REFORMING THE INSPECTIONS SYSTEM IN UZBEKISTAN

November, 2005
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The Swiss State Secretariat for Economic Affairs (seco) is a key donor for IFC in both Central Asia and Eastern Europe, having allocated over $19M to IFC technical assistance in the CIS region since the beginning of cooperation in 2001.

Information on IFC’s work in the CIS is available at: www.ifc.org/eca

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EXECUTIVE SUMMARY

IFC’s Private Enterprise Partnership, the technical assistance facility of the IFC for Eastern Europe and Central Asia, has been working on the improvement of the business enabling environment in Uzbekistan since 2001 with funding from the State Secretariat for Economic Affairs of Switzerland (seco). The Uzbekistan SME Policy Project has focused on streamlining the process of inspections as of January 2003. From 2005, the project has also started to work on streamlining other regulatory areas, mainly issuance of business permits. This case study reviews the approach, implementation and results of the Project with respect to the inspections system to date, and specifically highlights the tools used and lessons learned in the process.

At the outset of the IFC project, the inspections system in Uzbekistan could be characterized as:

- Aiming for universal coverage of businesses by inspectors, regardless of the firm’s risk to society / environmental safety;
- Oriented towards punishment rather than prevention of violations;
- Non-transparent with respect to selection of enterprises for inspection and items to be checked during a site visit;
- Bearing a significant time tax on business, averaging 6.2 inspections per business per year, and taking up nearly 14 business days;
- Threatening to business due to the high level of fines and discretionary rights of inspectors to impose them and shut down operations.

The target of the project was to help Uzbekistan develop an inspections system which:

- Continues to safeguard society / environment from hazardous business activities;
- Promotes compliance by business;
- Is transparent to SMEs and inspectors;
- Demands a reasonable amount of time and resources from enterprises;
- Is, under normal circumstances, not financially damaging to business (in areas such as fines, official and unofficial payments).

The results of the IFC project to date can be summarized in the following three charts.¹

¹ This and all following data in this report is taken from IFC’s surveys of the SME sector in Uzbekistan, 2001-2004. Copies of these annual surveys are available at www.ifc.org/eca.
REFORMING THE INSPECTIONS SYSTEM IN UZBEKISTAN

Chart 1.
- **AVERAGE NUMBER OF INSPECTIONS PER BUSINESS HAS BEEN DECREASING**
  
  Average # of inspections / SME

- **SHARE OF SMEs NOT INSPECTED IN A GIVEN YEAR HAS BEEN INCREASING**
  
  % of respondents not inspected

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<tr>
<td>2001</td>
<td>6.2</td>
<td>4.2</td>
<td>1.9</td>
<td>1.2</td>
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<tr>
<td>2002</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

The average Uzbek SME spent 14 days on inspections in 2001 and only 2 days on inspections in 2004.

Source: IFC Uzbekistan surveys, 2001-2004

Chart 2.
- **NEW DECREES ON INSPECTIONS LIBERATE OVER $20 MILLION FOR INVESTMENT PER YEAR**

Source: IFC estimate

<table>
<thead>
<tr>
<th>Source</th>
<th>Reduction in excessive penalties</th>
<th>Profits from avoiding shutdown for minor infractions</th>
<th>Total annual savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.9</td>
<td>$19</td>
<td>$20.9</td>
<td></td>
</tr>
</tbody>
</table>

Chart 3.
- **INSPECTIONS BROCHURE IMPROVES LEGAL AWARENESS, SIMPLIFIES INSPECTIONS**

Source: IFC Uzbekistan surveys, 2002, 2004
The key lessons learned by the IFC implementation team and explored in this paper are:

**Lesson #1:** IFC’s decision to clearly **target a single regulatory issue** proved successful for both **achieving and tracking results.** By focusing its intervention, the IFC team was able to concentrate on altering the very practice of how inspectorates approach and conduct inspections in Uzbekistan. In addition, focus on one issue allows for clear monitoring and assessment of project results.

**Lesson #2:** It is quite **possible for an international organization to initiate or speed up the reform process** in a country if it possesses independent and statistically significant data on how things are “really working” in practice.

**Lesson #3:** Importantly, IFC decided to not only improve the framework for inspections, but also to **educate local businesses on their rights and responsibilities** during the inspections process. While the laws and regulations may be conceptually appropriate, if business owners are not aware of how the laws should work and if regulations are not implemented in a transparent manner, companies will continue to experience the inspections process as a barrier to business.

**Lesson #4:** Top – down analysis of an administrative process, through a government agency, is **not always the best approach,** as management has no incentive to reveal problems within the system.

**Lesson #5:** Pressure from high-level officials to simply reduce the number of inspections is effective, but **only as an initial impetus for reform.** In addition to quantitative measures, an effective inspections reform program must address qualitative and implementation issues, which can only be identified at the grassroots level.

**Lesson #6:** The creation of a **non-threatening neutral environment** at IFC premises where inspectors were brought together with their business counterparts proved an effective method for revealing the true problems which occur during a typical site visit, as experienced by both sides.

**Lesson #7:** An important strength of the IFC team was the fact that it was composed of **local experts, who understood Uzbek legislation and cultural specifics** in detail. Supported with short term international expertise, the local team was able to build solid, long-term relationships with the Government of Uzbekistan, react instantaneously to requests for advice and assistance, and position issues appropriately on the Government’s agenda.

**Lesson #8:** Advanced specialists from the IFC’s three key partner inspectorates were involved in Project activities directly as of the launch of policy work. This allowed IFC to **circumvent much potential resistance to change within the controlling agencies themselves,** and served to show the Government that reforms are being initiated not only by IFC, but also at the inspectorates.

**Lesson #9:** A study tour for Uzbek inspectors to Latvia had a strong and positive impact on their future cooperation with IFC. It is more effective to work with inspectors who have **seen international practices with their own eyes** and therefore clearly understand the ultimate goals of the measures being proposed. Notably, inspectorates that had been represented by senior-level officials gave more effective input into the implementation process of inspections reforms.

**Lesson #10:** An **official partnership with the Ministry of Justice** for the production of informational materials for SMEs was essential to guarantee the credibility of information, both for local SMEs and also for inspectors. SMEs subsequently reported that the Ministry’s official seal on the cover of the Inspections Brochure was especially effective in stopping inappropriate behavior of inspectors.

**Lesson #11:** Despite a strong informational campaign, the percentage of SMEs choosing to appeal the actions of inspectors remained low. The Project’s assessment of this result is that entrepreneurs still find it socially and psychologically unacceptable to openly challenge authority. A better way to help entrepreneurs defend themselves is through the **official introduction of the concept of “presumed innocence.”**
BACKGROUND

Uzbekistan

The Republic of Uzbekistan, with a population of over 25 million people, is one of the former Central Asian Republics of the Soviet Union, and has been independent since 1991. A detailed economic overview of Uzbekistan and its SME sector can be found in Annex 1 to this paper.

According to the IMF, Uzbekistan’s GDP per capita was $375 in 2004, among the lowest in the CIS countries:

The development of small and medium enterprises (SMEs) has been the stated strategy of the Government of Uzbekistan for a number of years, and the role of the SME sector in Uzbekistan’s economy has been growing steadily.

However, when compared with other CIS countries, the number of operating small and medium-sized enterprises (including individual entrepreneurs) for every 1000 people in Uzbekistan has significant room for growth.
These figures combine to put the problem into perspective: while SMEs now account for a significant share of economic output and employment, there are still very few entrepreneurs in Uzbekistan.

Although Uzbekistan’s SME sector has experienced steady growth, this growth has been tempered by a number of practical difficulties. The lessons of the hyperinflation of the early 1990s and the desire to bring inflation within single digits caused the Uzbek government to adopt strict limitations on circulation of domestic currency in the later half of the 1990s, resulting in restricted availability of cash. At the same time, a general decrease in foreign trade, compounded by low world prices for cotton and gold, Uzbekistan’s main exports, eventually lead the Government to adopt measures such as foreign exchange rationing and controls on current account transactions. Liberalization of foreign trade and unification of exchange rates for the national currency only took place in 2002-2003. While these measures naturally limited the growth of small business, Uzbekistan’s population bypassed the social upheaval witnessed in other CIS countries as part of the process of swift economic restructuring.

**IFC Intervention**

In November 2001, in order to improve the business enabling environment for the SME sector, IFC launched the Uzbekistan SME Survey Project with funding from seco, the State Secretariat for Economic Affairs of Switzerland. The goal of the Project was to gather factual, independent information on the regulatory issues facing the SME sector, and present this analysis, as well as recommendations for improvement, to the public and the government of Uzbekistan.

To accomplish the goal, the IFC team:

- Analyzed legislation governing the SME sector in Uzbekistan, to determine issues of concern to be covered by an enterprise survey;
- Conducted an unprecedented, representative baseline survey of 1,500 SMEs throughout Uzbekistan in order to determine (i) the current state of SME development; and (ii) most significant administrative, regulatory, business and financial barriers facing Uzbek small business;
- Developed high-level recommendations for the Uzbek Government, suggesting changes to the regulatory, administrative, and legislative framework in which SMEs operate.

Based on a presentation of survey results (refer to Annex 1) to the SME Coordination Council chaired by the Deputy Prime Minister in November 2002, IFC was invited to continue its SME surveys on an
annual basis and to work on implementing detailed recommendations for improvement of regulatory policy, together with the relevant government agencies.

When structuring its intervention, IFC had to choose between looking at a broad spectrum of issues for improvement, or focusing efforts on one issue in an attempt to bring about significant and fundamental change. The decision was taken to target only one regulatory issue. The basis for this decision was a desire to focus on issues of implementation – that is, of changing the practice rather than of only changing the regulations, which may or may not affect what is actually happening on the ground. In addition, focusing on one regulatory issue gave IFC a clear opportunity to track results and assess the work of its team.²

Lesson #1: IFC’s decision to clearly target a single regulatory issue proved successful for both achieving and tracking results. By focusing intervention on one aspect of the business enabling environment, the IFC team was able to concentrate its efforts on altering how inspectorates approach and conduct inspections in Uzbekistan. In addition, focus on one issue allows for clear monitoring and assessment of project results.

The choice of which regulatory issue to target eventually fell on streamlining the inspections system, as the Government had taken some steps in this area. Although the Government at that time considered its inspections reforms largely complete, as described below, further analysis from IFC resulted in a deeper appreciation of the difficulties remaining.

To address these remaining issues, IFC, with seco support, proceeded to design and implement a follow-on SME Policy Project directly focused on streamlining the system of inspections in Uzbekistan. The following sections of this paper describe program design, review the approach selected, and display results to date.

PROGRAM DESIGN: CONCEPTUAL FRAMEWORK

In any country, there are two main concerns that businesses have with inspections. The first issue is the amount of time and other resources taken away from the average company by an inspection. This can vary from a couple of hours needed from one employee, to freezing the operations of a company over the course of several weeks. Inspections can therefore become a “time tax” on company operations. Generally speaking, the broader the list of authorities who may inspect a business, the more types of inspections permitted and the longer the allowed duration of each inspection, the more significant the potential “time tax” for firms.

The second issue concerns the conduct of an inspection. In environments with frequently changing or overly complex regulations, inspections are quite easily employed as rent-seeking opportunities for government officials. The problem is exacerbated when local entrepreneurs have limited awareness of their rights and responsibilities in the inspections process.

² The team recognizes that there are limitations to targeting only one aspect of regulation, such as inspections. In particular, inspections are at least partially motivated by the need to generate income for the agencies or for an individual inspector, as this income is not being received through other, more stable and acceptable sources.
**Inspections: Government Reform Efforts**

Uzbekistan began reforming its inspections system in the late 1990s. At that time, the key perceived problems were excessive frequency and duration of inspections, as well as the prevalence of unofficial payments in the course of site visits by inspectors.

In 1998 a *Law on Government Inspections* was adopted, which aimed to establish basic provisions on when, how and by whom an inspection of an enterprise can be conducted. (See Annex 2 for definitions of inspections allowed in Uzbekistan.) The first key novelty of the law was the creation of a high level Coordination Council, whose decisions on the conduct of inspections were mandatory for all government agencies. The key functions and members of the Coordination Council are described in Box 1.

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**Box 1. The Republican Inspectorate Coordination Council**

The Republican Inspectorate Coordination Council (the Council) coordinates inspections and analyzes their results. All inspections, (with the exception of cross-inspections in connection to a criminal investigation) have to be approved by the Council. In absence of a Council decision, the inspection is illegal and the entrepreneur has the right not to allow the inspector onto the premises.

According to legislation, all inspectorates must, on an annual basis, present lists of enterprises they plan to inspect to the Council. The Council then evaluates the list, excludes any inspections which it considers unwarranted, approves the overall inspections plan and sends it back to the inspectorates. Unplanned inspections are approved by the Council at the Republican level as well as by the Khokim (Governor) at the regional level.³ First, an inspectorate must submit an application for an unplanned inspection to the Council, which must be reviewed and either approved or declined within 2 weeks. A decision on an emergency unplanned inspection during a sanitary or epidemiologic crisis will be taken during the day of the application.

**Members of the Council:**

1. **Chairman of the Council:** Advisor to the President of the Republic of Uzbekistan, Chief of the Control Inspection of the Presidential Administration⁴
2. **Deputy Chairman of the Council:** Chairman of the State Tax Committee
3. **Secretary of the Council:** Head of Department on Coordination of Controlling Agencies of the State Tax Committee
4. Deputy Prime Minister, Minister of Finance
5. Head of the Administration of the Cabinet of Ministers
6. Head of the Analytical Department of the Cabinet of Ministers
7. Deputy State Advisor to the President of the Republic of Uzbekistan
8. Acting chief inspector of the Presidential Administration
9. Prosecutor General
10. Chairman of the State Customs Committee
11. Minister of Justice
12. Chairman of the Parliamentary Committee on Law and Legal Issues
13. General Director of the State Agency for Monitoring Industrial Workplace Safety and Mines
14. First Deputy Minister for Foreign Economic Affairs, Investment and Trade
15. First Deputy Chairman of the State Committee for the Management of State Property
16. First Deputy Minister for Internal Affairs
17. First Deputy Chairman of the National Security Service
18. First Deputy Chairman of the Central Bank
19. First Deputy Chairman of the State Environmental Protection Committee
20. First Deputy Minister of Emergency Situations
21. Deputy Minister of Health, Chief Sanitary Doctor

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³ Normally, short unplanned inspections (i.e. presence and functioning of cash registers) are approved at the regional level, and more significant inspections, such as tax audits, are approved at the Republican level.

⁴ Government agency with authority to inspect other government agencies, but not the private sector.
The second innovation introduced in order to reduce inspections frequency was the concept of a so-called “complex inspection”. A “complex inspection” is an inspection carried out simultaneously by two or more controlling agencies (usually 6-10). All planned inspections have been transformed into complex inspections, whereby according to the plan approved by the Coordination Council, controlling agencies must visit a given enterprise at the same time and not more than once per year. This complex inspection cannot take longer than 30 days.

The third innovation was the introduction of an Inspections Registration Book (IRB) in 2000. The IRB is an official document which must be filled in both by the enterprise where the inspection is conducted (in particular, it should reflect a firm’s consent or disagreement with inspection results), and by the inspecting authority (stating purpose and result of inspection, position and full names of inspectors, permission from the proper authority to conduct the inspection). In case of an inspector’s refusal to complete the IRB entry, an entrepreneur has the right to refuse access to facilities.

These three measures were believed by the Government to have created the basis for more orderly inspections and gradual reduction in their frequency and duration.

Reality in 2001

IFC’s baseline SME survey, described above, found favorable trends with respect to the decrease in inspections frequency in 2001. However, over 40% of entrepreneurs continued to feel that the inspections process was problematic or very problematic for their business.

Key issues pinpointed through IFC’s baseline SME survey included:

- The number of inspections, although reported to be decreasing, was still significant: companies reported an average of 6.2 inspections and 13.7 work days of inspecting per year.
- SMEs claimed that the procedures, timing and selection of enterprises for inspection were confusing. To support this judgment, survey results revealed a threefold variance in the number of annual inspections experienced by firms in different regions of Uzbekistan. In some extreme cases, companies reported undergoing more than 40 inspections over the course of one year.
- 40 different authorities had the right to conduct inspections of businesses. Each inspection could legally last for up to 30 days but in practice, each inspection averaged 2 days.
- Nearly half of surveyed companies did not have an Inspections Registration Book (IRB), even though the survey showed that the IRB was a useful instrument to control the frequency of site visits: inspectors were regularly filling it out after each inspection.
Only 4% of respondents had ever appealed the process or results of an inspection. The rest referred to a lack of confidence in a positive outcome and possible negative consequences for the business as the main reasons for failure to appeal.

Importantly, the SME survey also revealed a low level of awareness amongst business owners of their rights and responsibilities during the inspections process. This situation exacerbated the difficulties firms experienced with inspections.

The IFC survey findings confirmed that the Government of Uzbekistan had made a good start in reforming the inspections system (and was quite serious about reforms, given the seniority of the members of the Inspectorate Coordination Council) and had created a legislative framework to allow for proper functioning of the system. On paper, necessary checks were in place to curtail the frequency of inspections. Yet IFC survey data showed that reform was incomplete: entrepreneurs still found inspections to be a barrier to business. Further reform efforts needed to focus on improving the quality of inspections and the transparency of their conduct.

**Lesson #2:** It is quite possible for an international organization to initiate or speed up the reform process in a country if it possesses independent and statistically significant data on how things are “really working” in practice. This independent analysis presents the Government with a picture of the business environment as seen by its own private sector, and the results can be quite unexpected. Ideally, such data should exist in trends for several years.

In response to the issues pinpointed through the baseline survey of Uzbek SMEs, IFC, with seismic support, adopted the framework below for a follow-on Uzbekistan SME Policy Project:

**GOAL:** Improve the Enabling Environment for SMEs in Uzbekistan

**Objective 1** Provide factual information on regulatory barriers as experienced by SMEs

**Objective 2** Streamline the inspections process

**Objective 3** Address the SME knowledge gap in inspections process

**Lesson #3:** As IFC designed its intervention, the decision was made to not only improve the inspections framework, but also, importantly, to educate local business owners on their rights and responsibilities during the inspections process. While laws and regulations may be conceptually appropriate, if SMEs are not aware of how the laws should work and if regulations are not implemented in a transparent manner, companies will continue to experience the inspections process as a barrier to business.
PROGRAM DESIGN: REFINING THE APPROACH

Objective 1: Provide factual information on regulatory barriers as experienced by SMEs

Objective 1 will not be discussed in this paper as it largely refers to the continuation and dissemination of IFC’s annual SME survey to monitor progress of reforms. Since the first survey in 2001, IFC has carried out 3 additional representative surveys, each time polling roughly 1% of the SME sector, and has presented results to the Government through the Uzbekistan SME Coordination Council and through direct distribution to key decision makers, as well as to the broader public through mass media. Suffice it to mention here that given the pace of legislative change in Uzbekistan, the survey proved especially useful as an independent tool for monitoring the effect of reforms being undertaken, as well as for continued dialogue with the Government.

The rest of this paper focuses on IFC’s work and results under Objectives 2 and 3 of the Project.

Objective 2: Streamline the inspections process

Analysis of Inspection Frequency by Region

One of the first issues still raised by entrepreneurs in 2001 was the frequency of inspections, which the IFC survey had in turn quantified. One of the most interesting findings from the baseline survey was a threefold variation in the average number of inspections per region of Uzbekistan, as shown in the chart below.

Chart 7.

<table>
<thead>
<tr>
<th>Region</th>
<th>1 to 2</th>
<th>3 to 6</th>
<th>More than 6</th>
<th>Zero</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tashkent city</td>
<td>41</td>
<td>30</td>
<td>22</td>
<td>7</td>
</tr>
<tr>
<td>Kashkadarya</td>
<td>32</td>
<td>29</td>
<td>23</td>
<td>15</td>
</tr>
<tr>
<td>Tashkent region</td>
<td>31</td>
<td>23</td>
<td>23</td>
<td>18</td>
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<td>Andijan</td>
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<td>Namangan</td>
<td>55</td>
<td>35</td>
<td>18</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: IFC Uzbekistan survey, 2001

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5 This IFC 2001 baseline survey as well as all the follow on annual surveys in Uzbekistan are available at www.ifc.org/eca
Faced with this data, the IFC team initially chose to explore the inspections process in detail by comparing the “worst” and “best” regions of the country, in order to understand what accounts for the apparent discrepancy in inspection frequency between regions. However, this analysis lead the team to a dead end: in each region visited, the official process described by the inspectorates was in line with national legislation and therefore identical. As a result, the team was not able to identify any procedural discrepancies at the regional level.

**Lesson #4:** Top – down analysis of an administrative process through a government agency is not always the best approach for revealing challenges which exist in implementation of a regulatory procedure, as management has no incentive to disclose problems within the system.

**Inspections Outside of the System**

In response to the data that IFC had presented to the Government on frequency of inspections, a number of inspecting agencies presented their own, official, data on planned inspections conducted with authorization of the Coordination Council. Frequency of these inspections was significantly lower than that reflected in the numbers obtained by IFC from the field:

Hence, the first implementation problem was identified: despite the fact that the Coordination Council legally controlled planned inspections, the bulk of visits were either conducted as unplanned inspections or were completely outside the inspections process which had been created post-Government reforms.

**Another Approach to Analysis: Public-Private Dialogue**

In order to understand how inspections were being conducted outside of the Coordination Council system, and to see at what took place during implementation of a typical inspection, the IFC team tried another approach. For the first time in Uzbekistan, IFC gathered together a number of small focus groups composed of government inspectors and entrepreneurs.

Participants were given the task of airing out the key concerns each group had with the other, and were provided with an opportunity to arrive at agreement on some basic recommendations for improving the situation. It is important to note that all inspectors were invited to participate after
the explicit consent of their management, which proved vital for assuring that they expressed their views freely.

Key problems during the inspections process, which were identified during the meetings between inspectors and entrepreneurs included:

1. Inspectors were inventing new terminology – i.e. calling their visits “monitoring” rather than an inspection, to bypass the restrictive regulations on inspections frequency. Entrepreneurs claimed that during much of this “monitoring” activity, penalties were threatened, and “unofficial payments” were typically extracted. Visits of inspectors for any purpose except “inspection” were not clearly defined in the law, while SMEs viewed all visits by official representatives of a government agency as an inspection.

2. The Tax Inspectorate insisted on 100% coverage with its inspections. In developed economies, a controlling authority selectively chooses the targets for its visits on the basis of the greatest likelihood of activities in contravention to the law. According to survey data, the Uzbek Tax Inspectorate has been inspecting on average between 70-80% of all SMEs in a given year. By law, the Tax Inspectorate can “reward” compliant businesses by scheduling inspections every 2nd or 3rd year rather than annually. However, the Tax Inspectorate still conducts 100% audits of all years and a business inspected once in 3 years will still have a three year audit. As a result, businesses prefer to have tax inspections take place on an annual basis for several reasons, none the least of which is the accrued interest on violations found on returns three years old.

3. There was inconsistency of inspections results within the same inspectorate. SMEs complained that during one inspection, the inspector may decide that something is within the rules, and in the next another inspector (or even the same one) may decide that it is illegal. Inspecting agencies themselves noted the difficulties they experience in preparing their inspectors for inspections.

4. The concept of “complex inspections” within the format of the Coordination Council did not allow for flexible scheduling of inspections based on the risk posed by a particular firm to each inspectorate. Given the overarching Government priority to guarantee tax collection, the Council simply ratified the schedule of inspections based on needs of the Tax Department. As the inspections thus scheduled involved more than one agency, this was in many cases counter-productive. For example, the Sanitary and Fire authorities need to check more firms in the hot summer months of the year. Instead, they were scheduled by the Council to visit many businesses in January/February since this is when the Tax Department checks the accuracy of taxes filed for the previous year. As a result, the Fire and Sanitary departments would schedule additional inspections, resulting in an increase in overall time tax on SMEs.

5. The perception of inspectorates and SMEs was that inspections were punishments; that is, when a business behaves, it is “rewarded” with fewer inspections. Inspections were not viewed as a means to promote compliance with legitimate rules for the protection of society and the environment.

6. A related problem was that inspectors had excessively broad mandates during inspections, such as the ability to freeze the company’s bank account or shut down its operations. Furthermore, as many inspectors issue fines, and a number of fines can be draconian, the businessperson is at an extreme disadvantage. Every time such an imbalance occurs there is a strong opportunity for corruption. For example, the Tax Inspection can impose a fine of 100 minimum monthly
wages upon firms which fail to issue a cash register receipt (the equivalent of US$ 590, or almost twice the GDP/capita in 2002).\footnote{In the CIS a very common method of concealing sales from taxation, which likely explains the reasoning behind the fine.} Such wrongdoing is an administrative violation, and the penalty should be of educational and preventative nature. However, by its magnitude, this penalty is not only exorbitant, but is equivalent to a fine resulting from criminal offense as envisioned in the criminal code. Such examples reinforce the perception of inspections as an instrument for punishment, as mentioned in (5) above.

7. There appeared a perverse \textbf{incentive for inspectors to collect as many fines as possible} since by law, each inspectorate can keep 10-15\% of revenue from fines they issue for their own operational budget.

8. There was \textbf{no accountability in inspections} except in the case of calamity. With the exception of the Tax Inspectorate, none of the inspectors interviewed mentioned any systematic follow-up system in place. No one interviewed could recall an occasion in which a supervisor found an oversight and took action against the inspector. A great deal of corruption therefore comes from the correct assumption that no follow up will take place after the inspection.

9. Many \textbf{technical norms and regulations were out of date} in areas such as sanitary and fire safety. Furthermore, businesses could not possibly stay in tune with all aspects of the various rules for which they are responsible. The regulation on fire safety alone is over 100 pages and only represents one of the areas of with which SMEs must be concerned.

10. Both inspectors and SMEs alluded to a \textbf{lack of communication} between private and public sectors. Businesses would have liked to improve the relationship with inspectorates in order to gain knowledge from experienced inspectors on how to avoid calamity and stay in compliance with the law.

11. \textbf{Inspectors were under-trained and poorly qualified.} Businesspeople lamented over the capabilities of inspectors and all inspectorates noted a need for increased ongoing training and introduction of new techniques and technologies.

\textbf{Lesson \#5:} Pressure from high-level government officials to simply reduce the number of inspections is effective, but only as an initial impetus for reform. In addition to quantitative measures, an effective inspections reform program must resolve qualitative and implementation issues which are best identified at the grassroots level.

\textbf{Lesson \#6:} The creation of a non-threatening neutral environment at IFC premises where inspectors were brought together with their business counterparts proved an effective method for revealing the true problems which occur during a typical site visit, as experienced by both sides. Furthermore, this method was also effective in identifying very practical and jointly-developed solutions to some of the issues identified and in building bridges between the public and private sector in an unprecedented way for Uzbekistan.

\textbf{Final Program Design}

Based on information obtained during the dialogues between inspectors and entrepreneurs, the IFC team was able to pinpoint the key problems in the inspections system. Analysis of this information, along with a focused review of international best practice and implementation of inspections systems in countries such as Mexico and Latvia, lead to a solution for streamlining the inspections process in Uzbekistan, the key elements of which are included in the table below.
## IFC Problem Analysis and Solution Design for Inspections in Uzbekistan

<table>
<thead>
<tr>
<th>Problem</th>
<th>Solution</th>
<th>Method</th>
<th>Expected Outcome</th>
</tr>
</thead>
</table>
| Inspectors inventing new terminology for their visits to bypass legislation | • Clarify definitions of inspections  
• Educate entrepreneurs about the inspections process  
• Promote Inspections Registration Book | Develop official codes of conduct[7] for inspectorates | Entrepreneurs are able to leverage existing legislation to stop illegal visits by inspectors |
| Inconsistency from inspection to inspection; lack of accountability by inspectors | • Develop standard official check-lists[8] by type of business  
• Clarify scope of control for each inspectorate | Pilot check lists for 2 sectors with Fire and Sanitary Inspectorates; roll out for other sectors/agencies  
• Create single register clarifying the scope of each inspectorate | Inspections are transparent  
• SMEs understand requirements; improve compliance  
• Unofficial payments decrease |
| Inspections are seen and used as punishment; do not promote compliance | Introduce the concept of risk based inspections, whereby each inspectorate prioritizes its inspections based on likelihood of risk to public health / safety | Create risk groups of enterprises  
• Allocate desired frequency of inspections to each group  
• Start with technical agencies (Fire, Sanitary) as risk groupings are generally easier to identify | Reduce time tax of inspections on businesses  
• Make the process of selecting enterprises for inspections transparent to all |
| Inspections philosophy to target 100% coverage of companies, especially by Tax Authorities | • Change the principle behind fines: not punitive but preventative  
• Limit rights of inspectors to impose fines  
• Transfer power to impose severe fines / shut down business operations from inspectorates to courts | Presidential Decrees | Reduce cost of inspections process for businesses  
• Promote responsibility on behalf of inspectors |
| Requirement for inspectorates to follow schedule of Tax Inspectors through complex inspections | | Eventually cancel the Coordination Council and “complex inspections” as management instruments | |
| Inspectorates possess excessive amount of power | • Remove ability to retain 10-15% of fines by the agency for its own use | Through ongoing World Bank treasury reform process | |
| Incentive to collect as many fines as possible | Develop training and communications programs for inspectorates  
Lack of communication between inspectors and private sector | Include topics such as psychology, conflict management, strategic planning, risk management | Outreach to entrepreneurs becomes a regular activity of controlling bodies contributing to increased compliance |
| Technical rules out of date | Initiate modernization of technical rules | Raise this as a recommendation — no direct IFC TA | Compliance becomes easier, less expensive and more meaningful for SMEs |

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[7] The Code of Conduct (or Inspectorate Regulation) is a single document, in line with official legislation, which details the mandate of the inspecting agency as well as the rights and responsibilities of the inspector and the enterprise during a site visit.

[8] Standardized check lists are a clear and exhaustive list of the issues that the inspector has the right to review during his/her visit, created for the benefit of both the inspector and the entrepreneur, and signed by each party at the end of the inspection (i.e. fire inspector visiting a gas station). Any item not on the checklist should not be allowed to be checked or fined, while a copy of the checklist should be left with the businessperson as a record of a complete inspection.
Objective 3: Address the SME knowledge gap in inspections process

Given that the legal framework covering the inspections process was already well developed, the IFC team decided to create and disseminate informational materials for SMEs on their rights and responsibilities during the inspections process. These informational materials had to be easy to read, cover the most common areas of concern for entrepreneurs and contain useful reference material.

In addition to basic information on rights and responsibilities of SMEs and inspectors during the inspections process, the other key elements of the informational campaign were to address two problems revealed by survey data in 2001:

- Only 4% of respondents had ever appealed the process or results of an inspection; the others referred to a lack of confidence in a positive outcome and possible negative consequences for the business as the main reasons for failure to appeal; and
- Almost half of the companies surveyed did not have Inspections Registration Books, even though the SME survey showed that the book was a useful tool for controlling the number of site visits: inspectors appeared to be regularly filling it out after each inspection.

Chart 9.

**APPEALS AGAINST PERCEIVED ILLEGAL ACTIONS OF INSPECTING AUTHORITIES, 2001**

<table>
<thead>
<tr>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appealed</td>
</tr>
<tr>
<td>No answer</td>
</tr>
<tr>
<td>Did not appeal</td>
</tr>
<tr>
<td>Appealed</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Cost (state duty, legal services)</td>
</tr>
<tr>
<td>Long process</td>
</tr>
<tr>
<td>No reason to appeal</td>
</tr>
<tr>
<td>The possibility of the negative consequences for the business</td>
</tr>
<tr>
<td>No confidence in positive outcome</td>
</tr>
</tbody>
</table>

Source: IFC Uzbekistan surveys, 2001-2004

Partnership with the Ministry of Justice

IFC decided to partner with a government agency to develop and distribute the informational materials, beginning with an educational brochure “What You Need to Know About Inspections.” The reasoning for the partnership included a desire to render the information contained within more “credible”, as information approved by the Government carries a particular stamp of acceptability. Yet, for sustainability, it was also important to involve the Government in this work in order to give mid-level officials the ability to participate in creation of simple and straightforward materials for informing entrepreneurs, which could be easily replicated to other areas of regulation.

For this work, IFC selected the Department for the Protection of Entrepreneurs’ Rights at the Ministry of Justice. This Department was the most politically powerful agency from amongst those with an official mandate to protect entrepreneurs, such as the State Property and Entrepreneurship Support Committee, the State Antimonopoly Committee and the Chamber of Commodity Producers and Entrepreneurs. It also already had some experience in working to raise the legal awareness
of entrepreneurs: the Department had run announcements on state television and had printed educational articles in the press on the problems faced by small business.

The scope of work finally agreed to involved both promoting the Department itself as an appeals channel, as well as helping the Department improve its outreach campaign to entrepreneurs, which included work on the Inspections Brochure mentioned above. To this end, an official Memorandum of Cooperation was signed between the Ministry of Justice and IFC in May 2003.

IMPLEMENTATION

The IFC team and government counterparts

The IFC team recruited specifically for the implementation of this project in Uzbekistan consisted of a locally based Project Manager, legal advisor, communications specialist, economist, data analyst and team assistant. International consulting expertise was used on a short term basis and was managed by the local team. Continuous local presence combined with a long-term approach to reform was key to the effective operations of the Project.

IFC’s relationship with the Government was formed on two levels: national and agency level. On the national level, the IFC’s two key counterparts were the Republican Coordination Committee for the Promotion of Small and Medium Business Development, chaired by the Deputy Prime Minister, as well as the Republican Inspectorate Coordination Council described in Box 1 above. All other relevant government bodies have also been regularly involved, including the Ministry of Justice, the Ministry of Economy, and the Ministry of Finance.

On the agency level, IFC chose to partner with three controlling agencies – the Tax, Fire and Sanitary inspectorates, as these three agencies accounted for the bulk of inspections in Uzbekistan each year.

Chart 10.

<table>
<thead>
<tr>
<th>THREE KEY INSPECTING BODIES CHOSEN</th>
<th>% of respondents undergoing inspections by each authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Inspection</td>
<td>79% 76%</td>
</tr>
<tr>
<td>Sanitary Service</td>
<td>47% 39%</td>
</tr>
<tr>
<td>Fire Department</td>
<td>45% 38%</td>
</tr>
</tbody>
</table>

Source: IFC Uzbekistan surveys, 2001-2002

Lesson #7: An important strength of the IFC team was the fact that it was composed of local experts, who understood Uzbek legislation and cultural specifics in detail. Supported with short term international expertise, the local team was able to build solid, long-term relationships with the Government of Uzbekistan, react instantaneously to requests for advice and assistance, and position issues appropriately on the Government’s agenda.
Lesson #8: It was important that some of the most advanced specialists working in the three key inspectorates in Uzbekistan (Taxation Committee, Fire Inspectorate and Sanitary Inspectorate) were involved with Project activities from the beginning of policy work. This allowed IFC to circumvent much potential resistance to change within the controlling agencies themselves, and served to show the Government that reforms were being initiated not only by IFC, but also at the inspectorates. At the same time, these experts were able to share their in-depth knowledge of the inspections process with the IFC team.

Streamlining the Inspections Process

Motivating for Reform

First, to give Uzbek inspectorates a first-hand look at the issues identified, and to inspire them to carry out the necessary reforms, IFC decided to organize a study tour to a country which has made significant progress in inspections reform in recent years. Latvia was selected as a country with excellent experience in simplification of the inspections process. In 2001, Latvia’s reforms aimed at reducing administrative barriers received a “Candidate Country Best” designation from the European Commission. Moreover, Latvia shared a Soviet past with Uzbekistan. Key officials from Latvian inspectorates were able to share their experience of transforming a Soviet-era inspections system into an inspections system in compliance with the latest European standards.

Steps taken by the IFC team to organize the study tour to Latvia were supported and welcomed by the Government of Uzbekistan. Three representatives from each key inspecting agency (Tax, Sanitary and Fire) were introduced to best international practices in the area of business inspections reform. The study tour program focused on practical approaches that can be introduced into the system of regulating inspections, such as standardized checklists, communications training for inspectors, and an introduction to selecting firms to be inspected on the basis of risk.

Lesson #9: A study tour for Uzbek inspectors to Latvia had a strong and positive impact on their future cooperation with IFC. It is more effective to work with inspectors who have seen international practices with their own eyes and therefore clearly understand the ultimate goals of the measures being proposed. Notably, inspectorates that had been represented by senior-level officials gave more effective input into the implementation process of inspections reforms.

Securing Commitment

Based on results of the study tour, a joint Action Plan for Improving Inspections of SMEs by Controlling Authorities, within the Framework of Cooperation with IFC was developed and signed by key Uzbek inspecting agencies. Importantly, the IFC team and inspectors began development of the plan while they were still in Latvia, to build on the positive momentum generated during the visit.
**Box 3.**

**ACTION PLAN**

*for Improving Inspections of SMEs by Controlling Authorities, within the Framework of Cooperation with IFC*

<table>
<thead>
<tr>
<th>No.</th>
<th>Activity</th>
<th>Agency in charge</th>
<th>Target Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td><strong>Check-lists</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>Design of the check-list to be used by the controlling agencies when inspecting catering services, retail trade and gas stations</td>
<td>Republican Sanitary Control Service under Ministry of Health (Shoumarov), State Department of Fire Safety under Ministry of Internal Affairs (Kuldahsev)</td>
<td>October 2004</td>
</tr>
<tr>
<td>1.2</td>
<td>Pilot testing of inspections delivered with the check-list, Tashkent City</td>
<td>Republican Sanitary Control Service under Ministry of Health (Shoumarov), State Department of Fire Safety under Ministry of Internal Affairs (Kuldahsev)</td>
<td>November 2004</td>
</tr>
<tr>
<td>1.3</td>
<td>Designing check-lists for inspecting other areas of small and medium business operations</td>
<td>Controlling agencies (inspections not related to financial and economic operations)</td>
<td>April 2005</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td><strong>Model Code of Conduct</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Developing a draft detailed model code of conduct for the procedure of inspections based on the existing regulations; finalizing and approving the code of conduct.</td>
<td>IFC (as agreed), State Tax Committee (Gadoev); State Department of Fire Safety under Ministry of Internal Affairs (Kuldahsev)</td>
<td>December 2004</td>
</tr>
<tr>
<td>2.2</td>
<td>Based on the model code of conduct, draft and submit for approval detailed internal regulations for conducting inspections, including rights and responsibilities of inspectors and businesses</td>
<td>Controlling agencies</td>
<td>April 2005</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td><strong>Selection criteria for enterprises</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1</td>
<td>Developing criteria for how enterprises are to be selected for inspections</td>
<td>Republican Sanitary Control Service under Ministry of Health (Shoumarov), State Department of Fire Safety under Ministry of Internal Affairs (Kuldahsev)</td>
<td>December 2004</td>
</tr>
<tr>
<td>3.2</td>
<td>Developing regulations for how enterprises are to be selected for inspections based on the criteria developed by the controlling agencies</td>
<td>Republican Sanitary Control Service under Ministry of Health (Shoumarov), State Department of Fire Safety under Ministry of Internal Affairs (Kuldahsev)</td>
<td>April 2005</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td><strong>Single register of controlling agencies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1</td>
<td>Developing the concept of a single register disclosing the scope of issues to be covered by each controlling agency during inspections</td>
<td>Republican Inspections Coordination Council (Shakirov)</td>
<td>December 2004</td>
</tr>
<tr>
<td><strong>5</strong></td>
<td><strong>Outreach by controlling agencies to businesses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1</td>
<td>Round tables and workshops discussing the issues of inspections and involving entrepreneurs</td>
<td>Controlling agencies</td>
<td>Monthly</td>
</tr>
<tr>
<td>5.2</td>
<td>Publications in mass media explaining the requirements of the controlling agencies (by type of business activity)</td>
<td>Controlling agencies</td>
<td>Monthly</td>
</tr>
<tr>
<td>5.3</td>
<td>Publishing thematic leaflets for entrepreneurs</td>
<td>Controlling agencies</td>
<td>Once in 6 months</td>
</tr>
<tr>
<td>5.4</td>
<td>Training workshops for controlling agencies (psychology, conflict management, strategic planning, risk management)</td>
<td>IFC experts (as agreed)</td>
<td>Provided funds are available</td>
</tr>
<tr>
<td><strong>6</strong></td>
<td><strong>Discussion of results</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.1</td>
<td>Presentation of the outcomes during sessions of the Republican Coordination Committee for the Promotion of Small and Medium Business Development</td>
<td>IFC project (as agreed); Controlling agencies</td>
<td>December 2004, May 2005</td>
</tr>
</tbody>
</table>
The action plan was first signed by top management of the three partner inspectorates (Fire, Tax and Sanitary). The signed action plan was subsequently officially approved by the Deputy Prime Minister, who was also the Chairman of the Republican Coordination Committee for the Promotion of Small and Medium Business Development, as well as by the Deputy Chairman of the Republican Inspectorate Coordination Council. In the context of Uzbekistan, an official approval with signatures by these key individuals was essential in order to ensure that follow up took place.

**Presidential Decrees**

In partnership with its counterparts in Government, IFC spent a significant amount of time drafting and negotiating the text of two Presidential Decrees to reduce the powers of controlling agencies vis-à-vis entrepreneurs. After approximately eight months of constant consultations with the Government, both decrees were signed by the President of Uzbekistan in June 2005. As a result of these two decrees:

1. **Select powers of inspecting agencies were transferred to courts.** The first decree takes away rights of regulators to close a business, freeze its bank account, impose severe fines or confiscate goods. These actions are now strictly within the purview of the court system. In addition, this Decree annuls the ability of the Public Prosecutor’s Office to inspect businesses, unless the inspection is the result of a criminal investigation of violations to tax or currency legislation.

2. **Excessive powers of inspecting agencies were reduced.** The second decree limits the size of fines which may be placed on a business as a result of violations found in the course of an inspection. The maximum amount of these fines is now reduced or waived in the case of a first offence and for offences which are unintentional or effectively harmless. The Decree also requests the Cabinet of Ministers to place a proposal before Parliament to ensure that a firm fined in excess of 20% of its assets has a 6 month grace period to pay the fine.

**Check Lists**

In close cooperation with the Fire and Sanitary Inspectorates, the IFC team developed 2 pilot sector checklists - for gas stations and for retail trade outlets. Standardized check lists are a clear and exhaustive list of the issues that the inspector has the right to review during his/her visit, created for the benefit of both the inspector and the entrepreneur, and signed by each party at the end of the inspection (i.e. fire inspector visiting a gas station). Any item not on the checklist should not be allowed to be checked or fined, while a copy of the checklist should be left with the businessperson as a record of a complete inspection. The draft checklists were tested during actual business inspections and subsequently adjusted. One of the checklists developed with the Sanitary Inspectorate is included as Annex 3 to this report.

After pilot testing, the team concluded that check lists can be a very effective instrument for increasing the transparency of inspections if:

- They are written in simple and clear language with minimal technical terminology to facilitate use by entrepreneurs;
They are very specific and comprehensive as far as the items which may be checked during the given inspection for the given type of enterprise; and

- Even within one sector (such as gas stations), they include different requirements according to the size of the business.

Moreover, check lists increase the accountability of inspectors, since they are now obliged to be consistent from one inspection to another and are limited to reviewing a clearly defined list of specific items with which the given enterprise must comply.

Once sector check lists are rolled out across the agencies, they can serve as useful instruments for risk based inspections within each specific sector of business activity. Each time an inspection takes place, the check list would serve as an “enterprise scorecard” which measures the level of compliance of an enterprise and hence its relative risk to society / environment. Those enterprises which receive low compliance scores would be candidates for more frequent inspections in the future.

**Code of Conduct for Inspectorates**

In conjunction with partner inspectorates, IFC developed a Code of Conduct for controlling agencies. This Code of Conduct gathers together key information on the mandate of the inspectorate, the authority and responsibilities of the inspector, the rights of the business owner and details the procedures to be followed during an inspection (a model is attached as Annex 4). The experience of preparing the Code of Conduct showed that it can serve as an effective instrument to increase legal awareness of the entrepreneurs. This is because the Code stipulates each procedure of an inspection, from deciding which enterprises to inspect through a detailed explanation of how to appeal a decision that the entrepreneur does not agree with.

The approach to Codes of Conduct taken in Uzbekistan was somewhat particular, as legislation and extremely detailed additional regulations describing the inspections process and the rights and responsibilities of each party to the inspection already existed. Initially, the team believed that each controlling agency should make its own separate Code of Conduct based on the model developed by the IFC team and agreed with the Government. This would render the Codes legally valid and allow them to replace the myriad of regulations which already existed with a single, publicly available document.

Although partner inspectorates and the Ministry of Justice were in full agreement with the model Code of Conduct as developed, the Government was nevertheless reluctant to approve the document as it simply re-stated what already existed in legislation and in other regulatory instructions. As a result, the team decided to use the model Code as a method of informing entrepreneurs, who can use it as a clear and detailed reference guide during an inspection. The team decided to publish and disseminate the Code of Conduct through business associations and other mass media channels (much like the inspections brochure previously) in order to capture the educational benefit of the document for the SME sector.

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9 In many cases, all of the items included in the Code of Conduct are unlikely to be already explicitly stated in other regulatory documents. A Model Code can therefore be developed, approved by the Cabinet of Ministers or other decision-making authority, and serve as an example for each regulatory agency, which would then be mandated to prepare its own Code and apply it to regulate all or the majority of aspects of its work.
Risk Based Inspections Principles

A system of risk-based inspections is presently being developed by IFC with the Sanitary Authorities. An alternative approach to targeting 100% of companies for inspections, a risk based inspections system allows to focus government control on those enterprises which pose the greatest threat to society/environment. This system contains the following components:

- **Analysis and evaluation of risks** – based upon objective technical criteria;
- **Risk management** – dividing all enterprises into groups according to their risk profile; determining the frequency of inspections for each risk group; taking measures to eliminate risks;
- **Risk communication** – gathering and disseminating information on risks; using this information in planning inspections.

It is important to note that while the switch to risk-based inspections will lower inspections frequency for the majority of firms, this is not the key goal of the system: the goal is to focus inspections on the sectors, firms and types of activities where they are most required. This means that while the number of inspections experienced by most companies will decrease, firms working with hazardous materials or in sectors vital to health and safety may actually experience an increase in number of inspections.

Moreover, risk-based selection of firms should not increase the risk of calamity, as firms which fall into categories most likely to endanger society or the environment will continue to be checked just as often, if not more often, than under a system of universal coverage. Implemented in conjunction with the other measures described (checklists, codes of conduct) and with increased outreach to entrepreneurs, risk-based inspections should significantly improve the overall quality of the inspections system.

Once the risk-based system is introduced in a controlling agency, the entire process for selecting companies for inspections will become transparent and should eliminate the need for any further top-down pressure to reduce the sheer number of inspections for the SME sector. This would also eliminate the need for the initial tools introduced by the Government during its reform process, such as the Republican Inspectorate Coordination Council and “complex inspections”.

Challenges Ahead

Despite the progress made to date and the official action plan, work on the introduction of checklists and moving towards risk based inspections has been seen as an “extra-curricular” activity by the inspecting agencies. Key staff in the inspectorates spent time on these issues after they completed their direct responsibilities. Furthermore, recent experience of the IFC team has shown that government officials are reluctant to advocate for concepts which they are not familiar with, such as risk-based inspections. They are much more comfortable to continue exerting pressure on controlling agencies to simply reduce the number of inspections, as well as to punish inspectors who violate the law.

The most recent survey data, however, clearly illustrates the fact that the implementation of these new tools is absolutely essential to complete the creation of a modern inspections system in Uzbekistan:

- Despite the decrease in the number of inspections, more unofficial payments have been openly admitted as taking place during inspections\(^{10}\) that do occur;

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\(^{10}\) Given the sensitive nature of the question, the increase in these indicators may equally be driven by the fact that businesses feel increasingly able to answer truthfully.
As inspectors are allowed to check fewer enterprises, they have begun to focus on those that are most successful.  

Both of these indicators should show significant improvement once all the tools presently being introduced through this initiative take root and are widely applied in Uzbekistan. Thus, in order to move beyond the pilots to mass implementation, the team is currently working on a draft new Presidential Decree which would mandate the introduction of check lists and risk based inspections in Uzbekistan. The parallel channel being pursued is to encourage the Republican Inspections Coordination Council to stop accepting plans for inspections from controlling authorities which have not introduced the above-mentioned practices.

An additional issue refers back to Lesson #1: for purposes of both evaluation and effect it is clearly preferable to select one target area for reform. Yet ideally, the Project would retain a focus on one aspect of regulation, and as relations are strengthened with a regulatory agency and results are achieved in the selected area, it would additionally begin to address another area of concern. In this regard, the IFC team has launched work on the twin topic of business permits, which are issued by many of the same regulatory agencies, and will ultimately be looking to address a number of the practices of individual agencies active in regulating the private sector in Uzbekistan.

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1 An analysis of the number of inspections by region, by sector or by size of a company has not yielded a similar picture.
The benefit of a gradual shift between target reform areas would be twofold:

- Individual authorities would have to focus their work on the technical nature of their regulatory function; and
- Processes would be adjusted / reformed in complex, limiting the danger that simplifications in one regulatory area would result in increasing difficulties in another.

**Addressing the SME knowledge gap in the inspections process**

The first informational product released by the team, jointly with the Ministry of Justice, was the Brochure entitled “What You Need to Know About Inspections.” Ultimately the entire text of the brochure had to be approved by the Ministry of Justice as “certification” that it was in compliance with existing legislation.

The biggest challenge for the team during its work on the Inspections Brochure was reaching agreement with the Ministry on the exact language for each explanatory point of the manual. The Ministry staff preferred to keep the language exactly as written in the law to ensure consistency. IFC, on the other hand, felt that the legal language was not always digestible to entrepreneurs.

IFC came up with a solution to keep a balance between the Ministry’s desire for exactitude and IFC’s intention to create an easy-to-read product. IFC developed a special poster with a step by step illustration of a regular inspection, including where to address complaints in cases where the entrepreneur believes his or her rights have been violated. The pull-out format of the poster also allowed entrepreneurs to hang it on the wall for simple access as reference material.

According to feedback received from entrepreneurs, the poster was the key informational element of the brochure, specifically for those entrepreneurs who had a hard time understanding the legal language.

**Lesson #10:** An official partnership with the Ministry of Justice for the production of informational materials for SMEs was essential as a guarantee of the information’s credibility among the SMEs but also for inspectors. Many SMEs subsequently reported that the Ministry’s official seal on the cover of the brochure was especially effective in stopping inappropriate behavior of inspectors.
An important part of IFC’s work under this objective was ensuring that the brochure was effectively disseminated, especially after completion of the Project. A comprehensive and collaborative approach to distribution was chosen, which has resulted in nearly 40,000 copies of the brochure distributed to date:

- 5,400 hard copies printed by the IFC were distributed through regional “Entrepreneurship Support Departments” of the Ministry of Justice;
- Full rights to reprinting and disseminating additional copies were given to a number of business associations, namely the Uzbek Business Women Association, the Association of Bukhara Entrepreneurs, the Association of Farmers of Uzbekistan and the Chamber of Industry and Trade. To date, 10,000 additional copies have been printed by these partners;
- All 12 Regional Administrations (Khokimiats) also received reprinting rights;
- The full text of the brochure was given to select newspapers for reprinting in both Russian and Uzbek on national and regional levels, resulting in 24,000 additional copies circulated through this channel.

IFC also organized joint seminars with the Department for the Protection of Entrepreneurs’ Rights in various regions of Uzbekistan to promote the Inspections Brochure. These regional seminars equally served as a method for obtaining feedback from SMEs, and revealed a plethora of issues related to inspections that were used in further work on streamlining the inspections system. Furthermore, the regional seminars served as a mechanism for bringing together inspecting agencies and entrepreneurs in the regions – as had been originally done by IFC during the design phase of the Program.
RESULTS

To assess the results of its work to date, IFC has focused on measuring the change in indicators that are key concerns for business vis-à-vis inspections: their time and cost.

First and foremost, in Uzbekistan, the average number of inspections per business has been steadily falling and the number of businesses not inspected in a given year has been increasing since the launch of IFC’s reform activities. This decrease has occurred due to the Government’s continued pressure on inspectorates to reduce the sheer number of inspections, which in turn has been continuously spurred on by IFC’s annual presentations of its independent data from the field to senior Government officials.

Second, the positive trends in decrease of inspections have been sustained through the active communications strategy employed by the IFC team vis-à-vis the private sector. As shown in the graph below, the joint IFC – Ministry of Justice Inspections Brochure has had strong resonance with the small business sector and as a result, entrepreneurs themselves claim that their understanding of the inspections process has improved. Furthermore, by 2004, the official Inspections Registration Book had reached 91% of firms within the SME sector.

Chart 13.

The average Uzbek SME spent 14 days on inspections in 2001 and only 2 days on inspections in 2004

Source: IFC Uzbekistan surveys, 2001-2004

Second, the positive trends in decrease of inspections have been sustained through the active communications strategy employed by the IFC team vis-à-vis the private sector. As shown in the graph below, the joint IFC – Ministry of Justice Inspections Brochure has had strong resonance with the small business sector and as a result, entrepreneurs themselves claim that their understanding of the inspections process has improved. Furthermore, by 2004, the official Inspections Registration Book had reached 91% of firms within the SME sector.

Chart 14.

Source: IFC Uzbekistan surveys, 2002, 2004
A third and very tangible result of IFC’s efforts, two Presidential Decrees recently adopted to limit the powers of inspecting agencies will have an immediate positive effect on the SME sector. The decrees limit the size of fines that may be placed on an enterprise for violations found in the course of an inspection, and take away the rights of regulators to unilaterally close a business or freeze its bank account, by placing such decisions strictly within the purview of the court system. The estimated amount of resources released for the SME sector by these decrees is over $20 million per year, as shown below.

![New decrees on inspections liberate over $20 million for investment per year](chart)

**Lesson #11.** The one indicator that did not see any change since 2001, despite a strong informational campaign, is the share of entrepreneurs (less than 4%) who appeal what they consider to be wrongful actions on the part of an inspector. The team's assessment of this result is that in a country such as Uzbekistan, especially in rural regions, entrepreneurs still find it socially and psychologically unacceptable to openly challenge authority. Hence, the only way to help entrepreneurs defend themselves is through the official introduction of the concept of “presumed innocence”, which has been written into the Presidential Decrees described above.

The effect of the other key innovations presently being introduced by IFC to improve the quality and transparency of inspections (1) switching to risk based inspections, (2) introducing check lists for site visits, and (3) implementing Codes of Conduct for inspectorates, will become visible as these instruments are increasingly implemented by controlling authorities and rolled out throughout the country. IFC will continue to monitor the effect of these innovations through its annual SME surveys.

**ANNEXES**

**Annex 1:** Background on Uzbekistan, the SME Sector and the SME Business Environment

**Annex 2:** Official Definitions of Inspections in Uzbekistan

**Annex 3:** Sample Check List

**Annex 4:** Model Code of Conduct
ANNEX 1

Background on Uzbekistan, the SME Sector and the SME Business Environment

Economic Overview of Uzbekistan

The Republic of Uzbekistan, with a population of over 25 million people, is one of the former Soviet Republics in Central Asia. Uzbekistan’s economic policy since its independence, declared on September 1st, 1991, was aimed at socially-oriented reforms with the main objective of developing domestic manufacturing based on an import-substitution strategy. The latter, in particular, emphasized self-sufficiency in energy and wheat.

Uzbekistan is the second largest exporter of cotton in the world. Gold, non-ferrous metals, coal and natural gas, mineral fertilizers, textiles, cars and equipment are the country’s other major export items. The main imported products include machine tools and equipment, chemicals, ferrous metals, and food products.

After the economic slump of the first half of the 1990s Uzbekistan achieved economic growth since 1996 at an average rate of 4%. In 2004 economic growth in Uzbekistan accelerated to 7.7%.

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12 Source: all the data are those of the Ministry of Economy of Uzbekistan (Uzbekistan Economy, #8, March 2005), unless otherwise stated.
Nevertheless, the per capita income in Uzbekistan is estimated to be among the lowest in the CIS countries: according to IMF, GDP per capita in Uzbekistan was $375 in 2004.

Tight monetary policy allowed the authorities to suppress the hyperinflation of the early 1990s and to decrease the annual inflation rate to a single-digit number in the last two years (3.8% and 3.7% in 2003 and 2004 respectively, according to official data). However, in the attempt to achieve this target, the authorities adopted strict limitations on domestic currency circulation. Problems resulting from restricted cash availability in the economy aggravated over the last few years.

Foreign trade turnover was decreasing in the second half of the 1990s. This period was characterized by low world prices for cotton and gold, Uzbekistan’s main export items. Also, in the late 1990s, the external debt service payments achieved their peak, causing the balance of payments to deteriorate. Since the end of 1996 foreign exchange rationing, controls on current account transactions, and the practice of multiple foreign exchange rates were adopted. These policy measures hindered the growth of Uzbekistan’s exports and imports.

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13 According to the IMF assessments, inflation rate was higher: 14.8% and 8.8% in 2003 and 2004 respectively (Source: IMF, World economic outlook 2005, www.imf.org).
However, the decline of foreign trade was stopped in the last two years. In fact, export expanded 25% and 30% in 2003 and 2004 respectively. Partly this expansion was due to improved prices on the world commodity markets, but also foreign exchange market liberalization and unification of the multiple exchange rates of the national currency in 2002-2003 played a positive role in foreign trade growth acceleration.

The abovementioned problems, mainly the multiple exchange rate regime and current account controls, prevented foreign investors from coming into the Uzbek market. As a result, the inflow of foreign investments has been declining since 1997. In 2004 there was an increase in net FDI inflows, driven by greater interest of Russia in telecommunications and hydrocarbons sectors. Nevertheless, Uzbekistan’s net FDI per capita at $7.2, though greater than $3 per capita in 2000-2003, is still among the lowest within the CIS countries.

SME Sector

The breakup of the Soviet Union caused many large enterprises in Uzbekistan to cease or reduce their operations, which brought to the front the threat of high unemployment. Recognizing this threat, the government made a decision to develop the sector of small and medium enterprises. The role of SMEs in Uzbekistan's economy has been steadily growing. In 2004, goods and services produced by the SME sector constituted about 36% of Uzbekistan's GDP, growing by 7 percentage points from 29% in 1999. This is significantly higher than in the other countries of the region, namely Ukraine and Russia.
The SME sector largely consists of agriculture, services, retail trade, catering and construction. The SME sector currently accounts for about 61% of the total number of employed in the economy. However, when compared to other countries in the region in terms of the number of operating small and medium-sized enterprises (including individual entrepreneurs) for every 1000 people, Uzbekistan still has significant room for growth.

**SME Business Environment**

Some of the Government’s policy measures described above, as well as the tight state regulation of all the spheres of business activity, have had an adverse impact on SME development. In November 2001, in order to improve the business enabling environment for the SME sector, the IFC launched the Uzbekistan SME Survey Project with funding from seco, the State Secretariat for Economic Affairs of Switzerland. The goal of the project was to gather factual independent information on the regulatory issues facing the SME sector, and present the analysis and recommendations for improvement to the public and the government of Uzbekistan.

To accomplish the goal, the project team:

- Analyzed current legislation governing the SME sector in Uzbekistan to determine issues of concern to be covered by an enterprise survey;
Conducted an unprecedented large-scale representative baseline survey of 1500 SMEs throughout Uzbekistan in order to determine (i) the current state of SME development in Uzbekistan; and (ii) most significant administrative, regulatory, business and financial barriers facing Uzbek SMEs;

Developed high level recommendations for the Uzbek Government, suggesting changes to the regulatory, administrative, and legislative framework in which SMEs operate.

The results of the baseline survey allowed IFC and the Government of Uzbekistan to rank the regulatory procedures in order of difficulty to business in 2001:

Absence of free currency convertibility was a key impediment to trade. Legislation governing export and import operations was contradictory and confusing. This lack of clarity and the bureaucracy at the customs department resulted in fewer than 1% of SMEs engaging in foreign trade;

Tax legislation was changing frequently and was confusing to most SMEs. The taxation system was seen as one of the most significant barriers to SME development and resulted in revenue concealment;

Despite the overall perception that the number of inspections was decreasing, over 40% of SMEs still felt that the inspections process was difficult or very difficult;

The government had recently introduced a one-window registration system, but the effects of it were not yet felt in 2001, with registration taking 5 weeks on average;

SMEs did not view banks as effective financial intermediaries. Due to the Government’s cash management policies, SMEs were officially constrained in their ability to withdraw cash from their accounts. Moreover, banks in Uzbekistan performed a number of functions not appropriate to financial institutions, such as verification and regulation of SME liabilities, control over cash flows and collection of statistical information. Banks were also required to report “inappropriate” SME financial operations to tax authorities and local governments.

Given this business environment, only 11% of SMEs experienced positive growth in real terms in 2001.
ANNEX 2

Official Definitions of Inspections in Uzbekistan

Planned inspection – one-time control of legal compliance by a business entity, conducted by authorized controlling authority. Planned inspections may only be conducted based on the inspection schedule-plan approved by the Republican Inspectorate Coordination Council (Council).

Short-term inspection – an inspection conducted by an authorized controlling authority during one working day and not related to inspection of commercial and financial activity of the business entity. Normally, a short-term inspection should not exceed more than 3 consequent working hours.

Complex inspection – planned inspection concurrently conducted by two or more state controlling authorities. Complex inspections must be mandated by the Council.

Unplanned inspection – an inspection (including short-term unplanned inspections) which is not included in the annual (quarterly) inspection plan. All unplanned inspections with the exception of those that are initiated on the grounds of a criminal investigation, must be mandated by the Council provided there is a solid justification. Normally, an unplanned inspection may be conducted if:

- It is mandated by a specific Government Resolution;
- There is a report or a notification of commercial/criminal wrongdoing by a business entity to the state controlling authority;
- There are force major circumstances;
- There is a worsening of the sanitary and epidemiological environment including a threat of spread of infections/diseases brought in from neighboring countries.

Cross-inspection – cross-examination of documents (and employees) with regards to joint business operations conducted by two or more business entities, one or more of which is under criminal/tax examination. Cross-inspection of a business entity is allowed only in the matter that relates to a business relationship of such business entity with the company under investigation. Moreover, the business relationship must be appropriately documented. In order to receive the authorization for the cross-inspection, the law enforcement authorities need to file an application with the Council or its territorial commission.

Follow-up control inspection – inspection conducted to verify that violations detected by the prior inspection are being rectified. Terms and procedures of the follow-up control inspections must be coordinated with the Council or its territorial commission, but no separate decision of the Council or its territorial commission to authorize the follow-up control inspection is required.
# REPORT ON THE CHECK-LIST AA 000000

<table>
<thead>
<tr>
<th>Inspection commenced on the</th>
<th>Inspection completed on the</th>
</tr>
</thead>
<tbody>
<tr>
<td>date</td>
<td>month</td>
</tr>
</tbody>
</table>

**Type of inspection performed (please indicate):**
- [ ] Scheduled
- [ ] Unscheduled
- [ ] Short-term
- [ ] Follow-up control

**Object**

<table>
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<tr>
<th>address, tel.</th>
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</thead>
</table>

**Legal entity**

<table>
<thead>
<tr>
<th>name, address, tel.</th>
</tr>
</thead>
</table>

**Responsible person (general manager or an authorized staff member)**

<table>
<thead>
<tr>
<th>position/title, name, surname</th>
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</thead>
</table>

**Tax ID**

| [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ] |

**Inspectors:**

**Expert of the state sanitary epidemiological control service**

<table>
<thead>
<tr>
<th>position held/title, name, surname</th>
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</table>

**Authorised representative of the inspected entity**

<table>
<thead>
<tr>
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</table>
## CONTROL QUESTIONNAIRE

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<th>Comments</th>
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<th>No</th>
<th>N/R</th>
</tr>
</thead>
</table>

### I. General information

1. **Goods assortment min**
   - [ ]
   - [ ]

2. **Goods assortment max**
   - [ ]
   - [ ]

3. **Associated goods**
   - [ ]
   - [ ]

4. **Associated services**
   - [ ]
   - [ ]

5. **Type of services**
   - [ ]

6. **Working hours**
   - [ ]

7. **Location (of the building, floor, entrance)**
   - [ ]

### II. Availability of essential documents

1. **Goods Quality Certificates**
   - [ ]

2. **Invoices**
   - [ ]

3. **Goods delivery contracts (signed with enterprises and organizations)**
   - [ ]

4. **Contracts for facility disinfections**
   - [ ]

5. **Sanitary passport**
   - [ ]

6. **Driver’s health records books, for specialized vehicle, if required**
   - [ ]

7. **Health records book for staff**
   - [ ]

8. **Certificates on the completion of the required sanitary courses**
   - [ ]

### III. Adjacent area

1. **Compliance with the cleaning procedures envisaged for the area:**
   - [ ]
     1. **Adjacent area is cleaned everyday**
       - [ ]
     2. **The adjacent area is showered with water at least twice a day in warm season**
       - [ ]
     3. **During winter the carriageway and pedestrian foot-path are systematically cleaned from snow and ice and icy strewn by sand**
       - [ ]

2. **Improvements:**
   - [ ]
     1. **Feeding roads (if any), sidewalks, unloading platforms are paved**
       - [ ]
     2. **Unpaved area has trees and greenery planted**
       - [ ]
     3. **There is storm water sewer facility with the required slope**
       - [ ]

3. **Availability of dustbins (littering)**
   - [ ]

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### IV. Water supply, sewerage, heating and ventilation

<table>
<thead>
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<th>Description</th>
<th>Comments</th>
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<th>No</th>
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<tbody>
<tr>
<td>1</td>
<td>Water supply (underline): district or local</td>
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<tr>
<td>1.1</td>
<td>Hot water supply</td>
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<td>1.2</td>
<td>Cold water supply</td>
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<td></td>
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<tr>
<td>2</td>
<td>Sewerage are in working order</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>3</td>
<td>Heating (underline): district or local</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>4</td>
<td>Lighting (underline): natural, artificial light</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1</td>
<td>Artificial light should be:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>at least 400 lux – in the sales area</td>
<td></td>
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<tr>
<td>b</td>
<td>at least 200 lux – in the area for goods preparation</td>
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<tr>
<td>c</td>
<td>at least 50 lux – in the storage/stowage</td>
<td></td>
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<tr>
<td>5</td>
<td>Ventilation (underline): natural, powered</td>
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### V. Premises

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<th>Comments</th>
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<th>No</th>
<th>N/R</th>
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<tbody>
<tr>
<td>1</td>
<td>Description of premises, are there:</td>
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<tr>
<td>1.1</td>
<td>Separate entrance for:</td>
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<tr>
<td>a</td>
<td>Bread delivery</td>
<td></td>
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<tr>
<td>1.2</td>
<td>Feeding room</td>
<td></td>
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<tr>
<td>1.3</td>
<td>Storage/stowage</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1.4</td>
<td>Premises for preparation of food/alimentary stuffs (indicate):</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1.5</td>
<td>Administrative premises</td>
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<tr>
<td>1.6</td>
<td>Domestic room</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>1.7</td>
<td>Barn</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1.8</td>
<td>Sales room</td>
<td></td>
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<tr>
<td>1.9</td>
<td>Packaging room</td>
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<tr>
<td>2</td>
<td>Compliance with the principle of continuous flow of goods</td>
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### VI. Maintenance of the sales area and support rooms:

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<thead>
<tr>
<th>№</th>
<th>Availability in the sales area:</th>
<th>Comments</th>
<th>Yes</th>
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<tbody>
<tr>
<td>1</td>
<td>Refrigerators/cooling equipment</td>
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<tr>
<td>1.1</td>
<td>Thermometers in the cooling facilities/refrigerators</td>
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<tr>
<td>1.2</td>
<td>Windows</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3</td>
<td>Cabinets</td>
<td></td>
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<tr>
<td>1.4</td>
<td>Packaging materials</td>
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<tr>
<td>Nr</td>
<td>Comments</td>
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<td>N/R</td>
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<tr>
<td>1.6</td>
<td>Household chemicals for cleaning</td>
<td></td>
<td></td>
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<tr>
<td>1.7</td>
<td>Tools and facilities for cleaning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.8</td>
<td>Working clothes (overalls)</td>
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<tr>
<td>2</td>
<td>Compliance in the sales area with:</td>
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<tr>
<td>2.1</td>
<td>Continuity of the production process of technological equipment</td>
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<tr>
<td>2.2</td>
<td>Hygiene condition of the premises</td>
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<td>2.3</td>
<td>Hygiene requirements for the placement of goods</td>
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<tr>
<td>2.4</td>
<td>Expiration dates of goods</td>
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<tr>
<td>3</td>
<td>Availability of the following in the rooms for processing (preparation) of the food stuffs:</td>
<td></td>
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<td></td>
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<tr>
<td>3.1</td>
<td>Board for handling raw meat</td>
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<td>3.2</td>
<td>Labelled board for cutting meat</td>
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<tr>
<td>3.3</td>
<td>Labelled log for handling meat</td>
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<tr>
<td>3.4</td>
<td>Household chemicals for cleaning</td>
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<tr>
<td>3.5</td>
<td>Tools and facilities for clearance</td>
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<tr>
<td>3.6</td>
<td>Working clothes (overalls)</td>
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<tr>
<td>4</td>
<td>Area for the food preparation (processing) is maintained with:</td>
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<td></td>
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<tr>
<td>4.1</td>
<td>Sanitary condition set for the rooms</td>
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<tr>
<td>4.2</td>
<td>Washing procedures are in compliance with sanitary guidelines</td>
<td></td>
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<tr>
<td>4.3</td>
<td>Rules for the rinsing and washing of crockery</td>
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<tr>
<td>4.4</td>
<td>Rules for rinsing and washing of communications</td>
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<td>5</td>
<td>Availability in the packaging rooms:</td>
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<tr>
<td>5.1</td>
<td>Refrigerators/cooling facilities</td>
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<tr>
<td>5.2</td>
<td>Dual washing basins</td>
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</tr>
<tr>
<td>5.3</td>
<td>Dustbin with foot pedal for littering</td>
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<tr>
<td>6</td>
<td>Household chemicals for cleaning</td>
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<td>Working clothes (overalls)</td>
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<tr>
<td>7</td>
<td>Packaging area is compliant with:</td>
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<tr>
<td>7.1</td>
<td>Sanitary condition set for the rooms</td>
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<td>7.4</td>
<td>Rules for rinsing and washing of communications</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### VII. Sanitary requirements for the working tools

<table>
<thead>
<tr>
<th>No</th>
<th>Sanitary requirement</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Availability of the following on the unloading platforms:</td>
<td></td>
</tr>
<tr>
<td>8.1</td>
<td>Canopy</td>
<td></td>
</tr>
<tr>
<td>8.2</td>
<td>Tap water supply</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Sets of working tools are in sufficient amount</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Cleaning, rinsing and disinfection of used working tools</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Available desinfectants (describe):</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Tools are used as intended and advised by the user guidelines</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Utensils used for disinfection are labelled</td>
<td></td>
</tr>
</tbody>
</table>

### VIII. Transportation terms and conditions

<table>
<thead>
<tr>
<th>No</th>
<th>Transportation term or condition</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Special vehicles for food stuffs transportation or contracts with transportation service providers are in place</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Special vehicles compliant with the sanitary requirements</td>
<td></td>
</tr>
</tbody>
</table>

### IX. Individual sanitary rules are maintained

<table>
<thead>
<tr>
<th>No</th>
<th>Individual sanitary rule</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Availability of conditions enabling to maintain individual hygiene</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Knowledge/awareness of sanitary-hygiene and disease control activities</td>
<td></td>
</tr>
</tbody>
</table>

**Acronyms used in the check list**

<table>
<thead>
<tr>
<th>No</th>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>“YES”</td>
<td>“YES” – yes, in place, maintained, satisfactory</td>
</tr>
<tr>
<td>2</td>
<td>“NO”</td>
<td>“NO” – no, not available, not maintained, poor</td>
</tr>
<tr>
<td>3</td>
<td>“N/A”</td>
<td>“N/A” – not applicable/not require</td>
</tr>
</tbody>
</table>

This control check-list questionnaire is based on the sanitary rules and procedures for the food stuff traders approved by the Chief sanitary doctor of the Republic of Uzbekistan on 10.09.1996.
MINISTRY OF HEALTH OF THE REPUBLIC OF UZBEKISTAN
STATE OF SANITARY AND EPIDEMIOLOGICAL CONTROL SERVICE

ORDER

For official/authorised representative of the inspected entity/premise ____________________________
Name, surname

The sanitary and epidemiological inspection has revealed the non-compliance/infringement with the sanitary norms and procedures

In order to follow-up on the revealed infringement of the sanitary rules and procedures, in compliance with the Law of the Republic of Uzbekistan on State sanitary control № 657-XII dated 3 July 1992, we advise to implement the following activities:

<table>
<thead>
<tr>
<th>№ п/п</th>
<th>Name of actions from the control questionnaire</th>
<th>Time frame for implementation</th>
<th>Date of inspection</th>
<th>Comments on follow-up compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
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<tr>
<td>3</td>
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<tr>
<td>4</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


As a follow up after receiving this order it is required to appoint a staff member responsible for implementation and follow-up activities mentioned above.

Pursuant to article 19 of the Law of the Republic of Uzbekistan on the state control of economic activities performed by the entities’ dated 24 December 1998 and article 316 of the Code on Administrative Responsibility of the Republic of Uzbekistan:

**Appeal against actions and decisions produced by the controlling officials can be submitted to the court or supervising entity, or to the official within 10 days from the date of receiving the copy of order.**

**Warning:**

- in case the recommended follow up activities were not implemented the liable individuals will be held responsible as per approved policy, envisaged by the Uzbek regulations;
- in case the recommended follow-up activity № ____________________, was not implemented, the order on suspension of the inspected operations may be issued according to the Law of the Republic of Uzbekistan on the state sanitary inspection № 657-XII dated 3/07/1992.

Report on control check-list was prepared in two copies: 1 copy is for state sanitary epidemiological service and 1 for the manager of the inspected entity.

Report on the control check-list must be kept and furnished to the inspector of the state sanitary and epidemiological service during the follow-up control visits.

**Signatories**

State sanitary and epidemiological service:

1. ____________________________  
   position/title held, name, surname  
   ____________________________  
   signature

2. ____________________________  
   position/title held, name, surname  
   ____________________________  
   signature

Representative of the inspected entity:

1. ____________________________  
   position/title held, name, surname  
   ____________________________  
   signature

2. ____________________________  
   position/title held, name, surname  
   ____________________________  
   signature
CHECK-LIST
TO CONFIRM REMOVAL OF VIOLATIONS

Inspectors of the Sanitary and Epidemiological Control Service are to complete the following check-list during a follow-up inspection, to confirm removal of violations found during an initial inspection.

<table>
<thead>
<tr>
<th>#</th>
<th>Action(s) required</th>
<th>Date of follow-up inspection</th>
<th>Confirmation of removal of violation</th>
<th>Signature of Inspector</th>
<th>Signature of entrepreneur</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
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<td></td>
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<tr>
<td>3</td>
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<td>4</td>
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<tr>
<td>5</td>
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</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Comments:__________________________________________________________
________________________________________________________________
________________________________________________________________
________________________________________________________________
________________________________________________________________
ANNEX 4

Model Code of Conduct for Conducting Inspections of Business Entities

SECTION I

1. General provisions

1.1 Legal status of the agency;
1.2 Regulations governing the operations of the agency;
1.3 Compliance and implementation of the regulations that is supervised by the competent authority

2. Key objectives and functions of a government agency controlling business entities

2.1 Operational provisions should include list of control functions exercised by a government control agency over the business operations according to the legislative acts;

3. Inspectors of the government controlling agencies conducting inspections, their rights and responsibilities

Inspector’s responsibilities:

3.1 Not to impede the operations of business entities;
3.2 Ensure the confidentiality of state secrecy, commercial and any other secrecy;
3.3 Furnish to the business entities to be inspected all required documents to justify the right and subject of control;
3.4 To inform the business entity to be inspected on legislation and regulations governing and justifying the inspection as well as on the provisional regulations to be complied with and identified during the inspection;
3.5 To fill out the inspections registration book and the control check-list according to the legislation acts;
3.6 To process the results of inspections and provide them in the control check-list and state facts found during the inspection as well as suggestions and solutions following the inspection outcomes;
3.7 To furnish the control check-list to the senior manage of an enterprise to be signed and leave one copy of signed check-list with the inspected entity;
3.8 In case of disagreement on decision taken by the end of inspection, inform the management of inspected enterprise on its rights granted for appeal against decision based on the results of inspection;
3.9 …

Inspector’s rights:

3.10 Inquire any information directly or indirectly related to the subject of inspection;
3.11 Provide to the inspected entity mandatory for the follow up execution of order to eliminate the identified facts of incompliance or infringements;
3.12 Raise the issue at the senior management of pending liability of parties at fault;
3.13 According to the legislation apply the law reinforcement measures:
– Financial sanctions;
– Administrative charges:
  ◦ Reprimands;
  ◦ Penalty;
  ◦ Confiscation;
  ◦ Suspension of business operations;
– Disconnection of selected nodes, devices or mechanisms;
– …

3.14 Follow up control over the law reinforcement measures;
3.15 …

To clarify that legitimate requirements of the controlling agency officials are imperative to be complied with and executed by the inspected entities.

4. Rights and responsibilities of the inspected business entity

Responsibilities of an inspected business entity:

4.1 Business entities are obliged in response to the legitimate requirement of a controlling agency inspector to furnish all materials and documents needed to facilitate the inspection, to enable his/her access to the inspected facilities, provide any assistance in order to facilitate the controlling agency inspector to perform his/her obligations.

Rights of an inspected entity:

4.2 To have the relevant information on the business operations that are subject to the legitimate inspection;
4.3 To request that the controlling agency inspectors produce the decision of the specially authorised agency or its regional subsidiaries, documents justifying the rationale of the inspection and to review the documents of the inspector;
4.4 To prohibit the inspection from being performed by an unauthorised official;
4.5 To disable access to the inspection for individuals reluctant to fill out the inspections registration book and control check-list;
4.6 To disregard requirements by the controlling agency inspectors on matters outside of their competency and irrelevant to the subject of inspection;
4.7 To receive from the controlling agency inspectors one copy of the document on the outcomes of inspection within ten days after inspection completion;
4.8 To receive information on the policy of appeal against decisions awarded by the outcome of inspection;
4.9 To appeal against the outcomes of inspection.

5. Documentation of an inspection

5.1 In cases when no infringements were identified;
5.2 In cases when some infringements were identified;

This section shall describe comprehensive list of documents to be processed upon the inspection outcomes and which line items are to filled by the business entities (in particular the inspections...
registration book and control check-list). It is necessary to include these forms in the attachment to the operational regulations.

6. Procedures of identifying the extent of penalty/follow up measures from ... to...:

6.1 Circumstances exposing to the minimal follow-up measures and penalties;
6.2 ... 
6.3 Circumstances exposing to the maximum follow-up measures and penalties;

Controlling agency should develop accurate criteria for follow-up measures, establishing specific measures/sanctions extended for specific type of violating action, taking into account nature of infringements, extend of the failure, social status, extenuating or aggravating circumstances. These criteria will be endorsed by the line ministry or agency or Cabinet of Ministers. Business entities should be informed on the differentiated of follow-up measures.

7. Procedures of appeal

7.1 Individuals are granted the right to submit a well-reasoned appeal to the higher supervising controlling agency, to the court or an official;
7.2 Time frame for submission of the statement of complaint, possibility to renew or prolong to the deadline;
7.3 Deadline for consideration of complaint;

Controlling agency should keep a business entity informed on the appealing procedures.

8. Liability of a controlling agency inspector for illegitimate decision

8.1 To envisage clearly stated extent of liability of officials for illegitimate decision depending on the amount of loss suffered by a business entity (disciplinary, administrative and criminal).

SECTION II

1. Inspection procedures

1.1. Scheduled inspections – preparation, scheduling procedures and policy for seeking approval in the Republican council on coordination of the controlling agency operations;
1.2. Extraordinary, short-term, counter inspections as well as follow-up control inspections – rationale, decision-maker, how long does it take to obtain approval of these inspections and time limits for such inspections.

2. Documentation of the completed inspections

2.1 In cases when no infringements were identified;
2.2 In cases when some infringements were identified

This section should contain the procedures of making entries to the inspections registration book and control check-list (which line items should be filled prior to inspection and by its completion) by a controlling agency inspector. Form of the sections in the inspections registration book should be included in the attachment to the operational regulations.
Also it is necessary to clearly describe information that will be included in the control check-list in the course of inspection and by summary of inspection, that should include the following:

- Name of a controlling agency;
- Full name, surname of a controlling agency inspector and his/her position;
- Data on business entity;
- Location, time and duration of inspection;
- List of legislative acts that a business entity is the subject of compliance with;
- Fact found and established during inspection;
- Decision awarded;
- Follow-up and supervision monitoring;
- Procedures for submitting an appeal;

3. **Decision making procedures**

3.1 When decisions are taken in the location of inspection;
3.2 When decisions are taken by the senior management of relevant controlling agency;

4. **Types of the law reinforcement measures**

4.1 Financial sanctions;
4.2 Administrative penalties:
   - Reprimand;
   - Penalty;
   - Confiscation;
   - Suspension of the business operations with inspected entity;
4.3 …

5. **Methodology of the law reinforcement follow-up and when they are applied.**

5.1 Financial sanctions;
5.2 Administrative penalties:
   - Reprimand;
   - Penalty;
   - Confiscation;
   - Suspension of the business operations with inspected entity;
5.3 …

6. **Procedures of identifying the extent of penalty/follow up measures from … to…:**

6.1 Circumstances exposing to the minimal follow-up measures and penalties;
6.2 …
6.3 Circumstances exposing to the maximum follow-up measures and penalties;

Controlling agency should develop accurate criteria for follow-up measures, establishing specific
measures/sanctions extended for specific type of violating action, taking into account nature of infringements, extend of the failure, social status, extenuating or aggravating circumstances. These criteria will be endorsed by the line ministry or agency or Cabinet of Ministers. Business entities should be informed on the differentiated of follow-up measures.

7. **Penalty collection procedures**
   7.1 On the location of inspection;
   7.2 Repayment/cash compensation by other ways;

8. **Liability of a controlling agency official for illegitimate decision**
   8.1 To envisage clearly stated extent of liability of officials for illegitimate decision depending on the amount of loss suffered by a business entity (disciplinary, administrative and criminal).

**SECTION III**

1. **Selection methodology for business entities to be inspected**
   1.1 Methodology of identifying high risk entities or sectors to be included in the attachment to the official regulations;
   1.2 Yearly statistics analysis of the infringements or incompliance by the business entities;
   1.3 Development of annual work plans for inspections;
   1.4 …

2. **Feedback from the business entities**
   2.1 Yearly interviews-surveys on finding the client satisfaction. Outcomes of such surveys should be compared with the outcomes of the last year activities and taken into account in the process of optimizing activities performed by the controlling agency.
   2.2 Providing opportunity for submitting proposals and complaints (it means the availability of blank forms for proposals and complaints in the premise of a controlling agency, oh his home web-site or through answering machine);
   2.3 Developing a web-site.

3. **Availability of information**
   3.1 Developed operational regulations will be published in the newspaper «Narodnoe slovo» [official newspaper of the Government of the Republic of Uzbekistan], as well as disseminated among concerned parties.

4. **Internal control system**
   4.1 Controlling agency should introduce quality assurance system and internal control system and establish an internal audit unit.
**BIBLIOGRAPHY**

**1. Legislation**


Decree of the President of Uzbekistan UP-1503, dated August 8, 1996 “On the Regulation of Inspections and the Improvement of the Coordination of Activities of Inspecting Agencies,” (as amended).

Decree of the President of Uzbekistan UP-3619, dated June 14, 2005 “On Further Measures of Development of Protection of the Rights of Entrepreneurs”.

Decree of the President of Uzbekistan UP-3622, dated June 24, 2005 “On Liberalization of Financial Liability of Entrepreneurs for Business Violations”.


**2. Publications**


### 3. Additional documents


