it is very difficult to root them out. Nonetheless, it is important that improvements be made, since without them a poor business environment and investment climate will prevail, hampering domestic and foreign investment along with trade, growth and employment creation.

II. Introduction

Global economic crisis has negatively influenced labour migrants in Central Asia as it became a reason of migrant quota reduction in main destination countries such as Russia and Kazakhstan. A certain part of migrants had to return to home countries thus creating social and economic pressure on domestic labour market. This is valid to Uzbek migrants as well because approximately 900 000 returned home during the global economic downturn. Nevertheless, crisis had not influenced the main routes of Uzbek migrants and they continue looking for the opportunities in main destination countries. Studies conducted by GTZ on financial transfer channels and remittances revealed that Uzbekistan received approximately 2,9 bln USD remittances from Russia and 2,2 bln from Kazakhstan accordingly. Moreover, despite the fact that 70% of these remittances are consumed, the study found out that the majority of migrants would like to start their own business. Thus, the greater part of this amount can be spent on investment into the economy of home country. For this reason, GTZ supposes that migrants might represent an important pool of entrepreneurs in Uzbekistan if supported same way as in Europe, US and some other countries. In order to make the most of this potential and to foster growth and jobs in Uzbekistan, German Technical Cooperation intends to support and promote migrant entrepreneurs and help this group to overcome difficulties which might prevent them from starting and growing businesses in Uzbekistan. This is crucial not only for this particular group but for whole economic life of the country as well, because at the moment MSME sector produces 48,2 % of GDP in Uzbekistan and employs approximately 70% of labour force. Support of migrants to start up their own business and invest into the economy of its own country can stimulate further development of MSME sector (by allocating remittances from consumption to investments sector) and create jobs for the population inside the country. The overall goal of the study is to research demand potential for MSME and migrants.

One of the more important positive characteristics of MSME is their flexibility. Considering labor intensity and flexibility of MSME sector, the development of the sector will minimize the social and economic consequences of returning labour migrants. Before development of government policies, the policymakers should address important points such as labour demand determinants, changing preferences of MSME, and possible innovative ways of MSME development.

The authors conducted qualitative and empirical country case study with the aim to identify the perception among migrants of the business environment in Uzbekistan, their evaluation of access to finance and support services, and their own assessment and needs for developing migrant's business, management, and marketing skills. Part of the research was devoted for brief review of international experience. The authors also interviewed a number of experts and specialist dealing with issues related to migration and entrepreneurship – IFC, EBRD, the Regional Bureau on Employment Abroad, Bank Buyuk Ipak Yuly, National Bank of Uzbekistan, Hamkor Bank, UNDP, and families of migrants in Tashkent. The data also have been collected via contact interviews based on a standard questionnaire, and via literature review. Standard questionnaire has been used because it is more effective method as covers a large scope of migrants; moreover, it is less time consuming. The questionnaires were distributed to the former migrants in Tashkent area who are founders of MSME or work for MSME through the Chamber of Commerce and Industry (CCI) of the Republic of Uzbekistan. Some interviews were conducted through phone or personally. In total 22 people were interviewed in Tashkent. 21 of respondents were city dwellers, 17 of them were from Tashkent. There was one representative each from Samarkand, Nukus, Namangan, Termez, and Kashkadarya. 2 of the respondents were female. The average age of respondents was 35.9 years old. Besides the interviews with entrepreneurs-former migrants, interviews of entrepreneurs - members of the Chamber of Commerce and Industry without migrant experience were conducted. About 52 entrepreneurs – CCI members – were interviewed.

III. Brief review of international Experience

Transforming remittances into productive investment opportunities, infrastructure and other development projects is the focus of migration policies of many governments in migrant sending countries. Using remittances to alleviate poverty is another important goal of governance in developing migrant sending countries. In this light, the link between labor migrants and Micro, Medium, and Small Enterprises (MSMEs) in the case of Uzbekistan is direct and very important. MSME sector as well as financial system is crucial in transforming remittances into productive investment projects resulting in economic growth for the country.

Recent literature has posited that there exist positive relationships between remittance and economic growth, capital accumulation and poverty reduction of recipient countries. Though the results seem varied, most of them utilized cross country data and therefore there is a need to validate it further into country specific case studies.

Global studies on the effect of remittances to economic growth have shown mixed results. For instance, Chami et al. (2003) found that remittance have a negative effect on economic growth. Adams and Page (2005), on the other hand, found that remittances have a positive effect on poverty reduction. A recent study on the Philippines by Burgess and Haksar (2005) validated the findings of Chami

that there is negative correlation between growth of remittance and economic growth.

However, Alvin P. ANG, basically following the framework of Burgess and Haksar but instead of using growth in per capita income, simply using real change in the economy, showed that economic growth has positive and significant correlation with remittance growth.

The desire to promote migrant remittances is commonly used as an explanation for why migrant-sending states choose to adopt policies designed to reach out nationals living abroad. Paper by Doug Spence “Does Migration Policy Work? A Comparative Study of the Effects of Home State Migration Policy on Remittance Flows to Latin America” tests several prominent arguments about the ability of home state migration policies to increase the inflow of migrant remittances using data from thirteen Latin American countries for the years 1986-2004. Doug Spence finds that the implementation of migration policy may lead to increased remittance flows, but only the effects of bureaucratic reforms are significant once controls are introduced. These findings are consistent with the general arguments in the migration policy literature, but they raise questions the way that political and economic conditions interact with different types of migration policies.

The most direct way that home states can increase the flow of remittances is through investment policies that lower the costs of remitting or offer special incentives to remittance senders (Levitt and de la Dehesa 2003).

Most remittances are sent through some form of intermediary, usually a bank or MTOs like Western Union, which often charge fees, commissions or exchange margins that average between 4-10% of most remittance payments (Orozco 2004). Home country governments can reduce these costs by pressuring money-senders to reduce their fees, establishing special migrant bank accounts with incentives for remitting or investing in the home country, or by simply working to extend financial services the large unbanked migrant population (Levitt and de la Dehesa 2003: 592). One specially successful example of this kind of migration policy is Mexico’s effort to establish an automated clearinghouse for remittances from the United States, which sufficiently lowered the costs by streamlining the process of sending and receiving remittances (Escobar, Latapi and Martin 2008: 194). Other investment policies involve the use of incentives, such as fund-matching programs, designed to entice migrants to send money back their home communities. These initiatives are often linked with migrant organizations in the host country, and can provide a powerful tool for states seeking to channel remittances towards local development projects (Fitzgerald 2006).

Much of the migration policy literature also argues that home states can secure the flow of migrant remittances through more indirect means, by adopting policies designed to strengthen the bonds between migrants and their countries of origin and discourage assimilation in the host

country (Choate 2007; Schmitter Heisler 1986). This argument is supported by survey research that finds remittance payments tend to decline in size and frequency over time, and that migrants who eventually assimilate permanently into their host countries tend to remit the least (Portes 1999). Consequently, home states may be able to enhance remittance flows by offering additional services to migrants that keep them connected longer or by facilitating an eventual return. For example, the Mexican and Brazilian governments have initiated programs that offer adult education through their consulates, allowing migrants to earn a Mexican or Brazilian high school equivalency from abroad (Levitt and de la Dehesa 2003: 597). Likewise, the Dominican and Guyanan governments have implemented reforms intended to make it for migrants to return home and reduced duties on the importation of personal possessions. These policies may allow states to discourage assimilation, recover migrants' human capital, and tap into what Poirine describes as "the last wave of remittances", when migrants transfer their in order to fund return migration (1997: 591). The extension of additional state services to migrants is often supported by another type of migration policy, the initiation of bureaucratic reforms that consolidate the government agencies responsible for implementing migration policy or elevate their status (Levitt and de la Dehesa 2003). These reforms may also increase remittances by simply making other initiatives more effective or by providing signal to migrants that they are considered important by those in government. Thus the decision by Vincente Fox to create the cabinet-level Presidential Office for Mexicans Abroad in 2001, can be seen as both an effort to enhance the implementation of migration policy and a strong statement of the administration's interest in Mexico's migrant population (Escobar, Latapi, and Martin 2008).

Even purely symbolic policies, such as the Dominican Republic's decision to change the legal description of migrants from "absent Dominicans" to "Dominicans living abroad", may provide a signal to migrants that they remain valued members of their countries of origin and that they home have a home to return to (Itzigsohn 2001).

Finally, some scholars also suggest that efforts to incorporate migrants politically into their home countries, through extension of dual citizenship or the creation of political party offices abroad, can create incentives to keep remitting or lead to the implementation of migrant-friendly policies that also increase remittances (Itzigsohn 2000; Smith 1998). A different argument that also suggests a link between these policies and remittances is the claim that migrants use their economic clout to buy political access from abroad (Shain and Barth 2003). Thus it is possible that the causal direction may run in the other direction, with high levels of remittances leading to the political incorporation of migrants. In both cases however, countries which implement these policies should have higher levels of migrant remittances.

Much of the research which focuses on migrant populations can be placed loosely within a body of work described as the migration systems approach, which has its roots in the early efforts of sociologists to explain migration in regards to structural causes. It argues that when certain economic, social and legal conditions within sending and receiving countries complement each other, durable patterns of migrant behavior—described as migration systems- will emerge (Green 2005; Roberts et al 1999). These migration systems are seen as being largely responsible for the duration, volume and composition of the migration flows they encompass, and as therefore having a strong influence on the volume of remittances. Although a number of different systems have been identified, most studies emphasize a distinction between two basic types of migration system, depending on whether migration temporary or permanent, and suggest that the effects of migration policies may be conditioned by which system is present. For example, Roberts et al suggest that involvement by the home state should be especially important in permanent systems, because migrants have greater opportunities to assimilate into their host countries, tend to have fewer family members in their country of origin, and thus may need incentives in order to remit (1999). Conversely, migrants in temporary systems tend to remit more and are likely return home after a short period of time regardless of the policies pursued by their home state. Thus one should expect to see a difference in the ability of migration policy to promote remittance flows depending on whether the nature of the migration system. These effects should be most evident for enhanced consular services and symbolic policies, which are targeted primarily at long- term migrants (Levitt and de la Dehesa 2003).

IV. Survey results

The results of the survey confirmed the status of Russia as the main destination country for migrants – 8 of former migrants now entrepreneurs used to work in Russia, 4 in Kazakhstan, 3 – in USA, 2 – in South Korea, and one from Belgium, Holland, Turkey, France, and UK. The average years of experience abroad among respondents stood at 3.2 years. It is interesting to note that 15 of the entrepreneurs had higher education and only 7 had secondary education. This underlines importance of education for entrepreneurship. More educated people have more opportunities and higher probability of setting up their own business after migration period.

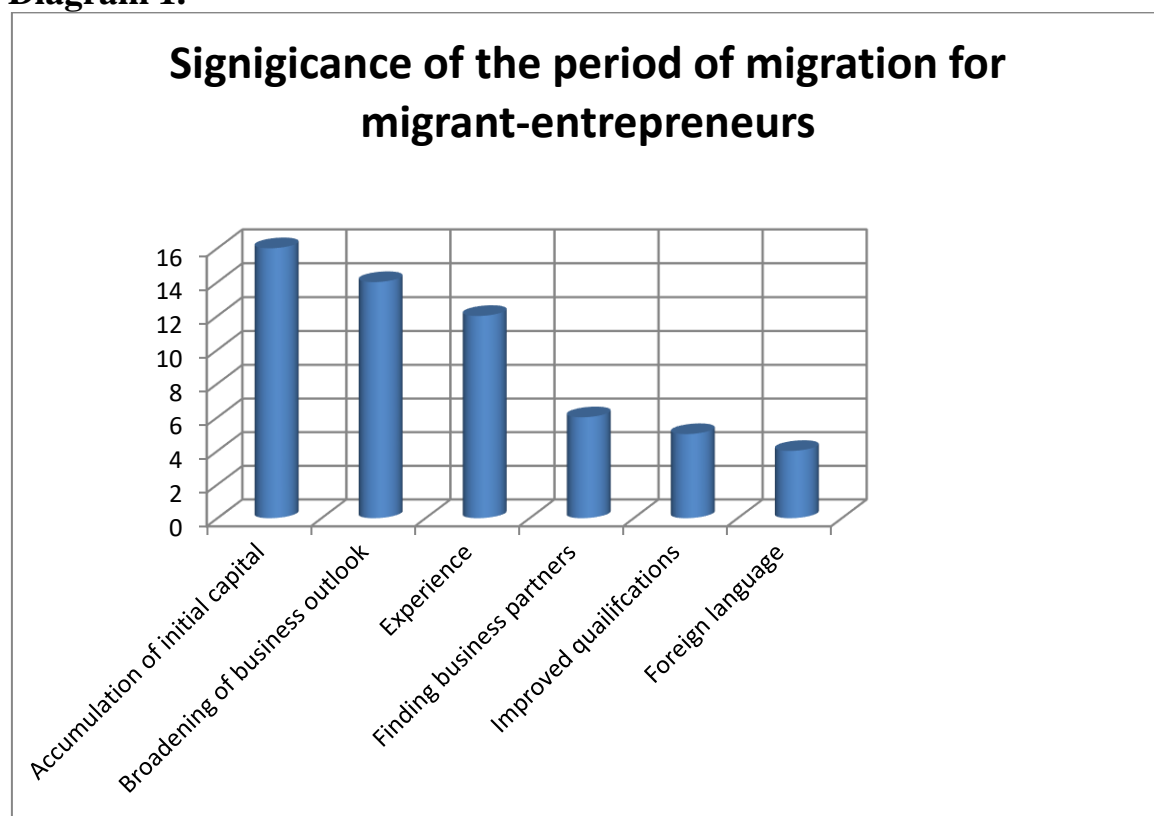
Interviewed entrepreneurs were engaged during their migration period in various areas of activities: four entrepreneurs worked in construction sector, three were cooks, and there were three salesmen among entrepreneurs interviewed during this study. Two of the surveyed entrepreneurs worked in bakeries and two in private farms. Others worked as a consultant, customs broker, taxi driver, hotel administrator, accounting and even commercial director. Thus, the array of

professions that surveyed entrepreneurs/migrants were engaged in during their migration period was quite diverse.

Half of the respondents did have entrepreneurial experience before their migration period. Having this experience probably created a basis platform and mind set for utilizing their migration period experience with the point of view of developing their own business after returning to Uzbekistan and elaborating necessary skills for entrepreneurship.

The average number of employees that worked in the firms was 11. During the interviews it was found out that 15 of the companies were involved in foreign economic activities. Thus, as underlined above, in majority of cases the former migrants and current entrepreneurs make connections and ties during their migration period. After returning home they develop these business relations further.

Diagram 1.

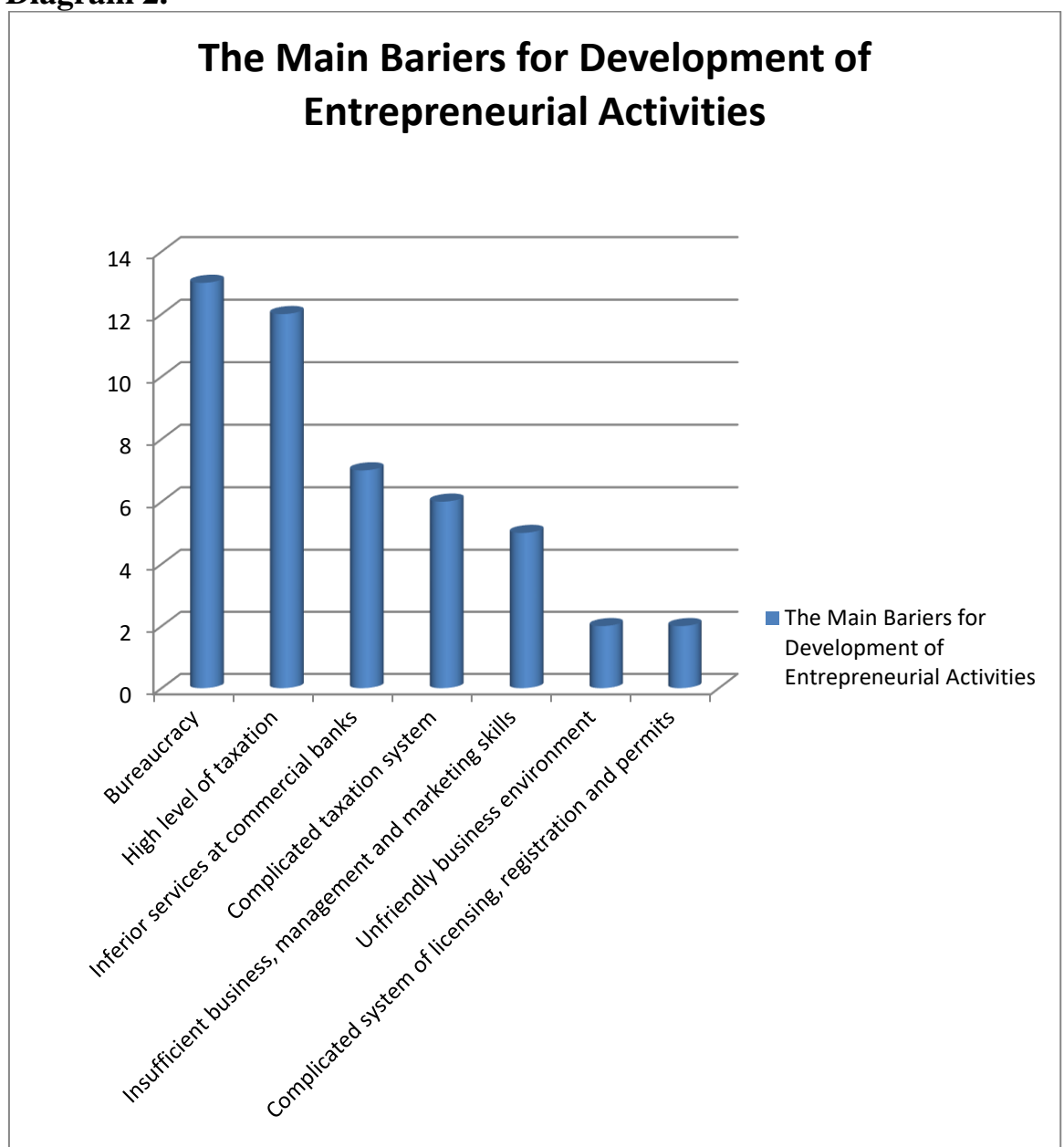


One of the questions during interviews was regarding the significance of the period when entrepreneurs worked abroad (see diagram 1 below). The respondents had the opportunity to choose several responses. 16 of the respondents emphasized the importance of migration period from the view point of accumulation of initial capital. 14 respondents stressed the expansion of their business outlook and horizon. Acquiring necessary work experience was pointed out by 12 of the interviewed entrepreneurs. 6 entrepreneurs found business partners/investors during their work abroad. Improvement in qualifications was one of the main important aspects of migration period for 5 entrepreneurs. For 4 entrepreneurs the

significance of migration period consisted of the opportunity to learn foreign language and culture. In sum, the responses to survey questions allow create a portrait of an entrepreneur –former migrant. This is a businessman that has accumulated some initial capital with wider business outlook compared to an average entrepreneur and business skills developed, formed and shaped during migration period. Moreover, considerable share of migrant-entrepreneurs return home from migration with business partners and even investors.

One of the most important parts of the survey was dedicated to questions related to perception of business environment by the returning migrants-entrepreneurs. Several questions were designed to find out the returning migrants' point of view on business environment.

Diagram 2.



When asked their view point on the main hindrance for further development of entrepreneurial activities in Uzbekistan², 13 responses pointed out to bureaucracy, 12 underlined high level of taxes, 7 low level of service at commercial banks of Uzbekistan, 6 complicated taxation system and rules of conducting business, 5 admitted that their business, management, and marketing skills were insufficient. It needs to be noted, that 2 respondents referred to business environment as not conducive to business and another 2 defined complex system of licensing, registration and permits as the hindrance factor. Diagram 2 below illustrates the responses of the migrants- entrepreneurs to this question.

Direct intervention in business operations by representatives of various official institutions and multiple layers of corruption in political and economic structures are widespread. For instance, in Uzbekistan quite frequent are instances when monetary funds of businesses are attracted to the organization and conduct of certain events in accordance with instructions of regional branches of state power. Entrepreneurs note that state bodies in certain areas pressure businesses to donate funds for charities and other types of assistance, or render certain “voluntarily” services, to transfer money for social needs and infrastructure improvements in cities and rural areas, without taking into account the financial conditions of an enterprise. There is a lack of transparency in the use of funds collected from enterprises for the above mentioned purposes.

Entrepreneurs also bring examples of cases when executive bodies in the local level take decisions without taking into account justified interests and rights of entrepreneurs. A damage caused by these decisions usually is not compensated to entrepreneurs.

Among the most serious problems posed by bureaucracy to businesses, entrepreneurs indicate the following: some officials of regulating agencies do not know very well their own roles and functions, there are no clear procedures outlining relations between entrepreneurs and state bodies, existence of corruption, which is especially ripe in at regional level.

During the interviews, entrepreneurs also noted the facts of unauthorized inspections of the employees of regulating bodies, first of all tax officers and employees of prosecutor's office.

CCI constituents note significant increase in the number of unauthorized unplanned inspections. In order to avoid prejudice approach and hustle of dealing with controlling agencies, entrepreneurs frequently have to make illegal payment without registering the fact of inspection itself.

It was also emphasized that the employees of regulating bodies in local levels practically do not provide consulting and information services to entrepreneurs with the purpose of preventing violation stemming from misunderstanding or misinterpretation of certain legislative acts.

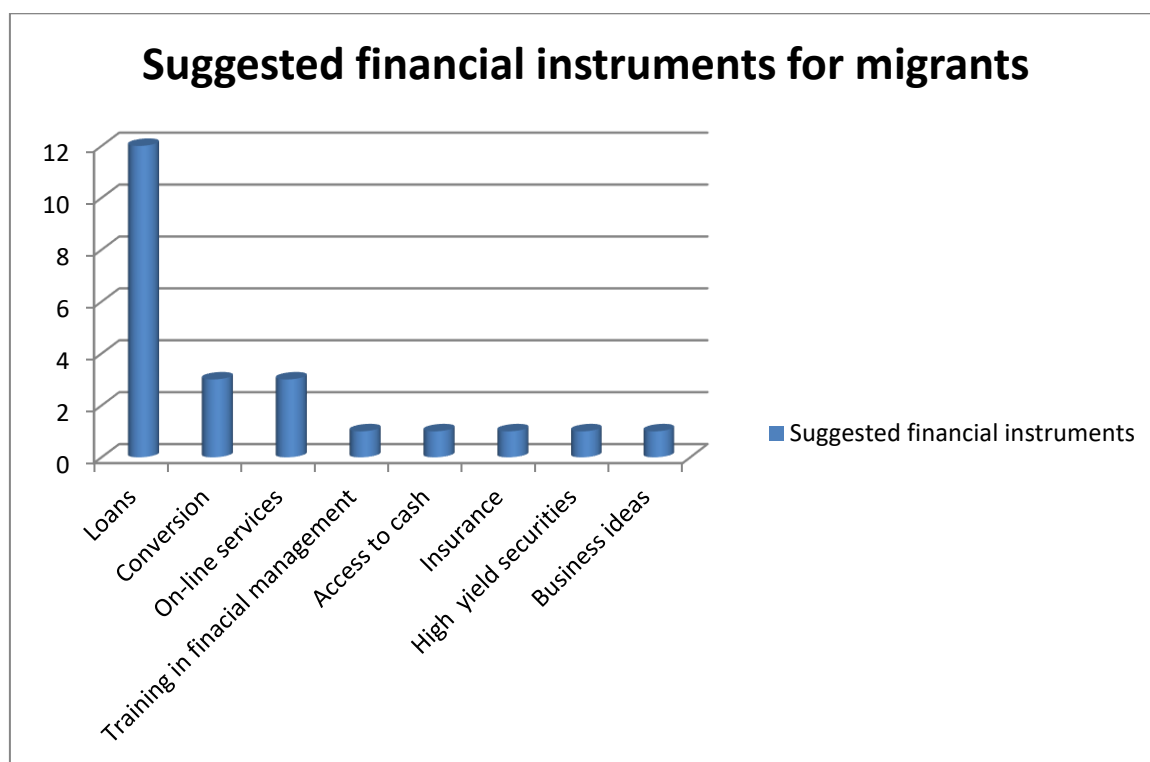
Banking system is crucial for development of entrepreneurship. Therefore, entrepreneurs that participated in the survey were asked to evaluate the level of banking services in the country by choosing one of the assessments - “low”,

² Respondents had the opportunity to choose several answers to the question.

“medium”, and “high”. It is noteworthy that none of the respondents evaluated the level of banking services as “high”. 16 respondents identified the level of services provided by commercial banks in Uzbekistan as medium and 6 entrepreneurs assessed the services of commercial banks as low. Some entrepreneurs also complained about high level of expenses and tariffs related to conducting day to day banking operations, which also contributes to the outflow of cash from commercial banks.

During the survey it was also asked to suggest the financial instruments/products/services that might be of interest for migrants (See Diagram 3). For 12 of the respondents loans were the most necessary financial product for migrants. 3 would be very much interested in easing conversion regulation and accessing foreign currency for their business needs. Another 3 expressed interest in commercial banks’ on line services. Among other instruments cited by entrepreneurs are training in financial services, access to cash, insurance, high yield financial instruments, and business ideas.

Diagram 3



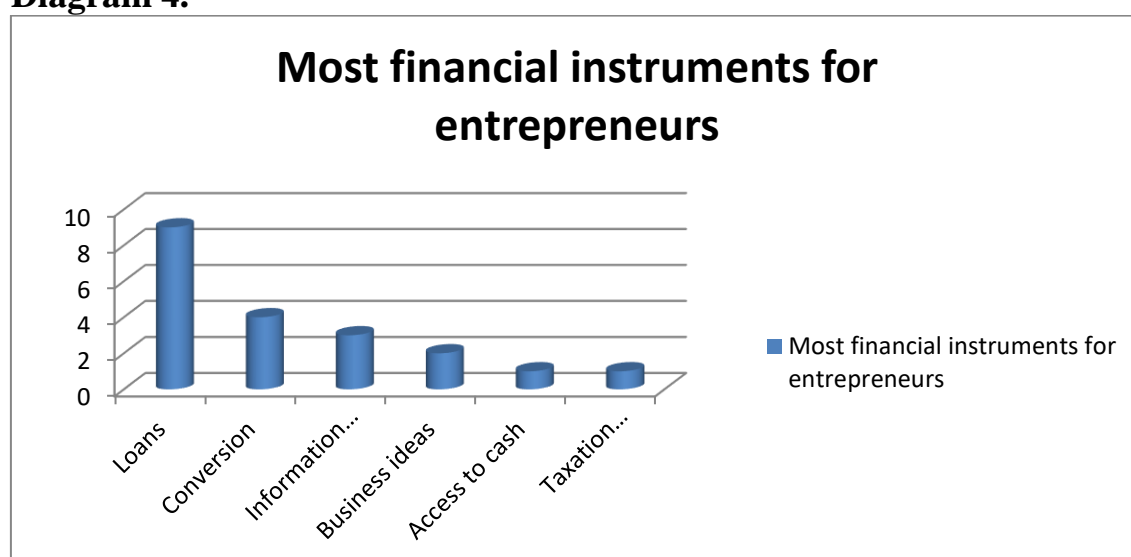
Thus, conversion process remains problematic for entrepreneurs in the country. Entrepreneurs – CCI members inform that the conversion process takes from one month up to 6 months, if a private enterprise imports equipment, ingredients or raw materials for its own use. This lengthy process has its impact on relations with foreign partners and production cycle of an entrepreneur. The conversion problem also negatively impacts attraction of foreign investments into

the country and worsens business environment. In addition, obtaining conversion for imports of equipment, raw materials and ingredients for further re-sale is virtually impossible.

Recent changes in regulations also stipulate entrepreneurs to use funds converted from local currency to foreign currency within a period of 7 days. Many entrepreneurs note that this period of time usually is not sufficient to complete a transaction. Taking into account the fact that it takes about 6 months to get funds converted, when the conversion finally takes place, there is a need to re-sign additional agreements or amendments to existing contracts, which might expire or require amendments due to the length of time since first signing the contract. Contracts must be registered with authorized banks and customs bodies. Since in many cases foreign partners are located abroad, signing new or additional contracts in strict compliance with legislation is practically impossible. Meanwhile, if the transaction with a foreign partner is not accomplished within the 7 day period after conversion day, the converted funds are returned to commercial bank and the foreign currency transaction is cancelled.

Loans topped the “rating” of the most needed financial products from entrepreneurial view point as well. However, the need for loans for entrepreneurs - former migrants, according to our survey, is less compared to the need for loans for migrants. 9 respondents stressed the need for loans for their entrepreneurial activities compared to 12 that emphasized the necessity of loans for migrants. This could be explained by the fact that migrants accumulate initial capital during their work abroad and the need for financing is less acute for them. 4 respondents said that foreign currency conversion is the most needed financial product for them. 2 of the respondents expressed a need for information services and another 2 for business ideas. Among other financial products that entrepreneurs need are access to cash, information about potential foreign importers for their products, clear information about taxation. One of the respondents also noted the need for exemptions and preferences, which are not, in our opinion, financial products.

Diagram 4.



According to the survey, commercial banks continue to provide mainly short term loans. The volume of medium and long term loans is not significant. A large part of loans are made available to conduct trade transactions. Besides that, despite recent relative downfall, still high interest rates on loans don't create incentives for entrepreneurs to obtain loans for manufacturing purposes. The main problems of the banking sector are the complexity of pledge liabilities, excessive collateral requirements, bureaucracy, lengthy process of conducting banking operations, high cost of banking services and corruption in the banking system.

In the opinion of surveyed entrepreneurs, the banking sector is still not capable to meet the demands for financial services of businesses. Businesses often encounter problems with access to financial resources and do not sufficiently trust commercial banks. The premium for cash versus non-cash funds reaches 15% - 20%. Entrepreneurs encounter problems with using their own funds. According to surveys, entrepreneurs point out to problems with withdrawing cash, limitations on free use of their own funds in their own bank accounts, which leads to outflow of money from "official" economy to "underground" economy.

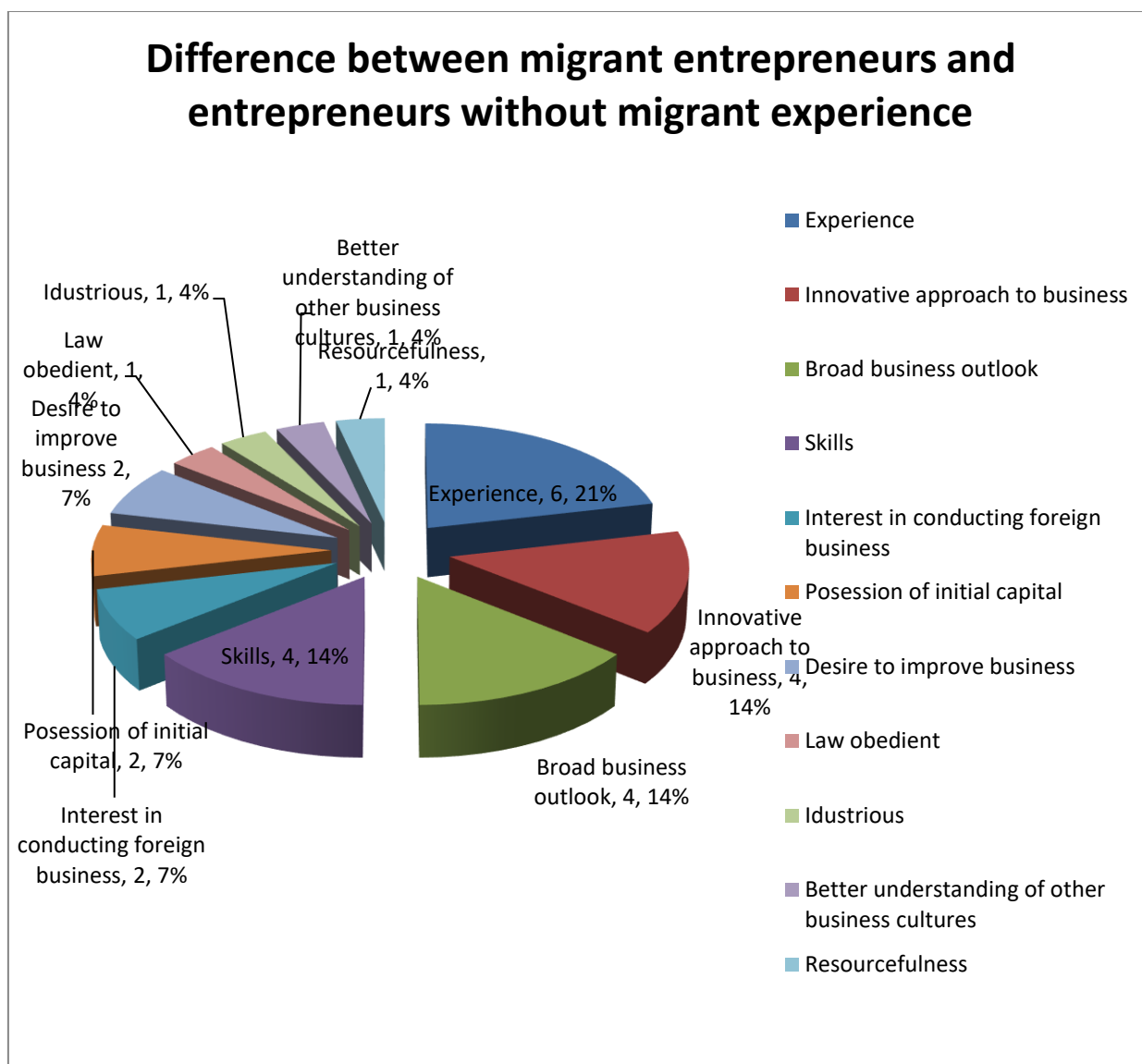
Despite adopting of the Decree of the President of the Republic of Uzbekistan on uninterrupted supply of cash funds by the commercial banks, the banks, referring to verbal instructions of the Central Bank, refuse to give cash from entrepreneurs' own bank accounts. They refuse in providing cash to everyone - individual entrepreneurs, MSMEs, and large industrial enterprises. As a result, entrepreneurs are forced to conceal part of their income and do not give away their own cash funds to banks. This decreases budget revenues generated by taxes, leads to the growth of out of banking sector money circulation, and corruption in the banking system.

Moreover, according to our survey, regional branches of banks systematically violate the legislation with respect to confidentiality of information regarding financial resources on the accounts of entrepreneurs. This creates opportunities for extortion on the side of criminal structures and employees of regulating agencies at regional level.

During the survey we also asked the respondents to point out the main differences between former migrants turned entrepreneurs and entrepreneurs without migration experience. Pie chart diagram below illustrates the responses to this question in our survey. 6 respondents said that the main difference is the experience that former migrants bring to their entrepreneurial activities. 4 underlined that former migrants are distinguished by their more innovative approach to business, 4 said that the entrepreneurs with migrations experience have broader business outlook, and in the opinion of another 4 migrant entrepreneurs are more skillful. Interest in conducting foreign economic activities, possession of initial capital, and constant desire to improve their own business each were quoted by two of the respondents each. Among other differences noted by migrant

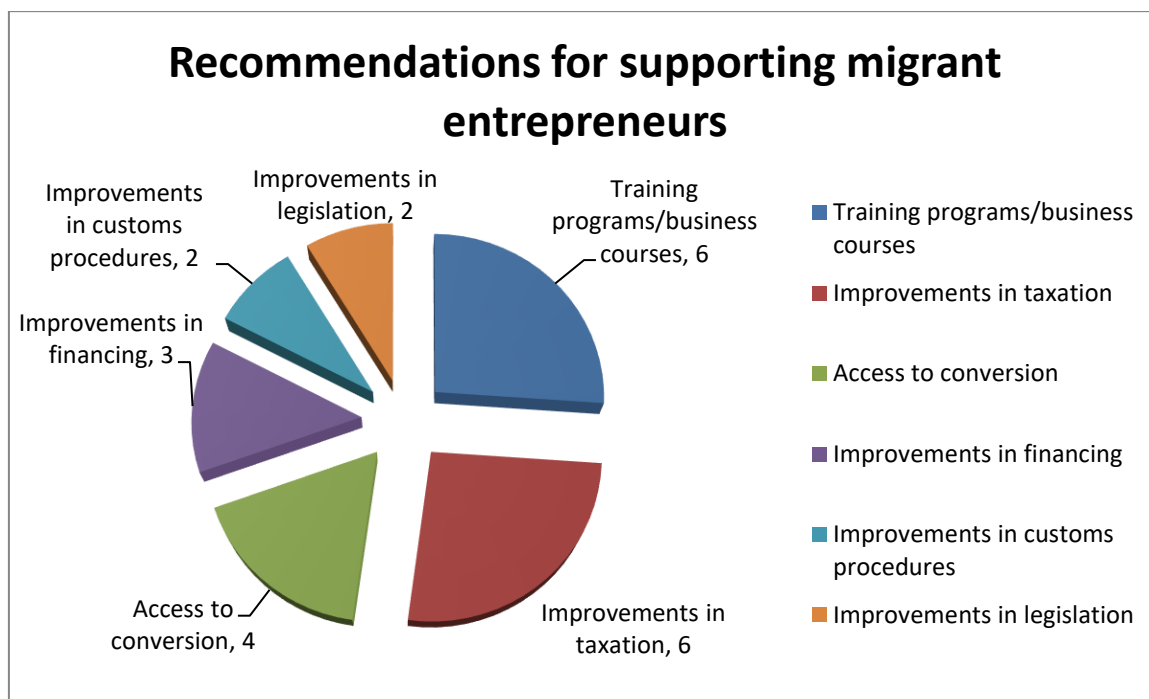
entrepreneurs are better understanding of different cultures, law obedience, resourcefulness, and industriousness.

Diagram 5



We also asked the migrants “What would you recommend to support migrant-entrepreneur in Uzbekistan?” (Diagram 6) Conducting business courses and training programs were recommended by 6 respondents. Another 6 respondents indicated improvements in taxation as recommended action including simplification and lowering taxes and extending preferential taxation period for certain period of time. Easier access to conversion was recommended by 4 entrepreneurs. 3 respondents recommended various improvements in financing terms (lowering interest terms, introducing new financial instruments, and improving quality of banking services). Improvements in customs procedures and changes in legislation each were recommended by two of the respondents.

Diagram 6



One of the major problems impeding the development of entrepreneurship in the country remain high rates of customs duties paid by manufacturing enterprises for imports of goods for their manufacturing needs, which account for at least 20% of the value of goods (VAT, excise taxes). Moreover, in accordance with current legislation, entrepreneurs have to pay these duties long before the beginning of commercial use of imported goods, which results in distraction of considerable financial resources of an enterprise. It should be noted that existing system of deferral in customs payments is not applicable in practical terms because of its procedural complexity.

Another factor that creates hurdles for exports of goods and services is the process of certification of exported and imported goods, particularly, the fact that national certificates of conformity are not recognized in foreign countries with the exception of CIS and Turkey. Therefore, the Uzbek manufacturers that received their certificates in Uzbekistan must obtain certificates of conformity in the country where they are exporting their goods, which increases the costs and requires a significant time for processing paper work. There is a need to work on signing international agreements with the main importing countries on recognition of certificates of conformity.

One of the dire problems for importers is the process of defining and establishing the customs value of imported goods with the purpose of identifying exact amounts to be paid in accordance with customs schedule. National legislation doesn't foresee criteria for validity and sufficiency of proof submitted by the importer to corresponding agency for defining customs value of imported goods.

Therefore, employees of authorized bodies evaluate proof exclusively in accordance with their own conviction. Thus, in many cases the determination of the customs value of goods depends on subjective opinion of an officer in charge.

Recommendations for Public Policy

As noted above, respondents to our survey underlined that taxation issues are one of the main problems that impede entrepreneurial activities of former migrants intending to start their own business. In fact, IFC surveys of business environment as seen by small and medium enterprise also confirm that taxation related issues are one of the important barriers for conducting business for MSMEs.

One of the highest rates of taxes applicable to businesses right now is the high rate of single social payment equal to 24% and calculated on the amount of wages paid out to company employees. Trying to evade payment of this tax, many entrepreneurs attempt to avoid conclusion of official labour agreements and conceal real wages of their employees. MSMEs prefer to pay under table, which negatively affects revenue item of the budget and out of budget funds, and lowers the reported level of employment in the country. Taking this into account, it would be expedient to consider the possibility of further reduction of the single social payment rate.

According to Uzbekistan Chamber of Commerce and Industry, many constituents of the Chamber note the high rate of VAT. This especially impacts the suppliers of ingredients for manufacturing companies producing finished goods. The problem is especially pervasive in such sectors of economy as textile, pharmaceutical, production of radio electronic home appliances and others. Therefore, CCI recommends the decrease in VAT down to 15% from the current 20%.

There are a number of tax and customs preferences and exemptions for enterprises with foreign investments in Uzbekistan which are not applicable to local enterprises. This creates certain inequality between local and foreign investments. Therefore, it seems necessary to create level playing field and extending these preferences to local business engaged in manufacturing activities as well. This is especially crucial currently given the gradual liberalization of entrepreneurial activity as well as decrease of tax burden taking place in Uzbekistan which is freeing up monetary funds of entrepreneurs.

Chamber of Commerce and Industry of Uzbekistan also notes that fiscal burden on entrepreneurs engaged in imports of ready-made goods, consumer goods, raw materials for re-sale, and some components is high. High levels of customs duties, excise taxes and VAT has resulted in increase of smuggling of goods in the country. This worsens competition terms for the local manufacturers. Many manufacturers have noted that import and sale of smuggled goods in the country acquired systematic and well organized nature and apparently well organized by certain criminal groups. Therefore, there is a need for streamlining of the customs duties for some imported goods.

Currently, export of goods are taxed with customs fee for customs registration of goods equal to 0,2% of customs value of goods. Customs value of imported or exported goods is determined by the customs officers on the basis of their evaluation which doesn't have solid validity and are not agreed with other state agencies responsible for customs policy. This leads to increase in corruption and other violations of the rules by the employees of customs service as well as entrepreneurs. Therefore, it is recommended to revise the process of establishing customs value in accordance with international standards.

In addition, the conduct of certain regulatory functions by banks creates the situation when entrepreneurs view commercial banks not as effective financial intermediaries but as controlling/regulatory bodies.

Thus, there is a need to liquidate excessive overregulation of activities of commercial banks by the Central Bank of Uzbekistan and transfer the regulatory functions currently performed by banks to financial, tax, and customs bodies. This will increase trust of population in banks and stimulate the development of the economy.

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