



PEER REVIEW NOTE

Boosting SME Internationalisation in Uzbekistan through better export promotion policies

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Foreword

The diversification and modernisation of Uzbekistan's economy is a policy priority for the government. The significant volume of exported goods and services is currently concentrated in a limited number of commodities and markets. To diversify its export structure and target markets, Uzbekistan needs to create the conditions that allow exporting firms, including small and medium-sized enterprises (SMEs), to thrive.

SMEs face several specific barriers limiting their export potential. These could be overcome through export promotion policies and institutions for SMEs. An OECD Public-Private Working Group was created at the beginning of 2016 to help design the right policies to address these barriers, which met four times in 2016 and 2017. The Working Group is co-chaired by the Ministry of Economy and the Ministry of Foreign Trade. It brings together the representatives of government, public and non-governmental institutions such as the Export Promotion Fund under the National Bank of Uzbekistan, banking and business associations, the Chamber of Commerce and Industry of Uzbekistan, private financial institutions, non-governmental organisations, think tanks, including the Center for Economic Research, and other development partners.

This peer review note reflects the collective work of the Working Group, as well as the contribution of experts, in particular from France, Germany and Korea, and from the OECD Secretariat. The final recommendations presented in the note were endorsed during the Working Group meeting in June 2017 and were peer reviewed during the OECD Eurasia Competitiveness Roundtable at OECD Eurasia Week 2017 in Almaty, Kazakhstan.

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Acronyms and Abbreviations

ADB	Asian Development Bank
AFD	Agence Française de Développement
bn	billion
CCIU	Chamber of Commerce and Industry of Uzbekistan
CER	Center for Economic Research
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
ECP	Eurasia Competitiveness Programme
EEU	Eurasian Economic Union
EPF	Small Business' and Private Entrepreneurship's Export Promotion Fund
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GDP	gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Co-operation)
GVC	global value chain
IMF	International Monetary Fund
IPA	Investment Promotion Agency
ITC	International Trade Centre
KPI	key performance indicator
mn	million
MFT	Ministry of Foreign Trade of Uzbekistan
MOE	Ministry of Economy of Uzbekistan
NBU	National Bank of Uzbekistan
OECD	Organisation for Economic Co-operation and Development
PPP	purchasing power parity
SME	small and medium-sized enterprise
TFI	trade facilitation indicator
USAID	U.S. Agency for International Development
USD	US dollars
UZS	Uzbek som (currency)
WTO	World Trade Organization

Key Indicators for Uzbekistan

Country profile		
Population, 2015		31.3 million
Surface area		447 400 km ²
GDP (USD, current prices), 2015		66.7 billion
GDP per capita, (USD, current prices), 2015		2 132
Real GDP growth (y-o-y change), 2016		7.8%
Inflation (average consumer prices, y-o-y change), 2016		8.4%
Exports of goods and services (% of GDP), 2015		20.7%
Imports of goods and services (% of GDP), 2015		22.2%
FDI, net inflows (% of GDP), 2015		1.6%
General government net lending/borrowing (% of GDP), 2014		2.2%
Unemployment (% of total labour force), 2016		8.9%

Source: World Bank (2017), *World Development Indicators*, <http://data.worldbank.org/indicator>; IMF (2016a), *World Economic Outlook, April 2016*, www.imf.org/external/pubs/ft/weo/2016/01/; ADB (2017), *Asian Development Outlook 2017*, www.adb.org/publications/asian-development-outlook-2017-middle-income-challenge.

Executive Summary

Uzbekistan has recorded strong economic growth over the last decade, driven in part by growing external trade and a changing export structure. While processed goods are progressively overtaking the export of raw materials, trade remains relatively concentrated. The government aims to continue reducing its exposure to volatile commodity prices and to diversify the range of export markets by strengthening the export potential of the private sector, particularly SMEs.

SMEs face barriers to export that can be addressed with export promotion policies

Over the last decade, the government has identified SME development as a priority. SMEs' contribution to GDP increased to 56.9% in 2016 from 38.5% in 2005, while the ratio of SME exports to total exports has doubled from 14% to 28% since 2008, on the official data. The country has recently initiated major reforms, including currency convertibility, which could further support exports and the integration of SMEs into global value chains. However, SMEs still face barriers when trying to export, and their ratio of exports to GDP remains relatively low. To diversify exports, Uzbekistan needs to create the conditions that will allow SMEs to thrive by further carrying out reforms to improve the general business climate, such as trade facilitation, and export promotion. It is the latter that is the focus of this report.

Enhanced export promotion policies can help address market failures such as the lack of knowledge and limited connections to key markets among SMEs. Uzbekistan has reformed its institutional support for export promotion by creating the SME Export Promotion Fund (EPF) and has developed expansion plans to better reach target markets and diversify exports. However, further action is needed to support SME exports.

Three recommendations to support SME exports

On the basis of its work with Uzbekistan, the OECD has identified three recommendations, drawing on international experience from Germany and Korea:

- **Providing consulting services and market intelligence to SMEs** would allow them to gain critical market knowledge, not least about market potential and product certification. More market- and sector-specific studies, training sessions and advisory services should be provided to SMEs.
- **Expanding the export promotion network abroad and developing a clear value proposition** could support effective export promotion, especially when compared with peer and OECD countries. Export institutions should recruit more sector experts and develop a clear value proposition for Uzbekistan's products in the markets they want to serve.
- **Monitoring and evaluating the impact of export promotion activities** will be critical to determining what works and allocating resources most effectively. Exporter surveys could help gain a better understanding of business priorities and the needs of exporters.

Sector focus: Promoting exports of agricultural produce and home appliances

Two sectors offer different export opportunities. The home appliance sector is a nascent industry for export and a priority for the government. Enhancing marketing activities with targeted market studies, and attracting certification companies could help increase exports. Agriculture was identified as a steady exporting sector with growth potential. Food products already account for 9% of total exports, and are mostly sold to Kazakhstan and Russia. Agribusiness SMEs could be further supported through market studies, advisory services on certification, and the development of national brands.

Uzbekistan: boosting the export promotion system

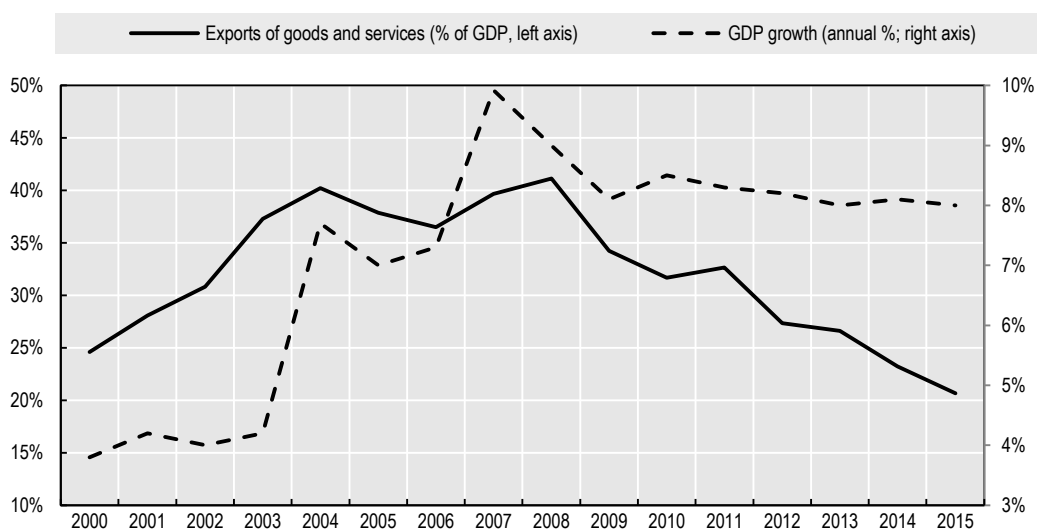
Trade is concentrated in a few natural resources in Uzbekistan. Boosting SME exports can support export diversification and development. The government has engaged reform efforts in favour of economic openness, most notably with respect to currency convertibility. In 2017, the OECD provided policy recommendations to enhance the export promotion system in the country. They focus on: consulting services and market intelligence for SMEs, clear value proposition and export promotion networks abroad, as well as monitoring and evaluating the impact of export promotion activities.

Context

Uzbekistan has taken a cautious path to reform

In the years since independence in 1991, Uzbekistan's approach to economic liberalisation has been cautious but nevertheless based on the recognition of the need for reform. The government committed to a gradual series of reforms, which aimed to minimise their negative or disruptive effects. This approach has proven relatively successful. In 2001, Uzbekistan became the first post-Soviet country to regain pre-independence levels of GDP (World Bank, 2017). By then, it had achieved self-sufficiency in oil, increased natural gas exports, and boosted its food self-sufficiency by shifting from farming cotton to wheat (Pomfret, 2006).

Uzbekistan's endowments of easily exportable primary commodities, namely cotton and gold, helped sustain the economy through the initial years of independence. Subsequently, strong public investment became the key source of growth until the late 1990s. Falling cotton prices in the middle of the decade affected the balance of payments, and a lack of macroeconomic flexibility due to delayed structural reforms led the government to establish strict exchange controls in 1996. It did this in order to promote import-substituting industries, protect foreign exchange reserves and subsidise basic food imports. However, this decision generated welfare losses, estimated by the International Monetary Fund (IMF) to be somewhere between 2% and 8% of GDP, with exporters suffering particular losses (Rosenberg & de Zeeuw, 2000).

Figure 1. Uzbekistan's exports as a share of GDP, and annual GDP growth

Source: (World Bank, 2017)

In the early 2000s, as the country faced an economic slowdown, the government enacted a number of economic reforms, with positive effects on economic growth.¹ From 2005 to 2015, average annual GDP growth exceeded 7%, driven by net exports, state-led investments and remittances (Figure 1) (World Bank, World Development Indicators (Data) , 2017). However, GDP per capita remains below that of neighbouring countries and below the average of low- and middle-income economies overall (World Bank, 2017).

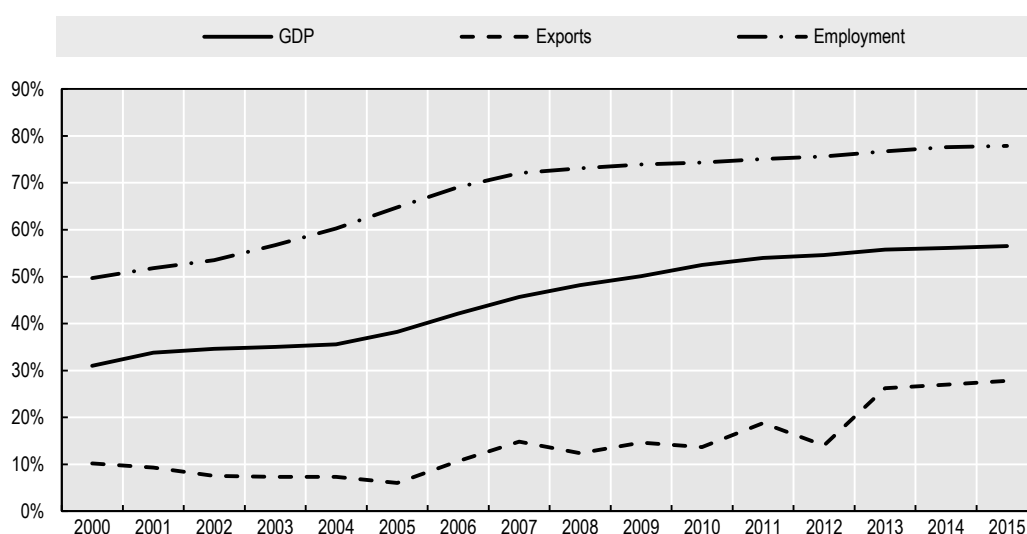
The role of SMEs in the economy has significantly expanded

The development of private small and medium-sized enterprises (SMEs) and entrepreneurship has been consistently identified as a priority by the government since independence. Several government strategies, programmes and decrees have aimed at supporting the development of SMEs, notably by improving access to finance for small businesses, developing ICT infrastructure, streamlining and eliminating administrative procedures, and simplifying and reducing the tax burden. The government's aims include enhancing the overall business environment and reducing the interference of the state in the economic activities of SMEs, ultimately generating jobs and income through SME growth and entrepreneurship (Uzbekistan, 2013). In 2017, the Government stepped up its reform efforts to these ends. As a result, Uzbekistan moved up 13 positions in the World Bank's 2018 Doing Business Report. The country ranks 74th and was among the top ten economies worldwide in terms of reform progress, with the most notable improvements coming from doing business reforms (World Bank, 2018).

The role of SMEs in the economy has significantly increased since 2000 in terms of employment, GDP and exports. This trend has further accelerated since 2010, following a new set of presidential decrees and government programmes initiated after the financial crisis.² In Uzbekistan, according to official data, SMEs are the biggest source of employment, as they now provide 78% of jobs, compared to 74.3% in 2010 and just below 50% in 2000. This is more than the 70% provided by SMEs on average in OECD countries (OECD, 2017b).

Their contribution to GDP has also increased substantially. While SMEs contributed only 31% of GDP in 2000, their share had almost doubled to 56.9% by 2016 (Figure 2). They represent more than 45% of industrial production, 61.4% of services, and 98.2% of agriculture production (UzStat, 2017a). Tax reduction, simplified business registration and licensing, and easier access to finance are often cited by official sources as the main reforms driving SME development in the country (Government of Uzbekistan, 2011; President of Uzbekistan, 2016).

Figure 2. SMEs' contribution to exports, GDP and employment in Uzbekistan



Source: UzStat (2017a).

SME exports have also significantly increased since 2000, and further accelerated since 2010, with their share of total exports rising from 10.2% in 2000 to 13.7% in 2010 and 26.5% in 2016, according to official data. The government's stated priorities have been focused on simplifying customs procedures, supporting SME export financing, and boosting export promotion.

SMEs' contribution to exports remains relatively limited however (Figure 2). Although their share has been growing, SMEs generated less than 30% of Uzbekistan's exports in 2015. This meant that SME exports amounted to less than 6% of GDP, compared to around 15% on average in EU member countries. The weakness of SME exports is in turn reflected in Uzbekistan's comparatively low overall ratio of exports to GDP, which, at 21%, is far below the EU average of 39%. In addition, Uzbekistan's main exports, namely gold, radioactive materials and refined copper, are not in the sectors where SMEs tend to operate. This leaves a large untapped potential for SMEs to further develop exports.

SMEs represent more than 76% of exporting organisations on the official data. However, a significant share of exports, particularly in the agricultural sector, is still channelled through state holding companies such as Uzagroexport, which aggregate products from SMEs. SMEs often have sales commission contracts with these specialised foreign trade companies, and will directly export through them. In OECD countries, the contribution of SMEs to exports as upstream producers accounts for more than half of the domestic value added of total exports (OECD & World Bank, 2015). This indirect contribution has yet to

be assessed for SMEs in Uzbekistan and should increase the figures for their contribution to exports.

Yet Uzbekistan's economy needs to internationalise further

Boosting exports can have an impact on economic growth. Trade, and particularly exports, can be critical drivers of growth, learning and competitiveness (OECD, 2010b). The benefits of trade include, but are not limited to, the effects of specialisation and more efficient allocation of resources; the availability of a greater variety of intermediate goods or services, often at lower cost; economies of scale; enhanced competition; and transfers of skills and technology (Kowalski & Büge, 2013). Research has also identified a positive link between exports and employment (Kiyota, 2014).

Export diversification helps countries reduce their dependence on a limited number of commodities and trade partners. Recent research on low-income countries shows that the effect of export diversification is economically very important, as a one standard deviation increase in export diversification is shown to increase the average annual growth rate by 0.8 percentage points (Makhmadshoev, Ibeh, & Crone, 2015).

Imports are critical to both diversifying economic activity and increasing exports. Foreign sourcing is a complement to, rather than a substitute for, the creation of domestic value added and employment from exports. Imported inputs can reduce costs, increase technological sophistication, and provide unique components to enhance the production and competitiveness of domestic goods. In the era of GVCs, export competitiveness is inextricably linked to importing (Lopez Gonzalez, 2016). Creating barriers for imports thus also hinders exports.

Uzbekistan's growth in the past decade was partly driven by trade, as rising prices for primary commodities helped sustain a trade surplus (Mazhikeyev, Edwards, & Rizov, 2015). However, the trade surplus is also due to tariff and non-tariff barriers to imports, bolstered by policies to encourage import substitution. More recently, export earnings have fallen sharply, due to the drop in commodity prices and the slowdown in the Russian Federation; Uzbekistan's positive foreign trade balance decreased and the current account surplus narrowed to 0.3% of GDP (ADB, 2016). Exports of goods and services represented only 18.8% of Uzbekistan's GDP in 2016, compared to 28.5% in Kazakhstan and 28.5% on average among OECD countries (World Bank, 2017).

The need for internationalisation has increasingly been recognised by the government. Its priorities for industrial development and the business environment for SMEs have been set out in several decrees and government strategies. Government efforts have in particular intensified since 2010 and the State Programme that declared 2011 the *Year of Small Business and Private Entrepreneurship* (Government of Uzbekistan, 2011).

More recently, the Development Strategy for 2017-2021 identifies goals such as the "liberalisation and facilitation of export activities, diversification of the export structure and geography, and the expansion and mobilisation of the export potential of economic sectors and territories". The government also aims at full liberalisation of foreign economic activities in the field of exports and the removal of existing obstacles for exporting firms. It has suggested a stronger role for economic counsellors abroad in strengthening exports.

Box 1. Uzbekistan's export structure by product and partner country

Uzbekistan's exports are currently concentrated in raw materials, especially in three sectors: gas and metals, cotton, and fruits and vegetables. As well as being concentrated in terms of products exported, Uzbekistan's diversification is also limited in terms of its export markets. Official sources indicate that the main export destinations for Uzbek products and goods are China, Russia, Kazakhstan, Turkey, Afghanistan, Iran, and Korea, which together account for 53.3% of exports. The structure of exports has changed since 2000, from a very heavy reliance on cotton fibre and natural resources to an export basket comprised more of services, natural resources, and other processed products.

The country's trade structure remains concentrated, although it is significantly more diversified than it was during the early years of independence. In particular, the share of exports to the Russian Federation – which stood at 27.8% in 1992 – had fallen to 14.7% in 2016, while the shares of other CIS countries grew. Uzbekistan has also significantly diversified the products it exports since 1992, due to an increase in exports of food and manufactured goods. For instance, cotton fibre fell from 47.9% of total exports in 1992 to 5.2% in 2016 (Carneiro & Trushin, 2013).

Sources: (OEC, 2017a), (Carneiro & Trushin, 2013)

Trade regime, currency convertibility and trade facilitation remain reform priorities

Trade regime

The comparatively limited role of exports in Uzbekistan's economy might stem in part from its trade regime. Uzbekistan is not a member of the WTO and its trade regime was until recently defined by a high level of protection for import-substituting industries and restrictions on exports of food and other products. Its localisation programme provides tax and customs privileges for import-substituting industries and exporters of manufactured products (Ganiev & Yusupov, 2012).

Currency convertibility

Firms complained for many years that currency convertibility issues, such as long and complex procedures for conversion, currency controls and repatriation requirements, increased the cost of exports and impeded the transfer of profits and the sourcing of supplies abroad. This made business transactions and trade more costly, complicated and time-consuming, both for imports of inputs used for domestic production and for exports. Although Uzbekistan legally introduced full convertibility of the Uzbek sum for current international transactions in 2003, importers and exporters have faced difficulties in obtaining foreign exchange. According to recent IMF research, Uzbekistan in 2016 was still applying seven out of eight possible capital flow management measures (Horton, Samiei, Epstein, & Ross, 2016).³

These stringent currency controls had an adverse effect on the ability of businesses to carry out their export/import-related operations (EBRD, 2016). For all legal entities, including those with foreign investments, access to foreign currency previously required

special permission from the Central Bank. Applicants had to open a special foreign currency account in an authorised bank and needed to go through an administrative process established by the Republican Commission for Monetary Policy that required time and effort (Export.gov, 2017). This constituted a major barrier for imports but also for exports, because equipment, raw materials, spare parts and other goods often need to be imported to produce exportable goods (Ganiev & Yusupov, 2012). This in turn limited the integration of local SMEs into GVCs, as imports play a crucial role by making available advanced inputs, and by providing technology, knowledge and capital (OECD and World Bank, 2015).

However, in 2017, consistent with the desire to strengthen export activities, the government took some important steps in the direction of full currency convertibility. In September 2017, a presidential decree abolished the requirement to convert foreign currency export earnings for all types of businesses (Reuters, 2017b). The exchange rate is now determined on the basis of market mechanisms, free currency exchange is allowed and restrictive measures have been lifted. Due to these changes, the Uzbek sum immediately dropped to 8100 per USD from 4,200 a day before the introduction of the new exchange rate regime. Liberalisation has been detrimental for the black market (Eurasianet, 2017). Currency convertibility and the new exchange rate have been positively received by the international community and by investors (IMF, 2017). They could contribute to making the economy more open, expanding export opportunities, and encouraging foreign investors to operate in the country.

Trade facilitation

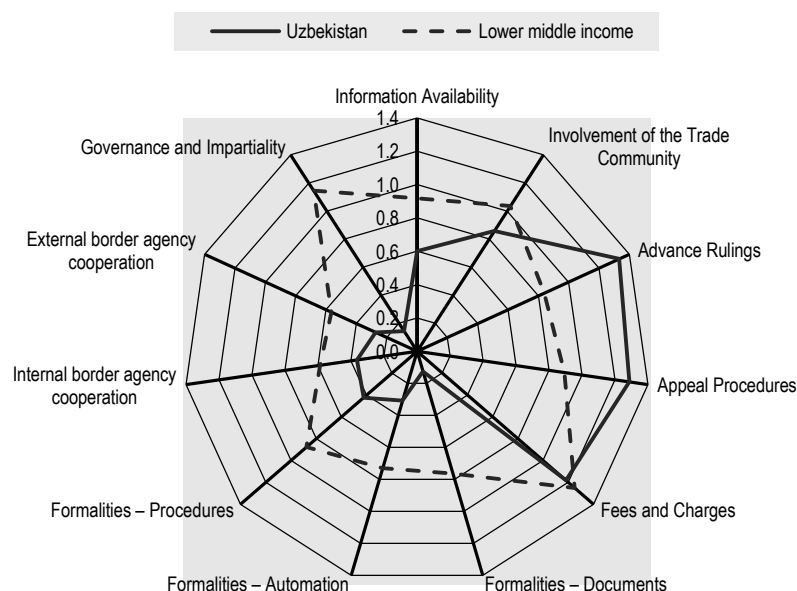
Another barrier to engaging in foreign trade in Uzbekistan is the impermeability of its borders. Uzbekistan has undertaken reforms to facilitate trade and the flow of goods across its borders, but further work is required. According to the OECD's trade facilitation indicators (TFIs), Uzbekistan matches or exceeds the average performance of lower-middle income countries in the involvement of the trade community, advance rulings, appeal procedures and fees and charges (Figure 3). However, its performance in the areas of information availability, formalities (documents, automation and procedures), and governance and impartiality is well below that of other countries in its income group. Its performance is also slightly below average on border agency co-operation (internal and external).

Uzbekistan should therefore build on recent efforts, like the "single window" system, as well as further digitisation of formalities to speed up export-related clearance processes (OECD, 2017a). Single window systems allow for data exchange by using the latest communication and technology techniques as well as simplified, harmonised and remodelled information systems, leading to greater efficiencies in licensing and customs processes, increased revenue collection and overall trade expansion (ESCWA, 2011). In November 2017, the government was preparing the launch of a new "single window" system that would allow online applications for over 20 types of permits, including compliance, environmental, and veterinary certificates. Since 2011, exporters have been able to use a one-stop shop mechanism, which provides a single customs clearance procedure.

The government of Uzbekistan is currently working on several initiatives to enhance trade facilitation, including the simplification and removal of formalities and documents to exports, and the authorisation for business entities to open bank accounts abroad (Ministry of Economy of Uzbekistan, 2017). In June 2017, the government launched a

“green corridor”, the goal of which is to provide a simplified procedure for customs and phytosanitary clearance for fruits and vegetables that are supplied to Russia.

Figure 3. Uzbekistan’s performance in the OECD trade facilitation indicators



Source: (OECD, 2017a)

To further internationalise its economy, Uzbekistan needs to reform its trade framework, improve the convertibility of its currency and facilitate the cross-border flow of goods. The government is well aware of these challenges and has started addressing them, for instance by eliminating declarations and developing electronic procedures at customs, by easing foreign currency exchange, and by building programmes to support exports through the NBU and the EPF. The next sections of this report focus on how to support small and medium firms’ exports, since SMEs can be an engine for internationalisation.

In parallel with trade facilitation, transport and logistical hard infrastructure could be further developed in Uzbekistan. This would enable the country to become a transport and logistics hub, strengthening north-south and east-west links across the Eurasian landmass.

Overall recommendation: Enhance SME export promotion policies and institutions

SMEs can be an engine for internationalisation – but they need specialised support

Given further progress in the overall conditions for trade discussed above, SMEs could play an important role in supporting the government’s ambition to increase exports as a source of growth. Due to their strong innovation and adjustment capabilities, SMEs can drive internationalisation in new markets. Participation in international trade through global value chains and the establishment of links with large companies and foreign affiliates, offers further opportunities to SMEs. Such linkages can help SMEs overcome

key barriers to exporting, such as access to international markets, finance, technology, management skills and knowledge (OECD, 2008b).

SMEs often have limited resources, negotiation power and internal knowledge to overcome difficulties in the business climate, however. SMEs face particular barriers when exporting. They have fewer staff than large companies and hence lack the time, expertise and knowledge to do marketing, sales and distribution abroad. Moreover, they are not always aware of the quality standards or certification requirements in target markets. SMEs consistently identify lack of knowledge of foreign markets and difficulties in reaching them as major impediments to exporting, thus calling for enhanced export promotion policies.

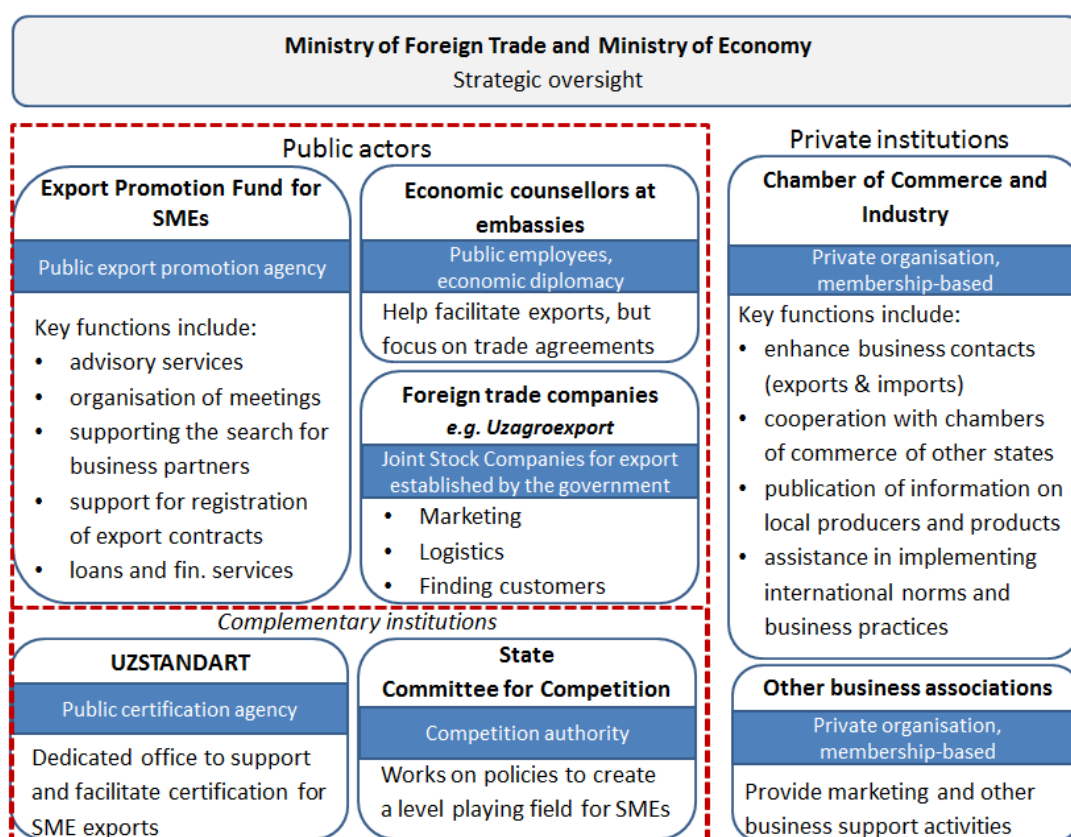
Export promotion policies are “the set of policies and practices aimed at affecting directly or indirectly export from a given country”. They typically include a wide set of measures such as: developing export infrastructure, introducing consulting activities to improve knowledge of foreign markets, expanding the network of export promotion abroad and monitoring the impact of export institutions (Belloc & Di Maio, 2011). Such policies help SMEs to 1) address asymmetric information and market failures when exporting; 2) foster spillovers, technology sharing and learning-by-doing for exporters; and 3) identify and leverage competitive advantages (Lederman, Olarreaga, & Payton, 2006; Hausmann & Rodrik, 2003).

SMEs in Uzbekistan report that they lack knowledge of foreign markets, and they suffer from limited access to consulting and export support services. Existing agencies carry out selected export promotion actions, including fairs, country visits and market studies, but the outcomes of these actions for SMEs are sometimes unclear, and their impact is not assessed, reported or shared with businesses. To improve competitiveness and facilitate SME exports, the government should work on establishing and expanding its export promotion system in line with OECD recommended practices. Key steps include expanding the network of export promotion agencies abroad, especially in target markets; developing export services and consulting activities for SMEs, including on certification; and streamlining and enhancing the systems for monitoring the country’s export promotion system.

Uzbekistan’s export promotion system has been recently established. Figure 4 provides a high-level overview of the institutions currently in place. The government, through the Ministry of Foreign Trade and the Ministry of Economy, provides strategic oversight. The core players involved in export promotion are the SME Export Promotion Fund (EPF) and the Chamber of Commerce and Industry of Uzbekistan (CCIU), which represents the voice and interest of businesses in this process. Uzbekistan’s economic counsellors provide further support through embassies abroad. Uzstandart and the State Committee for Assistance to Privatised Companies and Development of Competition also undertake activities that support, or are part of, export promotion.

The system as a whole is still taking shape – the EPF (described in Box 2) was created in 2013 and Uzstandart’s Bureau for the Promotion of Exports was created in 2011.

Figure 4. Schematic view of SME export promotion institutions in Uzbekistan



Source: OECD Analysis, 2017

Box 2. Uzbekistan’s export promotion fund

In an effort to boost SME exports the government of Uzbekistan created the Export Promotion Fund for Small Business and Private Entrepreneurship (EPF) under the National Bank of Uzbekistan (NBU) in 2013. The EPF provides the following services: organisation of meetings, seminars, providing advisory services, supporting the search for business partners, support for the registration of export contracts with Uzbekistan’s authorities, research on standards in target markets, legal services, and loans and financial services. The fund provides 80% of these services free of charge. At the time of writing, the EPF employs 122 staff. It has seven offices abroad, with plans to open more. It is also represented in each of the 14 regions of Uzbekistan.

The government has begun reforms to intensify the support activities provided by the EPF in accessing foreign markets. Further, business centres have been established in Uzbekistan, which provide a single advisory information platform, including on export activities.

Source: OECD interviews and questionnaire, EPF presentation.

Notes

¹ However, a number of bureaucratic barriers were put in place that hamper access to foreign currency and created the currency convertibility issues discussed below.

² These programmes include but are not limited to: the Industrial Development Programme of Uzbekistan for 2011-2015, the 2011 Presidential Decree on *Additional Measures to create the most favourable Business Environment for the Further Development of Small Business and Private Entrepreneurship*, and the 2011 State Programme *Year of Small business and Private Entrepreneurship*.

³ There are repatriation requirements in place on: capital and money market instruments, credit operations, direct investment, liquidation of direct investment, real estate transactions and personal capital transactions. Repatriation requirements on derivatives and other instruments were not regulated at the time of writing (Horton, Samiei, Epstein, & Ross, 2016)

Recommendations to enhance SME export promotion

Develop consulting activities to improve SMEs' knowledge of foreign markets

Challenge: SMEs in Uzbekistan report lack of information as a key barrier

The OECD interviewed companies and the CCIU. They reported that lack of information was a key barrier to doing business abroad. Such information gaps typically include lack of knowledge about market trends and competitors and about entry barriers such as customs duties or certificates (Box 3). Information barriers also include a lack of sector-specific expertise, including on international standards and operations. This assessment by businesses is confirmed by public institutions and think tanks involved in export promotion in Uzbekistan, including the EPF, the State Committee for Assistance to Privatised Companies and Competition, and think tanks surveyed by the OECD.

Box 3. Information barriers to SME exports in OECD and non-OECD economies

Information barriers are frequently identified as crucial barriers to exporting by SMEs in OECD and non-OECD countries. For example, two of the three top non-financial barriers to SME exports identified by the OECD (2009) were:

- Limited information to locate/analyse markets. This factor was the most cited internationalisation barrier among the responding firms, suggesting that information gaps remain a critical challenge to SMEs even in the current era of extensive information availability.
- Lack of managerial time, skills and knowledge. Difficulties arising from limited managerial knowledge emerged as a top barrier to SME internationalisation in several surveys. Managerial risk perceptions and lack of knowledge about international markets were major reasons for not engaging in international trade. Limitations in managers' internationalisation knowledge similarly emerged as a leading obstacle to export initiation.

Similarly, a more recent review (WTO, 2016) found that critical issues for SMEs were limited information about the working of foreign markets and difficulties in accessing export distribution channels and contacting overseas customers. Other issues include costly product standards and certification procedures, and, in particular, a lack of information about requirements in foreign markets.

Sources: (OECD, 2009), (WTO, 2016)

Export promotion institutions and policies can provide tools to overcome such knowledge and export skills barriers (see Box 6). Targeted and sector-specific market studies can help build knowledge of target markets and identify niches which Uzbekistan's SMEs

could occupy. Similarly, advisory services can provide SMEs with the skills they need or help them to outsource some activities. Helping SMEs to gain export skills and knowledge is particularly relevant when it comes to helping them integrate into global value chains.

Export promotion capacities

Uzbekistan is building up its export promotion capacities and staffing in the public and private sectors. The EPF has a staff of 122, and 54 employees work in the field of export promotion at the CCIU, of whom 12 are based abroad. However, critical sector-specific expertise still seems to be lacking. Few of the staff in Uzbekistan's export promotion institutions have an industry background, and there are no dedicated teams for specific sectors (OECD interviews).

The experiences of OECD countries suggest that sector-specific expertise is extremely useful and effective in helping companies overcome the many barriers to exports that they encounter. The lack of sector-specific expertise is linked to a lack of clearly defined strategic sectors and niches that Uzbekistan can target. For example, Germany's export promotion efforts gained a lot of momentum once the country decided to focus on the renewables sector and structured its efforts around this (Berg, 2016). France has also built teams of industry experts on priority sectors, including agribusiness, culture, health and urban services.

Certification

Certificates confirming the quality of products are critical barriers to entry for many potential export markets. Companies cite issues with certification as one of the main barriers they face and report difficulties in finding certification companies in Uzbekistan. A lack of knowledge of EU certification and the lack of availability of such certificates hinders exports to EU markets, particularly in agriculture. The number of certification companies in Uzbekistan remains limited despite the country's substantial efforts to increase its capacity to certify products. The certification body Uzstandart is increasingly working to facilitate and support exports. A bureau for the promotion of exports has been created within Uzstandart charged with the provision of information and free consulting services regarding international and country-specific requirements for standards, the promotion of products overseas and other parameters (certification, labelling, packaging, etc.) and developing proposals for achieving compliance with international standards.

Action 1: Identify target markets and sectors through public-private dialogue

To target efforts the public and private sectors should work together to identify markets and sectors where Uzbekistan has or is developing a competitive advantage. Uzbekistan could use several steps to identify such markets based on expected supply and demand. On the supply side these include assessing its revealed comparative advantages; identifying domestic and international competitors, their market presence and investment plans; and analysing the positioning of Uzbek products on the market compared to competitors. On the demand side, Uzbekistan should analyse local and international consumption trends, the expected growth in sectors where Uzbekistan aims to export, consumer preferences and purchasing power, and possible distribution channels. This work should take into account existing logistical centres, transport routes, tariff conditions, customs regulations and the overall trade environment in the target market. It could also encompass the analysis of specific aspects of the market such as product

regulations and standards. The International Trade Centre has developed tools to facilitate such analysis (ITC, 2017). Public-private working groups and consultations can be useful when defining such a strategy. They should be inclusive and bring together the Ministry of Foreign Trade, the Ministry of Economy, the EPF, the CCIU, the Centre for Economic Research (CER), and other key actors involved in the definition of export policy, as well as the agencies executing export promotion and private businesses, including those that would like to export but have not yet done so.

Based on the sectors and markets selected, the EPF should then develop a strong knowledge base by hiring or training the experts needed. Ideally, such experts should be providing basic market- and sector-specific analysis free of charge, while providing more tailored market studies at the request of individual companies for a fee. Uzbekistan should create an easily accessible database of such reports, bringing together the work of all the public institutions involved.

Action 2: Expand advisory and training capacities and support preferential access for SMEs

In interviews with the OECD and during Working Group meetings, companies repeatedly raised the issue of lack of skills for exporting and business internationalisation. These results were supported by a questionnaire the OECD sent out to policy makers and organisations active in the area of SME export promotion in Uzbekistan. Local private and public organisations organise regular roundtables and events related to export issues. However, there has been no accurate business survey on the exact skills needed and barriers experienced. Uzbekistan, either through the ministries in charge or via the EPF and CCIU, should regularly and formally survey businesses to identify key barriers to exporting and build a better understanding of companies' needs. Based on such a survey and the above-mentioned identification of priority markets and sectors, the EPF should build and extend its specialised training and advisory capacity.

In OECD countries, such surveys are usually carried out by the export promotion agency with the support of an independent survey company. For instance, the French national export agency Business France asked exporting companies about the major difficulties they faced in exporting and their knowledge of the services offered by Business France and other actors in the French export promotion system, as well as their impact. This helped Business France refine its export service offer (Business France, 2016)

The EPF and the CCIU should further develop their advisory services for SMEs in line with the needs they have expressed. Studies highlight the financially positive effect of export promotion advisory services: in a study of the impact of export promotion agencies (EPAs) and their strategies covering 104 advanced and developing countries, Lederman, Olarreaga and Payton (2006) found that, on average, each dollar spent on export promotion yielded a USD 300 increase in exports for the median EPA. However, they also found a great deal of variation across regions, levels of development and types of instruments, which points to the need for careful design and implementation, as well as rigorous monitoring and evaluation of EPA efforts. Furthermore, they find strongly diminishing returns, which suggest that, "as far as EPAs are concerned, small is beautiful".

These advisory services, market studies and training need to be advertised both to SMEs which are already exporting and those not yet exporting. Export institutions in Uzbekistan can use the EPF, the Chamber of Commerce and Industry and local authorities to inform firms about their existing programmes and services and expand the regional reach of

services. This can also be achieved by creating an online or offline “single information window” for SMEs (Lee, 2017).

Initially, training and advisory services should be provided either free of charge or at a subsidised rate, since SMEs often find it difficult to obtain the funding needed. For example, Australia reimburses companies for 50% of their eligible export promotion expenses (Austrade, 2017). Trust in the quality of the services provided might also be limited in the beginning. Vouchers or tax breaks for SMEs can also serve to help create a private market of advisory services and help limit market distortions. However, assistance should be designed in such a way as to help firms transition either towards more paid services or to become less reliant on the public system of export promotion as their exporting activities mature.

The EPF and the CCIU should study the profile of trainers (either full-time staff or external consultants) providing advice to SMEs and find a balance between external or internal offers. The experience of SMEs which are already exporting could be leveraged in order to create networks of good export practices and export expertise. For instance, Korea has created SME export academies run by export promotion institutions to train entrepreneurs and SMEs on export processes, and encourage them to consider export opportunities. They aim not only to develop exporting skills, but also to build an internationalisation mindset among SMEs (Lee, 2017).

Action 3: Attract more certification companies to the country

In addition to knowledge and skills programmes, the government needs to provide more support for companies seeking to obtain certification. Companies mention the cost of certification as a barrier, but even more important is the limited access to certification services, as Uzbekistan has very few certifying companies. More international certifiers need to be attracted to Uzbekistan. Easier access to certification services, as well as higher standards of certification might also help raise overall product quality levels up to international standards and provide a clear benchmark and indicator of the quality of Uzbekistan’s products. Certification companies interviewed by the OECD reported challenges related to the general business environment, such as currency convertibility and profit repatriation, as well as specific challenges on certification, including the distance between international standards and current local standards. However, they did not exclude expanding operations in the country.

Uzbekistan could target several international certification companies, starting with those that already operate in other countries of the region, such as Bureau Veritas, SGS or TÜV SÜD. Concerted efforts could be organised with the investment promotion agency UZINFOINVEST to help them understand local needs, identify clients, comply with local regulations and standards, and benefit from tax and investment incentives. The current set of reforms in the country, especially regarding currency, should also be promoted to these companies. Competitive neutrality with existing agencies and certification companies is also crucial to foster their development. The first investment promotion steps could be to directly contact the companies’ headquarters in the region, promote doing business in Uzbekistan in the certification sector during a presentation at the headquarters or remotely, and organise a study visit of business representatives to Uzbekistan, including meetings with potential clients.

Certification and its quality implications are particularly relevant for the agricultural sector. For example, it is not possible to obtain organic product certification in Uzbekistan. Uzbekistan should therefore further increase its work on building

certification capacities at Uzstandart. This includes organising specific workshops with international experts both for Uzstandart staff, and directly for SMEs, but also funding vouchers for SMEs to participate to training, and to hire consultants and support staff to implement standards in their daily operations.

Expand the export promotion network abroad and provide a clear value proposition in target markets

Challenge: SMEs in Uzbekistan lack connections to target markets

Marketing activities to promote exports are extensively used in OECD countries and developing economies alike. Export promotion agencies abroad were found to have a significant effect on increasing exports for both developed and developing countries (Lederman, Olarreaga, & Payton, 2006; Lederman, Olarreaga, & Payton, 2010; Martincus, Estevadeordal, Gallo, & Luna, 2010; Martincus & Carballo, 2012). The effects were found to be particularly relevant for SMEs (Wilkinson & Brouthers, 2006; Alvarez, 2004; Durmuşoğlu & et al, 2012). Marketing and export promotion activities abroad are also needed by businesses looking for international clients. For example, the OECD (2009) identified the inability to contact potential overseas customers as another key barrier to exporting. Recent surveys also highlight the difficulty of obtaining adequate representation in target export markets, while other studies found that a key impediment to internationalisation for SMEs was difficulties finding an appropriate foreign market partner. A further difficulty mentioned by businesses is gaining access to suitable distribution channels in international markets.

Uzbekistan's SMEs are no exception to this overall pattern. During focused interviews with SMEs and business associations, the lack of knowledge that they mentioned was clearly linked to a lack of connections to target markets and potential business partners abroad. Companies also mentioned potential buyers' lack of awareness of Uzbek products. The EPF and the CCIU are expanding their international networks of representatives in an effort to meet this challenge, but they remain limited in comparison with those of OECD countries. Uzbekistan's main export promotion agency, the EPF, has opened offices in Bulgaria, Italy, South Korea, Germany, China, Kazakhstan, and Latvia, as well as two offices in the Russian Federation and Switzerland. To facilitate the supply of Uzbek goods abroad, trade houses have been established in Russia, Latvia, India, Tajikistan, and the United States (New York). Most of these offices were opened during the past year. They are operated on a part-time basis by business partners or in co-operation with the economic counsellors in Uzbekistan's embassies. Plans are underway to create 15 more offices in Europe and the Middle East. The criteria for selecting these countries have not yet been specified.

The CCIU has 12 representatives abroad, two in the Russian Federation, two in Switzerland and one each in the Czech Republic, Kuwait, Italy, Spain, the United Kingdom, Portugal and Korea. Like those of the EPF, the CCIU's offices abroad are operated on a part-time basis by business partners with experience of doing business in Uzbekistan (CCIU, 2017).

Uzbekistan's diplomatic missions also support the internationalisation of businesses. In early 2017, Uzbekistan committed itself to increasing the role of the economic counsellors based at its embassies. As of March 2017, 19 economic counsellors were based at embassies in 12 countries.⁴ However, these counsellors are concerned with a broad set of tasks, and trade or export promotion is only one of them. According to

Martincus et al. (2010), foreign missions may stimulate exports but usually these are exports of products with less severe informational impediments (products that are often already being exported) and which accordingly require fewer specific skills to deal with them. Trade counsellors are thus important in promoting exports but they are probably not the most efficient tool for *diversifying* the export structure, especially if SMEs are the focus of such efforts.

While the CCIU's trade representatives are local in the sense that they are natives of the target market and are well acquainted with the business community there, most of the trade staff are posted from Uzbekistan. Almost all economic counsellors are seconded from the Ministry of Foreign Trade. Similarly, few of the staff in the EPF's offices have genuine sector expertise. Box 4 describes Germany's structured network of public and private organisations as an example Uzbekistan might want to consider.

Box 4. Germany's network of export promotion agencies abroad

Export promotion in Germany is characterised by the division of labour between the public and private sectors. The federal government directly promotes exports through Germany Trade and Invest (GTAI) and its network of 220 embassies and consulates, and also co-finances the activities of the Chambers of Commerce Abroad (AHK). Regional and local governments and business associations are also engaged in export promotion. The Federal Ministry of the Economy and Technology co-ordinates the federal and regional actors. The GTAI and the AHK closely co-operate in promoting Germany as a business location.

The GTAI aims to support export-oriented companies based in Germany and to promote Germany as a location for industrial and technological investments in order to attract investors who create or secure jobs. The GTAI has 2 offices in Germany and its own network of 46 offices abroad. These offices are staffed by industry analysts who perform research on site and gather data about foreign markets. This network has approximately 60 specialists distributed in the main export markets. The services provided include comprehensive and client-oriented data and information (e.g. macroeconomic analyses and forecasts, country and industry analyses for over 125 countries, and business contacts) and information about calls for proposals in foreign countries; investment and development projects; and legal, tax, and customs regulations. In gathering these data, the GTAI targets countries, sectors, sectors within countries and countries within sectors. The main users of these services are SMEs displaying the whole range of export experience (from non-exporters to potential exporters). The GTAI charges a below-market price for specialised reports requested by individual companies.

Exporting companies are also supported by 120 overseas chambers of commerce in more than 80 countries. This support includes the provision of market and sector information; legal, tax, and custom advice; assistance in finding business partners and arranging business meetings; and representation and accompaniment at fairs. Within Germany, the 81 German chambers of commerce and industries provide access to this network. By law, all companies must be a member of one chamber. The federal government provides funding to these foreign trade chambers to perform export promotion activities. In 2008, resources amounted to USD 62.4 million, including spending on attracting investment.

Box 4. Germany's network of export promotion agencies abroad (continued)

To ensure the efficiency of this international network, Germany relies on strong monitoring and evaluation capacities, and a tailor-made approach, taking into account companies' individual needs to assess the effectiveness of the system.

Sources: (Berg, 2016); (Jordana, Volpe Martincus, & Gallo, 2010)

Uzbekistan's export promotion network faces another barrier – the country currently offers an unclear value proposition. Its export promotion lacks focus on particular sectors and target markets, and Uzbekistan has no substantial national branding strategy. Creating a country brand is an efficient marketing instrument, especially for agribusiness products, where producers are typically small companies with very limited marketing budgets and products, providing fewer opportunities for differentiation. The development of a country brand should always be tied to strong and objective quality certification. Box 5 describes the experience of Trentino province in Italy, which recently developed the “Trentino” and “Qualità Trentino” brands to promote its agribusiness products.

Box 5. Branding in Trentino, Italy

National and regional branding is increasingly important, especially in agribusiness. The Trentino province in Italy has created the “Trentino” and “Qualità Trentino” brands to provide marketing instruments for the promotion of its agri-food products. Trentino's branding strategy focuses on increasing the quality of its agri-food production and strengthening the products' link to their region of origin. The brands are specifically designed to identify agribusiness producers that respect quality, typically local and sustainability standards. The benefits linked to this kind of branding are the following:

- better communication of the values associated with Trentino
- opportunity for producers to gain visibility
- promoting a unified image of Trentino in national and international markets
- synergy with other forms of promotion, such as tourism promotion.

In practice, firms can apply to use the brand online. Registration is free of charge, and firms can use the brand for three years if they meet the defined criteria. These include the territoriality of the firm (i.e. firms must be based in Trentino), the firm's capabilities to contribute to local socio-economic development and the preservation of the environment, as well as the promotion of Trentino's image within the markets where firms operate. The use of the brand is managed by the Tourism and Promotion Division of the Trentino Development Agency.

Source: OECD analysis; (Trentino, 2017)

Uzbekistan should expand its export promotion network abroad, both in quantitative terms and in terms of the geographical and sectoral priorities set. This includes action in two areas.

Action 4: Expand the number of representation offices abroad with local staff

Uzbekistan should focus on expanding its network of representative offices abroad. This should first and foremost happen in markets that are considered promising. For example, China is a key export partner for Uzbekistan, but neither the EPF nor the CCIU have a representative there. The same is true for the United Arab Emirates (UAE). In order to most effectively expand its network of offices abroad, the government should develop a clear strategy on priority markets for exports, in co-operation and consultation with the private sector. As a purely public organisation, the EPF should be the core institution responsible for expanding the network. Uzbekistan could consider widening the EPF's mandate to include export marketing overall, instead of confining it to SMEs as it is now.

Staff working in these offices should be familiar with both Uzbekistan's export potential and the sectors and countries of interest. Ideally, the EPF should staff the offices in key markets with both Uzbek and local staff, as already done in South Korea, Switzerland and Russia. Hiring should be competitive and transparent and aim to recruit multilingual staff with a strong experience in the sectors of interest. New staff should have business skills, experience in negotiating and a strong business background. Staff should have clear objectives in terms of contacts established, meetings facilitated and business contracts concluded. Similarly, economic counsellors can best support exports if they have prior business experience, as there is evidence of a strong link between their prior business experience and the success of commercial diplomacy (Naray, 2011).

Action 5: Work on a clear value proposition in co-operation with the business community

In order to make its export promotion efforts most useful and effective, Uzbekistan should formulate clear value propositions for each of the target markets identified. This includes establishing a well-publicised branding and marketing strategy. Public-private consultations can help identify the export positioning and value-added message that Uzbekistan wants to adopt when addressing foreign markets, in particular beyond Central Asia. Establishing an Uzbekistan-specific brand that reaches Central Asian markets can help; it could be sector-specific and also be adjusted according to the region. Specialised companies can help find out how Uzbekistan's producers and their products are perceived in the markets of interest. Based on this information, Uzbekistan can then build its value proposition, for example in reliable but affordable industrial products, or fresh agricultural foods, leveraging the country's association with the Silk Road.

Uzbekistan can then use existing outreach channels to communicate a coherent and cross-cutting message across all trade and export promotion entities involved. Messaging should be cross-cutting. Uzbekistan could also work on building networks of successful exporters, as these can be very useful for leveraging existing exports and showcasing success stories to foreign business partners. Promotion activities could and should take place in areas frequented by potential future business partners, such as international airports or sector-specific business fairs. Synergies with Uzinfoinvest and other agencies concerned with promoting Uzbekistan abroad should be identified and exploited.

Monitor the work and impact of export institutions

Challenge: The current monitoring system is more focused on inputs than on impact

As Uzbekistan strengthens its export promotion system, it should closely monitor whether the resources devoted to export promotion activities are being used efficiently. Understanding a programmes' effectiveness and realigning its priorities if needed requires a clearly defined assessment of the activities undertaken and the funds spent (Jordana, Volpe Martincus, & Gallo, 2010). Evaluations can take place at different levels, from analyses of export performance at the macroeconomic level to individual interviews with enterprises that have benefitted from public programmes or received support from the EPF or CCIU (De Wulf, 2001).

The ministries and the economic counsellors concerned with exports and export promotion in Uzbekistan already engage in extensive monitoring and reporting activities. This includes quarterly and yearly reports of programmes implemented, activities undertaken and actual exports. Currently, reporting seems to be largely focused on the inputs provided, such as the number of companies assisted or the number of outreach activities undertaken (letters written etc.); participation at fairs supported; or the number of reports provided. Focused interviews found that such reporting activities are burdensome and time-consuming. In addition, it remains unclear how the results of such reporting are used to realign priorities.

Despite the strong focus on reporting, no client surveys appear to be undertaken after the provision of support. Client surveys have been used in several OECD countries and are a useful tool for obtaining clear estimates of the impact of activities, as opposed to merely assessing the volume of activities. Better quantitative and qualitative evaluation of the effects of export promotion policies and activities will make it possible to gain a clearer understanding of such critical issues as the cost-effectiveness of operations, the rate of return on services provided or the need for realignment of priorities. More generally, exporter surveys can give the authorities a better understanding of the priorities and needs of businesses when it comes to exporting.

Action 6: Develop and implement a set of actionable key performance indicators

Uzbekistan should work on improving its monitoring and evaluation efforts while making sure that the time burden involved remains reasonable. This is best achieved by developing a set of clearly defined key performance indicators (KPIs). Box 6 provides an overview of the KPIs used in assessing France's export promotion agency Business France, which range from macroeconomic indicators on SME exports to firm-level data using exporter surveys.

In Australia post-support evaluation is performed using telephone surveys on a random sample of firms which are asked about their satisfaction with the services provided by the export promotion agency (Belloc & Di Maio, 2011). In other countries, evaluation is based on the direct measurement of the impact of export promotion programmes on the export volumes conducted by external entities, such as survey companies.

Box 6. Monitoring and evaluating export promotion services in France

Business France is the French agency in charge of export promotion. Created in 2015 as a result of a merger of the French export and investment promotion agencies, Business France places a strong focus on providing its service in the most effective way possible. Business France aims at making public support for internationalisation more visible, easier understandable and more accessible for businesses. It also provides long-term support to high-potential enterprises on all aspects of the internationalisation value chain with the goal of increasing knowledge of local economic networks and developing technology partnerships with foreign enterprises.

To this end, a number of key performance indicators (KPIs) were established and are monitored, including:

- macroeconomic indicators: total SME exports, and share of SMEs in total exports
- number of SMEs with export contracts
- number of SMEs and entrepreneurs accompanied by Business France through collective events or individual support (outputs)
- outcomes: number of new business contracts after one year and two years (following the first business contact facilitated by Business France), number of different markets, average additional turnover.

Business France also gathers a number of external KPIs using a survey company to assess and monitor its performance according to businesses, and to understand their difficulties when exporting:

- knowledge of Business France (and other export institutions) among businesses
- issues faced by businesses when exporting
- awareness of the specific services provided by Business France (credit exports, Labelfrance, specific events)
- the relevance of these offers according to users.

The KPIs have evolved from quantitative and input/output-focused indicators to be more focused on outcomes and on the needs of users. They relate to a direct result orientation from Business France and allow it to focus on the actual use and efficiency of services.

Sources: (Business France, 2016), (Cour des Comptes, 2015)

Focusing on actionable KPIs will enable Uzbekistan to adjust its export promotion programmes and regularly review the progress achieved. It could help the government prioritise, expand or decrease activities depending on their use and impact. The authorities should regularly review the functioning and effectiveness of the export promotion programmes in place and take action to realign priorities if needed.

The country should also develop the use of exporter surveys. The EPF could launch formal surveys of businesses at various stages of the export cycle (exporters, non-exporters, new exporters), in collaboration with the CCIU and an independent survey agency. This would help identify their main difficulties and readjust the EPF's actions and programmes accordingly. Uzbekistan could also develop feedback loops with its offices abroad to report on business contacts and needs.

Sector focus: Promoting exports in the agriculture and home appliance sectors

The government and Working Group members considered two sectors to be key areas of interest for export promotion efforts:

- **The home appliances sector.** This nascent sector is supported by several industrial policy instruments. While the initial strategy focused mainly on import substitution, the government is now putting more focus on exporting home appliances.
- **The agricultural sector.** Historically, Uzbekistan's exports have been dominated by cotton fibre exports. The country has now diversified its agricultural production away from cotton and exports fresh and processed fruits and vegetables. However, several barriers limit agricultural exports, including lack of infrastructure and certification.

Home appliances: A nascent sector for export

The government has put in place wide-ranging policies in order to boost the development of manufacturing in general and particularly the home appliance industry. It has established special economic zones to attract foreign and local investment, through exemptions from a series of taxes and customs payments and the simplification of bureaucratic procedures for business entities. Uzbekistan's Localisation Programme is intended to increase the production of import-substituting and export-oriented products through fiscal incentives for companies which produce in Uzbekistan (Government of Uzbekistan, 2015).

These policies have the stated goal of increasing the level of exports and the internationalisation of Uzbekistan's manufacturing industry. However, localisation programmes can affect export-oriented industries by constraining the imports of needed inputs and undermine the competitiveness of industries that benefit from them. Strong industrial policy measures and local content requirements can increase production costs, distort prices and reduce access to technology, with ultimately detrimental effects on industrial competitiveness (OECD, 2016; Warwick, 2013). According to one recent assessment, the Localisation Programme, in particular, actually brought about an *outflow* of capital and labour from export-oriented sectors to those targeting the domestic market. Between 2008 and 2013, the volume of locally-manufactured products for the domestic market increased 3.6 times faster than the volume of locally-manufactured export-oriented products (Azamatov, 2016).

Uzbekistan remains a net importer of home appliances, but the country's exports to a growing number of destinations have increased over the last two years as production capacities have grown. In 2015 Uzbekistan mainly imported finished domestic appliances from China (58% of the total), Turkey (10%) and the Russian Federation (9%), while its trade balance in this product category featured a deficit of around USD 88.9 million (UN Comtrade, 2017). Nevertheless, exports are growing. Between 2011 and 2015 the monetary value of home appliance exports rose by 471%, mainly consisting of washing machines, air conditioners, refrigerators and freezers (UN Comtrade, 2017). In 2015, the largest markets for Uzbekistan's home appliances were Kazakhstan and Kyrgyzstan, while in 2016, Uzbekistan started supplying the Ukrainian market under the Artel brand as well as exporting to South Caucasus countries and the Middle East, according to interviews with manufacturing companies.

When interviewed, companies and business associations in the sector cite lack of information and knowledge of target markets as a key barrier to exports. The difficulties faced by the home appliance sector exemplify the need for Uzbekistan to expand its export promotion activities, especially in marketing and consulting activities.

Marketing

Considering Uzbekistan's proximity to several large markets, the EPF and sector associations could better target and understand these markets and segments. Uzbekistan has a privileged access to the Central Asian market, and is already exporting to Kazakhstan and Kyrgyzstan. The country needs to sustain its competitive advantage by deepening its knowledge of these markets. New markets being explored include the Middle East, and in particular the UAE. According to industry experts interviewed by the OECD, one potential niche in these markets is for reliable, very competitively priced, basic products for large, middle-income families. Uzbekistan could aim to meet this growing demand. Iran and India are two more markets that are both rapidly growing and accessible from Uzbekistan, but the specific requirements and the competition in those markets need to be carefully studied. Market studies would need to look at industry and product trends, client profiles, competitors, sales forecasts, and distribution channels. These studies could be jointly commissioned from market research companies established in target countries or prepared by a pool of industry experts within the EPF or in collaboration with local partners, including economic counsellors at the embassies, consulting companies and business networks. Clear positioning of Uzbek products sold under their own brands will also be critical, supported by a communication campaign and promotion actions, for example in airports, business fairs and the media.

Consulting

The EPF and industry associations could help to enhance the knowledge and standards of the sector. They could invite foreign experts and organisations familiar with the target markets to help them expand their knowledge of access and other conditions in those markets. The sector will also need to be able to meet market entry requirements and these capabilities could be built through technical workshops open to all interested companies. These activities could be funded by the industry association, the EPF and large companies, and be offered to SMEs at a discount rate. In order to address the lack of certification opportunities in the country, especially Eurasian Conformity (EAC) and CE certifications, Uzbekistan could identify certification companies operating in the region, especially in Kazakhstan, and establish partnerships with them. It could also fund consulting and capacity-building sessions with visiting certification experts. A similar approach could be used to attract risk insurance companies willing to support Uzbek companies in the sector. These activities need to be widely promoted to national and local business associations. Further needs could be identified by surveying both exporting and non-exporting companies, including SMEs.

In addition to specific export promotion measures, Uzbekistan could benefit from shifting from hard industrial policies towards softer ones. The government should play the role of facilitator in promoting collaboration, knowledge exchange and networking between public and private actors (Warwick, 2013). Some of the "soft" measures include supporting entrepreneurship through advisory services and capacity building for SMEs; the creation of incubators; creating clusters between SMEs involved in the sector (mostly suppliers to large businesses) and large companies, foreign investors and suppliers, research centres and government agencies; maintaining a level playing field in the local

market to ensure more efficiency and competitiveness; and attracting more foreign investors into the sector to encourage knowledge transfer and increase economic opportunities.

Agriculture: A strategic sector with export potential

Agriculture represents a strategic economic activity for Uzbekistan. It accounts for about 17% of Uzbekistan's GDP and around 27% of total employment (Pugach & et al, 2016; UzStat, 2017b). The sector has historically been dominated by cotton farming but more recently the government has worked to diversify the sector into exportable food products. Raw cotton and textiles have decreased from 77% of total exports in 1995 to 19% in 2015 (OEC, 2017a). Exports of food products consist mainly of fresh fruits and vegetables, with processed products still playing a marginal role (Nepomnyashchaya, 2016). In 2015, exports of fresh fruit and vegetables amounted to USD 492 million, 8.4% of total exports, while processed food only accounted for 0.78% of exports and a total value of USD 42.6 million (OEC, 2017a).

The government established Uzagroexport, a foreign trading company for fresh and processed fruits and vegetables in 2016. It provides marketing, trade and logistical services to support agricultural SMEs' exports, including market research, linking with foreign clients through trade houses and offices abroad, and logistical centres and warehouses. Uzagroexport exports on the basis of commission contracts concluded with farms, agrofirms, processing organizations, and other economic entities. The company does make a positive contribution to the growth of agrifood product exports by acting as a producer organisation and guaranteeing the quantity and quality of the exported products (Uzagroexport, 2017). However, such a centralised and monopolistic organisation risks depriving SMEs of the opportunity to export and find foreign partners directly. In June 2017, in an attempt to boost production and exports by agribusiness SMEs and entrepreneurs, a presidential decree removed the monopoly of Uzagroexport on the export of fresh fruits and vegetables abroad (Ferghana, 2017). This could improve the access to foreign markets as well as the competition conditions for other firms that wish to export.

However, food exports face several barriers, including complex and time-consuming procedures for customs clearance, the lack of knowledge and capacity to enter foreign markets outside Central Asia, and insufficient storage facilities and refrigerated trucks. Exporters also face limited availability of financing and an incomplete system of export insurance, which, contrary to international practices, does not provide assistance in the case of damage to goods during transport (CER, 2016).

The geographical diversification of agricultural exports remains limited. Kazakhstan represents the largest market for Uzbekistan's fruit and vegetable products, accounting for 67% of total food exports, followed by the Russian Federation (17%) and Afghanistan (5%). Taken together the Eurasian Economic Union member countries account for about 86% of food exports (Olimkhonov, 2017). Only 1.9% of Uzbekistan's total food exports are exported to the European Union, partly because of certification issues. However, the European Union is a trading partner with great potential, as demand for fruits and vegetables has been increasing. Between 2010 and 2014, European imports of peanuts rose by 59% in USD terms, dried fruits by 44%, watermelons and melons by 24%, and grapes by 19% (Olimkhonov, 2017). All of these products are currently produced by Uzbekistan. In order to benefit fully from the opportunity offered by the EU and other export markets, Uzbekistan needs to increase its export promotion activities in agriculture

to ensure that Uzbek products can access target markets, and to enhance their image and reputation beyond Central Asia.

Marketing

Uzagroexport has recently launched a single brand for export called UzAgro. This new brand aims to guarantee the high quality and origin of products for buyers (UzReport, 2017). Further, new draft legislation examines the creation of a national “BestinUzbekistan” logo, which would be used to promote the export of domestic products. SMEs would be able to use the logo free of charge under the condition that their products reach a certified level of quality (Ministry of Economy of Uzbekistan, 2017). These are important first steps to develop national or regional brands to better promote in particular agrifood products in Central Asia and in the EU. Uzbek products are known for their quality in neighbouring countries, and formalising and protecting the brand could help sustain and increase the economic opportunities in the sector as France did with the development of the “*Appellation d’Origine Contrôlée*” (AOC) system (see Box 7). The identification and building of brands can be carried out with the support of international experts at the national and at the regional level, and with the contribution of local producers and business associations. This step needs to be followed by other key components of a brand, including the consistent quality of final products sold under the brand, the guarantee on production methods and origins of products, and proper traceability. To maximise the impact of the brand, Uzagroexport could also consider adopting a positioning and a value proposition to be associated with the brand based on the quality or origin of products that will resonate with customers.

Consulting

Considering the importance of food products in Uzbek exports, the EPF could develop the internal capacity to carry out market studies, targeting the EU, Japan, South Korea and the Middle East in the first instance. It could examine market entry conditions and develop training and consulting services accordingly in collaboration with the CCIU and sector associations. For instance, Business France regularly carries out and publishes online focused market studies that correspond to SMEs’ needs for information on new markets. These include recent studies such as Regulations on Food Products in Canada, the Fruit and Vegetable Market of Italy in 2016, and the Food and Drink Products Market of the UAE in 2016 (Business France, 2017b).

Uzbekistan could benefit greatly by upgrading its system for analysing the safety and quality of food products, as well as for certification. At present, the European Union, South Korea and Japan do not recognise the results of the tests performed in Uzbek laboratories and require exporters to send sample products to their national laboratories before issuing certificates and importing the products (CER, 2016). Only 43 enterprises in Uzbekistan hold an ISO 22000 Food Safety Management certificate, and this further hinders exports to many countries (Olimkhonov, 2017). Uzbekistan’s government could establish modern laboratories and introduce new certification requirements in line with international standards in order to boost the internationalisation of the agribusiness sector. It could also develop workshops and training to help local SMEs reach the new standards and obtain certificates. These measures, along with strong producers’ organisations and well-developed extension services, would contribute to building the international reputation of the quality of Uzbek products, going beyond pure branding.

Uzbekistan could implement sector-specific measures in addition to export promotion activities. In particular, it could consider establishing logistics supply centres in target markets and in Uzbekistan connected with wholesale markets and other trade hubs in EU member countries, such as Rungis and Lyon in France (State Committee on Competition, 2016). Other measures to support the competitiveness of Uzbek food products and their positioning abroad could include: further improvements in storage capacity across the country, investment in mechanisation with schemes to support farmers (including extension services and support to producers' organisation), attracting foreign food processing companies to stimulate local capacity, and the development of green and environmentally friendly technology.

Box 7. The AOP/AOC geographical labels in France

French agricultural producers benefit from two geographical labels, the *Appellation d'Origine Contrôlée* (AOC) and the *Appellation d'Origine Protégée* (AOP), whose main goal is to protect products that are linked to a particular know-how and a specific geographic region from fraud, while at the same time preserving and promoting the products' images in national and international markets. The AOC was created in France before the Second World War for wines and eau-de-vie (spirits), but since 1990 it has been made available to all types of food products. The AOP label was established in 1992 by the European Union and is the European equivalent of AOC. Both AOC and AOP are intellectual property rights and as such they are protected by the Lisbon Agreement of the World Intellectual Property Organisation (WIPO).

The *Institut National de l'Origine et de la Qualité* (INAO) is a public institution under the French Ministry of Agriculture which is in charge of issuing the AOC and AOP labels. The INAO contributes to local economies by preserving niche markets for small producers when the value-added of their products is the result of the region's specific production methods or historical reputation.

Products under the AOC and AOP labels represent an important slice of the French food system. In 2015, the turnover generated by these products amounted to about EUR 20 billion. France currently features 50 dairy products with the AOC/AOP labels, 44 fresh or processed fruit and vegetable products, and 366 types of wine and eau de vie. The latter, in particular, significantly benefit from AOC and AOP labels in terms of export promotion and penetration of foreign markets.

Sources: INAO (n.d.) Institut National de l'Origine et de la Qualité website, www.inao.gouv.fr; AFD Working Group presentation; Agreste (2016), "AOC, label rouge et CCP peinent à l'exportation".

Note

⁴ Belgium, China, France, Germany, Kazakhstan, Korea, Malaysia, the Russian Federation, Turkmenistan, Ukraine, the United Arab Emirates and the United States.

The way forward

The government has recently initiated major reforms to boost export, support entrepreneurial activities and improve the overall business climate. This includes the adjustment of the legal definition of business entities, support to SME development through new incentives in the tax regime, and the simplification and reduction of licensing and export procedures and regulations in order to better comply with international standards in export markets (Ministry of Economy of Uzbekistan, 2017).

Regarding export promotion policies, Table 1 presents an indicative roadmap for implementing these policy recommendations. This roadmap takes into account the expected time needed to establish and implement the policy actions, as well as the need to implement these activities simultaneously. Close public-private consultation will be critical to effective implementation. Key partners in implementing the reform consist not only of Uzbekistan's organisations in charge of export promotion, such as the EPF or the CCIU, but also international partners such as AFD, GIZ or USAID.

Table 1. Suggested implementation roadmap

Recommendations	Indicative implementation timing		
	Short term < 1 year	Medium term 1-3 years	Long term > 3 years
Develop consulting activities to improve SMEs knowledge of foreign markets			
▪ Action 1: Identify target markets and sectors through public-private dialogue	█		
▪ Action 2: Expand advisory and training capacities and support preferential access for SMEs	█	█	
▪ Action 3: Attract more certification companies to the country	█	█	█
Expand the network of export promotion abroad and provide a clear value proposition in target markets			
▪ Action 4: Expand the number of representation offices abroad with local staff	█	█	█
▪ Action 5: Work on a clear value proposition in co-operation with the business community	█	█	
Monitor work and impact of export institutions			
▪ Action 6: Develop and implement a set of actionable KPIs	█	█	█

Source: OECD Analysis, 2017

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Annex A. Defining SMEs in Uzbekistan

SMEs in Uzbekistan are defined based on the number of employees, and include individual entrepreneurs and micro and small enterprises. The thresholds differ by sector:

Medium-sized	<ul style="list-style-type: none"> <100: Mining and manufacturing <50: Construction <30: Agriculture, wholesale, other production sectors <20: Retail, services and other non-production sectors
Small	<ul style="list-style-type: none"> <40: Mining and manufacturing <20: Construction, agriculture, and other production sectors <10: Scientific/academic sphere, retail, services and other non-production sectors
Micro	<ul style="list-style-type: none"> <10: Manufacturing, agriculture, other production sectors <5: Retail, services and other non-production sectors <10: Scientific/academic sphere, retail, services and other non-production sectors

In contrast, the EU defines SMEs as companies with fewer than 250 employees and/or a turnover of up to EUR 50 million. Small companies are defined as those with fewer than 50 employees and a turnover not exceeding EUR10 million.

Source: Government of Uzbekistan (2016).

Annex B. Export promotion survey

As part of the project on Investment and Competitiveness in Central Asia – Focus on Uzbekistan, a questionnaire was distributed to policy makers and export promotion practitioners in Uzbekistan. It aimed to collect a first round of inputs from Working Group members and partners operating in Uzbekistan, on the topic of export promotion activities for SMEs. The questionnaire was used to help the project refine its understanding of existing activities, institutions and tools used in Uzbekistan, complete the gap analysis, and identify priority reforms on export promotion policies for SMEs. It contained the following questions:

I. Export promotion priorities and challenges in Uzbekistan

1. In your experience, what are the three key barriers to Uzbekistan's SME exports?
2. What are sources of SME export competitiveness in Uzbekistan?
3. What are the markets with the highest export potential? For which sector(s)?

II. About your organisation and its export promotion activities

4. Export promotion activities typically include five key functions:
 - a) Strategy (diagnosis, strategy and action plan on export opportunities and barriers)
 - b) Marketing (promotion activities, events, and networking at home and abroad)
 - c) Consulting (information, market study, legal and training at home and abroad)
 - d) Financial support (export credit, grants and other financial instruments)
 - e) Risk management (risk analysis, guarantees)
 - f) Where would your position your organisation's activities in these functions? Please describe.
5. What export promotion activities or tools are currently being used or implemented by your organisation e.g. support programme to SMEs for custom procedures, market studies, consulting, loans, credit guarantees, training activities?
6. Please describe your organisation's export promotion activities (in 2015 or latest data available):
 - a) What is the budget of your organisation dedicated to export promotion?
 - b) How many staff do you have working on export promotion activities (in Uzbekistan and abroad)?
 - c) How many offices / centres do you have in Uzbekistan and abroad?
 - d) How many SMEs have you supported in their export activities in 2015? In which sector(s)?
 - e) How many events/ actions have you carried out on export promotion in 2015?

7. How do you assess and monitor your activities?
 - a) Do you prepare monitoring report on your activities? Are they public?
 - b) Do you conduct regular consultation with business associations/SMEs through consultative platform/meetings?
 - c) Do you survey SMEs on their needs and satisfaction regarding export? If yes, please attach to this questionnaire the most recent survey results and methodology.
 - d) Which key performance indicators do you use to monitor and/or assess the impact of your activities?
8. With which other institutions involved in export promotion do you co-ordinate? How?
9. How are you involving the private sector in your activities (business associations, SMEs) e.g. formal consultation, surveys, board members?
10. Is your organisation involved in export promotion in the agribusiness and/or home appliance sector? If so:
 - a) Are you carrying out sector-specific export promotion programmes/activities?
 - b) What is your assessment of the sector-specific challenges?
 - c) What do you think are the prospects for Uzbekistan's export in the sector(s)?

III. Recent policy developments in Uzbekistan

11. In your opinion, which function (strategy, marketing, consulting, financial support, risk management) should be a priority for the government? Why?
12. Have you prepared/contributed to a strategy/research document on export promotion activities? If yes, please provide the document(s).
13. Are there any substantial reforms/developments planned that will affect export promotion activities delivered by your organisation?

Annex C. Methodology

Within the framework of the Central Asia Competitiveness III Project, the OECD Eurasia Competitiveness Programme (ECP) and the Government of Uzbekistan established a public-private working group to develop guidelines and recommendations for enhancing SME export promotion in Uzbekistan. The Working Group brought together representatives from government agencies, SMEs, business associations such as the Chamber of Commerce and Industry, and other development partners. The OECD ECP, with contributions from international experts and peer reviewers from OECD member countries, carried out analysis, data collection and consultations with stakeholders in Uzbekistan to identify the main issues and the most effective policy responses to strengthen export promotion for Uzbekistan's SMEs.

Several missions took place in preparation for the peer review of Uzbekistan:

30 November-1 December 2015: first meeting of the Steering Group to launch project work

1-3 March 2016: first meeting of the Working Group to discuss preliminary recommendations and share insights with local stakeholders

25-27 October 2016: second meeting of the Working Group with an international expert to present the case of Germany's export promotion system

7-9 February 2017: fact-finding mission to Tashkent, meetings with the private sector

6-7 March 2017: third meeting of the Working Group with an international expert to present the case of Korea's export promotion system and an OECD expert on competition policy

10-12 June 2017: fourth meeting of the Working Group

25 October 2017: peer review of Uzbekistan at Eurasia Week 2017 in Almaty

This report was peer reviewed on 25 October 2017 at the fifth session of the OECD Eurasia Competitiveness Roundtable, a policy network that brings together high-level representatives and technical experts from Eurasia countries, OECD members and partner organisations. The Roundtable meets annually and serves as a platform for peer review and knowledge sharing on the implementation of competitiveness reforms in the Eurasia region.

The peer review aims to help Uzbekistan define further steps for policy reform implementation. In particular, the roundtable discussion was facilitated by experts who provided an overview of the current situation in Uzbekistan and insights into the experiences of OECD and Eurasian countries:

- Mr Wilhelm Berg, Export Promotion Expert, Germany
- Professor Richard Pomfret, University of Adelaide

Progress towards implementing these recommendations will be discussed in three years' time at the 2020 OECD Eurasia Competitiveness Roundtable.