Capital Budgeting and Budgeting Practices of Foreign Operations in Uzbekistan: An Exploratory Study

Mathew Tsamenyi and Venancio Tauringana

INTRODUCTION

The complexities of managerial decision making as firms become international have been documented before (Gray et al., 2001), often to point out the intricacies of the international business environment (Eiteman et al., 2000), which is characterized by economic, social, political, and cultural diversity. International companies must adapt to the local environment, yet they must also function within the framework of the head office. Consequently, decisions about capital investments and budgetary controls are more problematic for international companies than for their domestic counterparts (Anderson and Forsgren, 1996; Choi et al., 2002; Gray et al., 2001). The problem is compounded when an international company operates in the developing world, which is characterized by high economic and political uncertainty (Belkaoui, 1994).

Uzbekistan is one of the 15 newly-independent states created from the disintegration of the Soviet Union. Like most of the other post-Soviet republics, Uzbekistan embarked on economic liberalization immediately after independence; its "open door" policy has led to a substantial increase in direct foreign investment, because Uzbekistan was perceived as having significant investment opportunities. While the business environment in Uzbekistan has been considered volatile, there is no reliable and accurate data to aid foreign investors about decisions about the business environment. Thus, companies that have invested in Uzbekistan have had trouble assessing the specific risks of Uzbekistan, a subject that few studies have considered. (A thorough search for reliable materials on Uzbekistan yielded only one study available for public use—a report published by the Economist Intelligence Unit in 1997.) Uzbekistan's case is complicated by the fact that it is often treated as an Asian country by international investors yet also as part of the Soviet Union, so the same approaches used for Russia, the Ukraine, and other European parts of the Former Soviet Union are often applied.

This article provides empirical evidence on capital budgeting and budgeting practices in foreign companies operating in Uzbekistan. The article also investigates how these companies analyze environmental risk. The article is motivated by the high failure rate of foreign investments in Uzbekistan and to provide insights into the operations of international companies in Uzbekistan. One report (Colin, 1998) observes that approximately one-third of foreign companies investing in Uzbekistan fail and leave the country within three years after entry.

***Mathew Tsamenyi** is Senior Lecturer in Management Accounting at the School of Business and Finance at Sheffield Hallam University in the United Kingdom. **Venancio Tauringana** is Senior Lecturer in Accounting and Finance in the School of Finance and Law at Bournemouth University in Fern Barrow, Poole, Dorset, the United Kingdom.*
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The remainder of the article is structured as follows. The next section presents the research approach. It is followed by a brief description of the Uzbekistan environment. Then the results of the study are provided.

RESEARCH APPROACH

The research is conducted using a data triangulation approach. As a result, data is gathered from three main sources: a questionnaire, interviews, and document analysis. The questionnaire may be found in Appendix A. A sample of 90 organizations was randomly selected from the total number of organizations with foreign ownership in Uzbekistan. All the selected organizations have their main office in Tashkent, the capital of Uzbekistan. The sample was limited to Tashkent for two main reasons. First, Tashkent accounts for 46.2% of all business operations in Uzbekistan. Second, 89.7% of all foreign companies with operations in Uzbekistan have their headquarters in Tashkent (The Economist Intelligence Unit, 1997). The questionnaires were mailed to the finance director of each company. Exhibit 1 summarizes the responses.

Exhibit 1. Responses

Questionnaires sent out	90
Useable questionnaires received	36
Percentage response rate	40%

To understand the operations of the Uzbek economy and the likely effect on the surveyed companies, interviews were also conducted with one top manager from The National Bank of Uzbekistan and with a top manager from a foreign-owned bank operating in Uzbekistan. The National Bank of Uzbekistan, the major state bank, accounts for 60% of all bank transactions in Uzbekistan. The foreign-owned bank is the only foreign bank among the five largest banks in Uzbekistan.

OVERVIEW OF THE UZBEKISTAN BUSINESS ENVIRONMENT

Uzbekistan is a former soviet Republic situated in Central Asia. It has many ethnic groups: "Uzbekistan is inhabited by more than 45 nationalities, with 32% of the population being minorities, predominantly Russians (11.6%), Tatars (4.9%), Tajics (5.1%), Ukrainians (0.5%), Jewish (1.2%), Kazaks (4.2%)" (Uzbekistan SSR: Facts, 1984). Uzbekistan became an independent nation after the collapse of the Soviet Union in September 1991. Uzbekistan's population is estimated at 24.1 million, with an area of 447,400 square kilometers. Uzbek is the state language, though in towns people often speak Russian. There is limited data about Uzbekistan available. As the Economist Intelligence Unit (1997) has noted:

> *Easily the best data available are those produced by IMF, which tries to make sense of figures... In descending order of usefulness, World*

Bank, European Bank for Reconstruction and Development, and OECD data tend to rely heavily on government figures, resulting in poorer quality and reliability. It is very common for IMF, OECD, World Bank and OECD data to be inconsistent, even though they all come originally from Goscomprognozstat.

A comparative analysis of the main economic indicators presented by official sources, World Bank and the IMF is presented in the Exhibit 2 below. All currency results shown in Exhibit 2 are in millions of U.S. dollars (USD) and are for the end of 1996 (latest data available from all sources). IMF data comes from the working paper for 1996 ("Output Decline and Recovery").

Exhibit 2. Economic Indicators

Indicator	**Official Statistics**	**World Bank Statistics**	**IMF figures**
GDP	$13,951.3	$13,861.0	$11,445.3
GDP per head (USD)	$599	$595	$491
Share of agriculture in GDP (%)	22.5	32.2	28.5
Share of manufacturing in GDP (%)	17.8	17.4	16.5
Average monthly inflation, %	4.2	5.9	N/A
Foreign Trade Turnover	$9,310.0	$7,881.0	$6,220.0
Imports	$5,590.0	$3,695.0	$2,584.0
Exports	$4,720.0	$4,186.0	$3,636.0

Uzbekistan has high population growth rate of 2.5%, and 24 years is the average age of Uzbekistan population. Only 48% of the population is employed (*Uzbekistan Today*, 1999). Between 1989 and 1995 there was a net emigration from Uzbekistan of 565,000 people, most of them Russians, Ukrainians, Belarussian, Germans, Tatars, Greeks, and Jews. Ethnic Uzbeks are among the worst-educated of any ethnic group in the former Soviet Union, and educational standards are declining (Economist Intelligence Unit, 1997). Most of the economic infrastructure, such as roads, telephones, and railways, has existed since Soviet times, but because of bad maintenance during the years since Uzbekistan became independent, this system is in poor condition. Since 1992, when the government declared the policy of self-sufficiency of resources, Uzbekistan has been producing energy, gas, and oil for its own consumption, though the industry remains inefficient despite heavy investments.

One of the main types of infrastructure required for successful business operations is the financial services industry, which is underdeveloped in Uzbekistan. Most banks are either state-owned or joint ventures with state-owned banks. Though theoretically these banks function as private institutions, in practice they operate under strict government regulation and control. The government, for instance, defines the sectors or companies to which credits for development should be granted and also the interest rates charged. Uzbekistan has in total 30 licensed banks (as of March 1999), two of which are privately owned and three joint ventures. All the rest are state-owned. Colin (1998) observes that 94% of the banking market is controlled by the top five banks. The state-owned National Bank of Uzbekistan alone accounts for about 60% of all bank assets and transactions.

The economy of Uzbekistan was minimally affected by the collapse of the central economy and control system; it appeared quite stable during the early years of independence. One explanation for this was that the government took a more cautious approach toward market reforms and instead largely maintained the command system inherited from the Soviet Union (Economist Intelligence Unit, 1997; IMF Report, 1996). As the Economist Intelligence Unit report (1997) notes that:

> *Official data indicate that between 1991 and 1995 real GDP fell by just 18%, less than the 18.35% contractions experienced by Poland and Hungary, and a fraction of the 55.9% cumulative fall in Kazakhstan or the 54.5% fall in the Kyrgyz Republic in the same period.*

Uzbekistan is heavily dependent on the production of cotton and the excavation of mineral resources. As Colin (1998) notes, "worldwide, Uzbekistan is the second largest cotton exporter. In terms of production, Uzbekistan ranks fourth in uranium, fifth in cotton, seventh in gold, and tenth in natural gases." The government controls the export of these products. Although produced by independent farmers, cotton can be sold only to the government at a controlled price.

The Uzbekistan government is constantly developing new privatization programs. The most publicized of these started in 1996 with the help of 51 "PIFs" (private, or governmentally created, investment funds). These funds sell company shares to the public and then invest funds into shares of the firms put for sale. The shareholdings of the PIFs are restricted to 10% in any company, thus ensuring that they cannot influence managerial decisions. According to governmental sources, by the end of 1998, about 1,500 large and midsized enterprises had been privatized. In reality, however, structural changes within these companies can be considered a myth. As Colin (1998) notes:

> *Typically, 25% of the shares in privatized firms are retained by the State Property Committee, 26% are sold to employee collectives and, of the remaining 49% theoretically available for private, including foreign, investors, substantial chunks are transferred or sold to other state institutions, including governmental departments and state owned banks.*

Uzbekistan also experiences a high inflation and a rapid depreciation in the value of the local currency, the sum. The Economist Intelligence Unit (1997) notes the high inflationary problems as:

> *High inflation and a shortage of skilled staff mean that, although Uzbekistan is poor, it is an expensive place to do business. In addition, since there is virtually no value added in the country's main exports, there is no incentive to improve efficiency and thus boost international competitiveness.*

Currently, there are three exchange rates operating in Uzbekistan. The *official rate* is established by the government auctions each Monday. Only state-owned organizations have the right to make transactions at this auction, and the

Central Bank fixes the exchange rates before the auction starts. Few high-profile joint ventures have the right to access the currency at that rate. The *commercial rate* is the rate that other businesses and the general population are allowed to use for purchases and sales of foreign currencies at the commercial banks. There are, however, strict government controls over the purchase of foreign currencies. For instance, the exchange of Sums for any other currency is forbidden to students going to study abroad or to those going abroad, whether for holidays or business trips. The third exchange rate, which is the market rate, is referred to as the *bazaar rate*. This is equivalent to a black-market rate; its use is officially illegal, though most people buy and sell foreign exchange at the bazaar rate.

The spread between the three rates is presented in Exhibit 3 below.

Exhibit 3. Analysis of Exchange Rates

Rate 1USD/Sum	**Dec. 1996**	**Aug. 1997**	**Dec. 1998**	**Dec. 1999**
Official Exchange Rate	40.2	67.8	105.6	128.4
Commercial Exchange Rate	45.8	75.0	110.4	140
Bazaar Rate	64.2	152	360	780

In 1996 the government revised its investment policy by establishing a minimum foreign investment of USD $300,000 in hopes that small- and medium-sized investors would increase the inflow of capital into the country. The new law, however, resulted in the closure of some foreign companies operating in the country that had less than the required minimum investment. By 1998 the level of foreign investments from small-to medium-sized businesses fell by 65% (IMF, 1998). As a result, since 1998 the government has reduced the minimum acceptable foreign investments from $300,000 to $150,000 to increase the declining investments from small- to medium-sized foreign investors.

RESULTS

The organizations surveyed were categorized into four main sectors: Manufacturing and Agriculture, Banking, Communications, and Other Services (see Exhibit 4). Manufacturing and agriculture are combined because of the strict entry requirements for foreign investors in both industries. This may account for the limited number of foreign companies operating in these two industries (representing only 25% of the responses). Communications, banking, and other services collectively account for 75% of the total responses. Most of the companies (52.7%) have been operating in Uzbekistan for 3 to 5 years.

According to the Economist Intelligence Unit (1997) the interest of foreign investors in Uzbekistan has declined significantly since the imposition of currency controls and the introduction of the minimum foreign investments of USD 300,000 in 1996. The manager of the foreign-owned bank interviewed observed that since 1996, for every one company investing in Uzbekistan two existing companies have closed their operations. The manager of the National Bank of

Uzbekistan interviewed suggests that the figure may be one to three. The result of our analysis suggests that about 30% of the companies entered Uzbekistan after 1996.

Exhibit 4. Background of the Organizations

	Number of Companies	Percentage
Industry:		
Manufacturing/Agriculture	9	25%
Banking	7	19.4%
Communications	8	22.2%
Other Services	12	33.3%
Experience in Uzbekistan:		
1–2 years	11	30.6%
3–5 years	19	52.8%
More than 5 years	6	16.7%
Other Countries of Operations:		
1–3 countries	16	44.4%
4–8 countries	4	11.1%
9–12 countries	2	5.6%
13–20 countries	2	5.6%
More than 20 countries	12	33.3%
Size of Company:		
Less than 50 employees	11	30.6%
51–100 employees	8	22.2%
101–200 employees	9	25%
More than 200 employees	8	22.2%

The respondents were also asked about the number of countries in which their companies operate, apart from Uzbekistan. The majority of the companies have operations in three or fewer countries other than Uzbekistan. Only 33.3% of the companies operating in Uzbekistan have operations in more than 20 countries. We also examined the size of the companies in terms of number of employees; companies having 100 or fewer employees are considered "small."

The analysis suggests that a majority of the organizations that responded to the survey (52.8%) employ less than 100 employees and may be classified as small companies. Only 22.2% of the responding organizations employ more than 200 employees. One reason for the high number of small-sized companies could be that most of the companies (about 75%) operate in the service industry and therefore do not require many employees. Regarding the small size of the companies (as the manager of the foreign bank observed), "Most companies are not interested in the development of operations in Uzbekistan right now… They are waiting till the currency exchange ban is lifted."

Other background information obtained (but not included in Exhibit 4) include the proportion of foreign to local managers, ownership structure, and country of origin. In the case of joint ventures, data was collected on the country of origin of the foreign partner, the status of the local partner (individual versus government), and reasons for setting up the joint venture. The analysis suggests that more than a third of the companies (36.2%) have at least 50% of managers and consultants hired outside Uzbekistan, regardless of costs. The main reason identified for this is the perceived lack of managerial expertise in Uzbekistan. Nearly 39% of the companies surveyed are wholly foreign-owned. Similarly, joint ventures represent 38.9% of the sample. Eleven percent of the companies are domestic but managed by foreign managers. Only 11% of the companies surveyed were established before Uzbekistan gained independence in 1991. These are companies that entered into joint ventures with the government by buying shares in former state-owned enterprises.

The analysis of the country of origin suggests that for both joint ventures and wholly foreign-owned companies, the highest shareholding is by Asian investors. About 35% of wholly foreign-owned companies and 61.5% of Joint Ventures originate from Asia. European investors constitute 22.2% of all investments, 11.1% of the total from the United Kingdom. Only 8.3% of the investments are from the United States, and most of those are wholly foreign-owned.

The main reasons for joint ventures identified by the companies during the survey are easing access to the market and obtaining the client base of the partner (64.6%). Most joint ventures (26.7%) include the government as a partner. As the manager of the foreign-owned bank interviewed explained:

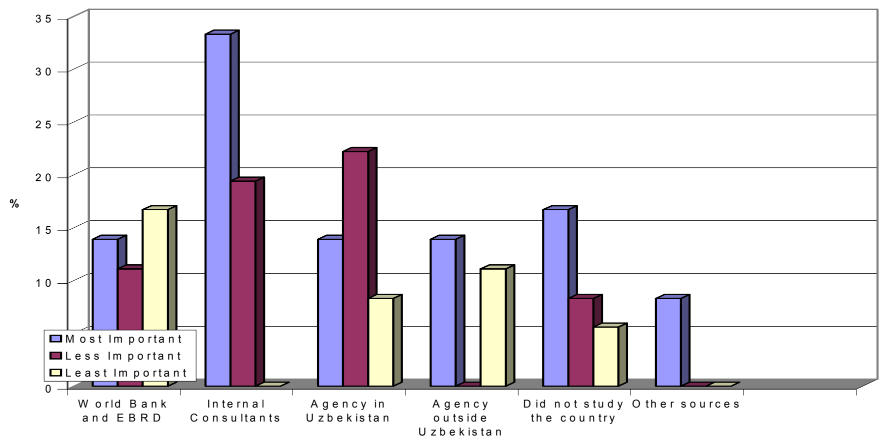
> *Partnership with the government usually means less legal obstacles and faster decision making by local authorities. In Uzbekistan the government makes a great deal of economic decisions and conditions for foreign companies are discussed individually for each company by local authorities. The choice of the government as a joint venture partner is therefore very important.*

Environmental Risk

Respondents were asked to indicate how their company studied the Uzbekistan business environment before entering the country. The results as presented in Exhibit 5 below show that the most important approach investors used in studying the Uzbekistan environment is internal consultants—insiders who have superior knowledge about the country. This method has been used by more than half (52.7%) of the respondents. Thirty-three percent of the respondents identified the use of internal consultants as the most important. Just over 19% ranked the method as the second most important, while none of the companies ranked it as the third most important.

Forty-seven percent of the respondents have used special market research agencies in Uzbekistan for the purpose of studying the Uzbekistan environment. Of these, most (22.2%) ranked these agencies as the second most important method. The third most important method is the publicly available information and research articles published by different organizations studying Uzbekistan, such as the World Bank, the IMF, and the European Bank for Reconstruction and Development. This method has been used by 41.7% of companies, of which 13.9% ranked it as the most important, 11.1% ranked it as the second most important method, and 16.7% ranked it is the third most important. Surprisingly, 16.7% of the companies surveyed did not study the Uzbekistan environment at all, while 13.9% noted that although they did study the Uzbekistan environment, they did not study it well enough.

Exhibit 5. Methods of Analyzing Investment Environment



Perception of Risk in Uzbekistan

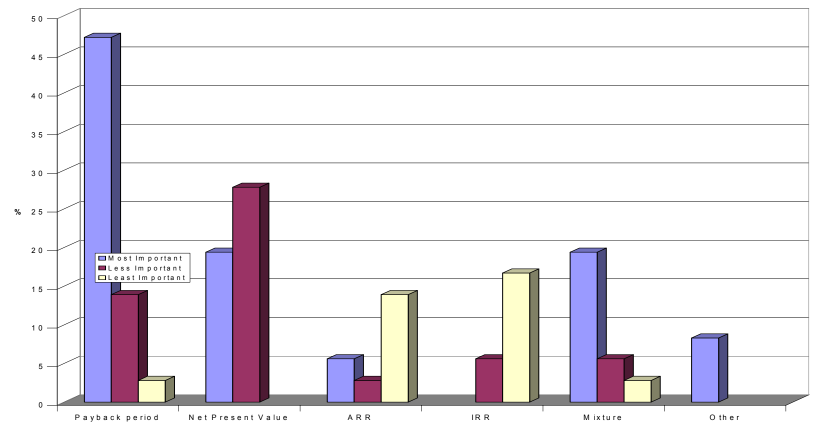
The respondents were asked to indicate their perception of the degree of risk in Uzbekistan prior to investing in the country. Sixty-one percent of the respondents noted that they did not perceive their investment in Uzbekistan as risky, while 38.9% considered the investment to be risky. Uzbekistan is a developing country in transition, so it is not surprising that 94.4% of the respondents considered economic instability to be the main risk factor. Fifty percent ranked economic instability as the most important risk for foreign investments, 36.1% ranked it as the second most important, while 8.3% ranked it as the third most important risk factor. Just over 61% of the respondents perceived political instability to be a major risk factor for foreign investors. This was ranked as the most important risk by 30.6% of respondents, second most important by 25% of respondents and the third most important by 5.6% of the respondents.

Poor infrastructure was considered an important risk by 52.8% of the respondents: 8.3% ranked it first, 13.9% ranked it as the second most important factor, and 30.6% ranked it as the third most important. The level of technological development, cultural factors, and other factors were considered important risks by 36.2%, 19.5% and 5.6% of respondents, respectively. These findings are consistent with previous studies on risk in the mining sectors of Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. Clark and Naito (1998) identified the major risks confronting this sector as political, economic, financial, infrastructure, contractual, environmental, social and cultural, and workforce-related.

Techniques Used in Capital Budgeting

The respondents were asked to rank in order of importance the techniques used in evaluating the profitability of projects in Uzbekistan (see Exhibit 6).

Exhibit 6. Techniques for Assessing Capital Investments



Most of the respondents (63.9%) used the Payback Period method to evaluate projects in Uzbekistan. This method was ranked as the most important by 47.2% of respondents, second most important by 13.9%, and third most important by 2.8%. The net present value (NPV) method is used by 47.2% of the respondents, of whom 19.4% ranked it as the most important method.

Despite the use of the NPV method as the second most-preferred technique, the two bank officials interviewed both identified the practical problems of its use in Uzbekistan. They argue that the use of the NPV method in Uzbekistan will produce a misleading result. It is impossible to estimate the real discount rate because of the inaccuracies in official data. The government calculates interest rates, which are often changed with no prior notice. Moreover, it is difficult to know the true level of inflation, because accurate data is unavailable. Both managers interviewed believed that it is impossible to predict any profits for a period of more than one year. As one stated, "All project evaluation should be based on market research and common sense rather than any calculations."

Profitability of Uzbekistan Investments

To gauge the profitability of foreign investments in Uzbekistan, respondents were asked how profitable they perceive their investments in Uzbekistan to be. Nearly 14% perceived that their investments yielded more profit than expected. An equal number noted that the projects yielded profits as expected, while 33.3% of the respondents believed that the projects generated fewer profits than expected. In total, 61.1% of the respondents described their projects as profitable. Twenty-five percent of the respondents noted that their projects did not cover their costs. Just over 33% of companies were dissatisfied with the profits generated. The high percentage of dissatisfied companies can be explained by the opinion of the official interviewed from National Bank of Uzbekistan:

> *Many companies set their profit targets too high, sometimes it is more than 100%. They still remember Uzbekistan economy just after Soviet Union collapse, when the market was empty and highly regulated… They forget to adjust profit expectations to changing times.*

Factors That Influenced the Decision to Invest in Uzbekistan

The respondents were asked to rank the factors that influenced their decision to invest in Uzbekistan. Some 16.7% identify profitability as the ultimate reason. Fifty percent of the respondents identified presence in the market as the main reason. This finding is consistent with Hill (1997), who argued that often these companies expect to enjoy the "first mover" advantage of pioneers. As a result, these companies do not plan any developments in the country until the market starts to expand. These companies may therefore be happy to continue their Uzbekistan operations even without generating any profits.

Budgetary Control System

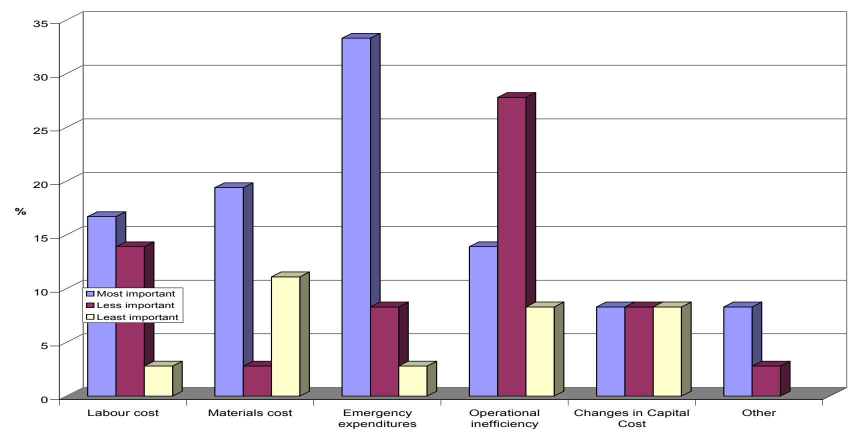
Nearly 14% of the companies surveyed indicated that they do not operate any formal budgetary control system. The respondents were also asked if they have consistently reported unfavorable budget variances for Uzbekistan based projects. Just over 72% of respondents reported unfavorable variances, while 27.8% did not. As the official interviewed at the foreign-owned bank stated, "Most companies use official governmental sources, while projecting inflation level for the life of the project. It is one of the most widespread mistakes to blame for budget variances. The difference between official and real inflation is at least 50%."

The companies were also asked to compare budget variances for Uzbekistan projects with their usual practices. Surprisingly, only 38.9% of the companies reported larger unfavorable budget variances in Uzbekistan than they found usual. This implies that for the remaining 33.3% of those who report unfavorable budget variances, it is a common practice to operate outside budget limits. Even more surprisingly, 33.3% noted that they did not compare the Uzbekistan budget variance to the result received in other countries, so they would seem not to have any commonly used control practice in their companies.

Additionally, companies ranked the items for which the largest unfavorable budget variances occur (see Exhibit 7). Some 44.4% reported differences in "emergency expenditures," 30.6% have budget variances in labor cost, 30.5% reported variances in material costs, 50% attributed the variances to operational inefficiency, 24.9% reported variances in capital cost, and 11.1% have budget variances in other items. Two respondents, who ranked emergency expenditures first in their list of variances, added the comment "bribes."

The companies were also asked if, in their opinion, budget control helps to identify additional risks associated with a project at an early stage and can serve as a good control tool. Nearly 31% of respondents did not believe in the usefulness of budget control; they saw it as more of a constraint than as a helpful tool.

Exhibit 7. Budgeted Variances



The companies were also asked about the currency in which their budget is usually initiated. This question was necessary to examine whether the head office significantly influences budgets. Just over 47% of the respondents initiated budgets in both local currency and in the currency of the head office, while 27.8% used only the currency of the head office. Some 25% of the respondents used only the Uzbek Sum. The official interviewed from the foreign-owned bank noted the complications of using both the local currency and the currency of the head office to prepare budgets. As he observed, “In Uzbekistan, it is very difficult to come out with the right exchange rate. The best way to overcome multiple exchange rates is to report all expenses in the foreign currency, and only real exchange rate should be used for currency conversion.”

CONCLUSION

This article provides empirical evidence on capital budgeting and budgeting practices of foreign companies operating in Uzbekistan. The research is motivated by the lack of evidence on management practices in Uzbekistan, specifically, and in the developing world in general. The analysis provided suggests that Uzbekistan official statistics sources do not present up-to-date information to investors. Inflation figures, for instance, are misleading. This negatively affects companies’ profit expectations and reduces the value of discounting for purposes of capital budgeting and estimating profits.

The survey shows that joint ventures are the most efficient structure of foreign investments in Uzbekistan. It appears there is a correlation between the rationale for creating the joint venture and the performance of the venture. The highest profits have been reported by companies that said they created joint ventures “to gain an expertise of the local market and to obtain the client base of the partner.” Industry also appears to play an important role in company profitability. Companies engaged in banking services reported the highest profits, while companies in other industries often reported losses.

Most of the companies studied reported unfavorable budget variances. The largest variance was reported in emergency expenditures, with bribes to authorities representing a substantial amount. Operational inefficiency is believed to be second most important contributor to adverse budget variances. However, further analysis has shown that the combination of local and foreign managers in the company produces effective results. Local managers presumably have experience working in the local market and also have the required connections, which could reduce outflows in emergency expenditures.

In terms of risk, economic instability has been rated as the most important risk factor for companies operating in Uzbekistan. Political instability is rated second, followed by poor infrastructure development. However, companies with long experiences in Uzbekistan ranked political instability as the most important risk factor.

The majority of the companies used more than one technique for appraising capital investment projects. The payback period was found to be the technique used most. However, the research did not reveal any correlation between the technique used for investment appraisal and profitability. In sum, while this study attempts to provide empirical evidence about certain management practices of foreign operations in Uzbekistan, the sample is too small to allow for much generalization. Nevertheless, this exploratory study should form the basis for future research, especially about other post-Soviet economies.

APPENDIX A: QUESTIONNAIRE SURVEY

A. Background information

Please select the industry that your company operates in.

- ❑ Manufacturing/Agriculture
- ❑ Banking
- ❑ Communications
- ❑ Others (please specify)

How long has your company been operating in Uzbekistan?

- ❑ Less than 1 year
- ❑ 1-2 years
- ❑ 3-5 years
- ❑ More than 5 years

In how many countries other than Uzbekistan does your company have operations?

- ❑ 1 to 3
- ❑ 4 to 8
- ❑ 9 to 12
- ❑ 13 to 20
- ❑ More than 20

What is the size of your company in Uzbekistan in terms of number of employees?

- ❑ Less than 50 employees
- ❑ 51 to 100 employees
- ❑ 101 to 200 employees

- ❑ More than 200 employees

What is the proportion of foreign managers/ consultants to those hired locally?

- ❑ 50% foreign and 50% local
- ❑ Majority (more than 70%) are local
- ❑ Majority (more than 70%) are foreign
- ❑ Only local
- ❑ Only foreign
- ❑ Other (please specify)

What is the ownership structure of your company?

- ❑ Purely private –owned by locals (with foreign managers/ consultants)
- ❑ Purely governmental (with foreign consultants)
- ❑ Purely foreign
- ❑ Joint Venture
- ❑ Partially owned by government with foreign capital
- ❑ None of the above

If your company is purely foreign, what is its country of origin?

B. Questions to Joint Ventures Only

If your company is Joint Venture, which country is the foreign partner from?

____

Is your local partner an

- ❑ Individual or
- ❑ Government?

What was the main reason for the creation of the joint venture?

- ❑ Government requirements
- ❑ Tax purposes
- ❑ To obtain local expertise of the market
- ❑ To ease access into the market and obtain client base of the partner
- ❑ Other, please specify

C. Risk and Project Evaluation

Before entering the Uzbekistan market, how did your company study the Uzbekistan market? (Please rank from1 to 3 in order of importance, 1 is the method used most, 3 is the least used)

- ❑ World Bank and European Bank of Reconstruction and Development reports
- ❑ With the help of internal consultants
- ❑ With the help of special agency in Uzbekistan
- ❑ With the help of special agency outside the Uzbekistan
- ❑ Did not study the country at all
- ❑ Other, please specify

Did your company consider its investment in Uzbekistan to be risky?

- ❑ Yes
- ❑ No

What are the main risks for your company in Uzbekistan? (Please rank 1 to 3 in order of importance, 1 is the most important, 3 is the least important)

- ❑ Political instability
- ❑ Economical instability
- ❑ Poor infrastructure
- ❑ Level of technological development
- ❑ Impact of culture and human factor
- ❑ Other, please specify

What technique(s) was used to evaluate the profitability of your company's investment in Uzbekistan? (Please rank 1 to 3 in order of importance, 1 is the most used, 3 is the least used)

- ❑ Payback period
- ❑ Net Present Value
- ❑ Accounting rate of return
- ❑ Internal rate of return
- ❑ Combination of methods
- ❑ Other, please specify

What is the outcome of the most recent project your company undertook in Uzbekistan?

- ❑ More profitable than expected
- ❑ As profitable as was predicted
- ❑ Less profitable than expected
- ❑ Break-even
- ❑ Not profitable at all

What factors other than profitability of the project affected the decision to invest in Uzbekistan?

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D. Budgetary Control

Do you have a formal budget control procedure?

- ❑ Yes
- ❑ No

Do you usually report large unfavorable budget variances?

- ❑ Yes
- ❑ No

Was the Uzbekistan project different from the usual practice?

- ❑ Yes, smaller difference
- ❑ Yes, bigger difference
- ❑ No, it is the same

In Uzbekistan, what is the main item in which budget variance occurs? (Please rank 1 to 3 in order of importance, 1 is the most important, 3 is the least important)

- ❑ Labor cost
- ❑ Materials cost

- ❑ Emergency expenditures
- ❑ Operational inefficiency: delays, non-utilized capacity, etc.
- ❑ Changes in Capital Cost: changes in interest rate.
- ❑ Other, please specify

Do you think budget control helps to identify additional risks of the project?
- ❑ Yes
- ❑ No

If yes, please comment.

Do you perform the budget analysis in local or foreign currency?
- ❑ Local currency
- ❑ Foreign currency
- ❑ Both

Where are budgets for Uzbekistan projects normally initiated?
- ❑ From Uzbekistan
- ❑ From the head office overseas
- ❑ Both in Uzbekistan and in head office overseas

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