**Policy** Insights

# Boosting the Internationalisation of Firms through better Export Promotion Policies in Uzbekistan

OECD

CENTRAL ASIA INVEST

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# Boosting the Internationalisation of Firms through Better Export Promotion Policies in Uzbekistan

# Foreword

The COVID-19 pandemic and its economic consequences have severely hurt both trade linkages and firms, especially small and medium-sized enterprises (SMEs) in Central Asia. The government of Uzbekistan supported SMEs through targeted policy responses at the height of the pandemic and developed export support measures such as tax deferrals and breaks, payment holidays, rate reductions, and subsidised lending. Reviving growth and developing a more sustainable economy, better connected, to the world will require aligning the phase-out of short-term support with long-term reforms to diversify and modernise the economy.

Trade will be critical to a robust recovery, though exports in Uzbekistan are less important to performance than in some regional partners such as Kazakhstan, Kyrgyzstan or Mongolia. Exported goods and services remain concentrated in a limited number of commodities and markets, mostly regional and with CIS countries. To diversify its export structure and target markets, Uzbekistan needs to create the conditions for small and medium exporting firms to thrive. Supporting the development of a comprehensive set of SME export-promotion policies, including establishing an export promotion agency, is part of this dynamic.

An OECD-led Public-Private Working Group, co-chaired by the Ministry of Economy and the Ministry of Foreign Trade, was created at the beginning of 2016 to help design the right policies to address these barriers. It brought together representatives of government, public and non-governmental institutions such as the Export Promotion Fund (since replaced by the Export Promotion Agency) under the National Bank of Uzbekistan, banking and business associations, the Chamber of Commerce and Industry of Uzbekistan, private financial institutions, think tanks, including then Centre for Economic Research, and other development partners. The work of the Group, supplemented by contributions from experts from France, Germany, Korea, and the OECD Secretariat, fed into a 2017 OECD peer-review note (OECD, 2017[1]).

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. From 2017 to 2019, the OECD conducted capacity-building workshops and fact-finding missions to Uzbekistan to support the implementation of the recommendations. In 2020 and 2021, four monitoring and capacity-building workshops involving experts from France and Poland were organised to take stock of implementation progress, provide new insights and case studies, and prepare this monitoring note.

This note was developed in consultation with the government, private sector companies, business associations, and development partners during the monitoring process[1]. It assesses the implementation progress made in the last three years, evaluates changing priorities and needs, and makes recommendations for further progress.

The note will be discussed and peer reviewed at OECD Eurasia Week in December 2021.

[1] For on overview of the methodology underlying this monitoring note, please refer to the dedicated section p.27.

# Acknowledgments

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# Acronyms and Abbreviations

| | |
|---|---|
| **ADB** | Asian Development Bank |
| **CCIU** | Chamber of Commerce and Industry of Uzbekistan |
| **CERR** | Centre for Economic Research and Reform |
| **CIS** | Community of Independent States |
| **EBRD** | European Bank for Reconstruction and Development |
| **ECP** | Eurasia Competitiveness Program |
| **EPCA** | Enhanced Partnership and Cooperation Agreement |
| **EEAS** | European External Action Service |
| **ELSOFP** | Expansion of Local Smallholder Organic Farming and Forest Products |
| **EPA** | Export Promotion Agency |
| **EPF** | Export Promotion Fund |
| **FDI** | Foreign Direct Investment |
| **GDP** | Gross domestic product |
| **GIZ** | Deutsche Gesellschaft für Internationale Zusammenarbeit |
| **GSP +** | Generalized Scheme of Preference Plus |
| **GTAI** | Germany Trade and Invest |
| **GVC** | Global value chain |
| **ILO** | International Labor Organization |
| **ITC** | International Trade Centre |
| **IMF** | International Monetary Fund |
| **KPI** | Key Performance Indicator |
| **MIFT** | Ministry of Foreign Trade |
| **MFA** | Ministry of Foreign Affairs |
| **MNE** | Multinational enterprise |
| **OECD** | Organisation for Economic Co-operation and Development |
| **PPD** | Public-private dialog |
| **SME** | Small and medium sized enterprises |
| **SOE** | State-owned enterprise |
| **UNDP** | United Nations Development Program |
| **USD** | US dollar (currency) |
| **VAT** | Value Added Tax |
| **WG** | Working Group |
| **WTO** | World Trade Organization |

# Executive Summary

## The COVID-19 pandemic has reinforced the need for longer-term reforms accelerating diversification

Prior to the COVID-19 pandemic, Uzbekistan's economic growth was supported by an active programme of economic reforms aimed at increasing the contribution of the private sector to economic development, enhancing the country's economic diversification and active participation in regional and international value chains. Key reforms have included the liberalisation of prices and foreign currency exchange, and the development of a comprehensive export-promotion framework.

However, the full benefits of these reforms have not yet materialised. Uzbekistan's exports still remain concentrated both in terms of sectors and geography, and SMEs are underrepresented among exporting businesses. These vulnerabilities have been further exacerbated by the pandemic which hit Uzbekistan's economy particularly hard in the first half of 2020, leading to the loss of the growth momentum and a steep drop in trade flows. For trade to be a driver of a robust recovery with a diversification of the export structure and target markets of Uzbekistan, reinforcing the conditions for exporting SMEs to thrive will be key.

## This report focuses on export-promotion reform progress made by Uzbekistan in recent years

SMEs are key contributors to growth and employment, accounting for 55% of GDP and 75% of employment in 2020. However, their contribution to exports remains limited, suggesting that barriers to export still weigh on their growth potential. SMEs generated 27% of exports in 2019, though this share fell to 20.5% in 2020, according to the State Statistics Committee. However, it should be noted that these figures reflect only *direct* exports; many SMEs export indirectly through value chains, supplying goods or services to larger domestic firms that do export or to multinational enterprises which then export. Such indirect exports by SMEs can be particularly large in sectors where global value chains (GVCs) are important and where scale matters, notably manufacturing, while SMEs usually export directly when it comes to agricultural goods (OECD, 2018[2]). Hence, the actual share of exports from Uzbek SMEs is would be higher if indirect exports were taken into account. However, data on indirect exports are lacking.

The vast majority of Uzbek SMEs remain oriented towards the domestic market, especially in the retail trade and manufacturing sectors (Tadjibaeva, 2019[3]; State Committee of the Republic of Uzbekistan on Statistics, 2021[4]). This may indicate what firms see as excessive fixed and variable financial and non-financial costs associated with export activity. Targeted support programmes to increase knowledge of, and access to, new export markets are important in enabling SMEs to play a bigger role in trade and to integrate in regional value-chains.

This report presents an analysis of reform implementation in three key areas endorsed by the government of Uzbekistan as part of the *OECD 2017 peer-review note on SME export-promotion policies in Uzbekistan*:

- develop consulting activities to improve SMEs' knowledge of foreign markets, including export market potential and product certification requirements and opportunities;
- expand the export-promotion network abroad and provide a clear value proposition in target markets in co-operation with the business community; and
- monitor the work and impact of export institutions to allocate resources most effectively using key performance indicators and comprehensive evaluation strategies across institutions.

The report assesses progress in the implementation of reforms, and takes stock of the disruptions brought by the COVID-19 pandemic to identify new challenges and priority areas for policy action.

### Knowledge of and connection to export markets remain key issues for firms

Since 2017, the government of Uzbekistan has taken significant steps to implement reforms and institutional changes to develop its export-promotion structure. However, despite these, the OECD finds that internationalisation of Uzbek SMEs still remains below potential due to the following:

- SMEs still lack knowledge of export markets and opportunities entailed in certification.
- An insufficiently developed branding strategy and scarce network of export promotion and trade representation limit knowledge of and opportunities for Uzbek products abroad, and reduce connections between SMEs and target markets.
- The impact of export-promotion activities across all levels of government remains insufficiently based on measurable outcomes.

# Summary of Monitoring Assessment

| 2017 recommendations | 2021 monitoring assessment | |
|---|---|---|
| | Progress | Way forward |
| **Develop consulting activities to improve SMEs' knowledge of foreign markets** | | |
| Identify target markets and sectors through public-private dialogue | ◑ | Reinforce public-private dialogue between actors involved in export promotion (CCIU, embassies, trade houses), under the supervision of the Export Promotion Agency (EPA) |
| Expand advisory and training capacities and support preferential access | ◑ | Enhance export-market analysis distribution to SMEs through the EPA, and consider cost-sharing options for certification of SME products |
| Attract more certification companies to the country | ◕ | Expand partnerships with international certification companies, and develop "know-how" on certification opportunities for SMEs |
| **Expand the export-promotion network abroad and provide a clear value proposition in target markets** | | |
| Expand the number of representation offices abroad with local staff | ◑ | Better co-ordinate export-promotion activities between Embassies, trade houses and the EPA, and develop a network of EPA offices abroad |
| Work on a clear value proposition in co-operation with the business community | ◑ | Develop a strong quality-standard supporting the "Made in Uzbekistan" brand, and develop niche specialisations in relation to certification |
| **Monitor the work and impact of export institutions** | | |
| Develop and implement a set of actionable KPIs and surveys | ◔ | Transition towards more outcome based and complex monitoring systems |

Legend:
Completed ● Close to completion ◕ Being implemented ◑ Initiated ◔ Not started ○

# Introduction

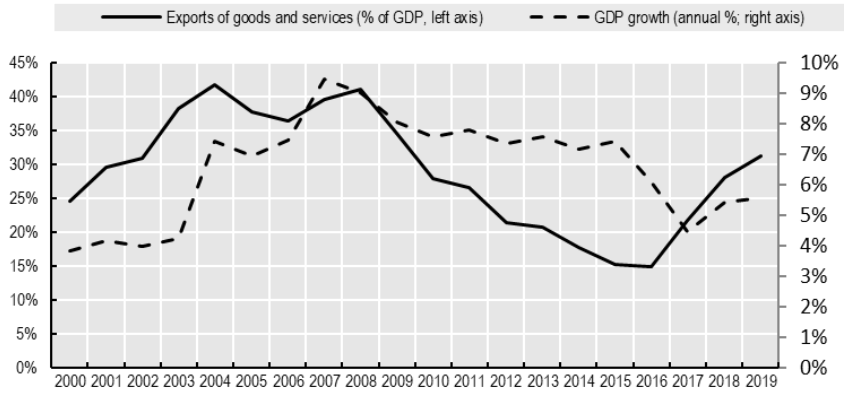
## Increasing exports remains critical to further economic diversification and contribute to future economic growth

### *Sustained reforms since 2017 led to strong economic growth prior to Covid-19*

Since 2017, the government has been pursuing ambitious reforms to improve the legal and operational environment for firms, increase the level of foreign direct investment (FDI) and the contribution of the private sector to economic development as part of the *National Development Strategy for 2017-2021* (Government of Uzbekistan, 2017[5]). The liberalisation of prices and foreign exchange and the removal of a number of redundant licenses and permits have greatly simplified the daily operations of small exporting businesses (OECD, 2017[1]; OECD, 2021[6]).

Yet growth has remained largely driven by state-led investment, with contributions from FDI inflows (4% of GDP in 2019) and private consumption (OECD, 2021[6]). The country remains highly dependent on natural resource exports, mainly gold, natural gas, and cotton, and growth remains sensitive to the volatility of commodity prices (Figure 1) and global demand shocks. In addition, although SMEs generate an estimated 55% of GDP and represent 75% of employment in Uzbekistan in 2020, the size of the private sector remains relatively small since the state retains ownership of, or significant shares in a large number of enterprises. Privatisation has been back on the policy agenda since since 2017, when enterprises with majority state ownership accounted for 47% of total industrial output, but it has proceeded slowly (OECD, 2021[6]; Umidjon, 2020[7]; State Committee of the Republic of Uzbekistan on Statistics, 2021[4]).

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




*Source*: (State Committee of the Republic of Uzbekistan on Statistics, 2021[8]; World Bank, 2021[9]).

### *Uzbekistan has resumed WTO accession and strengthened trade ties with the EU*

In March 2018 the country resumed its WTO accession, with negotiations formally restarted in 2019. Since then, accelerating the country's accession to the WTO has been one of the top priorities of the government. In May 2020, a special inter-ministerial commission, the *Interdepartmental Commission for Working with the WTO* under the umbrella of the Ministry of Investment and Foreign Trade (MIFT), was created to lead the preparation of the accession process, while in July, the fourth Working Party met, 15 years after the third (WTO, 2020[10]). Regarding the accession process itself, Uzbekistan completed the *Initial Goods and Services Offer*, while discussions on the *Memorandum on the Foreign Trade Regime*, and *Bilateral Market Access Negotiations on Goods and on Services* are still ongoing (WTO, 2020[10]). In December 2020, Uzbekistan also joined the Kyoto Convention on the harmonisation of custom regulations (World Customs Organization, 2021[11]).

The government of Uzbekistan is supported by international partners in this process, most notably under an EU-financed project carried out by the International Trade Centre. Its main objectives relate to good governance and trade development, in order to create a WTO compliant trade and policy environment with a focus on regulatory simplification and trade facilitation (European Commission, 2019[12]).

More broadly, the co-operation between the EU and Uzbekistan has been intensifying in recent years. In July 2018, the Council of the EU adopted directives to negotiate an Enhanced Partnership and Cooperation Agreement (EPCA), an upgraded version of the Partnership and Co-operation Agreement in force since 1999, recognising the country's recent reform progress. The EPCA was concluded in February 2021, and Uzbekistan obtained the GSP+ status in April 2021. This extends Uzbekistan's benefits under the basic GSP system (allowing the export of 3000 goods to the EU without customs duties, and 3200 goods at reduced rates) and grants Uzbek producers and exporters unilateral preferences when exporting to the European market, such as a doubling of duty-free exports (European Commission, 2021[13]). Both agreements represent opportunities for Uzbek SMEs to increase exports to the EU.

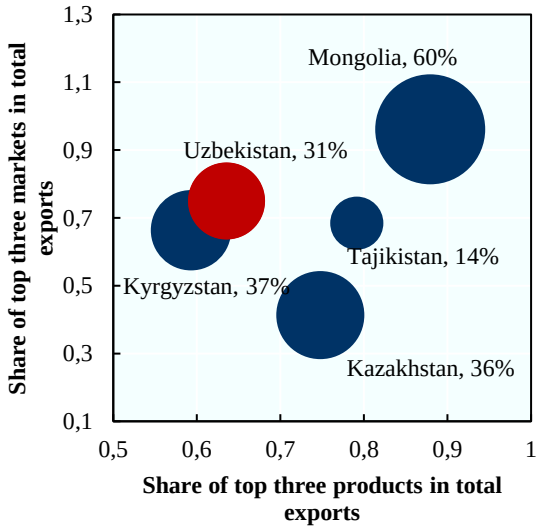
### *Yet Uzbekistan's exports remain concentrated both in terms of sectors and geography*

Despite a fairly strong industrial base in textiles, machine building, metallurgy and chemicals (employment in industry accounted for 30% of total employment in 2020 according to ILO estimates), resulting in a fairly more diversified export basket than its Central Asian neighbors, Uzbekistan's integration into regional and world trade has built mainly on the country's natural resource wealth. This has been compounded by relatively high trade costs induced by Uzbekistan's double landlocked position (OECD-ITF, 2019[14]; OECD, 2021[6]). Consequently, exports are concentrated in a few commodities such as gold, natural gas and cotton, and a small range of regional trade partners, among which CIS countries represent the biggest share (Figure 3). This leaves the country vulnerable to external shocks, since the impact of any decrease in demand for key export products is magnified by the small range of trading partners.

According to the World Bank, exports amounted to 31% of GDP in 2019, which is above the average of lower-middle income countries (25%), in line with the OECD average (31% of GDP in 2019), but below regional peers such as Kazakhstan, Kyrgyzstan or Mongolia (respectively 36%, 37%, and 60% of GDP in 2019). Within the Uzbek export basket, the top three product groups represent over two-thirds of all exports (Figure 2). In 2020, gold accounted for more than 60% of total goods exports (State Committee of the Republic of Uzbekistan on Statistics, 2021[15]). If the share of trade with the European Union and the Commonwealth of Independent States (CIS) has seen a decline, Uzbekistan's regional trade integration with its Central Asian neighbours has been increasing over recent years - not taking into account the decline in trade due to the COVID-19 pandemic. CIS countries nevertheless still represent on average over 30% of Uzbek exports in recent years, with peaks at 57% and 50% respectively in 2012 and 2014. In particular, CIS countries remain a key destination for Uzbekistan's agricultural and manufacturing exports, with an increase of exports of both sectors by over 40% since 2017 (CERR, 2021[16]; State Committee of the

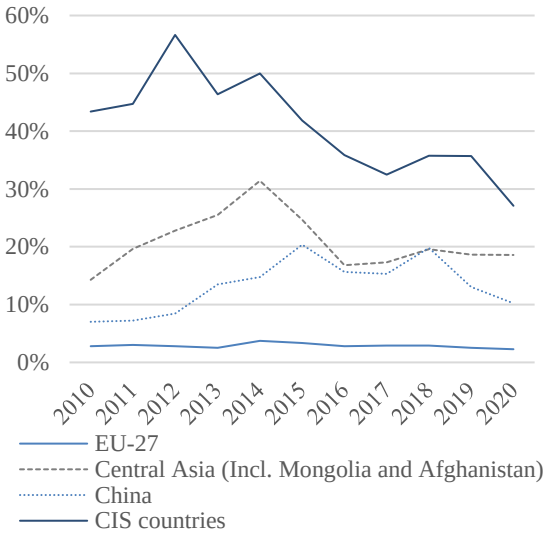
Republic of Uzbekistan on Statistics, 2021[17]). However, given Uzbekistan's geography, the share of CIS countries in total exports remains below potential.

### Figure 2. Export basket and trade partner concentration in Central Asia




*Note*: The size of the bubble and the % next to the country name indicate the share of exports in GDP.
*Source*: (OECD, 2020[18]).

### Figure 3. Export profile of Uzbekistan



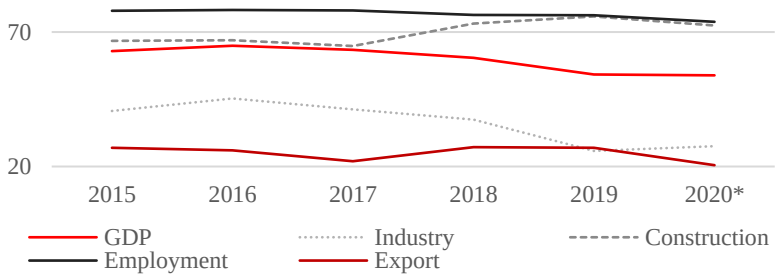

*Source*: (State Committee of the Republic of Uzbekistan on Statistics, 2021[17]).

Uzbekistan's commitment to reinforce regional trade and economic ties has also been particularly visible during the COVID-19 pandemic, as the government has taken a leading role in co-ordinating trade-related measures across the region to avoid negative spill-over on access to essential food and utility items (OECD, 2020[18]).

### *SMEs contribute much to growth and employment but relatively little to exports*

SMEs' contribution to exports since 2017 has not increased, and remains marginal ( Figure 4). The export share of SMEs in Uzbekistan is, indeed, lower than those of neighboring countries, such as Kyrgyzstan where it averaged 36.7% over 2015-2019 compared to 25.8% in Uzbekistan (National Statistical Committee of the Kyrgyz Republic, 2021[19]; State Committee of the Republic of Uzbekistan on Statistics, 2021[4]). The official data show more than 400 000 SMEs listed in 2020, of which more than 90 000 were newly created. Most of these were in retail and wholesale trade (2 out of 5), followed by industry (1 out of 5). The actual numbers could even be higher, taking into account the share of the informal economy in the country, estimated at 31.6% of total workforce in 2020. (State Committee of the Republic of Uzbekistan on Statistics, 2020[20]; Government of Uzbekistan, 2021[21]).

### Figure 4. SMEs' contribution to exports, GDP and employment in Uzbekistan




*Source*: (State Committee of the Republic of Uzbekistan on Statistics, 2020[20]).

Lack of financial resources is one of the main reasons for the low level of internationalisation of Uzbek SMEs, with a majority of SMEs reliant on self-financing (64% in 2018, according to the World Bank) since bank loans remain difficult to secure (Tadjibaeva, 2019[22]). Beyond this financial aspect, OECD (2017) found that their internationalisation was hindered by inadequate connections to target markets, low levels of export market knowledge, a lack of targeted export-promotion support abroad, and quality and certification standards that could be improved (OECD, 2017[1]; GIZ and Euromonitor, 2017[23]).

## Trade diversification and growth can support Uzbekistan addressing the structural weaknesses exacerbated by COVID-19

### *The COVID-19 pandemic had a strong impact on trade and business activity*

The COVID-19 pandemic reached Central Asia in early 2020, with Uzbekistan reporting its first case on 15 March. The pandemic hit Central Asia's relatively small and fairly undiversified economies hard. Uzbekistan, like its neighbours, depends heavily on foreign trade (with trade to GDP ratios of 73%, 64%, 103% respectively for Uzbekistan, Kazakhstan, and Kyrgyzstan in 2019 according to the World Bank), and the economic costs of the crisis were compounded by disorderly border closures across the region and restrictions on the movement of people and goods (OECD, 2020[18]).

The pandemic hit Uzbekistan's economy particularly hard in the first half of 2020, with loss of growth momentum and a drop in trade flows. In 2020, real GDP growth slowed to 0.7%, and the current account deficit widened to 5.5% of GDP in 2020 (after having bottomed out at -7.7 % of GDP in the first half of 2020) compared to 5.8% in 2019, mainly due to lower remittances and considerably depressed trade flows (IMF, 2021[24]; OECD, 2020[18]). Supply chain distortions and a fall in key commodity prices lowered exports by 22.6%, and a sharp fall in demand for machinery and capital goods lowered total imports by 15%. Only gold exports remained robust, rising by 45.7% (World Bank, 2020[25]; CERR and UNDP, 2021[26]).

SMEs have borne a relatively high cost. Even if their share of GDP declined only by 0.5% year-on-year (y/y) up to September 2020, the SME share of activity declined in the main sectors of the economy, especially in the trade activities (-8.6% in exports and -9.7% in imports), construction (-4.5%), and retail trade (-3.6%). According to the findings of a joint CERR-UNDP survey carried out in October 2020, 36.3% of exporters reported a steep drop in, or complete cessation of, their exports, and an additional 23.2% reported a decline. The survey also finds that the SMEs most affected by the pandemic were those that have been unable to operate remotely, often due to a lack of internet access, required equipment, or digital infrastructure. Exporting SMEs were also unable to reach new markets or engage with new suppliers to divest trade and make up for the collapse of their supply chains (CERR and UNDP, 2021[26]).

### *Government measures helped moderate the negative effects of the COVID-19 pandemic*

In response to the crisis, the government quickly put in place a series of measures to support the economy, and in particular SMEs, using its fiscal buffers and sizeable international support. A USD 1 billion Anti-Crisis Fund was formed in March 2020 to mitigate the impact of the coronavirus pandemic; it was later increased to USD 1.3 billion[2] (OECD, 2020[18]). Support to businesses was provided through the State Fund for Entrepreneurship Development. In particular, the facility granted loans to companies deemed solvent up to 75% of their working capital and offered compensation to cover interest expenses on som-denominated credits below a specified interest rate threshold to businesses engaged in export activities (Government of Uzbekistan, 2020[27]). Additional fiscal measures have been implemented, such as temporary tax and loan repayment deferrals for most affected SMEs and entrepreneurs until the end of 2020 (OECD, 2020[18]). SMEs have also benefitted from additional non-financial support, for instance through the "Business Clinic" programme conducted jointly by the Chamber of Commerce and Industry of Uzbekistan (CCIU) and the UN Development Program (UNDP). The programme provides free consultations on all issues related to business restoration and public support provided during the pandemic (UNDP, 2020[28]).

Trade and exporting companies have also received dedicated support, notably through the creation of a USD 100 million Export Support Fund under the aegis of the EPA in October 2020 (Government of Uzbekistan, 2020[29]). The Fund mainly provided compensation for interest costs to exporting companies. The EPA has also set up "export headquarters" across the country to align the work of all relevant institutions engaged in export promotion and support. Finally, development assistance programmes and loans have also been provided to support the trading sector and trade facilitation initiatives throughout the pandemic (EBRD, 2020[30]).

The support measures implemented by the government supported an economic rebound in the second half of 2020, with growth rising to 1.6% y/y and a gradual decline of inflation to 11% at the end of the year (IMF, 2021[24]). The government also has expressed its commitment to enhancing regional co-operation to support a sustainable and green post-COVID-19 recovery. In September 2020, it adopted a post-crisis programme to restore the economy and pave the way for long-term reforms. A road map has been devised, with a strong focus on stimulating domestic demand, increasing incomes, and developing business competitiveness (Government of Uzbekistan, 2020[31]).

### *Recovery policies need to feed into the longer-term reform agenda to address trade connectivity, green transition, digitalisation and business environment issues*

Looking at the future, four major challenges may have to be considered to support long-term growth and regional integration. These priorities are aligned with the commitments of the government of Uzbekistan under the *New EU Strategy on Central Asia* concluded in 2019, and the *Roadmap for Recovery* commonly agreed upon during the 2020 *EU-Central Asia Dialogue on Partnership for Prosperity* (EEAS, 2019[32]; Delegation of the European Union to Uzbekistan, 2020[33]).

First, *trade policies* will require harmonised rules with multilateral trade systems and simplified customs procedures and co-operation. Uzbekistan's European Co-operation and Partnership Agreements (ECPA), new Generalised Scheme of Preferences Plus (GSP+) membership and resumed WTO accession talks are a first step in the right direction.

Secondly, continued improvements to *the legal environment for business* and investment are needed to further simplify and enforce regulatory frameworks and ease the daily operations of businesses. In

[2] The Anti-Crisis Fund had been created specifically to deal with the COVID-19 crisis, and has been shut down in January 2021 (Government of Uzbekistan, 2020[69]).

particular for SMEs, it is key to ensure reliable implementation of regulations, greater automation of business procedures, and the finalisation and implementation of the SME law.

Thirdly, Uzbekistan needs to start transitioning to *a greener growth model*, mobilising private investment to enhance lower-carbon energy generation, more energy-efficient agricultural and industrial production, and better water and waste management.

Fourthly, Uzbekistan can leverage the *digital solutions* implemented during the pandemic to build a coherent approach to digitalisation underpinning all other reform dimensions. Additional investment into digital infrastructure, interoperable and harmonised IT systems, and digital upskilling programmes will be important.

### *Export promotion and support policies are needed to foster internationalisation*

Internationalisation of SMEs can be impeded by the burden of fixed costs associated with international trade. In particular, obtaining technical and sanitary certifications and satisfying all administrative requirements is costly and time consuming and often beyond the capacities of SMEs (WTO, 2019[34]; López González and Sorescu, 2019[35]). The low share of Uzbek SMEs in exports may be indicative of excessive fixed and variable financial and non-financial costs, which become barriers to trade. The adoption and full use of preferential trade agreements may increase both direct and indirect export demand, and reduce the cost of imported inputs, which could benefit Uzbek SMEs. However, for SMEs to grow further and withstand a potential increase in import competition, they may need targeted support programmes to increase the knowledge and access to new export markets.

Consequently, OECD (2017[1]) focused its analysis on the consulting, monitoring, marketing and outreach functions of export-promotion systems. While financial activities and trade facilitation are an essential part of export promotion, they were not included in the scope of the 2017 peer review, but they have been addressed through related work on the *Legal Environment for Business in Central Asia* (OECD, 2021[6]). This note reflects the findings of the 2021 OECD monitoring exercise of the implementation of the recommendations of the peer-review. It assesses progress in the implementation of reforms, and takes stock of the disruptions brought by the COVID-19 pandemic to identify reasons why implementation might have stalled, as well as new challenges and priority areas for policy action.

# Chapter 1. Overview of 2017: recommendations on export-promotion policies

In 2017, the OECD recommended that the government implement three sets of measures to boost the internationalisation of Uzbek firms. The recommendations were developed in public-private working group meetings throughout 2017, and endorsed at ministerial level at the OECD Eurasia Week 2017.

## Develop consulting activities to improve firms' knowledge of foreign markets

Export market knowledge, in particular market potential and product certification requirements, is vital if firms, and especially SMEs are to penetrate new export markets. The OECD recommended expanding the availability of consulting services and market intelligence to SMEs, such as in-depth market- and sector-specific studies, training sessions and advisory services. In order to help SMEs reach new markets, the OECD also recommended identifying target markets and sectors through public-private dialogue, and expanding certification opportunities by attracting more international certification companies to Uzbekistan.

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

Successful internationalisation of SMEs also relies on the availability of a large and deep trade representation network abroad to promote Uzbek products and support exporters in foreign markets. The OECD hence recommended expanding Uzbekistan's export-promotion network abroad and developing a clear branding strategy for Uzbek products in co-operation with the business community. It was suggested in particular that export institutions recruit more trade and sectoral experts with a private-sector profile, and develop a clear value proposition for Uzbek products in the markets they want to serve.

## Monitor the work and impact of export institutions

The creation of efficient export-promotion institutions and policies relies on the successful use of monitoring and evaluation tools to assess the needs of exporters and to determine which export-promotion activities work best to allocate resources accordingly. The OECD recommended developing and implementing a set of actionable key performance indicators (KPIs) and export surveys to improve the government's understanding of the work and impact of its export institutions.

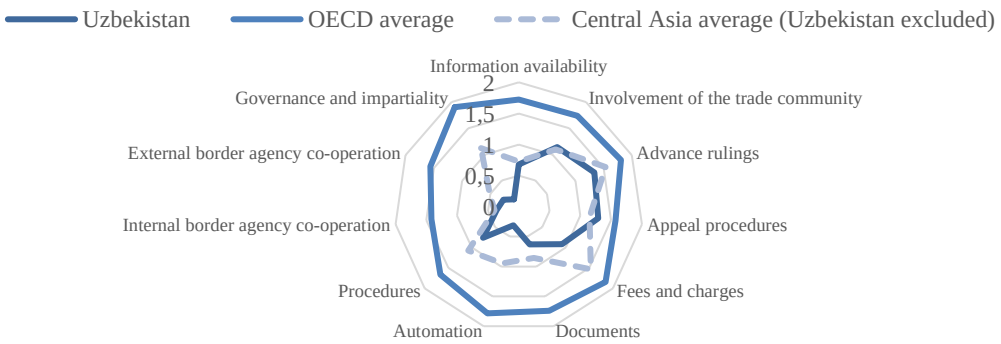
# Chapter 2. Improving trade facilitation and operational conditions for exporters

## Improvements in the overall trade facilitation environment increase the internationalisation opportunities for firms

High trade costs reduce incentives to export and increase uncertainty for those who do. These include to-the-border, at-the-border and beyond-the-border costs, covering the spectrum of trade costs associated with customs documentation and procedures and with clearance and inspection processes. SMEs are particularly sensitive to these costs, since they often lack specialised human and financial resources to deal with these constraints, and ship only infrequently or in small batches. As a consequence, smaller firms tend to benefit more from improvements in the overall trade facilitation environment than larger ones, as measured by the OECD Trade Facilitation Indicators (López González and Sorescu, 2019[35]).

In particular, trade facilitation measures such as the inclusion of SMEs in consultation processes or the efficiency of appeal procedures increase the propensity of firms to engage in export/import activities (trade at the *extensive* margin), while reductions in fees and charges, streamlining of procedures and automation of border processes affect the export and import values of firms (trade at the *intensive* margin) (López González and Sorescu, 2019[35]). Despite recent reforms, Uzbekistan still lags both the OECD and regional averages on all of these Indicators (Figure 5). Between 2017 and 2021 Uzbekistan made some progress, in particular pertaining to procedures and involvement of the trade community. For instance, Uzbekistan introduced a Single Window Customs Information System in January 2020, a digital export and import licensing and certification border procedure, in compliance with the Single Window Recommendations and Guidelines of the UN Centre for Trade Facilitation and Electronic Businesses (Government of Uzbekistan, 2020[36]). As of April 2021, the Single Window system was used by 34 400 registered traders and had fully digitised 21 export and import permits, while 39 other permits were expected to be integrated in the system till the end of 2021. However, some procedures remain long and complex, and co-operation between national agencies involved in import and export procedures, as well as with similar agencies from neighbouring countries, remains limited, even by regional standards (OECD, 2020[36]; OECD, 2021[6]; World Bank, 2019[37]).

### Figure 5. Uzbekistan in the OECD Trade Facilitation Indicators




*Source*: (OECD, 2020[36]).

The resumption of WTO accession discussions since 2019 can support improvements in this regard, as well as Uzbekistan's regional leadership in promoting trade co-operation across Central Asia following the COVID-19 pandemic. However, developing the country's export potential will require lowering other barriers, by improving regional co-operation on customs and border management, and horizontal co-ordination across public institutions involved in the delivery of trade certificates, permits and documents needed for exports; training border officials for better enforcement and eliminating arbitrary practices; and developing two-way communication channels with exporters and international partners. Facilitated channels for customs clearance, increased digitalisation of procedures, and increased border agency co-operation, both internally and with neighbouring countries, like those developed during the COVID-19 pandemic, could pave the way for such reforms (OECD, 2020[38]; OECD, 2020[18]).

## Reaping the full benefits of trade for firms requires further reforms to the overall business environment

Trade facilitation reforms need to be complemented by reforms to the legal and operational environment for SMEs to unlock their capacity to take advantage of digitalisation, new technologies and new trading opportunities (OECD, 2020[38]; López González and Sorescu, 2019[35]).

Despite a comprehensive effort to improve conditions for SMEs initiated by the government, barriers to the expansion and internationalisation of small firms remain. SMEs are more affected than to larger firms by uncertainty and low business confidence linked to the pace of reform and regulatory changes. At times in recent years, the pace of change has been such that it was difficult both for firms to adapt and for the public administration to implement in a timely fashion. As a consequence, proper implementation of SME regulations, particularly at regional level, remains a key challenge and still creates regulatory barriers to their operations. More generally, tax administration also remains a challenge for SMEs, since understanding of the new Tax Code remains limited and the exemption of VAT payment for SMEs under the simplified tax regime can complicate engagements with suppliers and clients (OECD, 2021[6]).

Reforms to streamline the regulatory and operational environment for SMEs therefore need to be pursued. In particular, the finalisation and implementation of the SME law, and the subsequent preparation of an SME strategy could accelerate these efforts. An SME Law could be the first step in designing a comprehensive SME framework, starting with a single, clear SME definition to ensure clarity and consistency of policies and support programmes. It would also foster better data collection on the country's SMEs to help the government refine and improve its business legislation, ensuring that it reflects the reality of firms operating across Uzbekistan. The Law could also be used as an opportunity to streamline and consolidate all SME-related legislation into one single document to simplify the regulatory environment,

reduce regulatory burdens, and enhance transparency and predictability through all stages of the SME business lifecycle. Kazakhstan's Entrepreneurial Code was introduced to that end, and it has proved an effective way to ease the operational environment for SMEs (OECD, 2021[6]; OECD, 2018[39]). Once adopted, the SME Law could be supplemented with an SME strategy that lays out strategic directions of government support to respond to challenges faced by SMEs in their operation and development (European Union, 2016[40]).

Uzbekistan could also pursue the full automation of business and custom procedures, building on the successful digitalisation initiatives set up since the COVID-19 pandemic began. Digitalisation efforts could also accelerate harmonisation of customs and other requirements between countries, as part of a renewed regional dialogue. The potential for digitalisation in tax administration is also significant. As part of its digitalisation agenda, the government could consider ways to encourage exporting SMEs to move online by providing support programmes, and digital upskilling programmes (OECD, 2020[18]).

## Further reforms in digitalisation and integrity can support innovation and offer new opportunities to diversify and raise Uzbekistan's export profile

Raising the export potential of SMEs requires a whole-of government effort to relax the regulatory and operational constraints they face in their daily operations (OECD, 2021[6]). Over recent years, key anticorruption reforms, including e-government, have significantly improved the transparency of government and local public authorities and facilitated dialogue with representatives of the non-governmental sector. However, room for progress remains in the area of prevention of corruption, judicial independence, harmonization of administrative justice, and criminal liability for corruption (OECD, 2019[41]).

Further progress on such reforms would improve the reach of more targeted reforms in favour of SMEs, especially on digitalisation and innovation. Seizing the opportunities of the digital transformation can enhance SMEs' entry into global markets by lowering the financial and human resource costs of entering new markets and knowledge networks, participating in GVCs, and finding customers abroad (OECD, 2018[42]). Lessons from the COVID-19 crisis could serve as an opportunity to foster greater diversification of SME production and exports (OECD, 2020[18]). In particular, the recent experience of the government in digitalising public services can be a starting point to identify the gaps that need to be addressed to foster the digital uptake of small firms. For instance, a presidential decree stated that as of January 2020 (Government of Uzbekistan, 2019[44]) that all import documentation shall be submitted in electronic form only. If this eases border procedures, it has increased the perceived complexity of customs procedures for SMEs, particularly affected by the lack of digital skills. As a consequence, the latter have inceasingly relied on customs brokers. For small businesses to reap the full benefits Uzbekistan's customs reform would therefore require the government to implement programmes for SMEs and entrepreneurs to acquire the relevant digital skills. Moreover, the pandemic highlighted the importance of online sale channels, and the government could foster SMEs' access to global online marketplaces, helping them to reach foreign consumers rapidly and promote Uzbek products worldwide. Once these are addressed, a more ambitious digital agenda can be developed to encourage the digital transition of exporting SMEs.

Support to SME innovation can also help firms seize the opportunities associated with participation in GVCs. In Uzbekistan, as in OECD and partner countries, few SMEs export directly, and if they do, it is mostly to regional markets. SMEs hold a competitive advantage in global markets relative to larger firms if they are able to differentiate products quickly, to respond to changing market and demand conditions. This flexibility and capacity to innovate for Uzbek SMEs could be supported through the development of FDI-SME linkage programmes to support innovation and growth (OECD, 2018[43]). However, the impact of these linkages depends on the degree to which MNEs transfer knowledge to SMEs through cooperative

relationships (e.g. partnerships or direct investment), the type of sector and whether the linkages are upstream (with suppliers) or downstream (with buyers).

Finally, foreign investors can help SMEs improve their quality standards. Indeed, where supply chain linkages are reported, trade, investment and partnership linkages are associated with above average firm performance, including in perceived improvements in product quality (OECD, 2019[44]). However, the gap for internationally recognised quality certifications may seriously limit Uzbek SMEs' absorptive capacity, and requires additional reforms, in particular on certification standards.

# Chapter 3. Findings from the 2021 Monitoring

This note was developed in consultation with the government, private companies, business associations, and development partners during the monitoring process[3].

Since 2017, the government has taken significant steps to implement reforms and institutional changes to develop its export-promotion structure. However, despite these efforts, the internationalisation of Uzbek SMEs faces significant impediments. First, SMEs still *lack knowledge of export markets and opportunities* entailed in certification. Second, SMEs still *lack connections to target markets* since an insufficiently developed branding strategy and scarce network of export-promotion and trade representation limit knowledge of and opportunities for Uzbek products abroad. Finally, the impact of export-promotion activities across all levels of government remains *insufficiently based on measurable outcomes*.

## Finding 1: Since 2017, a supportive institutional and policy framework has been created

Several export-promotion institutions have been developed in recent years with clear mandates. In May 2019, the EPA was established under the MIFT. It replaced, and took over the mandates of, several pre-existing export- and SME-support agencies, such as the Small Business and Entrepreneurship Development Agency under the Cabinet of Ministers. The EPA has already become a key actor, providing assistance to exporters in accessing finance, engaging with authorities and negotiating export contracts. It also provides information on export markets, in collaboration with research centres such as the Centre for Economic Research and Reform (CERR) and the Centre for Research on Sectoral Markets and Productivity in Manufacturing, and it implements the “Made in Uzbekistan” brand. The State Fund for Entrepreneurship Development provides trade financing, compensation for interest costs and loan guarantees to exporting businesses (Government of Uzbekistan, 2019[45]), while the Government Commission for the Development of Export and Investment co-ordinates with diplomatic missions of Uzbekistan abroad to solve problems faced by exporters in their daily operations.

The government has also deepened its co-operation with the private sector to support the internationalisation of businesses. The CCIU, in particular, is active in identifying issues facing exporters and providing targeted support, while the Agency for Technical Regulation (Uzstandart), is helping exporting businesses with certification matters. In parallel, the government also has accelerated reforms to join international agreements and schemes to support and expand trade opportunities.

[3] For on overview of the methodology underlying this monitoring note, please refer to the dedicated section p.27.

## Finding 2: The consulting services and market intelligence offer for firms has expanded but could be better targeted and more accessible

### *The Export Promotion Agency has stepped up consulting and marketing services*

Export-promotion institutions help SMEs overcome knowledge and skills barriers to export activity. In particular, sector-specific market studies can help build knowledge of target markets and identify niches that Uzbekistan's SMEs could occupy, while advisory services and targeted training programmes can help SMEs expand their skillsets (OECD, 2017[1]).

In a relatively short time, the EPA has become an important actor in the Uzbek export-promotion landscape, with consulting and marketing services being a crucial element of its mandate. The EPA consists of six thematic divisions, of which two are dedicated to export market research and analyses that are available to firms. The CERR also closely co-operates with the EPA on export market analysis. The EPA provides training activities, contracting external national and international experts for capacity-buildings on various topics relevant to exporting businesses. This activity has been instrumental during the pandemic in providing dedicated advisory and training activities for SMEs to be aware of eligible state support (OECD, 2020[18]).

The EPA has also stepped up efforts to co-ordinate the work of all relevant export-promotion agencies and bodies in order to help small businesses navigate the service offer. During the pandemic, for instance, the EPA has set-up "exporting headquarters" across the country, co-ordinating its work with the MIFT, the Ministry of Foreign Affairs (MFA), and the State Fund for Entrepreneurship Development. The EPA is also developing a Single Export Support Portal, gathering information about the services provided by all public agencies and bodies active in export promotion, to offer a single entry point for exporting businesses. At a later stage, the portal will be complemented by a public database providing information on export-related issues, such as legislation, custom procedures and logistics. This initiative could prove particularly relevant for SMEs, since they have more limited human and other resources to devote to administrative procedures (López González and Sorescu, 2019[35]).

### *Internationalisation of firms in Uzbekistan remains impeded by insufficient knowledge of market opportunities*

SMEs in Uzbekistan still report a lack of information on export markets as a key barrier to internationalisation. In particular, specific knowledge of market trends and competitors, entry barriers such as custom duties or certificates, and sector-specific requirements, remains limited. Two main limitations stand out, and call for further improvement.

Access of individual SMEs to market analyses remains limited. Interviews conducted by the OECD as part of the monitoring have shown that only a small number of exporting businesses in Uzbekistan seems to be aware of the export market analyses provided by the EPA or the CERR. The latter are shared periodically on the website of the institutions, and rarely sent to targeted businesses which might limit their reach. In particular, SMEs rarely have access to this type of analyses, which prevents them from locating new markets and opportunities. The EPA could expand the distribution of export market knowledge, either by distributing its own analyses more widely, or by ordering and co-ordinating the distribution of analyses from the CERR.

Insufficient specialisation of export market studies is compounding further the lack of access to market knowledge. Interviews conducted by the OECD have shown that according to the private sector, in the current setting, export market studies by the EPA or the CERR do not sufficiently cover the relevant information for exporting businesses. Interviewees mentioned that a more continuous public-private dialogue on the topic could support assessing and selecting export markets and priorities, and have

highlighted the current active involvement of the CCIU in this area. In particular, interviews have shown that current export market analyses do not directly assess potential demand for Uzbek products nor do they formulate export plans for target sectors (Box 1). These limitations arise partially from a lack of accurate market data and information. Reinforced public-private dialogue, for instance co-ordinated through the EPA and the CCIU, could help target new markets and needs, while the provision of accurate market data can be enhanced through successful institutional co-ordination across all institutions active in export promotion in Uzbekistan and abroad, such as the EPA, Embassies, and abroad trade houses.

### Box 1. Export market research

**Defining the players involved**

Accurate market data and information are essential to any understanding of the potential demand for Uzbek products in different places. Identifying market opportunities (*export market research*) is the first stage in building a coherent export strategy, for businesses and governments alike. It involves the analysis of a product or service market in a chosen country or region, and helps exporters determine their target markets and market segments by outlining what motivates buying decisions in these markets, how exporters can enter and position themselves by assessing their competitiveness relative to competitors, and what barriers they might encounter along the way.

Identifying market opportunities requires the coordination of three different players: the government, trade promotion organisations (such as export promotion agencies), and businesses themselves.

- For governments, the development of a national export strategy can be an efficient tool to identify priority sectors and target countries for export growth. Such a strategy relies on a careful assessment of the potential contribution of exports to economic growth, the sectors with the highest export growth potential, and the priority destination markets.
- Following such an assessment, the government can then turn to a trade promotion organisation, to define trade promotion action plans targeting priority products and countries, and develop marketing plans for exporting businesses. Such plans should be updated on a yearly basis by the trade promotion organisation, in close collaboration with the government and exporting businesses, to keep abreast of market trends for each priority sector and develop a set of concrete actions to assist exporting businesses developing their exports in the most efficient and promising areas.
- Complementing the actions by governments, businesses should also developed individual corporate export strategies, assessing the target markets with the highest potential for the company's products.

***Performing export market research***

Each of these three players will perform export market research, for which a general approach can be outlined in four main steps (Figure 6). The single most important component, after having formulated research questions (*step 1*), is access to relevant market data (*step 2*). For the latter, businesses can perform both primary and secondary market research:

1. Secondary market research corresponds to an initial market assessment that identifies possible export markets using key quantitative criteria such as market size, taxes, tariff and non-tariff barriers, and overall ease of doing business. These data are sometimes available at little or no cost but they are sometimes not sufficiently detailed or up to date.

2. Primary market research requires travelling to target markets to conduct qualitative research to understand more subtle features and trends that secondary research can't grasp. Approaches include surveying potential customers/consumers, participatiing in trade fairs and testing out marketing strategies. Impressions collected help to refine businesses' export offer.

### Figure 6. Key steps in export market research

Export market analysis is key to develop successful export promotion strategies, based on demand for products
- ✓ Is there a market for Uzbek products? And if yes, which products specifically?
- ✓ Are the products competitive both in terms of quality and cost?
- ✓ If yes, what is the most cost-effective and time-efficient export strategy?

| Step 1<br>Research questions | Step 2<br>Research (country and industry specific) | Step 3<br>Review of potential markets | Step 4<br>Export plan formulation |
|---|---|---|---|
| • Trends in countries currently buying Uzbek products<br>• **Size** of potential export markets<br>• Required **standards, testing, and certifications**<br>• Competing countries<br>• Applicable duties, taxes, and other costs to determine **land cost** and **total export costs**<br>• Available **distribution channels** | • **Primary market research** can be conducted in liaison with abroad trade representatives, Embassies, etc.<br>• **Secondary market research** (trade statistics, reports) | • Select a **few target markets** (<10 for SMEs)<br>• Additional ananlysis to determine the **suitability of the market** (eg. marketing, tariff and non-tariff barriers, etc) | • **Detailed plan** for each market on all dimensions identified in the research (compliance, marketing, etc)<br>• Timely **sequenced plan** (from short to long-term) |

Note: These steps have been presented and discussed during the second working-group of the monitoring, in May 2021.
Source: OECD (2021).

Businesses can carry their research out themselves, however it is costlier for SMEs, which typically don't have the necessary expertise and might take poor decisions because of limited exploration. Export promotion agencies and chambers of commerce, and their offices abroad are the main instruments governments from OECD and partner countries have deployed to assist businesses in their efforts to take advantage of new opportunities abroad.

Sources: (British Department for International Trade, 2021[46]; Greg Sandler, 2017[47]; ITA, 2011[48]).

### *The supply of certification services has expanded but could be further developed and made more financially accessible*

Beyond the provision of adequate information to locate new markets and understand their standards, successful export-promotion policies also rely on the provision of standardisation and certification services for SMEs to meet these requirements (OECD, 2017[1]; ELSOFP, 2020[49]).

Since 2017, the supply of certification services has expanded in Uzbekistan, in particular through the activities of the Agency for Technical Regulation which focuses on upgrading certification standards at the level of the country, specific sectors, and individual businesses. On the national front, the agency has been leading Uzbekistan's effort to streamline national standards with international requirements such as the ISO standards under amendments made to the 1993 Law on Metrology (Government of Uzbekistan, 2020[50]), and has contributed to partnerships with international certification companies, several of which opened offices in Uzbekistan.

At the level of sectors, certification so far has mainly focused on textile and agricultural products, while certification gaps remain for other sectors. In particular certification for exports remains voluntary in Uzbekistan, while it is of key importance for reaching new markets, such as the European Union (EU). The development of claim of origin safeguards could be a strategic development to enhance the export potential of Uzbek SMEs, in particular under the GSP+ scheme of the EU.

Discussions with the private sector during the monitoring also have shown that individual businesses in Uzbekistan have benefitted from the work of the Agency for Technical Regulation, in particular through the agency's Export Promotion Bureau dedicated to inform and provide free consulting services on international and country-specific requirements on standards for businesses of all sizes (Government of Uzbekistan, 2011[51]). For instance, in 2019-2020, 271 Uzbek companies received support to certify their organic products, 33 textile enterprises acquired the *Öko-tex* standard, and 16 received the CE label of quality to enter EU markets. The company also collaborates with the CCIU and the EPA to provide trainings to exporting companies on certification requirements. However, interviews have shown that so far specific challenges and needs related to certification for SMEs have not been singled out by the agency, nor in its collaboration with the CCIU and the EPA.

Indeed, despite these improvements, the internationalisation of Uzbek SMEs suffers from limited improvements in quality and certification standards, and certification of their production remains low (ELSOFP, 2020[49]; GIZ and Euromonitor, 2017[23]). It results both from an issue of awareness and affordability: SMEs lack awareness of and interest in certification, which remains poorly known and is not considered as a means to reach new markets, while if aware, only few SMEs can afford certification, since it remains an expensive process. However, certification requirements and opportunities are key for Uzbek SMEs to internationalise and reach new markets, as it offers them the opportunity to target some niches such as organic products, and reap the full benefits of preferential trade agreements such as the EU GSP+ scheme (ELSOFP, 2020[49]; ELSOFP, 2020[51]; GIZ and Euromonitor, 2017[23]).

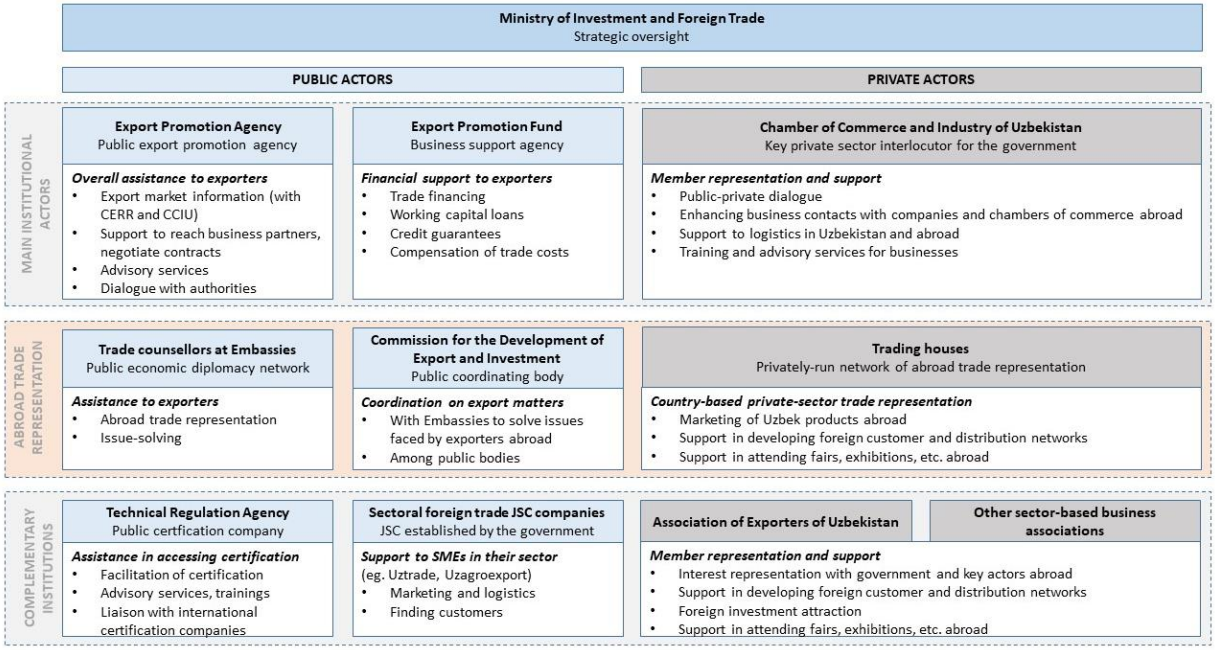
The Agency for Technical Regulation and the EPA could step in, and expand their service offer to target SMEs and build "know-how" on certification requirements and opportunities. For instance, an advisory body within any of these institutions could be set up as a one-stop-shop for all SME-related issues, and trainings could be further expanded in collaboration with international certification companies for SMEs to understand the benefits of certification. On the financial side, certification costs are covered in part by the agency, while the EPA provides financial assistance and partial reimbursement of the costs incurred through the implementation of international standards and certificates. However, the CCIU and SMEs mention that they still find the process burdensome and costly, which prevents them from certifying their products and limits their export opportunities (OECD, 2018[52]). Following the example of some OECD countries, such as Italy, the government could subsidise the certification process for SMEs using tax credits or loans (OECD, 2020[53]; Trentino, 2021[54]). Finally, certification know-how could also be improved through the creation of joint training centres in partnership with internationally recognised companies, where specialists would be trained to develop certification methods and services for SMEs in line with international standards.

## Finding 3: International export-promotion networks could be strengthened with a clearer value proposition and more specialised actors abroad

### *The government of Uzbekistan has started deploying its international export-promotion network*

Export-promotion networks abroad are needed to represent domestic enterprises, in particular SMEs, and connect them with foreign distribution channels, buyers, and business partners (OECD, 2017[1]). Recognising this, the government has expanded its international network, through two distinct pillars: trade diplomacy through foreign diplomatic representations and private trade houses (Figure 7).

### Figure 7. Schematic view of SME export-promotion institutions in Uzbekistan




Source: OECD analysis 2021.

In early 2018, a government decree redefined the mandate of the MFA to include a strong emphasis on economic diplomacy, defined as an overall strategy to "strengthen the country's economic sovereignty, defend national economic interests, and ensure […] the creation of favourable external economic conditions for the sustainable development of the Uzbek economy" (Government of Uzbekistan, 2018[55]). An Economic Diplomacy Department has been created within the MFA, supervising the nomination and work of trade counsellors in each of Uzbekistan's 52 diplomatic missions in 43 countries to support the internationalisation of businesses (Table 1). The Government Commission for the Development of Export and Investment complements this new set-up, and co-ordinates with Uzbek Embassies to identify and solve problems faced by exporters. The second pillar of Uzbekistan's renewed export-promotion strategy relies on the private sector. Over recent years a network of privately owned and run trade houses has expanded, providing trade representation and promotion initiatives set up by exporters on an individual basis in foreign countries, and in some instance with the support of the state-owned company Uztrade operating under the Ministry of Investments and Foreign Trade. Since 2017, trading houses were established in Malaysia, the

US, France, Germany, Russia, Bulgaria, and Pakistan, complementing the ones existing already in Kazakhstan, Latvia, and China (Uztrade, 2021[56]).

### Table 1. Diplomatic missions of Uzbekistan and Uzbek trade houses abroad

| Region | Country | Embassy | Consulate | Trade house |
|---|---|---|---|---|
| **North America** | United States of America | ✓ | ✓ | ✓ |
| **Europe** | Austria | ✓ | | |
| | Belgium | ✓ | | |
| | Belgium | ✓ | | |
| | France | ✓ | | ✓ |
| | Germany | ✓ | ✓ | |
| | Greece | | ✓ | |
| | Italy | ✓ | | |
| | Latvia | ✓ | | ✓ |
| | Poland | ✓ | | |
| | Spain | ✓ | | |
| | Italy | ✓ | | |
| | Ukraine | ✓ | ✓ | |
| | United Kingdom | ✓ | | |
| **Middle-East and North-Africa** | Egypt | ✓ | | |
| | Iran | ✓ | | |
| | Israel | ✓ | | |
| | Kuwait | ✓ | | |
| | Qatar | ✓ | | |
| | Saudi Arabia | ✓ | ✓ | |
| | Turkey | ✓ | ✓ | |
| | United Arab Emirates | ✓ | ✓ | |
| **Central Asia and Caucasus** | Afghanistan | ✓ | ✓ | ✓ |
| | Azerbaijan | ✓ | | ✓ |
| | Belarus | ✓ | | ✓ |
| | Kazakhstan | ✓ | ✓ | ✓ |
| | Kyrgyzstan | ✓ | | |
| | Tajikistan | ✓ | | ✓ |
| | Russian Federation | ✓ | ✓ | ✓ |
| | Tajikistan | ✓ | | ✓ |
| | Turkmenistan | ✓ | | |
| **Asia** | China | ✓ | ✓ | ✓ |
| | India | ✓ | | |
| | Indonesia | ✓ | | |
| | Japan | ✓ | | ✓ |
| | Korea | ✓ | | |
| | Malaysia | ✓ | | ✓ |
| | Pakistan | ✓ | | ✓ |
| | Singapore | ✓ | | |
| | Thailand | | ✓ | |

Source: (Government of Uzbekistan, 2021[57]; Uztrade, 2021[56]).

### *Improving the connection of businesses to target markets would expand knowledge of and opportunities for Uzbek products beyond Central Asian and CIS countries*

The government's emphasis on economic diplomacy and privately run trading houses enables a fair geographical coverage (Figure 8). However, trade counsellors in Embassies are less specialised on targeted export issues and most lack private-sector experience. Consequently, they do not fulfil entirely the usual functions of representatives of export-promotion agencies abroad, such as contacting potential overseas customers, obtaining adequate trade representation, and finding export distribution channels, which impedes the overall relevance of their work in supporting the internationalisation of SMEs (OECD, 2017[1]). Even if the Chamber of Commerce (CCIU) has stepped-up in supporting businesses to find export distribution channels abroad, it relies mainly on a bilateral case-by-case basis, which cannot fully replace the functions of an international export-promotion agency network. Consequently, interviews conducted by the OECD have shown that SMEs face difficulties in reaching foreign distribution channels. In addition, the network of trade houses, operated by individual businesses abroad, remains outside the institutional scope of the government since the EPA is not directly involved at any stage. However, trade houses might become more integrated in the government's strategy, as since January 2021 the EPA can provide partial compensation of the costs associated with the opening of a trade house to the exporter taking the initiative (Government of Uzbekistan, 2021[58]).

The absence of an international network of the EPA compounds both elements, and the current institutional arrangements suffer from the absence of an integrated institutional approach. Institutional changes in Uzbekistan since 2017 have led to the replacement of the former Export Promotion Fund (EPF) with the current EPA, and the closure of the nine offices of the EPA in foreign countries. Consequently, in contrast to its peers in OECD and partner countries, the EPA has no representation abroad, and is not directly involved in steering the network of trade counsellors and trade houses. Thus, the key actor for supporting exporting SMEs in Uzbekistan lacks a direct connection to foreign markets. This contributes to SMEs' difficulty connecting to target markets and to foreign buyers' lack of awareness of Uzbek products beyond Central Asia and the CIS.

## Box 2. Case study: the market penetration performance of the export promotion network abroad

If the trade representation in a country varies according to strategic interests and historical relationships, the different structures of representation abroad can be wielded as a privileged channel for export promotion. However, a solely diplomatic presence does not necessarily imply a spill-over effect on export penetration in a foreign market. Moreover, enhanced representation needs to be located in the markets abroad with the greatest potential in order to maximise Uzbek exporters' prospects.

Figure 8 below provides an illustrative insight into the potential impact of existing trade representations (embassy, consulate and/or trade house) in terms of market penetration of Uzbek products in the country, and into their strategic location in markets with the largest trade potential for Uzbekistan. Thorough investigation would be warranted to determine the exact strengths and weaknesses of the Uzbek export promotion strategy at a country level (SWOT analysis), but the figure suggests some important points for reflection. It shows a correlation (but not necessarily causation) between trade representation and penetration of export markets. It is important not to exclude other factors that could influence the latter. For instance, the weight of Uzbek trade representation and export penetration varies across countries. While the level of export market penetration of Uzbek firms can be influenced positively with trade representation, the latter is carried out through institutions dissimilar in terms of scope of action, staff number and skills, etc.

***Methodology***

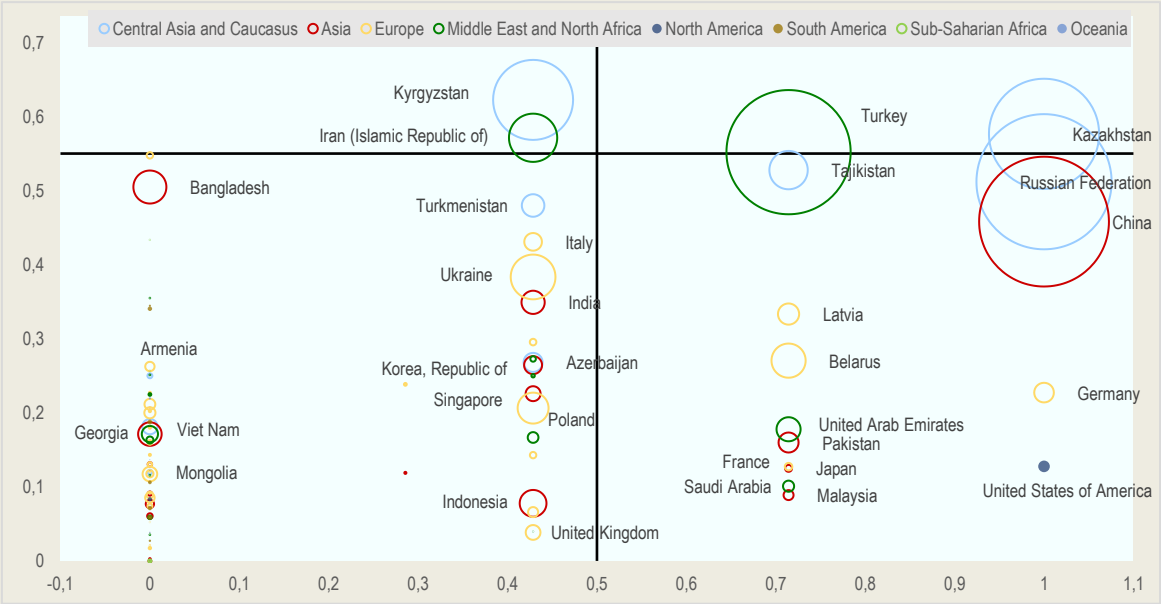
The impact of trade representation abroad on exports can be proxied by analysing Uzbekistan's untapped export potential in each export destination. The data for the analysis has been taken from the International Trade Centre (ITC) (International Trade Centre, 2021[59]).

This ratio gives us a clear classification of trade representations based on their ability to boost Uzbek exports (assuming ceteris paribus). To add an extra layer of analysis, the size of export potential tells whether the largest markets are targeted or missed. The total export potential should be taken into consideration for a cost-advantage based decision: it would be incoherent to deliver new resources at a great cost to tap a low total export potential.

The x-axis represents the *trade representation index*, which measures the presence of the country's trade representation through different public and private institutions on a scale from 0 to 7, which is then normalised to 1. In particular, the presence of an embassy is rated at 3. As the permanent diplomatic representation of the country abroad, it disposes of the greatest diplomatic prerogatives (handling negotiations and signing contracts as the highest representative of the home government) and the largest staff, which means more people deal regularly with trade affairs. The presence of a consulate is rated at 2, since it disposes from less diplomatic prerogative and less staff, which means less people dedicated to trade affairs. Finally, a trade house is also rated at 2, given it is not a public diplomatic institution, but a private institution that cultivates close ties with the private sector, and therefore is granted exclusive and direct access to buyers and distributors. The staff is also more restrained but entirely dedicated to trade affairs.

The y-axis represents the *market penetration index*, which measures the share of the export potential that is currently tapped. It is built from the untapped export potential ratio (tapped export potential/total export potential) with data from the ITC so that the penetration index = 1 - untapped export potential ratio. The threshold has been established at 55% to distinguish between strong and low market penetration. This figure was calculated from the average market penetration index benchmark of two non-Central Asian economies whose rate of openness to international trade is high and which have strong export promotion networks - Germany and Malaysia.

## Figure 8. Market penetration performance of the Uzbek export promotion network abroad




Reading: (i) Top-right corner: "Strong performance". Efficient diplomatic presence that results in a good exploitation of the export potential on these markets. Efforts for export promotion should be maintained. (ii) Bottom-right corner: "Underperformance". Low exploitation rate of the export potential in these markets despite heavy diplomatic presence. Need for resources reallocation, enhanced management and/or improved marketing. (iii) Bottom-left corner: "Untapped potential". More diplomatic presence might be needed in these underexploited markets, depending on their total export potential. (iv) Top-left corner: "Spontaneous clients". High level of market penetration despite low diplomatic presence. No more diplomatic resources are needed.
Source: OECD calculations based on (International Trade Centre, 2021[59]).

### *Analysis*

Uzbekistan is only a strong performer on both dimensions in Kazakhstan. Geographic proximity ("gravity") and historical co-operation across the board explain the strong penetration of Uzbek businesses in this market. However, Uzbekistan's current trade representation could raise its impact in major and geographically close markets: China, the Russian Federation, Turkey and, to a lesser extent, Kyrgyzstan. Trade representation is high while these markets remain mostly untapped. Significant trade representation in China is broadly in line with the importance of its 1.2 billion USD export potential for the country, one of the largest. A poor performance in this market suggests that the trade representation already onsite could support businesses better to gain greater market share.

Some resources from "under-performers", especially low-potential export markets, could be reassigned to high-potential export markets that have been mostly untapped, while having little or no Uzbek representation; these include Ukraine, Poland, Korea, India and Indonesia. One of the most relevant examples is Viet Nam, with a market potential of 43.2 million USD that is only 17% covered by Uzbek businesses. The main factor driving the export potential may be value chain complementarity: according to ITC data, cotton is the second most untapped Uzbek product for export to Viet Nam, one of the largest producer of textile in the world. Their long-standing bilateral economic relationship was recently reinforced through a series of joint diplomatic stances and new agreements (Vietnam Chamber of Commerce and Industry, 2019[59]). Uzbekistan's trade representation remains absent in the country and needs to take advantage of those favourable conditions.

Finally, some markets have seen their potential tapped by Uzbekistan's exports without the need for extensive trade representation. The largest markets for Uzbekistan in this category are Iran and Kyrgyzstan, which has the highest share of tapped export potential. These "spontaneous clients" are likely connected to Uzbekistan in view of geographical proximity, shared history, and trade integration through regional organisations.

Further enhancing foreign market reach of Uzbek products beyond these markets would require in the short term to step up co-ordination between Embassies, trade houses and the EPA to design and implement a more integrated institutional strategy steered by the latter. In the longer run, and following the successful example of Germany, Uzbekistan could supplement this co-ordination with a public network of abroad offices of the EPA (Box 3).

### Box 3. Provision of export market information through Germany's network of export-promotion agencies abroad

Export promotion in Germany builds on a close collaboration between the public and private sectors. Since 2009, the federal government directly supervises export promotion through the Germany Trade and Invest (GTAI) agency, and co-finances the Chambers of Commerce Abroad (AHK). Regional and local governments and business associations complement this institutional set-up co-ordinated by the Federal Ministry of Economy and Technology.

GTAI builds its export market knowledge and export-promotion capacity upon a specialised workforce, and a large international network of abroad offices. The agency operates through 2 offices in Germany and more than 50 offices abroad, and is in close relation with the German diplomatic network of 220 embassies and consulates. German exporting companies are also supported by 120 overseas chambers of commerce in more than 80 countries.

Export market information is provided by about 60 industry analysts, located in the GTAI offices in the main export markets, and complemented by legal, tax, country and customs experts based at the central locations. These services aim at supporting mainly exporting SMEs in targeting specific countries and sectors. Support includes the provision of market and sector information such as macroeconomic analyses and forecasts, country and industry analyses, and business contacts; legal, tax, and custom advice; and assistance in finding business partners and representation at fairs.

Marketing activities of GTAI are mostly provided free of charge to businesses and covered by public funds, while more specialised consulting activities and targeted reports are partly paid for by businesses below-market prices.

Sources: (OECD, 2017[1]; GTAI, 2021[59]).

### *The national branding strategy ("Made in Uzbekistan") could be further expanded*

Branding strategies underpinned by clear sectoral and market targeting are a key component of successful export-promotion policies, as they increase awareness of Uzbek products abroad. The internationalisation of SMEs, which typically have very limited marketing budgets and product lines, can benefit most from the development of national brands and niche branding strategies (OECD, 2017[1]; ELSOFP, 2020[51]).

Since 2017, the government has developed a national branding strategy implemented by the EPA. The "Made in Uzbekistan" programme promotes domestic manufactures abroad, with the aim of improving awareness of Uzbek products on foreign markets and building long-term co-operation with foreign businesses and distribution partners. The brand is implemented mainly through an annual "Made in Uzbekistan" exhibition in Tashkent, regional exhibitions and fairs, and support for the participation of Uzbek businesses in international exhibitions and fairs. In early 2021, the CCIU launched an electronic platform on its website to reference local brands of goods, in relation to defined quality criteria and certification standards (Government of Uzbekistan, 2021[60]).

Uzbek agricultural and manufacturing products are well known and well positioned in Central Asian and CIS markets, which together accounted for 80.2% of machinery equipment exports, 72.8% of fruit and vegetable exports, and 63.4% of textile exports in January-November 2020 (GIZ and Euromonitor, 2017[23]; CERR, 2021[16]). However, interviews carried out by the OECD with representatives of the international private sector and development community have shown that international awareness of the Uzbek national branding initiative and the value proposition of Uzbek goods remains low outside of these markets. Unlike some successful national or regional branding strategies implemented in OECD or Eurasia countries (Box 4), "Made in Uzbekistan" still lacks a strong tie to objective quality certification standards, as well as a unified image in international markets. Improving the formulation of a clear value proposition for each target market and expanding Uzbekistan's branding strategy in relation to strong quality standards will be key to further support the internationalisation of SMEs in new export markets.

### Box 4. Moldovan wine and fashion industries increased exports through improved quality standards

Starting from 2007, Moldovan government agencies initiated a strategy to develop a quality driven national brand, with a focus on two of Moldova's largest industries: wine and clothing. In partnership with business associations and benefiting from ongoing US, UK and Swedish funding, Moldovan government agencies enabled these industries to meet quality standards and thereby increase exports.

In 2014, the National Office for Vine and Wine of Moldova launched a campaign to get Moldovan wines to reach European quality standards and unite exports under a national brand, *"Wine of Moldova. A legend alive."* To be branded under *Wine of Moldova*, enterprises must meet certain quality standards, and the National Office of Vine and Wine has put emphasis on simplifying certification procedures for wine makers to meet quality standards. Several pieces of legislations and conformity to international norms made the nature of wine quality standards transparent and rigorous in Moldova. Criteria range from geographic indicators (appellations of origin) to inputs (class of grape grades, organic grapes), and technology in the production process (food security, critical points). The law also contains rules on official controls on conformity of products and monitoring of compliance with the product specification to fight misleading use or misuse of certifications. By 2020, two thirds of Moldovan wines met the European Protected Geographical Indication (PGI) standard. Over recent years, Moldovan wines, including from small wineries, have proven their newfound high quality by winning hundreds of awards at international competitions, becoming the undisputed wine leader of Eastern Europe and one of the top-10 highest-awarded countries in competitions. In 2019 alone, Moldova saw a 9% increase in wine exports, sending 157 million litres to over 70 countries. Among the new exporters were dozens of SMEs.

The high fashion industry adopted a similar strategy to rebrand itself as a high-quality Moldovan export oriented toward global designers and markets. In 2012, the Moldovan Ministries of Economy and Culture and the Moldovan Light Industry Association launched a project to improve Moldovan fashion exports bringing many fashion labels under a new national brand, *"From the Heart"* and supporting the capacity of manufacturers to shift toward high value-added, high-quality products. Results of the project until 2016 included 70 new companies, a 6,500% return on export-promotion funds, and a 34% increase in sales. Many of the companies that benefited were women-owned SMEs with only one or two patented designs. Since then, the fashion industry has continuously grown (a 10% increase in export sales each year since 2015) thanks to a consistent emphasis on quality in Moldovan government, BIOs, and private promotional materials. As of 2019, most Moldovan clothing factories comply with numerous international quality and ethical standards, including ISO 9001 and 45001, Business Social Compliance Initiative, and Sedex Members Ethical Trade Audit.

Source: (World Intellectual Property Organization, 2008[61]; Government of the Republic Of Moldova, 2015[62])

In close collaboration with the CCIU, the EPA could further develop the “Made in Uzbekistan” brand through the inclusion of objective quality standards, a unified image and a consistent use of the brand to promote Uzbek goods on international markets. Additional branding opportunities could be seized through targeted niche specialisations such as organic products to reach new export markets. Recently concluded preferential trade agreements, such as the European Union’s GSP+ scheme, can provide both an incentive and an opportunity for the government to step up efforts in this direction, for instance through the development of quality-bound country of origin claims.

## Finding 4: More outcome-based and complex monitoring systems could make it easier to strengthen and adapt export-promotion efforts

### *Export promotion and supporting institutions regularly assess their work in co-operation with the private sector*

The successful development of an integrated export-promotion strategy and institutional network ultimately relies on the government’s understanding of the work and impact of export institutions, so as to use the resources devoted to these activities efficiently. Monitoring and evaluation tools make it possible to identify the activities most effective in supporting exporting SMEs, realigning priorities and allocating resources accordingly. An effective monitoring framework encompasses all levels of action, ranging from macroeconomic or sectoral analyses of export performance to feedback from individual enterprises having received export support through the EPA, the CCIU, or any public or private institution. Many OECD and partner countries have designed and implemented clearly defined KPIs and exporter surveys to do so (OECD, 2017[1]).

The actors in Uzbekistan’s export-promotion network carefully and extensively monitor and report on their activities. Under the supervision of the MIFT, all public agencies active in export promotion publish quarterly and yearly reports on programmes implemented and activities undertaken. For instance, the EPA and the Government Commission for the Development of Export and Investment report on the number of recipients of financial assistance, the amount of support granted, and the volume and geographical span of national SME exports. However, the EPA does not formally use KPIs or outcome-based indicators to assess its activities. The CCIU has started developing such indicators, though they could be better focused on outcomes (for instance they focus on the number of businesses exporting abroad, rather than the number of new exporters or new export contracts following active engagement with the CCIU). The CCIU also conducts regular surveys of entrepreneurs and exporters to evaluate obstacles to entrepreneurship and exporting activities.

### *Integrated evaluation processes could strengthen the impact of export-promotion institutions and policies*

Despite increased attention to the evaluation of export-promotion activities, monitoring processes remain too narrowly focused on inputs (such as the number of companies assisted, of outreach activities undertaken, participation at fairs supported, or reports provided, etc.) rather than assessment of outcomes and impacts. As a result, interviews conducted by the OECD suggest that reporting activities are seen as burdensome and time-consuming, and it remains unclear how their results feed into the analysis of the effectiveness of measures and realignment of priorities.

More complex and outcome-oriented evaluation tools would enable the monitoring process to inform governments better about strategic choices to further enhance and target export-promotion activities. In particular, qualitative and quantitative KPIs enable an assessment of the cost-effectiveness of operations, the rate of return on services provided, and the regular review of progress (Box 5). Beyond the volume of

activities implemented, such indicators focus on the number of new contacts, exporting successes, or new businesses developed over a given timeframe. For instance, several OECD countries use client surveys to estimate the impact of export-promotion activities. They also define specific targets at the market, sector, or company level depending on the priorities selected for export promotion (OECD, 2017[1]).

A constantly evolving national and international environment also requires export-promotion bodies to reassess and realign priorities regularly, to provide timely and adequate support, as demonstrated by support measures developed during the COVID-19 pandemic (OECD, 2020[18]). Regular exporter surveys can provide authorities with a clear understanding of concrete needs of exporting businesses. The EPA could co-operate with the CCIU to systematise the latter's export surveys, and launch formal surveys of businesses at various stages of the export cycle. For instance, the EPA and the CCIU (in collaboration with an independent survey agency) could review on a biannual or a quarterly basis the obstacles faced by exporters in their daily activities, as well as the needs and challenges associated with current support measures. The EPA could also develop feedback loops with trade houses and trade counsellors in diplomatic missions abroad to report on business contacts and needs. Finally, Uzbekistan could transition to a more integrated monitoring system in which the activities of all institutions active in export promotion would be regularly and systematically reviewed based on a commonly agreed set of actionable KPIs.

### Box 5. Evaluating export-promotion policies and measures in France (*Business France*)

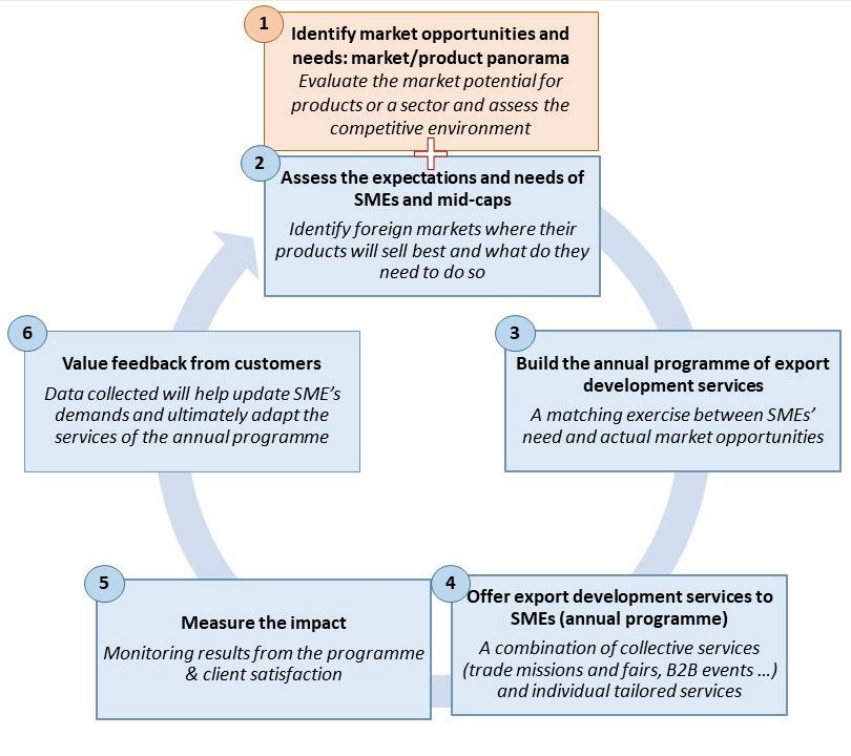
*Business France*, the French export-promotion agency, was created in 2015 out of a merger of the French export and investment promotion agencies. On this occasion, a review of the French institutional export-promotion strategy was conducted, with the aim of making public support for internationalisation more visible, understandable and accessible, while making data more comparable. Consequently, Business France revised its approach to export development services and KPIs, and transitioned from quantitative and input-focused indicators towards user-needs and satisfaction, and outcome based indicators.

***Value feedback from customers (external KPIs)***

Business France incorporates a strategy for the evaluation of the impact of its export development services when developing the latter (Figure 99), with a focus on value feedback from their customers. Such an approach allows Business France to measure the exporting businesses' appreciation of the export services they received, ensure the match of service offer with business needs, identify new needs and train their staff accordingly, as well as inform their line ministries to feed into the decision making process on the national export strategy (see Box 1). In particular, the evaluation is part of the "Objective and Means Contract" (COM) signed between *Business France* and its supervising Ministries for a period of four years. The contract sets the KPIs and quantified objectives over that period, and reporting of progress is done quarterly every year.

The value feedback scheme is run with a specific budget financing a dedicated internal team, as well as subcontracting independent research institutes involved in the four pillars of the scheme consisting of: (i) customer focus group and roundtables with customers moderated by external experts; (ii) bespoke studies and reports to analyse and propose solutions for specific questions and needs in cooperation between the internal team and external experts; (iii) systematic online evaluations immediately after each service delivery; (iv) and an "impact barometer" assessing the long-term evaluation of the efficiency of services in terms of business generation and job creation.

## Figure 9. Targeting and impact measurement cycle




Note: These steps have been presented and discussed by Business France during a capacity-building on export market research and monitoring of performance of an EPA as part of the monitoring cycle, in September 2021.
Source: OECD (2021).

### Assessing the efficiency of export promotion services (internal KPIs)

As part of the "impact barometer", efficiency is rigorously defined through a set of KPIs, based on quantitative and qualitative measures as well as exporter surveys. They include macroeconomic indicators (total SME exports, and share of SMEs in total exports), indicators of the number of SMEs with export contracts, and purely output based indictors such as the number of SMEs and entrepreneurs supported by *Business France* through collective events or individual support, the number of new business contracts after one and two years following the first business contact facilitated by *Business France*, the number of different markets, and the average additional turnover. Among these KPIs, the most important one is the "effective rate", referring to the percentage of enterprises having used a *Business France* services which reported a real business flow (e.g. a contract signed or an order passed).

Sources: (OECD, 2017[1]; Business France, 2016[63]; Cour des Comptes, 2015[64]).

# Conclusion

Since 2017, Uzbekistan has undertaken substantial efforts to strengthen export promotion. Despite these initiatives, the country's firms, and especially SMEs, continue to face significant barriers to internationalisation. A supportive institutional and policy framework has been created, guided by the clear mandates of the new EPA, the State Fund for Entrepreneurship Development and the Government Commission for the Development of Export and Investment. The supply of consulting services and market intelligence for SMEs has expanded due to the joint efforts of the EPA and the CCIU.

## Further develop "know-how" on export markets and certification to improve firms' knowledge of foreign markets

Insufficient knowledge of market opportunities still impedes the internationalisation of SMEs in Uzbekistan. Export market research services could be better targeted, with private-sector inputs and better accessibility to improve SMEs' knowledge of foreign markets. Uzbekistan should particularly reinforce public-private dialogue between actors involved in export promotion (CCIU, embassies, trade houses), under the supervision of the EPA, to support assessment and identification of target markets.

The supply of certification services could also be further developed and made more financially accessible. The EPA could enhance export-market analysis distribution to SMEs and provide cost-sharing options for certification of SME products through both the Agency for Technical Regulation and the implementation of international quality standards. Alongside expanding partnerships with international certification companies, the Agency for Technical Regulation could develop "know-how" on certification requirements and opportunities for SMEs as well.

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

The deployment of international export-promotion networks has begun but it could be strengthened though a clearer value proposition, notably when it comes to national branding, and more specialised actors abroad. In particular, the current institutional framework for export promotion suffers from the decoupling of the activities of the EPA and trade representation abroad, carried out independently through trade counsellors in Embassies and the private sector. Reinforcing co-ordination on export-promotion activities between Embassies, trade houses and the EPA is of the utmost importance. The latter should develop a network of foreign offices in the longer run, as the agency has lost representation abroad since 2017.

Despite the development of a national "Made in Uzbekistan" brand, Uzbek SMEs do not yet benefit from a clear value proposition in foreign markets. Improving the formulation of the latter would require to develop a strong quality-standard supporting the brand as well as niche specialisations in relation to certification such as organic products to reach new export markets. Such reforms would allow Uzbek products to expand opportunities beyond their traditional regional export markets.

## Monitor the work and impact of export institutions

Finally, if export promotion and supporting institutions regularly assess their work in co-operation with the private sector, integrated evaluation processes could strengthen the impact of export-promotion institutions and policies. Monitoring the work and impact of export institutions efficiently requires a transition towards more outcome based and complex monitoring systems that would inform governments better about strategic choices to further enhance and target export-promotion activities. In particular, the use of qualitative and quantitative KPIs would enable an assessment of the cost-effectiveness of operations, the rate of return on services provided, and the regular review of progress through surveys at various stages of the export cycle for businesses.

# Annex

## Overview of the OECD monitoring framework

In the framework of the Central Asia Competitiveness IV Project co-financed by the European Union, the OECD ECP and the government of Uzbekistan established a public-private working group to monitor reform implementation to enhance SME export promotion in the country. The Working Group (WG) brought together representatives from the government of Uzbekistan, 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 assess reform implementation and map new challenges linked to the changes in the institutional environment for SMEs in Uzbekistan, the effects of the COVID-19 pandemic on its economy, and the country's recently resumed WTO accession discussions and acquisition of the European Union's GSP+ status.

The note builds on the OECD monitoring framework to assess progress in the implementation of SME export-promotion reforms since the initial OECD peer-review in 2017. The OECD assessment integrates three main dimensions: (i) a measure of implementation progress based on the reform implementation timeline agreed upon with the Government of Uzbekistan in 2017 (Table 22); (ii) an assessment of the drivers for implementation delay; and (iii) an assessment of new challenges and priority areas for policy action.

### Table 2. 2017 implementation timeline

| 2017 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** | | | |
| Identify target markets and sectors through public-private dialogue | ■ | | |
| Expand advisory and training capacities and support preferential access | ■ | ■ | |
| Attract more certification companies to the country | ■ | ■ | ■ |
| **Expand the export-promotion network abroad and provide a clear value proposition in target markets** | | | |
| Expand the number of representation offices abroad with local staff | ■ | ■ | ■ |
| Work on a clear value proposition in co-operation with the business community | ■ | | |
| **Monitor the work and impact of export institutions** | | | |
| Develop and implement a set of actionable key performance indicators | ■ | | |

Source: (OECD, 2017[1]).

The monitoring exercise relied on a continuous dialogue between the OECD, the government of Uzbekistan, the private sector, and international partners, including through working group meetings (Table 33) and several bilateral consultations in 2020 and 2021. In particular, the OECD has used a series

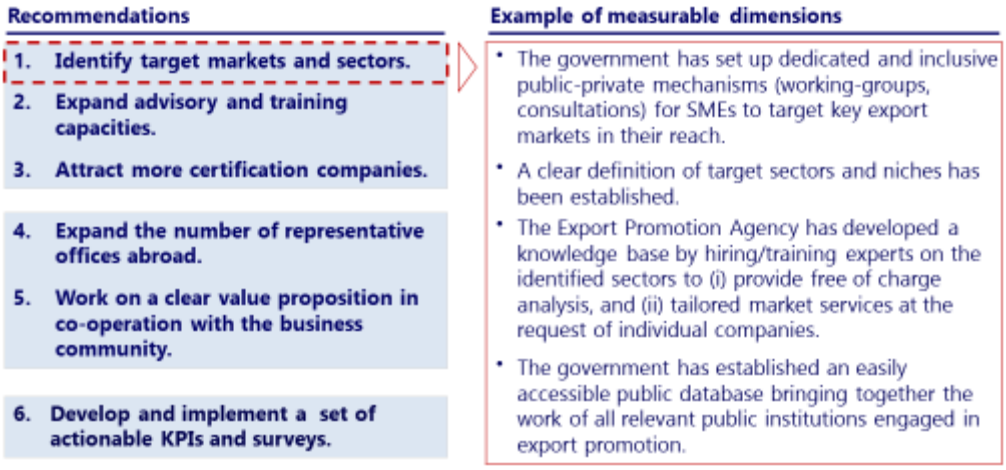
of monitoring tools, including a matrix table of recommendations, questionnaires, data requests and collection, analysis of existing surveys and interviews, to collect data and information.

### Table 3. List of OECD Public-Private working group meetings

| Agenda of meetings | Key participants | Date |
|---|---|---|
| First WG: Launch event and discussion of methodology, initial findings and priorities | Ministry of Investment and Foreign Trade, Export Promotion Agency, Chamber of Commerce and Industry | 25 February 2021 |
| Second WG: Discussion of findings | Export Promotion Agency, DG Trade and DG TAXUD European Commission, Polish Agency for Enterprise Development, Investment Promotion Agency of Uzbekistan | 6 May 2021 |
| Capacity-building: Export market analysis and key performance analysis of export-promotion activities | Export Promotion Agency, Chamber of Commerce and Industry, Business France | 14 & 15 September 2021 |
| Third WG: Discussion of final assessment and draft recommendations | Export Promotion Agency, Chamber of Commerce and Industry, Business France | 30 September 2021 |

The matrix table is the central tool for the OECD to assess implementation of reforms based on measurable policy actions. Each of the six recommendations from the 2017 peer-review have been broken down into several measurable policy dimensions (Figure 1010).

### Figure 10. Example of policy dimensions used in the OECD monitoring matrix




Source: OECD analysis 2021.

For each policy dimension of the monitoring matrix, data has been collected using desk research, questionnaires (see next section) and interviews with key stakeholders from the public and private sector in Uzbekistan (Table 44) as well as with actors from the development community, the international business sector, and key institutions in OECD countries. Complementing the interviews, detailed questionnaires and data requests have been sent to the Ministry of Investment and Foreign Trade, the State Fund of Entrepreneurship Development of Uzbekistan, the Export Promotion Agency of Uzbekistan, the Centre for Economic Research and Reform, the Centre for Research on Sectoral Markets and Export Oriented Manufacturing; the Chamber of Commerce and Industry of Uzbekistan; and the Agency for Technical Regulation.

### Table 4. Selected list of interviews conducted by the OECD during the 2021 monitoring

List of interviews conducted with key public and private stakeholders in Uzbekistan

| Institution | Date |
|---|---|
| State Fund of Entrepreneurship Development of Uzbekistan | 19 March 2021 |
| Export Promotion Agency of Uzbekistan | 19 March 2021 |
| Centre for Research on Sectoral Markets and Export Oriented Manufacturing | 19 March 2021 |
| Centre for Economic Research and Reform | 19 March 2021 |
| Agency for Technical Regulation | 19 March 2021 |
| Chamber of Commerce and Industry of Uzbekistan | 23 March 2021<br>31 May 2021 |

This report was peer reviewed and endorsed during the Eurasia Week 2021, on 17 November 2021 at 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.

## OECD questionnaire addressed to the Ministry of Investment and Foreign Trade of Uzbekistan to support the monitoring of SME export-promotion policies

Background

The OECD, with the financial support of the European Union, has peer reviewed Uzbekistan's SME export-promotion policies and practices in 2016-2017. The final recommendations and a peer review note were presented and endorsed during OECD Eurasia Competitiveness Roundtable at OECD Eurasia Week 2017 in Almaty, Kazakhstan.

The peer-review supported the government of Uzbekistan in identifying three priority reforms to foster SME internationalisation, using export-promotion policies: (i) develop consulting activities to improve SME knowledge of foreign markets, (ii) expand the export-promotion network abroad and provide a clear value proposition in target markets, and (iii) monitor the work and impact of export institutions.

In 2021, the OECD will monitor the implementation of these reforms, taking into account changes arising from the economic impact of the COVID-19 pandemic.

### *Main themes to be covered by the monitoring exercise*

1. Context and overall framework:
   - Institutional landscape for export promotion and SMEs
   - Export promotion under the recovery package
   - Current state of WTO accession talks
2. Implementation of recommendations

### *Institutional landscape for export promotion and SMEs*

- Could you provide us an overview of the current institutional landscape regarding export promotion and services to SMEs?

  - Is the Agency for Development of Small Business and Entrepreneurship under the MoE active on export activities?
  - What are the main activities of the new Export Promotion Agency under the MFIT?
  - Is the SME export-promotion fund under the National Bank active? What are its mandate and main activities?
  - What happened to the Small Business' and Private Entrepreneurship's Export Promotion Fund (EPF) – which was a key interlocutor for the 2017 peer review? Was it discontinued, merged into a new agency?
- What is the role and co-operation with the Chamber of Commerce and Industry and other business associations in supporting exporters?
- What are the main state-owned enterprises (SOEs)/public companies operating in export activities, particularly in the agricultural sector?

### *Export promotion under the recovery package*

- Could you provide us with an updated overview of all SME and export-promotion specific measures taken under COVID-19 support?
- Could you detail us the measures planned to support exporting companies under the 2020-2021 recovery plan? What is the foreseen timeline? Which agencies/ Ministries will be in charge of planning and implementation?

### *Current state of WTO accession talks*

- What is the current status of fulfilment of commitments under WTO accession?
  - Which agencies/ Ministries are in charge?
  - What is the expected timeline for accession talks?
- What is the mandate of the Special Commission on WTO accession created in May?
  - Who is in charge of this Commission?
- Which IFIs do support on these matters? What are the specific projects/ activities?

### *Recommendation 1. Consulting activities to improve SMEs' knowledge of foreign markets*

*On key markets and public-private dialogue (PPD)*

- Are there formal PPD mechanisms to identify target markets and sectors, for example with the Chamber of commerce and Industry?
- Has a single and clear definition of the public-private dialogue been established?
- Are business surveys regularly carried out (to identify key barriers to export, and needed solutions)?
- Does an easily accessible public database gathering the work of all relevant public institutions engaged in export promotion exist? If not, what are the key online sources for exporters in Uzbekistan?

*On advisory and training services for SMEs*

- Is the staff of the agency providing directly advisory and training services, or are they outsourced to private advisors (see question below)? How is the advisory staff in dedicated agencies hired and trained?
- Has a network of knowledge (advisory services) been set-up to provide analysis and tailored market services at the request of individual companies in specific sectors?
- If yes, who is in charge of the network?
- Is it free of charge?
- What kind of services are provided by the different agencies and on which topics (e.g. certification, export markets, market study, production, financial training)?
- Have the advisory services of the EPF been maintained or expanded?
- How many SMEs have benefitted from advisory services over the past years? Is there a split by type of services?
- Has the government developed supportive measures to expand the market of advisory services for SMEs? (e.g. subsidized rates for SMEs to benefit from training, or market studies; vouchers or tax breaks for SMEs using these services)
- Does a programme of advertising and outreach regarding the advisory services and training offered by all export-promotion agencies exist? (e.g. a "single window" (online/offline) for SMEs)

*On certification*

- Has a strategy for certification been created in Uzbekistan?
- Have international partnerships been established with main international certification companies? Which are the key players active on the Uzbek market?
- Have national certification standards been aligned with international levels?
- Has Uzstandart modified its operations? Benefitted from international capacity building?

***Recommendation 2. Expansion of export-promotion network abroad/ value proposition in target markets***

*On network and representatives abroad*

- Is there a formal strategy for the expansion of the network of representation offices abroad? How are countries selected? How is this network managed?
- Do public agencies in charge of export promotion have representatives abroad?
- If yes, could you provide us with a list of representative offices of the EPF under NBU, and of trade houses / representatives abroad under the EPA (MFIT)?
- What is the scope of the strengthened "economic diplomacy" mandate of the MFA?
- What is the role of trade counsellors in Embassies with respect to export promotion? Is there an active co-operation with the export-promotion agency?
- Does Uzbekistan have a network of national exporters (in Uzbekistan and in target markets)? If no, is such a network under construction?

*On the branding strategy*

- Could you provide us with an overview of the “Made in Uzbekistan” branding strategy, and its main objectives? Which agencies are in charge of its elaboration, implementation, and follow-up?
- Have specific national/regional/product brands be created? Particularly in the agriculture sector?
- Are there formal PPD mechanisms to define export positions and clear value-added messages for key export sectors?

### *Recommendation 3. Monitor the work and impact of export institutions*

- Does the government (or a related agency) carry out regular exporter surveys?
- Does a monitoring framework for export-promotion activities exist?
- What are the key performance indicators used by the Export Promotion Agency to monitor its activities? (internal and external, e.g. number of firms supported, number of contracts signed, funds spent, return on investment, etc)
- What is the budget of the agency? (split by activity if possible)

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# Boosting the Internationalisation of Firms through better Export Promotion Policies in Uzbekistan

This Policy Insight assesses progress in the implementation of reforms since the 2017 OECD peer review of SME export promotion. It also takes stock of the disruptions brought by the COVID-19 pandemic to identify new challenges and priorities. The note suggests three sets of policy actions for the Uzbek government to boost the internationalisation of firms: (1) further development of consulting activities to improve firms' knowledge of foreign markets; (2) expansion of the export-promotion network abroad and the definition of a clear value proposition in target export markets; and (3) putting in place more systematic arrangements for monitoring and evaluation of export-promotion institutions' activities.

Diversification of export markets and commodities is a critical priority as Uzbekistan looks to recover from the COVID-19 crisis. The country has recently resumed WTO accession and strengthened trade ties with its regional partners and the EU, but its firms continue to face significant barriers to internationalisation. Export promotion policies for firms can support their internationalisation, contributing timely to the diversification and recovery of Uzbekistan's economy.

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