

Chapter 3. Business environment in Central Asia: Firms' internationalisation

This chapter focuses on business internationalisation strategies for countries in Central Asia. The OECD has provided policy recommendations in Uzbekistan, Kyrgyzstan and Tajikistan, aiming to improve export and investment promotion policies and strengthen the internationalisation of SMEs. The OECD's work suggests that Central Asian governments should formulate clear value propositions, improve export promotion and monitor the impact of policies, whilst ensuring a continuous public-private dialogue.

Setting the stage

Central Asian firms need to deepen their international integration

Business internationalisation is defined as the process by which firms “initiate, develop, or sustain business operations in overseas markets” (OECD, 2008_[1]) and participate in international trade. This includes exporting, opening offices and managing operations in other countries; building linkages with foreign investors and clients; and integrating into global value chains (OECD, 2008_[1]).

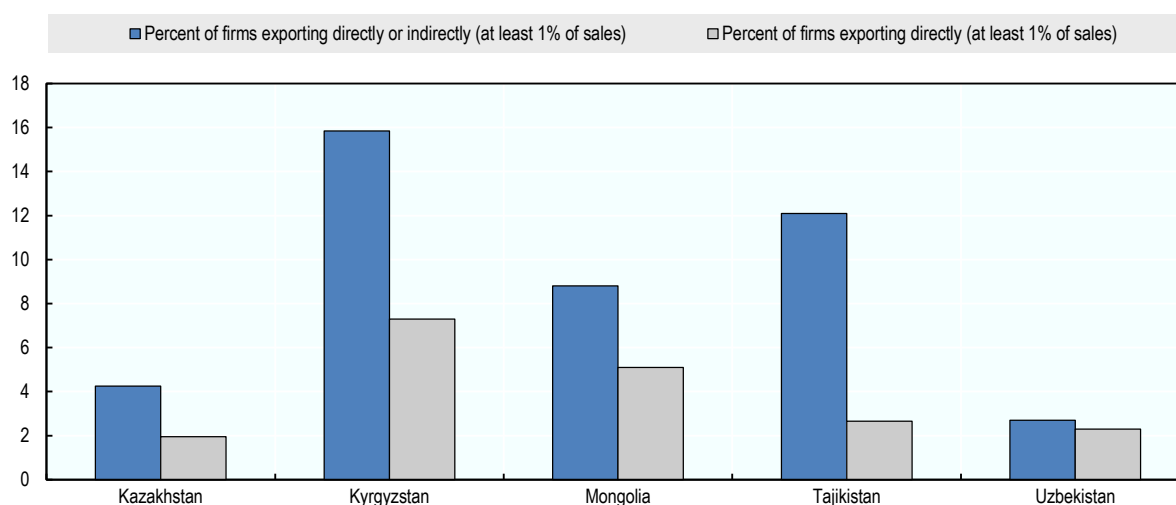
Business internationalisation can contribute to long-term competitiveness, knowledge transfer and innovation, particularly for small and medium-sized enterprises (SMEs). They are important direct and indirect contributors to global value chains, either as direct exporters or as suppliers to multinational companies (MNCs) that engage in export activities. SMEs thus generate more than half of the value added in international trade in OECD countries (OECD, 2017_[2]). Internationalisation can also help SMEs access foreign technology, expand their revenue and production base, and improve their productivity (OECD, 2013_[3]).

The internationalisation of businesses in Central Asia remains limited overall. The region generated 0.6% of global exports in 2012 decreasing to 0.38% in 2015 (EIU, 2017_[4]; World Bank, 2017_[5]).¹ The predominance of hydrocarbons and metals in Central Asia’s exports means that SMEs’ share of exports is particularly low, and the potential for such export activities to generate knowledge spillovers or productivity increases is limited. The export of natural resources is mostly channelled through large state-owned enterprises (SOEs), leaving little space for SMEs to increase their export activity. The share of directly exporting SMEs is limited in most countries in the region and nowhere exceeds 7.5% (Figure 3.1). This compares to shares of 23% in Poland, 27% in France and 28% in Germany (UPS, 2016_[6]). On average, domestic sales represent 90% of the value of SME sales in the region, which shows limited internationalisation in terms of revenues (EBRD, 2017_[7]). SMEs are most active in low value-added sectors including agriculture, manufacturing, local services and retail.

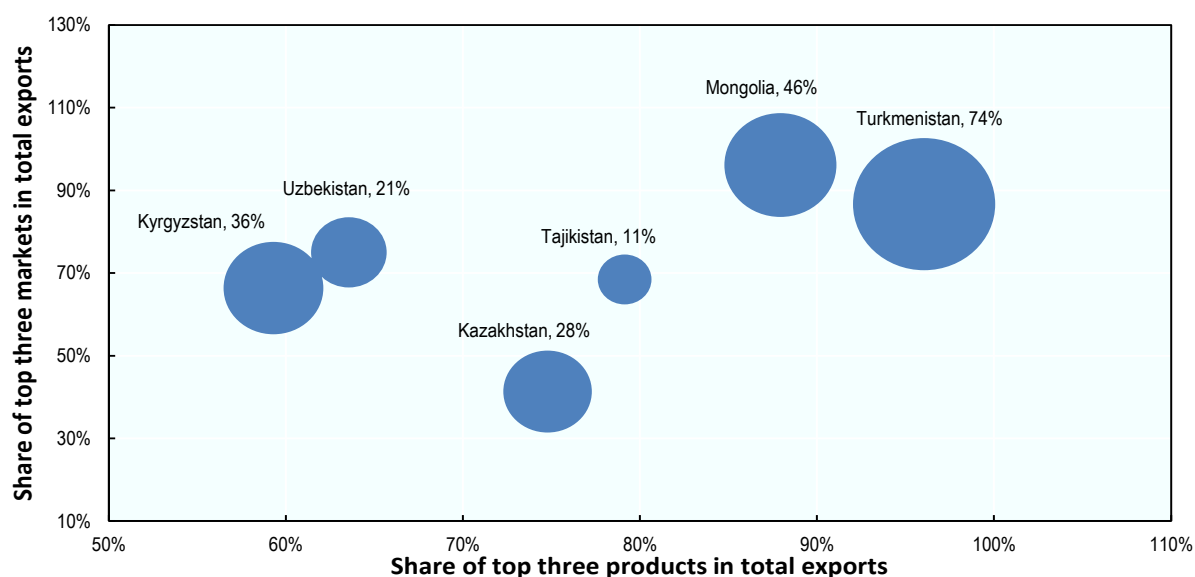
As noted, the region’s exports are heavily concentrated in natural resources, where large international companies and state holdings predominate and where SMEs play a very limited role, including as suppliers. The export baskets of the Central Asian states are also highly concentrated, with the top three export products in each country representing more than 60% of total exports (Figure 3.2). Export markets are also highly concentrated, with most products exported to the same destinations (World Bank, 2017_[5]).

In addition, SMEs are on average more constrained than large companies when trading across borders due to their limited resources to comply with customs procedures, find foreign partners, and overcome logistical and infrastructure barriers (OECD, 2008_[1]). In particular in Central Asia, SMEs face long distances to markets, outdated infrastructure, and complex trade documents and border controls as measured by the OECD Trade Facilitation Indicators (OECD, 2017_[8]).

SMEs can sidestep the difficulties of exporting directly by integrating into global value chains – supplying larger domestic or multinational companies that are exporters, thus contributing to indirect exports. If indirect exports are taken into account, the share of SMEs exporting in the region roughly doubles. Even so, the share still remains limited, between 2% and 16% of companies depending on the country (Figure 3.1).

Figure 3.1. SMEs' participation in exports in Central Asia

Source: OECD analysis based on (EBRD, 2017_[9])

Figure 3.2. Export baskets in Central Asian economies

Source: (World Bank, 2017_[5]).

The OECD's SME Policy Index framework helps identify policies to support exports, benefit from FDI and better integrate into global value-chains

In order to boost SME internationalisation, governments need to facilitate exports and access to markets, while linking SMEs with foreign investors better (OECD, 2017_[2]). Some of the general factors influencing these efforts have been discussed in Chapter 1 of this report, including hard and soft infrastructures for trade policy and trade facilitation.

Policy interventions to address information and knowledge barriers, such as the creation of investment and export agencies, can have a significant positive impact on SME exports (Box 3.1). They help to build links between domestic and foreign companies, to advise SMEs and to build SME capacities. They also aid SMEs in finding a relevant positioning and image for their products. Export finance and risk management programmes help businesses manage the risks associated with doing business abroad (Lederman, Olarreaga and Payton, 2006_[10]).

Box 3.1. Best practices in Export and Investment Promotion Agencies

Export promotion agencies (EPAs) and investment promotion agencies (IPAs) are key players in boosting SME internationalisation. They are generally semi-autonomous entities reporting to the prime minister or to the minister of the economy. Some countries have two separate agencies, while others combine these functions in one agency, but keep the two missions of export promotion and investment promotion separate. They usually have different targets, instruments and business contacts.

Export promotion agencies' mission is to support companies seeking to export, including SMEs. A study carried out across 88 EPAs around the world found that EPAs have a positive impact on national exports with an estimated 12% increase in exports on average. They usually have four main tasks: 1) country image building; 2) consulting and export support services; 3) marketing; and 4) market research and publications. Their services are targeted at SMEs, both exporters and those not yet exporting. They also participate in designing and implementing other export policies, including risk management, duty drawbacks, tax exemptions and special economic zones.

Investment promotion agencies' mission is to attract investment to the country and, when it comes to SMEs, helping them to build links with foreign investors. They provide policy advocacy and investor facilitation, including activities related to 1) investor information and image building; 2) direct marketing and selling; 3) investor aftercare; 4) building linkages and integration; and 5) FDI performance monitoring. IPAs help identify priority sectors where the country can be competitive and attract foreign investment, and use sector-specific expertise, market studies and instruments.

Both EPAs and IPAs typically involve and consult a wide range of public and private stakeholders. Their strategies and actions are defined in conjunction with the ministry to which they report. They need to involve chambers of commerce and businesses through private-sector participation in their executive boards, surveys, regular panels and roundtables and joint actions. They also have regional branches in the country (or co-operate with regional agencies) to better serve investors and domestic companies in different regions and to maintain strong relationships with local authorities. They co-operate with other public institutions such as public and private banks to finance exports.

Sources: OECD Analysis based on (Lederman, Olarreaga and Payton, 2006_[10]; ISPAT, 2016_[11]; Business France, 2017_[12]; Byrne, 2016_[13])

The OECD's SME Policy Index analyses two dimensions of SME internationalisation – export promotion and integration of SMEs into global value chains. This has been complemented by a dimension on investment promotion (Figure 3.3). This framework helps governments identify policies and tools that will help SMEs to boost exports, benefit from FDI and better integrate into global value chains (OECD, 2015^[14]).

Figure 3.3. SME internationalisation framework



Source: (OECD, 2015^[14])

OECD work in Central Asia highlights the potential benefits of investment in support services, promotion activities abroad and private-sector involvement

Most Central Asian countries have set up export and investment promotion agencies and strategies, started to create networks abroad to facilitate trade and information flows between domestic companies and buyers or investors abroad, and created public export banks and financial programmes. However, there is much that can be done to expand and upgrade these efforts.

The OECD studied export- and investment-promotion efforts in Uzbekistan, Kyrgyzstan and Tajikistan, which were peer-reviewed and monitored in the OECD Eurasia Competitiveness Roundtable during 2013-17. Kyrgyzstan has created the building blocks of an effective investment promotion system, building an IPA and by drafting an investment promotion strategy. Tajikistan has focused on reforms to facilitate agribusiness exports and make the most out of its accession to the World Trade Organization (WTO). Uzbekistan has recently focused on creating institutions and policies to support the growth of SME exports. Drawing on their experiences, the OECD recommends further development of policy instruments targeting SME internationalisation in Central Asia (Table 3.1). Common challenges include the need to:

- **Invest in support services by expanding advisory services and training capacities for exporters**, including on certification and knowledge of customs procedures, and by helping match SMEs and MNCs. Support service staff should be knowledgeable about global and regional trends, assessing local competitive advantages, carrying out studies of target markets, and approaching key international investors on a bilateral basis.

- **Develop and co-ordinate export promotion activities abroad** with embassies, consulates, chambers of commerce and other institutions, **and develop a network of agency offices in target countries.**
- **Consult companies regarding their needs** and adjust activities accordingly, for example through independent exporter and investor surveys.

Table 3.1. Overview of selected instruments for business internationalisation in Central Asia

	Kazakhstan	Kyrgyzstan	Mongolia	Tajikistan	Uzbekistan
Investment promotion activities	<ul style="list-style-type: none"> · Kazakhstan has developed a national investment strategy. · Kazakh Invest (under the Ministry of Investment and Development) is Kazakhstan's IPA 	<ul style="list-style-type: none"> · Kyrgyzstan is drafting an investment promotion strategy with sector focus. · It created the State Agency for Investment and Export Promotion (SAEIP) under the Ministry of Economy of the Kyrgyz Republic in 2014. 	<ul style="list-style-type: none"> · The Foreign Investment and Foreign Trade Agency of Mongolia (FIFTA) plays the role of an IPA. 	<ul style="list-style-type: none"> · Tajinvest is the Tajik IPA. · The Chamber of Commerce and Industry of Tajikistan and other players participate in investment promotion in the country. · The Ministry of Labour, Migration and Employment works to increase remittances. 	<ul style="list-style-type: none"> · The State Committee on Investments has been created to design and support policies to attract investment. · Uzinfoinvest is the Uzbek IPA · The Chamber of Commerce and industry participate in IP efforts.
Export promotion activities	<ul style="list-style-type: none"> · KazakhExport is the Kazakh EPA. · The activity of KazakhExport is carried out under the State Program for Industrial-Innovative Development of Kazakhstan 2015-2019. · Additional support organisations for Kazakhstan's export development, include DAMU, the Development Bank of Kazakhstan, Atameken and the Centre for Trade Policy Development. 	<ul style="list-style-type: none"> · Kyrgyzstan has launched the National Export Strategy of the Kyrgyz Republic for 2013 2017. · The SAEIP has recently expanded its activities into export promotion. 	<ul style="list-style-type: none"> · The Government of Mongolia has approved the implementation of the Export Promotion Programme. · The FIFTA is also the EPA for Mongolia. 	<ul style="list-style-type: none"> · A national programme has been designed, the Programme for Export Promotion and Import Substitution 2017-2020 that includes the creation of an export bank and an export credit guarantee scheme. · Tajinvest officially participates in export promotion efforts, but no official institution has been designed as an EPA. · In 2014 the Centre for Trade Promotion was founded by the Tajik Chamber of Commerce and the United Nations Development Programme (UNDP). 	<ul style="list-style-type: none"> · A national strategy for export growth has been designed. · The National Bank of Uzbekistan financially supports companies to export. · The Export Promotion Fund (EPF) mostly supports SMEs to export. · The Chamber of Commerce and Industry of Uzbekistan carries out export promotion activities in and outside Uzbekistan. · Sector-specific JSCs are involved in export activities, such as Uzagroexport in agriculture and Uztelsanoat in home appliances.
Integration into global value chains	<ul style="list-style-type: none"> · Kazakhstan has developed a Business Linkage Programme for SMEs under the guidance of DAMU Fund as part of its "Business Road Map 2020". 	<ul style="list-style-type: none"> · No formal business linkage programme has been established yet. · Various international organisations support projects to better integrate companies into global value chains, especially in agriculture. 	<ul style="list-style-type: none"> · No formal business linkage programmes are established yet · Mongolia maintains a database on foreign investors and local companies interested in participating in business linkage. 	<ul style="list-style-type: none"> · No BLP identified or in place. International organisations support the integration of local SMEs and farmers into global value chains. 	<ul style="list-style-type: none"> · BLPs in place

Source: OECD Analysis based on (DAMU, 2017_[15]; FITA, 2017_[16]; Kyrgyzstan, 2017_[17]; Office of the Prime Minister of Kazakhstan, 2017_[18]; OECD, 2017_[19])

Uzbekistan: Boosting the export promotion system

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

Context: Uzbekistan has taken a cautious path to reform

In the years since independence in 1991, Uzbekistan's approach to economic liberalisation has been cautious but nevertheless based on the recognition of the need for reform. The government committed to a gradual series of reforms, which aimed to minimise their negative or disruptive effects. This approach has proven relatively successful. In 2001, Uzbekistan became the first post-Soviet country to regain pre-independence levels of GDP (World Bank, 2017_[5]). By then, it had achieved self-sufficiency in oil, increased natural gas exports, and boosted its food self-sufficiency by shifting from farming cotton to wheat (Pomfret, 2006_[20]).

Uzbekistan's endowments of easily exportable primary commodities, namely cotton and gold, helped sustain the economy through the initial years of independence. Subsequently, strong public investment became the key source of growth until the late 1990s. Falling cotton prices in the middle of the decade affected the balance of payments, and a lack of macroeconomic flexibility due to delayed structural reforms led the government to establish strict exchange controls in 1996. It did this in order to promote import-substituting industries, protect foreign exchange reserves and subsidise basic food imports. However, this decision generated welfare losses estimated by the International Monetary Fund (IMF) to be somewhere between 2% and 8% of GDP, with exporters suffering particular losses (Rosenberg and de Zeeuw, 2000_[21]).

In the early 2000s, as the country faced an economic slowdown, the government enacted a number of economic reforms, with positive effects on economic growth. From 2005 to 2015 average annual GDP growth exceeded of more than 7%, driven by net exports, state-led investments and remittances (Figure 3.4) (World Bank, 2017_[5]). However, GDP per capita remains below that of neighbouring countries and below the average of low- and middle-income economies overall (World Bank, 2017_[5]).

Figure 3.4. Uzbekistan's exports as a share of GDP, and annual GDP growth

Source: World Bank (2017), *World Development Indicators*, <http://data.worldbank.org/indicator>.

The role of SMEs in the economy has significantly expanded

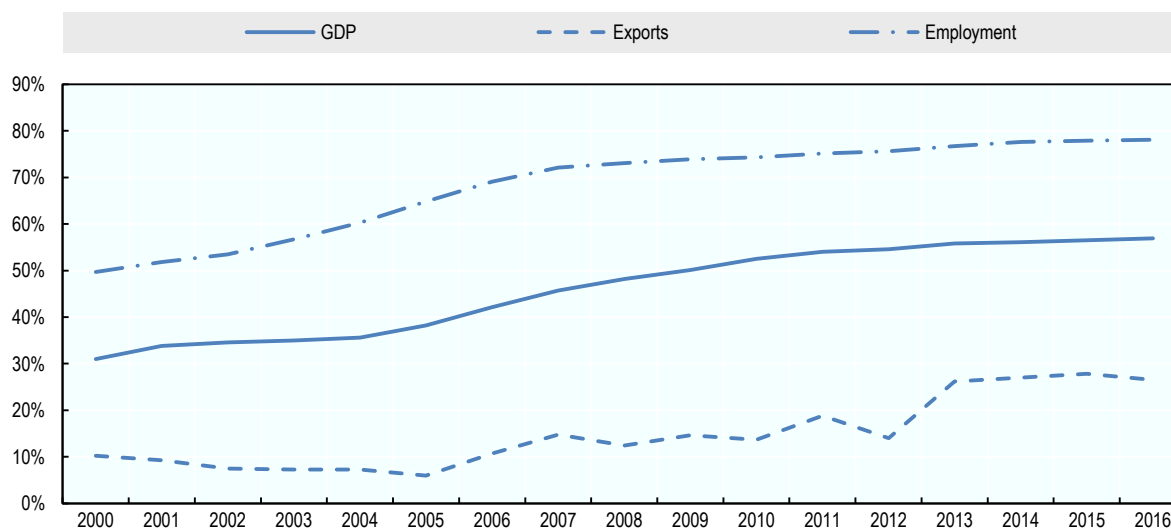
The development of private small and medium-sized enterprises (SMEs) and entrepreneurship has been consistently identified as a priority by the government since independence. Several government strategies, programmes and decrees have aimed at supporting the development of SMEs, notably by improving access to finance for small businesses, developing ICT infrastructure, streamlining and eliminating administrative procedures, and simplifying and reducing the tax burden. The government's aims include enhancing the overall business environment, and reducing the interference of the state in the economic activities of SMEs, ultimately generating jobs and income through SME growth and entrepreneurship (Uzbekistan, 2013). In 2017, the government stepped up its reform efforts to these ends. As a result, Uzbekistan moved up 13 positions in the World Bank's 2018 Doing Business Report. The country ranks 74th and was among the top ten economies worldwide in terms of reform progress, with the most notable improvements coming from doing business reforms (World Bank, 2016^[22]) (Government of Uzbekistan, 2011^[23]).

The role of SMEs in the economy has significantly increased since 2000 in terms of employment, GDP and exports. This trend has further accelerated since 2010, following a new set of presidential decrees and government programmes initiated after the financial crisis.² In Uzbekistan, according to official data, SMEs are the biggest source of employment, as they now provide 78% of jobs, compared to 74.3% in 2010 and just below 50% in 2000. This is more than the 70% provided by SMEs on average in OECD countries (OECD, 2017^[24]).

Their contribution to GDP has also increased substantially. While SMEs contributed only 31% of GDP in 2000, their share had almost doubled to 56.9% by 2016 (Figure 3.5). They represent more than 45% of industrial production, 61.4% of services, and 98.2% of agriculture production (UzStat, 2017^[25]). Tax reduction, simplified business registration and licensing, and easier access to finance are often cited by official sources as the main

reforms driving SME development in the country (Government of Uzbekistan, 2011^[23]; President of Uzbekistan, 2016^[26]).

Figure 3.5. SMEs' contribution to exports, GDP and employment in Uzbekistan



Source: UzStat (2017a), Госкомстат - Развитие Малого Предпринимательства (Бизнеса) В Узбекистане.

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

SMEs' contribution to exports remains relatively limited however (Figure 3.5). Although their share has been growing, SMEs generated less than 30% of Uzbekistan's exports in 2015. This meant that SME exports amounted to less than 6% of GDP, compared to around 15% on average in EU member countries. The weakness of SME exports is in turn reflected in Uzbekistan's comparatively low overall ratio of exports to GDP, which, at 21%, is far below the EU average of 39%. In addition, Uzbekistan's main exports, namely gold, radioactive materials and refined copper, are not the sectors in which SMEs predominantly operate.

SMEs represent more than 76% of exporting organisations on the official data. However, a significant share of exports, particularly in the agricultural sector, is still channelled through state holding companies such as Uzagroexport, which aggregate products from SMEs. SMEs often have sales commission contracts with these specialised foreign trade companies, and will directly export through them. In OECD countries, the contribution of SMEs to exports as upstream producers accounts for more than half of the domestic value added of total exports (OECD and World Bank, 2015^[27]). This indirect contribution has yet to be assessed for SMEs in Uzbekistan and should increase the figures for their contribution to exports.

Yet Uzbekistan's economy needs to internationalise further

Boosting exports can have an impact on economic growth. Trade, and particularly exports, can be critical drivers of growth, learning and competitiveness (OECD, 2010_[28]). The benefits of trade include, but are not limited to, the effects of specialisation and more efficient allocation of resources; the availability of a greater variety of intermediate goods or services, often at lower cost; economies of scale; enhanced competition; and transfers of skills and technology (Kowalski and Büge, 2013_[29]). Research has also identified a positive link between exports and employment (Kiyota, 2014_[30]).

Export diversification helps countries reduce their dependence on a limited number of commodities and trade partners. Recent research on low-income countries shows that the effect of export diversification is economically very important, as a one standard deviation increase in export diversification is shown to increase the average annual growth rate by 0.8 percentage points (Makhmadshoev, Ibeh and Crone, 2015_[31]).

Imports are critical to both diversifying economic activity and increasing exports. Foreign sourcing is a complement to, rather than a substitute for, the creation of domestic value added and employment from exports. Imported inputs can reduce costs, increase technological sophistication, and provide unique components to enhance the production and competitiveness of domestic goods. In the era of GVCs, export competitiveness is inextricably linked to importing (Lopez Gonzalez, 2016_[32]). Creating barriers for imports thus also hinders exports.

Uzbekistan's growth in the past decade was partly driven by trade, as rising prices for primary commodities helped sustain a trade surplus (Mazhikeyev, Edwards and Rizov, 2015_[33]). However, the trade surplus is also due to tariff and non-tariff barriers to imports, bolstered by policies to encourage import substitution. More recently, export earnings have fallen sharply due to the drop in commodity prices and the slowdown in the Russian Federation; Uzbekistan's positive foreign trade balance decreased and the current account surplus narrowed to 0.3% of GDP (ADB, 2016_[34]). Exports of goods and services represented only 18.8% of Uzbekistan's GDP in 2016, compared to 28.5% in Kazakhstan and 28.5% on average among OECD countries (World Bank, 2017_[5]).

Box 3.2. Uzbekistan's export structure by product and partner country

Uzbekistan's exports are currently concentrated in raw materials, especially in three sectors: gas and metals, cotton, and fruits and vegetables. As well as being concentrated in terms of products exported, Uzbekistan's diversification is also limited in terms of its export markets. The top five countries for Uzbek exports – Switzerland, China, Kazakhstan, Turkey and Russia – take 86% of its overall exports (OECD, 2017a).

The country's trade structure remains concentrated, although it is significantly more diversified than it was during the initial years of independence. In particular, the share of exports to the Russian Federation – which stood at 55% of exports in 1992 – had fallen to 9.7% in 2015, while the share of other CIS countries grew (Carneiro & Trushin, 2013). Uzbekistan has also significantly diversified the products it exports since 1992, due to an increase in exports of food products and manufactured goods. For instance, cotton fibre fell from 65% of total exports in 1992 to 9% in 2012 (Carneiro & Trushin, 2013).

Sources: OECD (2017) "What does Uzbekistan export? (2015)"; Carneiro and Trushin (2013), "Changing for the better: The path to upper-middle-income status in Uzbekistan"; ITC (2017), "Uzbekistan".

The need for internationalisation has increasingly been recognised by the government. Its priorities for industrial development and the business environment for SMEs have been set out in several decrees and government strategies. Government efforts have in particular intensified since 2010 and the State Programme that declared 2011 the *Year of Small Business and Private Entrepreneurship* (Government of Uzbekistan, 2011_[23]).

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

Trade regime, currency convertibility and trade facilitation remain reform priorities

Trade regime

The comparatively limited role of exports in Uzbekistan's economy might stem in part from its trade regime. Uzbekistan is not a member of the WTO and its trade regime was until recently defined by a high level of protection for import-substituting industries and restrictions on exports of food and other products. Its localisation programme provides tax and customs privileges for import-substituting industries and exporters of manufactured products (Ganiev and Yusupov, 2012_[35]).

Currency convertibility

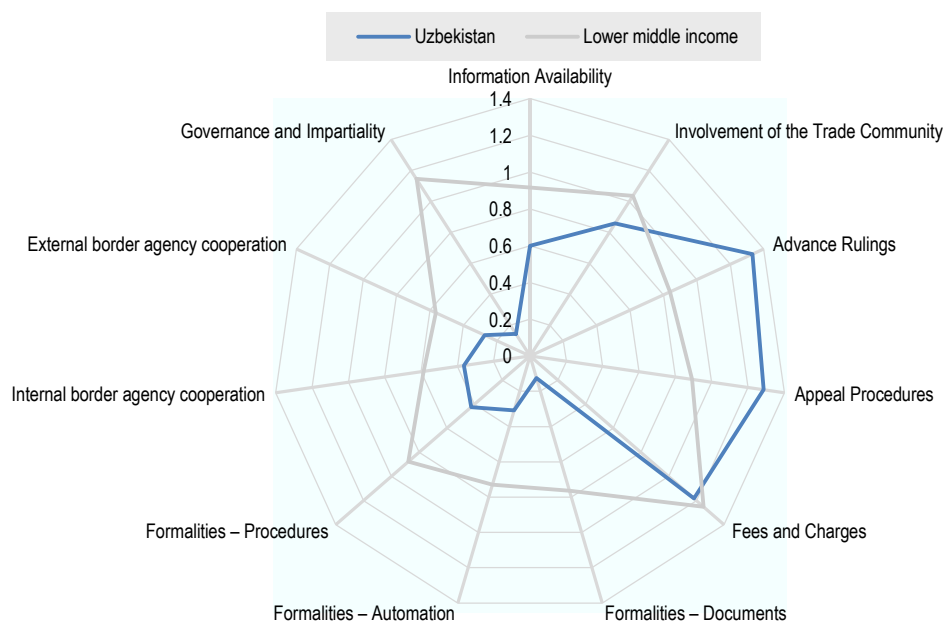
Firms complained for many years that currency convertibility issues, such as long and complex procedures for conversion, currency controls and repatriation requirements, increased the cost of exports and impeded the transfer of profits and the sourcing of supplies abroad. This made business transactions and trade more costly, complicated and time-consuming both for imports of inputs used for domestic production and for exports. Although Uzbekistan legally introduced full convertibility of the Uzbek sum for current international transactions in 2003, importers and exporters have faced difficulties in obtaining foreign exchange. According to recent IMF research, Uzbekistan in 2016 was still applying seven out of eight possible capital flow management measures (Horton et al., 2016_[36]).³

These stringent currency controls had an adverse effect on the ability of businesses to carry out their export/import-related operations (EBRD, 2016_[37]). For all legal entities, including those with foreign investments, access to foreign currency previously required special permission from the Central Bank. Applicants had to open a special foreign currency account in an authorised bank and needed to go through an administrative process established by the Republican Commission for Monetary Policy that required time and effort (Export.gov, 2017_[38]). This constituted a major barrier for imports but also for exports, because equipment, raw materials, spare parts and other goods often need to be imported to produce exportable goods (Ganiev and Yusupov, 2012_[35]). This in turn limited the integration of local SMEs into GVCs, as imports play a crucial role by making available advanced inputs, and by providing technology, knowledge and capital (OECD and World Bank, 2015_[27]).

However, in 2017, consistent with the desire to strengthen export activities, the government took some important steps in the direction of full currency convertibility. In September 2017, a presidential decree abolished the requirement to convert foreign currency export earnings for all types of businesses. The exchange rate is now determined on the basis of market mechanisms, free currency exchange is allowed and restrictive measures have been lifted. Due to these changes, the Uzbek sum immediately dropped to 8100 per USD from 4,200 a day before the introduction of the new exchange rate regime. Liberalisation has been detrimental for the black market (Eurasianet, 2017_[39]). Currency convertibility and the new exchange rate have been positively received by the international community and by investors (IMF, 2017_[40]). They could contribute to making the economy more open, expanding export opportunities, and encouraging foreign investors to operate in the country.

Trade facilitation

Another barrier to engaging in foreign trade in Uzbekistan is the impermeability of its borders. Uzbekistan has undertaken reforms to facilitate trade and the flow of goods across its borders, but further work is required. According to the OECD's trade facilitation indicators (TFIs), Uzbekistan matches or exceeds the average performance of lower-middle income countries in the involvement of the trade community, advance rulings, appeal procedures and fees and charges (Figure 3.6). However, its performance in the areas of information availability, formalities (documents, automation and procedures), and governance and impartiality is well below that of other countries in its income group. Its performance is also slightly below average on border agency co-operation (internal and external).

Figure 3.6. Uzbekistan in the OECD trade facilitation indicators

Source: OECD (2017a), “Trade facilitation indicators”, www.oecd.org/trade/facilitation/indicators.htm.

Uzbekistan should therefore build on recent efforts, like the “single window” system, as well as further digitisation of formalities to speed up export-related clearance processes (OECD, 2017_[41]). Single window systems allow for data exchange by using the latest communication and technology techniques as well as simplified, harmonised and remodelled information systems, leading to greater efficiencies in licensing and customs processes, increased revenue collection and overall trade expansion (ESCWA, 2011_[42]). In November 2017, the government of Uzbekistan was preparing the launch of a new “single window” system that would allow online applications for over 20 types of permits, including compliance, environmental, and veterinary certificates. Since 2011, exporters have been able to use a one-stop-shop mechanism, which provides a single customs clearance procedure.

The government of Uzbekistan is currently working on several initiatives to enhance trade facilitation, including the simplification and removal of formalities and documents to exports, and the authorisation for business entities to open bank accounts abroad (Ministry of Economy of Uzbekistan, 2017_[43]). In June 2017, the government launched a “green corridor”, the goal of which is to provide a simplified procedure for customs and phytosanitary clearance for fruits and vegetables that are supplied to Russia.

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

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

Overall recommendation: Enhance SME export promotion policies and institutions

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

Given further progress in the overall conditions for trade discussed above, SMEs could play an important role in supporting the government's ambition to increase exports as a source of growth. Due to their strong innovation and adjustment capabilities, SMEs can drive internationalisation in new markets. Participation in international trade through global value chains and the establishment of links with large companies and foreign affiliates, offers further opportunities to SMEs. Such linkages can help SMEs overcome key barriers to exporting, such as access to international markets, finance, technology, management skills and knowledge (OECD, 2008_[44]).

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

Export promotion policies are “the set of policies and practices aimed at affecting directly or indirectly export from a given country”. They typically include a wide set of measures such as: developing export infrastructure, introducing consulting activities to improve knowledge of foreign markets, expanding the network of export promotion abroad and monitoring the impact of export institutions (Belloc and Di Maio, 2011_[45]). Such policies help SMEs to 1) address asymmetric information and market failures when exporting; 2) foster spillovers, technology sharing and learning-by-doing for exporters; and 3) identify and leverage competitive advantages (Lederman, Olarreaga and Payton, 2006_[10]; Hausmann and Rodrik, 2003_[46]).

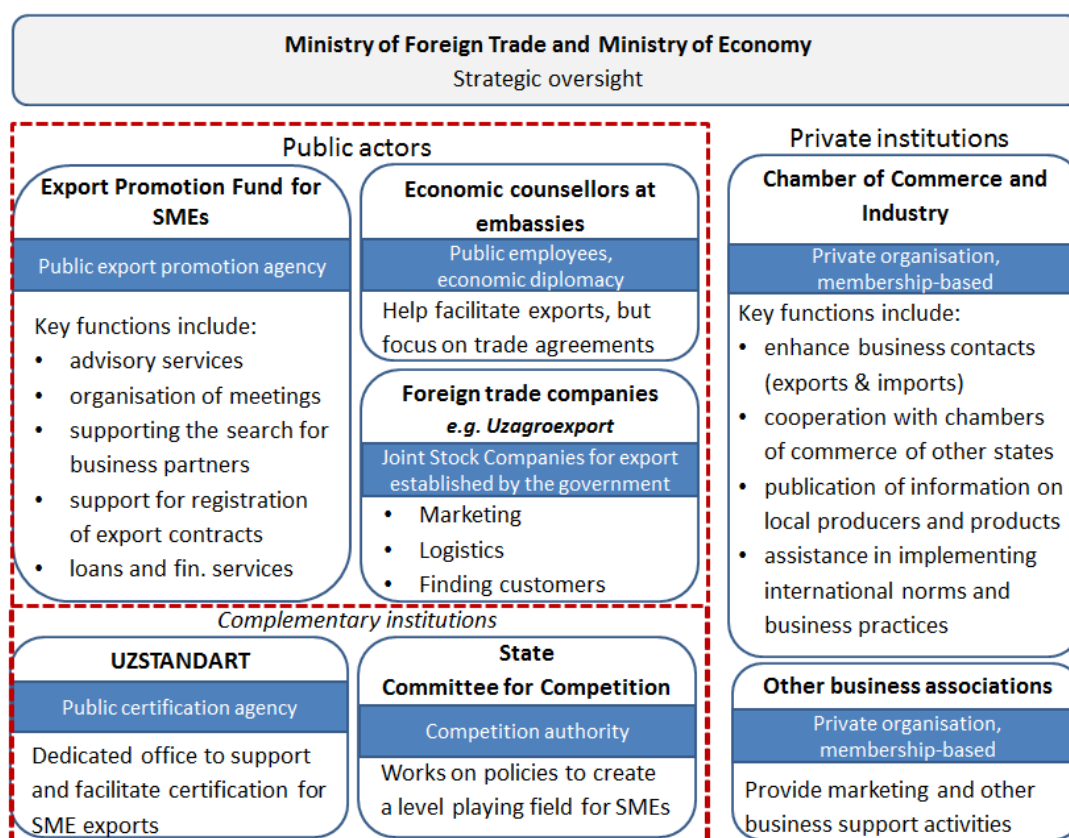
SMEs in Uzbekistan report that they lack knowledge of foreign markets, and they suffer from limited access to consulting and export support services. Existing agencies carry out selected export promotion actions, including fairs, country visits and market studies, but the outcomes of these actions for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

Uzbekistan's export promotion system has been recently established. Figure 3.7 provides a high-level overview of the institutions currently in place. The government, through the

Ministry of Foreign Trade and the Ministry of Economy, provides strategic oversight. The core players involved in export promotion are the SME Export Promotion Fund (EPF) and the Chamber of Commerce and Industry of Uzbekistan (CCIU), which represents the voice and interest of businesses in this process. Uzbekistan's economic counsellors provide further support through embassies abroad. Uzstandart and the State Committee for Assistance to Privatised Companies and Development of Competition also undertake activities that support, or are part of, export promotion.

The system as a whole is still taking shape – the EPF (described in Box 3.3) was created in 2013 and Uzstandart's Bureau for the Promotion of Exports was created in 2011.

Figure 3.7. Schematic view of SME export promotion institutions in Uzbekistan



Source: OECD Analysis, 2017.

Box 3.3. Uzbekistan's export promotion fund

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

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

Source: OECD interviews and questionnaire, EPF presentation.

Recommendations to enhance SME export promotion

Develop consulting activities to improve SMEs' knowledge of foreign markets

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

The OECD interviewed companies and the CCIU. They reported that lack of information was a key barrier to doing business abroad. Such information gaps typically include lack of knowledge about market trends and competitors, and about entry barriers such as customs duties or certificates (Box 3.4). Information barriers also include a lack of sector-specific expertise, including on international standards and operations. This assessment by businesses is confirmed by public institutions and think tanks involved in export promotion in Uzbekistan, including State Committee for Assistance to Privatised Companies and the Development of Competition, and think tanks surveyed by the OECD.

Box 3.4. Information barriers to SME exports in OECD and non-OECD economies

Information barriers are frequently identified as critical barriers to exporting by SMEs in OECD and non-OECD countries. For example, two of the three top non-financial barriers to SME exports identified by the OECD (2008) were:

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

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

Sources: OECD (2009), Top Barriers and Drivers to SME Internationalisation, <http://www.oecd.org/cfe/smes/43357832.pdf>; WTO (2016), World Trade Report: Levelling the Trading Field for SMEs

Export promotion institutions and policies can provide tools to overcome such knowledge and export skills barriers (see Box 3.7). Targeted and sector-specific market studies can help build knowledge of target markets and identify niches which Uzbekistan's SMEs could occupy. Similarly, advisory services can provide SMEs with the skills they need or help them to outsource some activities. Helping SMEs to gain export skills and knowledge is particularly relevant when it comes to helping them integrate into global value chains.

Export promotion capacities

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

The experiences of OECD countries suggest that sector-specific expertise is extremely useful and effective in helping companies overcome the many barriers to exports that they encounter. The lack of sector-specific expertise is linked to a lack of clearly defined strategic sectors and niches that Uzbekistan can target. For example, Germany's export promotion efforts gained a lot of momentum once the country decided to focus on the renewables sector and structured its efforts around this (Berg, 2016_[47]). France has also

built teams of industry experts on priority sectors, including agribusiness, culture, health and urban services.

Certification

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

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

To target efforts, the public and private sectors should work together to identify markets and sectors where Uzbekistan has or is developing a competitive advantage. Uzbekistan could use several steps to identify such markets based on expected supply and demand. On the supply side these include assessing its revealed comparative advantages; identifying domestic and international competitors, their market presence and investment plans; and analysing the positioning of Uzbek products on the market compared to competitors. On the demand side, Uzbekistan should analyse local and international consumption trends, the expected growth in sectors where Uzbekistan aims to export, consumer preferences and purchasing power, and possible distribution channels. This work should take into account existing logistical centres, transport routes, tariff conditions, customs regulations and the overall trade environment in the target market. It could also encompass the analysis of specific aspects of the market such as product regulations and standards. The International Trade Centre has developed tools to facilitate such analysis (ITC, 2017_[48]). Public-private working groups and consultations can be useful when defining such a strategy. They should be inclusive and bring together the Ministry of Foreign Trade, the Ministry of Economy, the EPF, the CCIU, the Centre for Economic Research (CER), and other key actors involved in the definition of export policy, as well as the agencies executing export promotion and private businesses, including those that would like to export but have not yet done so.

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

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

In interviews with the OECD and during Working Group meetings, companies repeatedly raised the issue of lack of skills for exporting and business internationalisation. These

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

In OECD countries, such surveys are usually carried out by the export promotion agency with the support of an independent survey company. For instance, the French national export agency Business France asked exporting companies about the major difficulties they faced in exporting and their knowledge of the services offered by Business France and other actors in the French export promotion system, as well as their impact. This helped Business France refine its export service offer (Business France, 2016_[49]).

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

These advisory services, market studies and training need to be advertised both to SMEs which are already exporting and those not yet exporting. Export institutions in Uzbekistan can use the EPF, the Chamber of Commerce and Industry and local authorities to inform firms about their existing programmes and services and expand the regional reach of services. This can also be achieved by creating an online or offline "single information window" for SMEs (Lee, 2017_[50]).

Initially, training and advisory services should be provided either free of charge or at a subsidised rate, since SMEs often find it difficult to obtain the funding needed. For example, Australia reimburses companies for 50% of their eligible export promotion expenses (Austrade, 2017_[51]). Trust in the quality of the services provided might also be limited in the beginning. Vouchers or tax breaks for SMEs can also serve to help create a private market of advisory services and help limit market distortions. However, assistance should be designed in such a way as to help firms transition either towards more paid services or to become less reliant on the public system of export promotion as their exporting activities mature.

The EPF and the CCIU should study the profile of trainers (either full-time staff or external consultants) providing advice to SMEs and find a balance between external or internal offers. The experience of SMEs which are already exporting could be leveraged in order to create networks of good export practices and export expertise. For instance, Korea has created SME export academies run by export promotion institutions to train entrepreneurs and SMEs on export processes, and encourage them to consider export

opportunities. They aim not only to develop exporting skills, but also to build an internationalisation mindset among SMEs (Lee, 2017_[50]).

Action 3: Attract more certification companies to the country

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

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

Certification and its quality implications are particularly relevant for the agricultural sector. For example, it is not possible to obtain organic product certification in Uzbekistan. Uzbekistan should therefore further increase its work on building certification capacities at Uzstandart. This includes organising specific workshops with international experts both for Uzstandart staff, and directly for SMEs, but also funding vouchers for SMEs to participate to training, and to hire consultants and support staff to implement standards in their daily operations.

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

Challenge: SMEs in Uzbekistan lack connections to target markets

Marketing activities to promote exports are extensively used in OECD countries and developing economies alike. Export promotion agencies abroad were found to have a significant effect on increasing exports for both developed and developing countries (Lederman, Olarreaga and Payton, 2006_[10]; Lederman, Olarreaga and Payton, 2010_[52]; Martincus et al., 2010_[53]; Martincus and Carballo, 2012_[54]). The effects were found to be particularly relevant for SMEs (Wilkinson and Brouters, 2006_[55]; Alvarez, 2004_[56]; Durmuşoğlu and et al, 2012_[57]). Marketing and export promotion activities abroad are also needed by businesses looking for international clients. For example, the OECD

(2009) identified the inability to contact potential overseas customers as another key barrier to exporting. Recent surveys also highlight the difficulty of obtaining adequate representation in target export markets, while other studies found that a key impediment to internationalisation for SMEs was difficulties finding an appropriate foreign market partner. A further difficulty mentioned by businesses is gaining access to suitable distribution channels in international markets.

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

The CCIU has 12 representatives abroad, two in the Russian Federation, two in Switzerland and one each in the Czech Republic, Kuwait, Italy, Spain, the United Kingdom, Portugal and Korea. Like those of the EPF, the CCIU's offices abroad are operated on a part-time basis by business partners with experience of doing business in Uzbekistan (CCIU, 2017^[58]).

Uzbekistan's diplomatic missions also support the internationalisation of businesses. In early 2017, Uzbekistan committed itself to increasing the role of the economic counsellors based at its embassies. As of March 2017, 19 economic counsellors were based at embassies in 12 countries.⁴ However, these counsellors are concerned with a broad set of tasks, and trade or export promotion is only one of them. According to Martincus et al. (2010), foreign missions may stimulate exports but usually these are exports of products with less severe informational impediments (products that are often already being exported) and which accordingly require fewer specific skills to deal with them. Trade counsellors are thus important in promoting exports but they are probably not the most efficient tool for *diversifying* the export structure, especially if SMEs are the focus of such efforts.

While the CCIU's trade representatives are local in the sense that they are natives of the target market and are well acquainted with the business community there, most of the trade staff are posted from Uzbekistan. Almost all economic counsellors are seconded from the Ministry of Foreign Trade. Similarly, few of the staff in the EPF's offices have genuine sector expertise. Box 3.5 describes Germany's structured network of public and private organisations as an example Uzbekistan might want to consider.

Box 3.5. Germany's network of export promotion agencies abroad

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

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

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

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

Sources: (Berg, 2016^[47]); Jordana, Volpe Martincus and Gallo (2010), Export promotion organizations in Latin America and the Caribbean: An institutional portrait, <http://publications.iadb.org/handle/11319/3183>

Uzbekistan's export promotion network faces another barrier – the country currently offers an unclear value proposition. Its export promotion lacks focus on particular sectors and target markets, and Uzbekistan has no substantial national branding strategy. Creating a country brand is an efficient marketing instrument, especially for agribusiness products where producers are typically small companies with very limited marketing budgets and products, providing fewer opportunities for differentiation. The development of a country

brand should always be tied to strong and objective quality certification. Box 3.6 describes the experience of Trentino province in Italy, which recently developed the “Trentino” and “Qualità Trentino” brands to promote its agribusiness products.

Box 3.6. Branding in Trentino, Italy

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

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

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

Source: OECD analysis; Marchio Trentino (n.d.), Marchio Trentino website, www.marchiotrentino.it.

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

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

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

Staff working in these offices should be familiar with both Uzbekistan’s export potential and the sectors and countries of interest. Ideally, the EPF should staff the offices in key markets with both Uzbek and local staff, as already done in South Korea, Switzerland and Russia. Hiring should be competitive and transparent and aim to recruit multilingual staff with a strong experience in the sectors of interest. New staff should have business skills,

experience in negotiating and a strong business background. Staff should have clear objectives in terms of contacts established, meetings facilitated and business contracts concluded. Similarly, economic counsellors can best support exports if they have prior business experience, as there is evidence of a strong link between their prior business experience and the success of commercial diplomacy (Naray, 2011_[59]).

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

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

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

Monitor the work and impact of export institutions

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

As Uzbekistan strengthens its export promotion system, it should closely monitor whether the resources devoted to export promotion activities are being used efficiently. Understanding a programmes' effectiveness and realigning its priorities if needed requires a clearly defined assessment of the activities undertaken and the funds spent (Jordana, Volpe Martincus and Gallo, 2010_[60]). Evaluations can take place at different levels, from analyses of export performance at the macroeconomic level to individual interviews with enterprises that have benefitted from public programmes or received support from the EPF or CCIU (De Wulf, 2001_[61]).

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

burdensome and time-consuming. In addition, it remains unclear how the results of such reporting are used to realign priorities.

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

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

Uzbekistan should work on improving its monitoring and evaluation efforts while making sure that the time burden involved remains reasonable. This is best achieved by developing a set of clearly defined key performance indicators (KPIs). Box 3.7 provides an overview of the KPIs used in assessing France's export promotion agency Business France, which range from macroeconomic indicators on SME exports to firm-level data using exporter surveys.

In Australia post-support evaluation is performed using telephone surveys on a random sample of firms which are asked about their satisfaction with the services provided by the export promotion agency (Belloc and Di Maio, 2011^[45]). In other countries, evaluation is based on the direct measurement of the impact of export promotion programmes on the export volumes conducted by external entities, such as survey companies.

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

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

Box 3.7. Monitoring and evaluation of export promotion services in France

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

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

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

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

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

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

Sources: BusinessFrance (2016), Companies and Exports; Cour des Comptes (2011)

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

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

- **The home appliances sector.** This nascent sector is supported by several industrial policy instruments. While the initial strategy focused mainly on import substitution, the government is now putting more focus on exporting home appliances.

- **The agricultural sector.** Historically, Uzbekistan's exports have been dominated by cotton fibre exports. The country has now diversified its agricultural production away from cotton and exports fresh and processed fruits and vegetables. However, several barriers limit agricultural exports, including lack of infrastructure and certification.

Home appliances: A nascent sector for export

The government has put in place wide-ranging policies in order to boost the development of manufacturing in general and particularly the home appliance industry. It has established special economic zones to attract foreign and local investment, through exemptions from a series of taxes and customs payments and the simplification of bureaucratic procedures for business entities. Uzbekistan's Localisation Programme is intended to increase the production of import-substituting and export-oriented products through fiscal incentives for companies which produce in Uzbekistan (Government of Uzbekistan, 2015_[62]).

These policies have the stated goal of increasing the level of exports and the internationalisation of Uzbekistan's manufacturing industry. However, localisation programmes can affect export-oriented industries by constraining the imports of needed inputs and undermine the competitiveness of industries that benefit from them. Strong industrial policy measures and local content requirements can increase production costs, distort prices and reduce access to technology, with ultimately detrimental effects on industrial competitiveness (OECD, 2016_[63]; Warwick, 2013_[64]). According to one recent assessment, the Localisation Programme, in particular, actually brought about an *outflow* of capital and labour from export-oriented sectors to those targeting the domestic market. Between 2008 and 2013, the volume of locally-manufactured products for the domestic market increased 3.6 times faster than the volume of locally-manufactured export-oriented products (Azamatov, 2016_[65]).

Uzbekistan remains a net importer of home appliances, but the country's exports to a growing number of destinations have increased over the last two years as production capacities have grown. In 2015 Uzbekistan mainly imported finished domestic appliances from China (58% of the total), Turkey (10%) and the Russian Federation (9%), while its trade balance in this product category featured a deficit of around USD 88.9 million (UN Comtrade, 2017_[66]). Nevertheless, exports are growing. Between 2011 and 2015 the monetary value of home appliance exports rose by 471%, mainly consisting of washing machines, air conditioners, refrigerators and freezers (UN Comtrade, 2017_[66]). In 2015, the largest markets for Uzbekistan's home appliances were Kazakhstan and Kyrgyzstan, while in 2016, Uzbekistan started supplying the Ukrainian market under the Artel brand as well as exporting to South Caucasus countries and the Middle East, according to interviews with manufacturing companies.

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

Marketing

Considering Uzbekistan's proximity to several large markets, the EPF and sector associations could better target and understand these markets and segments. Uzbekistan has a privileged access to the Central Asian market, and is already exporting to

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

Consulting

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

In addition to specific export promotion measures, Uzbekistan could benefit from shifting from hard industrial policies towards softer ones. The government should play the role of facilitator in promoting collaboration, knowledge exchange and networking between public and private actors (Warwick, 2013_[64]). Some of the “soft” measures include supporting entrepreneurship through advisory services and capacity building for SMEs; the creation of incubators; creating clusters between SMEs involved in the sector (mostly suppliers to large businesses) and large companies, foreign investors and suppliers, research centres and government agencies; maintaining a level playing field in the local market to ensure more efficiency and competitiveness; and attracting more foreign investors into the sector to encourage knowledge transfer and increase economic opportunities.

Agriculture: A strategic sector with export potential

Agriculture represents a strategic economic activity for Uzbekistan. It accounts for about 17% of Uzbekistan's GDP and around 27% of total employment (Pugach and et al, 2016_[67]; UzStat, 2017_[68]). The sector has historically been dominated by cotton farming but more recently the government has worked to diversify the sector into exportable food

products. Raw cotton and textiles have decreased from 77% of total exports in 1995 to 19% in 2015 (OEC, 2017_[69]). Exports of food products consist mainly of fresh fruits and vegetables, with processed products still playing a marginal role (Nepomnyashchaya, 2016_[70]). In 2015, exports of fresh fruit and vegetables amounted to USD 492 million, 8.4% of total exports, while processed food only accounted for 0.78% of exports and a total value of USD 42.6 million (OEC, 2017_[69]).

The government established Uzagroexport, a foreign trading company for fresh and processed fruits and vegetables in 2016. It provides marketing, trade and logistical services to support agricultural SMEs' exports, including market research, linking with foreign clients through trade houses and offices abroad, and logistical centres and warehouses. Uzagroexport exports on the basis of commission contracts concluded with farms, agrofirms, processing organizations, and other economic entities. The company does make a positive contribution to the growth of agrifood product exports by acting as a producer organisation and guaranteeing the quantity and quality of the exported products (Uzagroexport, 2017_[71]). However, such a centralised and monopolistic organisation risks depriving SMEs of the opportunity to export and find foreign partners directly. In June 2017, in an attempt to boost production and exports by agribusiness SMEs and entrepreneurs, a presidential decree removed the monopoly of Uzagroexport on the export of fresh fruits and vegetables abroad (Ferghana, 2017_[72]). This could improve the access to foreign markets as well as the competition conditions for other firms that wish to export.

However, food exports face several barriers, including complex and time-consuming procedures for customs clearance, the lack of knowledge and capacity to enter foreign markets outside Central Asia, and insufficient storage facilities and refrigerated trucks. Exporters also face limited availability of financing and an incomplete system of export insurance, which, contrary to international practices, does not provide assistance in the case of damage to goods during transport (CER, 2016_[73]).

The geographical diversification of agricultural exports remains limited. Kazakhstan represents the largest market for Uzbekistan's fruit and vegetable products, accounting for 67% of total food exports, followed by the Russian Federation (17%) and Afghanistan (5%). Taken together the Eurasian Economic Union member countries account for about 86% of food exports (Olimkhonov, 2017_[74]). Only 1.9% of Uzbekistan's total food exports are exported to the European Union, partly because of certification issues. However, the European Union is a trading partner with great potential, as demand for fruits and vegetables has been increasing. Between 2010 and 2014, European imports of peanuts rose by 59% in USD terms, dried fruits by 44%, watermelons and melons by 24%, and grapes by 19% (Olimkhonov, 2017_[74]). All of these products are currently produced by Uzbekistan. In order to benefit fully from the opportunity offered by the EU and other export markets, Uzbekistan needs to increase its export promotion activities in agriculture to ensure that Uzbek products can access target markets, and to enhance their image and reputation beyond Central Asia.

Marketing

Uzagroexport has recently launched a single brand for export called UzAgro. This new brand aims to guarantee the high quality and origin of products for buyers (UzReport, 2017_[75]). Further, new draft legislation examines the creation of a national "BestinUzbekistan" logo, which would be used to promote the export of domestic products. SMEs would be able to use the logo free of charge under the condition that their

products reach a certified level of quality (Ministry of Economy of Uzbekistan, 2017_[43]). These are important first steps to develop national or regional brands to better promote in particular agrifood products in Central Asia and in the EU. Uzbek products are known for their quality in neighbouring countries, and formalising and protecting the brand could help sustain and increase the economic opportunities in the sector as France did with the development of the “*Appellation d’Origine Contrôlée*” (AOC) system (see Box 3.8). The identification and building of brands can be carried out with the support of international experts at the national and at the regional level, and with the contribution of local producers and business associations. This step needs to be followed by other key components of a brand, including the consistent quality of final products sold under the brand, the guarantee on production methods and origins of products, and proper traceability. To maximise the impact of the brand, Uzagroexport could also consider adopting a positioning and a value proposition to be associated with the brand based on the quality or origin of products that will resonate with customers.

Box 3.8. The AOP/AOC geographical labels in France

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

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

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

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

Considering the importance of food products in Uzbek exports, the EPF could develop the internal capacity to carry out market studies, targeting the EU, Japan, South Korea and the Middle East in the first instance. It could examine market entry conditions and develop training and consulting services accordingly in collaboration with the CCIU and sector associations. For instance, Business France regularly carries out and publishes

online focused market studies that correspond to SMEs' needs for information on new markets. These include recent studies such as Regulations on Food Products in Canada, the Fruit and Vegetable Market of Italy in 2016, and the Food and Drink Products Market of the UAE in 2016 (Business France, 2017^[76]).

Consulting

Uzbekistan could benefit greatly by upgrading its system for analysing of safety and quality of food products, as well as for certification. At present, the European Union, South Korea and Japan do not recognise the results of the tests performed in Uzbek laboratories and require exporters to send sample products to their national laboratories before issuing certificates and importing the products (CER, 2016^[73]). Only 43 enterprises in Uzbekistan hold an ISO 22000 Food Safety Management certificate, and this further hinders exports to many countries (Olimkhonov, 2017^[74]). Uzbekistan's government could establish modern laboratories and introduce new certification requirements in line with international standards in order to boost the internationalisation of the agribusiness sector. It could also develop workshops and training to help local SMEs reach the new standards and obtain certificates. These measures, along with strong producers' organisations and well-developed extension services, would contribute to building the international reputation of the quality of Uzbek products, going beyond pure branding.







Uzbekistan could implement sector-specific measures in addition to export promotion activities. In particular, it could consider establishing logistics supply centres in target markets and in Uzbekistan connected with wholesale markets and other trade hubs in EU member countries, such as Rungis and Lyon in France (State Committee on Competition, 2016^[77]). Other measures to support the competitiveness of Uzbek food products, and their positioning abroad could include: further improvements in storage capacity across the country, investment in mechanisation with schemes to support farmers (including extension services and support to producers' organisation), attracting foreign food processing companies to stimulate local capacity, and the development of green and environmentally friendly technology.

The way forward

The government has recently initiated major reforms to boost export, support entrepreneurial activities and improve the overall business climate. This includes the adjustment of the legal definition of business entities, support to SME development through new incentives in the tax regime, and the simplification and reduction of licensing and export procedures and regulations in order to better comply with international standards in export markets (Ministry of Economy of Uzbekistan, 2017^[43]).

Regarding export promotion policies, Table 3.2 presents an indicative roadmap for implementing these policy recommendations. This roadmap takes into account the expected time needed to establish and implement the policy actions, as well as the need to implement these activities simultaneously. Close public-private consultation will be critical to effective implementation. Key partners in implementing the reform consist not only of Uzbekistan's organisations in charge of export promotion, such as the EPF or the CCIU, but also international partners such as AFD, GIZ or USAID.

Table 3.2. Suggested implementation roadmap for Uzbekistan

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

Source: OECD Analysis, 2017.

Kyrgyzstan: Revamping the investment promotion system

Business internationalisation in Kyrgyzstan could be further enhanced by establishing sound investment promotion institutions and activities. The OECD designed policy recommendations in 2013 and monitored their implementation in 2016. This sub-chapter analyses the progress made, and suggests solutions to further improve the investment and export promotion systems. Recommendations include finalising the investment promotion strategy, deepening sector expertise in the investment promotion agency, and developing export promotion activities.

Context: A small open economy

Kyrgyzstan is a relatively open economy: foreign trade represented 125% of the country's gross domestic product (GDP) in 2014 (World Bank, 2016_[78]). Its early membership of the World Trade Organization (WTO) and its comparatively liberal trade regime have supported the emergence of an intermediary trade sector that provides employment for low-skilled workers, many of them women. For example, WTO membership has promoted the emergence of a competitive garment export sector in Kyrgyzstan in which women are strongly represented (UNDP, 2015_[79]).

Kyrgyzstan's accession to the Eurasian Economic Union (EEU) in August 2015 shifts the context for business internationalisation. While EEU membership will give the country unfettered access to a large market, it might nevertheless have an adverse impact on investment in Kyrgyzstan. In particular, the higher tariffs at EEU external borders, such as between Kyrgyzstan and China, might undermine Kyrgyzstan's foreign trade, in view of the important role of non-EEU inputs (especially in the garment sector) and re-export activities from China, Turkey and other countries in Kyrgyzstan's foreign trade.

Overview of 2013 recommendations

The 2013 review found that Kyrgyzstan's investment promotion policies and institutions were limited in both in scope and quality (OECD, 2014_[80]). The country lacked basic investment promotion activities, an active investment promotion agency (IPA) and a dedicated strategy to attract foreign direct investment. The review urged the government, with the support of the OECD and the German Society for International Co-operation (GIZ), to work on policies and tools to strengthen the internationalisation of SMEs. A public-private working group and a policy assessment of investment and export promotion tools identified priority areas for action. Two sets of recommendations were provided to the government:

Recommendation 1: Strengthen investment policies and activities

This recommendation involved starting sector-specific investment promotion activities, establishing business linkage programmes, and creating a new IPA. The first step was for the government to take a systematic approach to assessing sectors, and to designing and implementing investment promotion activities in these sectors. This would involve: (1) identifying priority sectors for the country; (2) analysing global trends; (3) assessing Kyrgyzstan's strengths and weaknesses; (4) finding and addressing target investors; and (5) preparing investment promotion activities. It was recommended that this approach be included in a national investment strategy for the priority sectors selected. Business linkage programmes could then increase business opportunities and positive spill-overs by encouraging contracts between local suppliers and investors. Kyrgyzstan was also

urged to create an IPA that adopted best practices from OECD countries, especially Ireland and Turkey. The role of the IPA would be to sustain investment promotion activities, create a point of contact for investors, and facilitate their relations with ministries (OECD, 2014_[80]).

Recommendation 2: Use garment and textile manufacturing as a pilot sector for investment promotion

In 2013, garment and textile manufacturing were estimated to represent 5-15% of GDP and 4-12% of employment. The sector consisted primarily of SMEs, mainly owned by women. Garment production increased ten-fold between 2003 and 2013, driven largely by the rise in exports, especially to Russia and Kazakhstan (Choi et al., 2014_[81]). This export-driven growth was favoured by Kyrgyzstan's accession to the WTO in 1998, the implementation of an open trade regime, and simplified customs clearance procedures (Choi et al., 2014_[81]).

Companies in the garment industry were facing competition challenges driven by the lack of a sector strategy, weak promotion, limited technical capacities, and outdated technology. Overall, the OECD recommended that the sector could be better supported by: 1) investment promotion activities; 2) a coherent sector strategy; 3) investments in mid-level technical skills and modernisation of the vocational education and training (VET) system, for example through the Shvei Profi technical training centre; and 4) the establishment of a garment cluster based around the Technopolis industrial park project (OECD, 2014_[80]).

Findings of the 2016 monitoring assessment

The trade environment for Kyrgyzstan's garment sector has changed substantially since 2013. Until 2011 the sector benefited from low tariffs on inputs thanks to Kyrgyzstan's WTO membership. It also benefitted from special trade agreements and tariff-free garment exports to Russia, whereas Russia levied tariffs on garment imports from other countries. The situation changed with Russia's WTO membership in 2012, with significant consequences for the Kyrgyz garment industry. Russia's WTO membership implied the gradual lowering of import tariffs up until 2020. These measures have started to progressively decrease Kyrgyzstan's trade advantage with Russia. In particular, Russia's overall tariffs on textiles and garments were phased out in 2015, the year Kyrgyzstan joined the EEU.

Kyrgyzstan's accession to the EEU has also had an impact on the sector – both positive and negative. On the one hand, the EEU provides Kyrgyzstan with free access to a market of more than 170 million people. On the other hand, the implementation of a common external value-based tariff negatively affects the garment industry, which relies on fabrics imported from countries outside the EEU. Kyrgyzstan's previous simplified tariff regime was replaced by an average EEU *ad valorem* tariff of 8.1% in 2015, which will be lowered to 6.9% in 2020 (Choi et al., 2014_[81]). Choi, Perez, Luis and Myburg (2014) estimate that membership of the EEU will increase the cost of imports and thus overall garment production costs by 3.6% to 7.7% (Choi et al., 2014_[81]). This uncertain trade environment has delayed domestic and foreign investment in the sector.

Monitoring of Recommendation 1 highlights the creation of an investment promotion agency and a draft strategy

Recommendation 1: Strengthen investment and export-promotion policies and activities

Kyrgyzstan established an IPA in March 2014 under the aegis of the Ministry of Economy. The agency consists of four departments: investment project promotion, investor support, information analysis and development of public-private partnerships. Discussions are currently under way to upgrade the status of the IPA to an autonomous body under the government.

The mission of the IPA is to “Improve the investment climate of Kyrgyzstan and to build confidence through long-term, fruitful partnerships with international investors” (Investment and Export Promotion Agency Kyrgyzstan, 2017_[82]). To this end, it participates in the development and implementation of measures to stimulate investment activity and to increase the investment attractiveness of the country. It supports interaction among state bodies, local authorities, the business community and the private sector to promote investment through public-private partnerships and private investment. In addition, the IPA participates in developing national infrastructure projects and investment programmes.

The IPA targets specific expertise in the tourism, garment and agro-processing sectors, although the final list of priority sectors is still to be defined in the forthcoming National Investment Promotion Strategy (see below). In terms of geography, the IPA focuses its work on investors from Turkey, China, Korea, Kazakhstan, Russia, the Middle East and India. The National Sustainable Development Strategy for 2013-17 had already identified investment policy as a priority, including the establishment of the IPA. However, it did not include a focus on sectors.

Kyrgyzstan is also developing a National Investment Promotion Strategy in order to develop a targeted, strategic and multi-stakeholder approach to foreign direct investment. Several workshops were held in 2016 to draft the new investment strategy. They involved the private sector, the various ministries and government agencies relevant to foreign direct investment, the IPA and donors. Several international experts participated in the workshops, including two from Ireland and one from Turkey. The workshops focused on methodological aspects and good practices in investment promotion, including the selection of sectors, the identification of competitive advantages, and the creation of a business case for investing in Kyrgyzstan. Following the workshops, three core sectors were initially selected: garments, tourism and agro-processing. The list of sectors is expected to increase to reflect priorities defined by the government.

In 2015 the IPA had a staff of 21 experts selected through open competition. Staff speak English, as well as other relevant languages (Russian, Turkish, Japanese, German, French, etc.). Staff participate in training and study tours in Kyrgyzstan and abroad, for example in Germany. They also organise and attend investment forums abroad and in Kyrgyzstan.

Investment promotion tools have been created by the IPA, especially websites that target potential investors (www.invest.gov.kg, www.ppp.gov.kg). They provide easily accessible and up-to-date information on investment opportunities for external investors.

Similarly, the IPA has published brochures on Kyrgyzstan's business environment, and its Facebook page is regularly updated.

However, many aspects of the IPA's work are still in their infancy. For example, there is no department concerned with the monitoring and evaluation of the IPA's activities. Similarly, although an investors' support division exists, aftercare and post-investment services are not provided in a systematic manner as staff and expertise are limited at this stage of the IPA's development.

Monitoring of Recommendation 2 shows positive impacts on investment in the garment sector

Recommendation 2: Use garment and textile manufacturing as a pilot sector for investment promotion

Horizontal investment and export promotion efforts have already benefited the garment sector. One example of a recent investment facilitated by the IPA consists of a Turkish company constructing a textile factory. This investment marks an important step towards locating a greater share of the textile and garment supply chain in Kyrgyzstan.

An export promotion strategy has been drafted and approved, highlighting the role of exports for the garment sector and its SMEs. The strategy mentions a number of activities, including participation in trade fairs, and the provision of market information, trade facilitation and financial support schemes. In addition, support has already been given to firm-level strategies. With USAID support, the Kyrgyzstan Centre for Textile and Apparel Research is helping companies with activities such as marketing, compliance, human resources, sourcing, and line productivity.

Progress on developing the skills needed for the garment sector's workforce has stalled, however. There is no systematic co-operation between educational institutions and enterprises. The quality and quantity of VET for garment workers have not improved – for example, the Shvei Profi technical training centre is still not working as its teaching licence remains suspended.

The industry-wide organisation of clusters and co-operatives is still as limited as in 2013. For example, work on the Technopolis project, which was intended to host a garment cluster, has stalled. Despite efforts to allocate land for building the Technopolis and to develop a business plan, and numerous study trips to Baku, Ljubljana and Urumqi, the project has yet to materialise, and funding is still not secured.

The way forward

Kyrgyzstan has made significant progress in improving its investment and export promotion climate. However, further success demands greater effort to sustain the progress made.

Kyrgyzstan has identified three priority sectors in its draft investment promotion strategy (agroprocessing, garments, and tourism) based on the government's strategic objectives, as well as their contribution to employment and value added. The government should continue to assess the garment sector in light of EEU accession to identify whether and how its business environment has evolved. It would be important to continue attracting

investments to the textile sector to ensure the competitive supply of inputs. This could also be achieved by facilitating collective buying agreements by SMEs in the garment sector or clusters within it. If the future outlook for the garment sector is likely to be negative, the country could consider other industries that require similar skill sets, such as light electronics assembly.

Policy practitioners and experts should be continuously involved in drafting and further developing the strategy. The final investment promotion strategy should incorporate their inputs. Launching and presenting the strategy at a high-level event would serve to increase its reach and signal to potential investors the importance given to foreign direct investment (FDI) by the government.

The strategy should include a concrete action plan with a corresponding timetable and the means to monitor performance. The plan should set specific targets, such as the amount of new FDI investments, SME investments, the regional spread, and the amount of new exports. It should also set agreed outcomes, such as net employment creation, corporate tax revenues earned, and the economic value added.

Building sector-specific expertise and investment promotion capacity within the IPA is a key task. Greater sector-specific expertise would allow for targeted promotional activities. Good practice indicates that sector-specific expertise is a key success factor for IPAs around the world. The example of Turkey is an interesting case in point (Box 3.9). Building this capacity should involve hands-on training from policy practitioners with experience working in other IPAs, as well as study tours and training. Stronger cooperation with Turkey's Investment Support and Promotion Agency (ISPAT) would provide valuable contact with experienced policy practitioners in the field of investment promotion.

Developing the skills and expertise required for aftercare services and supply chain development, such as FDI-SME linkage programmes, is a priority. While investment promotion activities are a key component for attracting investments and ensuring competitiveness, the government should not lose focus on improving the overall investment climate in Kyrgyzstan.

The IPA should also work on supporting companies in the target sectors through tailored export promotion activities, such as export-oriented marketing and consulting. Export costs are often very high for SMEs. Providing good market knowledge of recent trends in target markets, demand shifts and standards can be of great value to ensure the competitiveness of companies in the priority sectors.

Box 3.9. Turkey's Investment Support and Promotion Agency

The Investment Support and Promotion Agency of Turkey (ISPAT) was created in 2007 to boost Turkey's attractiveness among foreign investors. ISPAT operates as an intermediary and facilitator between investors and authorities and strives to decrease the cost, time and number of procedures for investors. It does so by providing sector reports and analysis, offering support for site selection and real estate prospecting, facilitating meetings with local authorities, and providing aftercare services.

Turkey's increasing level of FDI inflows, as well as positive results in international assessments, are testament to the agency's success. The World Bank's Global Investment Promotion Best Practices Survey ranked ISPAT's website as the seventh best investment promotion website in the world.

ISPAT assesses Turkey's investment needs in target sectors, and develops and implements sector-specific promotion strategies to attract investments. First, the assessment of Turkey's investment needs is based on criteria that mirror the country's economic priorities, such as the level of import substitution, technology intensity, employment and export potential. Second, ISPAT assesses how these needs can be targeted by investors through the presence of industry clusters, regional potential, access to raw materials, low cost of entry in the market and a favourable competitive environment. Third, ISPAT prepares sector-specific action plans to promote and generate investments for sectors that are both of interest to investors and in line with Turkey's priorities.

Source: (ISPAT, 2016_[11])

Tajikistan: Supporting agricultural exports

Increasing exports in Tajikistan's agricultural sector represents an important factor for the growth of the country's economy. The OECD provided policy recommendations in 2014, which were monitored in 2017. This sub-chapter analyses the achievements and suggests further improvements, such as supporting product certification and implementing the single-window at customs.

Context: Agricultural trade and Tajikistan's growth

Trade in agriculture is crucial for the development of Tajikistan's economy, considering its importance for the country's gross domestic product (GDP) and exports. Fruit and vegetable products made up 6.8% of total exports in 2015, to a value of USD 57.2 million of which 33% came from exports of dried fruits (apricots and nuts), 28% from onions and 7.9% from rice. The value of these exports has fallen from USD 60.7 million in 2014 and USD 66.5 million in 2013. The chief market for these products is Kazakhstan, which imported USD 38.4 million worth of fruit and vegetable products, or 67% of the total.

Growth in exports of these products could support the development of small and medium-sized enterprises (SMEs), which are the main players in these markets. In 2015 there were 39 401 registered companies in Tajikistan in total, of which 1.3% had more than 200 employees (including publicly owned companies). Of the 8 981 formal companies in agriculture, 85% have fewer than 30 employees and 99% fewer than 200 (OEC, 2017^[83]; TajStat, 2017^[84]).⁵

Export promotion efforts face some important structural challenges. First, Tajikistan's location and topography mean that developing the country's connective infrastructure will be a particular priority if it wishes to expand exports and diversify its export markets. Some 93% of the country is mountainous, the nearest seaport is 3 100 km from the border and the infrastructure on the overland trade routes with neighbouring countries (Afghanistan, China, Kyrgyzstan and Uzbekistan) are inadequate, despite recent developments with China.

Second, institutional export support structures require further improvement. Tajikistan has improved its trade regime, becoming a member of the World Trade Organization (WTO) in 2013 and is currently considering the possibility of joining the Eurasian Economic Union. Yet Tajikistan ranks 144th on the Trading Across Borders category of the World Bank's *Doing Business 2016* report (World Bank, 2016^[85]). The "distance penalty" that Tajik exporters face in view of their location is thus compounded by difficult customs procedures and customs regulation, as well as the frequent lack of a recognised certification of compliance for exported products (OECD, 2015^[86]).

Overview of 2014 recommendations

The 2014 OECD review focused on boosting agricultural trade, suggesting policy choices that could enhance both the institutional export support structure (e.g. customs, certification and export promotion) and the agriculture sector (e.g. strategy, vertical and horizontal integration and the availability of statistics) (OECD, 2015^[86]).

Recommendation 1: Overhaul the export strategy and improve export support institutions

In 2014, the government was advised by the OECD to revise its border procedures to lower the administrative costs for enterprises willing to embark in international trade, which should be particularly beneficial for SMEs. In particular, the review recommended:

- Simplifying border procedures by introducing and adopting a risk-management approach to customs clearance, carrying forward work on establishing a “single window”⁶ for export-import and transit operations, and introducing a “trusted trader system” to simplify procedures for importing and exporting companies with a proven track record of impeccable behaviour;
- Increasing the effectiveness of overall export promotion activities by defining responsibilities for national branding, leveraging Tajik diaspora networks in export markets and guiding SMEs through the necessary administrative procedures for trade and
- Investing in modern quality-control and certification policies, including incentives to businesses to meet international standards (OECD, 2015_[86]).

Recommendation 2: Improve taxation and financial system for agribusiness exporters

In various surveys, businesses in Tajikistan highlighted problems with the complexity of taxation and the unpredictability of its enforcement by tax inspectors (World Bank, 2017_[87]; EBRD, 2017_[88]; IFC, 2011_[89]). The OECD recommended the introduction of a simpler model with a uniform tax for SMEs in agriculture, aimed at:

- reducing the number of hours spent filling tax requirements
- reducing the number of agencies to be visited to comply
- guaranteeing transparency throughout the process (OECD, 2015_[86]).

The 2014 review also recommended further support for financing agribusiness exports. This could be done by setting up an export finance institution that could provide export guarantees and subsidised loans for companies seeking to export. Setting up public agencies offering technical, financial and administrative support to exporting businesses has proven valuable in other countries in the region, including Kazakhstan (OECD, 2015_[86]).

Recommendation 3: Strengthen the agribusiness value chain

To strengthen the supply chain, the OECD review suggested that Tajikistan should:

- Increase horizontal integration of producers by improving the legal framework and promoting service co-operatives.
- Enhance vertical co-operation through the establishment of agricultural clusters, bringing together producers, processors and exporters. A pilot cluster with the participation of banks, government agencies and academic institutions should be considered, for example in Sughd province, which is the region closest to the Silk Road and one of the most productive regions.
- The government should also invest more in the development of agricultural skills, by focusing on offering better extension services and training opportunities (OECD, 2015_[86]).

Recommendation 4: Institutions should better implement and monitor agribusiness policies

The OECD suggested that the government should enhance its ability to devise, implement and monitor agribusiness policies. This means:

- Improving co-ordination between the Ministry of Agriculture and the agencies operating in the sector (the National Statistical Institute and the Chamber of Commerce), and involving local businesses and agricultural business associations in the implementation of the strategy for agriculture.
- Defining clear goals and measurable outputs from the start of the strategic planning phase. The key performance indicators (KPIs) should be SMART: specific, measurable, achievable, realistic and time-bound, and they should be objectively monitored throughout the implementation phase (OECD, 2015_[86]).

Findings of the 2017 monitoring assessment

Tajikistan has partially implemented the recommendations, but a number of steps remain if they are to be implemented fully and effectively.

Monitoring of Recommendation 1 indicates that effective implementation needs to follow the updating of strategic documents

Recommendation 1: Overhaul the export strategy and improve export-support institutions

New regulations and government strategies have included the key building blocks of a well-functioning export support system, but effective implementation will be critical

The Ministry of Economic Development and Trade (MEDT) has performed a thorough analysis of the main barriers to trade and elaborated a comprehensive strategy to overcome them. In particular, the Action Plan on Improving Investment Climate in the Agricultural Sector and Agricultural Trade Development (APIICA) and the Mid-Term Development Strategy of the Republic of Tajikistan for 2016-2020 explicitly include policy recommendations formulated by the OECD in 2014 (Box 3.10).

Since 2008, Article 399 of the Customs Code has provided for a risk-management approach to customs clearance (Tajikistan, 2008_[90]). However, representatives of international organisations working with the customs authority report that the approach has not yet been implemented, a view which is confirmed by the OECD's trade facilitation indicators (TFIs). The TFIs highlight the need to complete the development of risk-management procedures currently under elaboration to enhance automated formalities at the border (OECD, 2017_[8]).

No substantial progress has been made towards the creation of a national brand during the monitoring period. A laudable exception was the regional brand for Sughd Oblast, created with the support of the United Nations Development Programme (UNDP) and now widely used to guarantee product quality. The UNDP is now working with Kathlon region to launch its regional brand.

Box 3.10. OECD recommendations in the government's mid-term strategy

The government of Tajikistan elaborated an overarching strategy to guide policy making in the 2016-20 period. The main recommendations it included were:

- “Adopt the necessary changes in the customs code on eliminating the barriers for international trade development by SMEs”, arranging the operations in accordance with international standards, and “Improve customs regulation to support the local producers within the WTO norms”, in line with the recommendation of simplifying trade procedures including customs.
- “Improved regulatory framework for export development and selected import substitution”, in line with the recommendations for the improvement of export promotion institutions and activities.
- Develop and implement the concept of ‘reliable market player’ to simplify the procedures within the export activities”. This corresponds to the concept of a “trusted trader” in the OECD’s policy recommendation.⁷

Sources: (OECD, 2015_[86]; Government of Tajikistan, 2016_[91])

At the moment the diaspora networks are underused, with a few initiatives from the Ministry of Migration and Labour, more aimed at attracting foreign direct investment (FDI) than creating a network to support Tajik exporters in foreign markets.

A single window for customs has been partly implemented and should soon start operations

A customs single window is at an advanced stage of implementation thanks to the support of the EU and the Asian Development Bank (ADB; Box 3.11). The single window for export, import and transit procedures in Tajikistan was approved and established by two successive government resolutions in 2008 and 2010.⁸

Box 3.11. The single window for customs in Tajikistan

The implementation phase started with an EU-funded project in 2012-14 and led to:

- The definition of the detailed specification and requirements of the information system for the single window and the development of the portal to manage applications for the issuance of permits in electronic form by nine “single window centres”.
- The completion of tendering for the hardware needed and its delivery to the 52 active offices and 12 servers, and the establishment of a virtual private communications network for the transmission of electronic data.
- A series of training courses in the use of the platform were conducted in all 52 offices.

However, the single window has never been fully implemented due to technical issues with the information technology system that should manage its activity. It remains a priority for the government and is included in the Mid-Term Strategy 2016-2020. Implementation continues with the support of the ADB.

No institutional public structure to support exports has been created, with most of the activities to support businesses carried out by the Chamber of Commerce.

Progress has been made in accreditation but further efforts are needed on product certification

The MEDT has taken several steps to improve product certification in collaboration with Tajikstandart, the government agency in charge of defining and implementing standards, to improve the quality of laboratories and enhance the certification system. Food and agricultural products tested by the agency are accredited by the national system of accreditation of Kazakhstan. Three laboratories and 23 methods of chemical analysis have been accredited since August 2012, with an accreditation period of 5 years up to August 2017 (USAID and GAIN, 2015^[92]). In July 2015 the laboratories were audited again by the Kazakhstan National Center for Accreditation and passed the test, thus easing cross-border trade in these products. Specialists from the agency train companies to implement and maintain procedures based on the Hazard Analysis and Critical Control Point (HACCP) procedures.

Since 2014 Tajikstandart and the MEDT have also been developing new methods in accordance with international standards. For example on new accreditation of potential testing laboratories and on planning for the supply of new equipment. The quality of the laboratories should be improved to offer a wider variety of services to assess product quality and to make it easier to export products.

The government has also established a National Centre for Accreditation, to resolve the conflict of interest arising from Tajikstandart managing both certification and accreditation. Since 2007 the International Trade Centre (ITC) has recommended separating the two functions, as keeping accreditation and conformity assessment services in the same organisation is considered unacceptable at international level, as the risk of collusion is too high.⁹ This has led to a lack of recognition of Tajik certification by foreign bodies, and in turn increased difficulties for Tajik exporters as exports need to be retested and recertified (ITC, 2007^[93]). The Swiss State Secretariat for Economic Affairs (SECO) and the ITC have continued their support and in 2015, by Order No. 626 of the Government of Tajikistan, the independent National Accreditation Centre was established. It should become a member of the mutual recognition arrangements of the International Laboratory Accreditation Cooperation (ILAC) and the International Accreditation Forum (IAF) to gain international recognition of its test reports and certificates. However business associations note¹⁰ that it is not yet fully functioning.

Monitoring of Recommendation 2 shows that tax administration remains an issue, despite efforts to improve tax legislation

Recommendation 2: Improve taxation and financial system for agribusiness exporters

Legislation to simplify tax collection is in place but tax administration is still considered a major barrier by local and foreign businesses

The government has simplified tax compliance for SMEs in agribusiness in recent years but fiscal pressure is still high. A new tax code came into force in January 2013, introducing a special system of payment for agricultural producers which requires taxpayers to pay only one type of tax (uniform tax). The same reform also simplified tax reports. In August 2016 the government presented a draft law¹¹ that aims to further simplify the tax system and attract foreign investment.

Tajikistan has created a system for the electronic submission of tax returns to simplify tax administration. It introduced this e-filing in 2012 with the support of the World Bank, but by 2014 only 6 000 firms out of a potential 80 500 were using the service. During the monitoring period the number increased steadily, with more than 20 500 taxpayers submitting their declarations electronically in 2016.

Tajikistan has also expanded its electronic system for filing and paying taxes, as recorded in the Paying Taxes category of the World Bank's *Doing Business* rankings. These efforts have led to Tajikistan significantly improving its ranking during the monitoring period, climbing from 178th in 2014 to 140th in 2017. The number of tax payments per year has fallen from 69 to 12, even if the total hours needed to pay taxes remained broadly unchanged. For those without an internet connection, the offices of the tax inspectorates provide accessible terminals for the provision of electronic tax returns. However, business associations report that digitisation is only partial, as the forms have to be downloaded, signed and then sent by post to the tax administration.

Despite these legal and technical improvements, the government still needs to take action in this area, as many private enterprises and international organisations still consider the tax system to be opaque and unpredictable. The “revenue based” tax system gives tax agents incentives to reach revenue targets that may be misaligned with the business reality of companies. At the moment the government, with the support of the World Bank, is devising a reform to the Tax Department to make it more efficient and effective at collecting revenue, enhance the level of voluntary compliance, and improve the quality of taxpayer services. This reform will be concluded by the end of 2019 (World Bank, 2017^[94]).

The Ministry of Agriculture, as well as agricultural firms interviewed by the OECD, also report important issues linked to the implementation of the uniform tax. It appears that farmers have to pay additional taxes on top of the uniform tax in several economic sectors, which undermines the purpose of a single unified tax. For instance, first transformation steps of agricultural raw materials such as cotton are subject to additional taxation. Agricultural firms also mention that the tax administration has stopped refunding value-added tax (VAT) on domestic products. VAT refunds for SMEs are a common tax practice in OECD member and non-member countries to ensure that VAT remains neutral for business taxpayers. OECD economies in particular have implemented

many different VAT simplification measures, including exemption thresholds and simplified schemes for calculating VAT liability (OECD, 2015^[95]). Tajikistan's tax code is also frequently reported to be complex and burdensome, especially for SMEs.

The government strategy includes an export guarantee fund, but it has yet to be implemented

Tajikistan does not yet have a national system to support exports although the government is discussing the possibility of setting up an export guarantee fund that could benefit firms in the agriculture sector. The MEDT and the Ministry of Finance mentioned that the creation of a bank for export promotion is included in the Mid-Term Strategy for 2016-20.¹² This activity has not been funded by the state budget, and no precise implementation timeline has been defined. An inter-ministerial working group is considering the options, but no decision has been made.

OECD member countries have well-integrated export promotion systems, which also offer subsidised finance, to support the international competitiveness of their businesses. These systems share several key features: an active network of public and private players in home and target countries, the close involvement of private sector actors in the system, the creation of a specific agency to support exports, tailor-made services for businesses and SMEs, and funding and risk insurance mechanisms dedicated to exports (Lederman, Olarreaga and Payton, 2006^[10]; IGC, 2011^[96]). France provides a good example of a structured export system that was reorganised to improve its co-ordination and efficiency (Box 3.12).

Monitoring of Recommendation 3 shows that efforts have been mostly focused on enhancing skills

Recommendation 3: Strengthen the agribusiness value chain

The Ministry of Agriculture, with the help of international organisations (IOs), has supported the strengthening of agribusiness value chains with the Programme for Reforming the Agriculture Sector of the Republic of Tajikistan for 2012-2020.

The Agrarian University of Tajikistan and the development community are focusing on programmes to develop skills in the agribusiness sector

The Agrarian University of Tajikistan, under the Ministry of Education, offers courses and material to contribute to the development of a skilled workforce. IOs have also carried out many important programmes since 2014, focusing on making the agribusiness sector competitive and boosting skills, with the objectives of improving food security, private-sector development and enhanced trade (Box 3.13).

Box 3.12. Good practice in trade promotion: The example of Business France

Business France is a national agency focused on the international development of the French economy. It demonstrates how a country can successfully engage in trade promotion. Business France supports French companies in their international development by operating in multiple trade-related areas as well as co-ordinating with a plethora of institutional partners. The agency is also in charge of attracting foreign direct investment (FDI) to France and promoting France's attractiveness to foreign businesses. Its engagement has thus helped to display the open and diversified nature of the French economy. This is an outcome Tajikistan is still aspiring to.

In particular, Business France has managed to set up a functioning ecosystem based on agreements with shareholders and stakeholders spread all across France. Co-operation works in multiple ways: agreements are established to ease the international development and growth of the French economy. Its stakeholders are:

- The French state: a Performance and Objectives Contract determines the export strategy and the exact resources allocated over a three-year period.
- The French regions: Business France has to deliver optimal trade promotion services to companies spread across France's territory.
- BPIFrance, France's development bank: allowing the provision of joint services to SMEs, particularly with regards to export financing and export promotion services. This facilitates business opportunities for SMEs and mid-size companies abroad.
- The Chamber of Commerce and Industry (CCI): the CCI identifies and trains SMEs, while Business France delivers the trade promotion services. A similar division of labour has been set up with the trade consulting companies which offer downstream business development services.
- MEDEF, the employer's union of France: co-ordinates with the representatives of French businesses.

For example, Business France supplies four types of services to the agribusiness sector: 1) business intelligence (e.g. tailored market studies); 2) trade fairs (e.g. design and management of French pavilions); 3) Business-to-business (e.g. product presentations and events); and 4) tailor-made individual services (e.g. communication services or product market tests).

Business France thus offers services on both the macro and micro level: it co-ordinates on the macro level to support the strategic development of France's international trade, and at the same time it supports businesses on the micro level, creating business and investment opportunities for SMEs and mid-size companies abroad.

Sources: (Business France, 2017_[97]; Business France, 2017_[98])

Box 3.13. Skill enhancement in the agribusiness sector

The Enhanced Competitiveness of Tajikistan Agribusiness Programme funded by the EU is aimed at the development of Tajik agrifood value chains, the competitiveness of agri-food enterprises and the quality and marketing of their products (European Commission, 2017b). Other projects are playing an important role in sustaining the development of the agribusiness sector, skills and trade, including the German Society for International Co-operation's (GIZ) Support to Regional Trade in Central Asia programme, the United Kingdom's Department for International Development's (DFID) Growth in Rural Economy and Agriculture in Tajikistan programme, the UNDP's Formulation of Trade Development Programmes at National and Oblasts Levels, and SECO's Trade Co-operation Programme.

Horizontal integration has been given some support through co-operatives and extension services

The organisation and development of extension advisory support for farmers is one of the stated priorities of the government's Programme for Reforming the Agriculture Sector of the Republic of Tajikistan for 2012-2020. The Ministry of Agriculture has departments in all districts and regions which work in close collaboration with farmers and include agricultural specialists to advise small-scale farmers. In 2013 the Ministry of Agriculture started participating in a Japanese International Cooperation Agency (JICA) project to train five officials in Japan every year in the most up-to-date techniques which they can then disseminate in Tajikistan.

The non-commercial co-operative Sarob became almost completely financially sustainable in 2015 and has 74 advisory service offices in Khatlon Region. The co-operative plays a major role in the horizontal integration of the sector and was established in 2012 through the technical assistance groups (TAGs) project funded by the EU, DFID and GIZ. Other TAGs are active in the country, working on a "fee for service" basis and providing an effective service to farmers to achieve measurable yield increases, based on regular crop monitoring, crop management advice and effective use of inputs such as fertilisers, water and pesticides (WOCAT, 2017^[99]).

Many non-governmental organisations (NGOs) also offer advisory services in Tajikistan, supported by international organisations. For instance, in Soghd Region alone there are 117 advisory service offices; 50 of which were organised with the support of NGOs and the remaining 67 by rural organisations, which collaborate with 65 079 individual farmers (*dekhan farms*).¹³

Monitoring of Recommendation 4 suggests that proper statistics and key performance indicators are still lacking

Recommendation 4: Institutions should better implement and monitor agribusiness policies

The mid-term government strategy includes agricultural policy actions recommended by the OECD

The government has included the OECD's recommendation to increase the focus on reliable data for policy making in the agri-business sector in both the Action Plan on Improving Investment Climate in the Agricultural Sector and Agricultural Trade Development (APIICA) and the Mid-term Development Strategy of the Republic of Tajikistan for 2016-2020. This reflects the government's recognition of the need to increase the effectiveness of its policies.

Business surveys should be institutionalised and focus more on understanding the crucial issues for agribusinesses

The Ministry of Agriculture gathers micro-level data in all regions of Tajikistan through its regional offices, but with a focus on production. These data are subsequently transmitted to the National Statistical Institute for re-elaboration and then published on a quarterly and annual basis. The Chamber of Commerce carries out business surveys¹⁴ with its members and shares the results with the government, but this exercise is not focused enough on agribusiness issues to inform policy decisions.

The experience of OECD countries shows that surveys focusing on relations with supply chains, and barriers to doing business such as skills, access to finance, infrastructure, regulations, environment, and awareness of government's programmes can contribute to effective policy making. The ministry should develop the internal capacity to monitor and analyse the results in order to draw policy conclusions. For example, in Canada, the Ministry of Agriculture surveys farmers through its local agencies and with the support of private contractors. These surveys enable the ministry to gain insights on the use of its services, measure satisfaction, gather feedback and suggestions, and better understand the use of technology by farmers. The ministry can then assess and adjust its advisory, insurance, training, funding and many other programmes accordingly (Government of Canada, 2012_[100]).

The Ministry of Agriculture is building internal capacity, but still needs to implement a thorough monitoring system

From 2013 to 2016, over 360 specialists from the Ministry of Agriculture were enrolled in special training on a range of technical issues (Box 3.14).

Box 3.14. Training the staff of the Ministry of Agriculture of Tajikistan

With the support of several development partners and IOs such as JICA, the Turkish International Cooperation Agency, the Thailand International Cooperation Agency and the Food and Agriculture Organization of the United Nations (FAO), specialists of the Ministry of Agriculture took part in study trips to receive short training courses in several topics, including strengthening the indicators of emergency situations for animal diseases, quality control of individual products in agro-industry, establishing information and consulting centres, novel methods of agricultural development, and strengthening farming organisations in Central Asian countries.

Source: (Ministry of Industry, 2016_[101])

The Ministry of Agriculture frequently creates monitoring documents and reports. However, it has yet to identify and monitor detailed KPIs focusing on outcomes, create a thorough monitoring system, and understand how monitoring can feed into policy making.

Proper policy design and implementation are crucial. The OECD has learned that, to be effective, agricultural policies should follow a cycle that starts with the formulation of policy objectives and continues with the evaluation of the performance of current policies, the design of the new policies and finally a process to monitor and evaluate the achievements of these policies. In principle, the design of the information systems should go hand-in-hand with the design of the policies so that adequate information is generated from the beginning. Moreover, in-depth studies of this kind allow for consultation with the potential winners and losers from a reform, so that appropriate responses and corrections can be devised (Van Tongeren, 2008_[102]). These principles are also reiterated in the latest OECD publication on the specific policies undertaken by OECD member countries and developing economies during the last year (OECD, 2016_[103]).

The way forward

One overarching priority is to improve government statistics regarding SMEs. The data currently available through the National Statistical Institute of Tajikistan are limited to general information such as total numbers and numbers of *dekhan* farms. They do not allow policy makers to craft tailored policies taking into account precise numbers, sectors of activity, share of revenues from export, financial situation, productivity and regional peculiarities. The annual Structural Business Statistics (SBS) of the European Union, managed by Eurostat, constitute a best practice example that Tajikistan could consider following (Eurostat, 2017_[104]).

On the export side, Tajikistan needs to implement its new strategies and regulations on exports and improve co-ordination between institutions supporting exporters. Export promotion activities are reported to be carried out by the Ministry of Economy. The mandate to conduct these activities could be extended to Tajinvest, which is already in charge of investment promotion, and resources need to be assigned to perform these activities. The experience of OECD member countries and of other Central Asian countries, including Kyrgyzstan (see Box 3.15, shows that having a single agency in charge of export and investment promotion can help find synergies (office sharing, marketing, support functions) and implement joint actions, although the two missions are different.

Box 3.15. Export promotion in Kyrgyzstan

Kyrgyzstan created the Agency of Investment Promotion in 2014 under the Ministry of Economy, and has extended its mandate to include export promotion activities since November 2016. Both activities of the new State Agency for Investment and Export promotion (SAIEP) correspond to different missions and national strategies.

The IPA's mission is to improve the investment climate of Kyrgyzstan and to build confidence through long-term fruitful partnerships with international investors. The agency is drafting a new investment promotion strategy that focuses on priority sectors.

The new export promotion function aims to increase export flows and select the sectors in which the country should specialise by implementing targeted actions. Kyrgyzstan had already launched its Export Promotion Strategy 2015-2017 when it added the functions of an EPA to the existing IPA. The strategy identifies priority sectors, including garment, dairy, agricultural products and tourism, as well as activities such as trade facilitation, information and promotion, access to finance, and quality of infrastructure.

The agency is currently in the process of developing its export promotion activities, and exploring synergies with the investment promotion part. The experience of OECD member countries such as Business France suggest that synergies can be found in marketing activities, joint offices and support functions, among others.

Sources: (OECD, 2017_[105]; Business France, 2017_[76]; Government of Kyrgyzstan, 2015_[106]; State Agency for Investment and Export Promotion of Kyrgyzstan, 2017_[107])

Tajikistan should also introduce a more structured approach to “nation branding” to support export promotion and the attractiveness of Tajik products, possibly through Tajinvest. The agency recently took part in a mission to Armenia to study the work carried out in these areas by a partnership of Business France and the Development Foundation of Armenia, Armenia's national authority for investment, export and tourism promotion. To increase its reach, the Agency should further co-operate with the Chamber of Commerce and the network that it has developed with other chambers of commerce in the regions where Tajikistan exports, especially in Russia and China.

Tajikistan should implement its risk-management approach to customs, combined with bringing the single window into full operation in the coming years. The government should also support the operations of the new National Centre for Accreditation, as it will bring the separation Tajikistan needs between its certification and accreditation procedures, which will in turn ease the trading of agricultural products. Moreover, the quality of the laboratories should be improved to offer a wider variety of services to assess product quality and make them exportable to foreign markets (which should themselves be carefully studied to assess the best possible positioning in terms of the price, quality and quantity of Tajik products).

The government should rebuild trust by acting to make the tax system fairer for firms in the agriculture sector. It will need to make important reforms including: reducing areas of ambiguity in the interpretation of the tax code, minimising unnecessary tax audits, and rationalising tax exemptions and systematising the eligibility criteria for them (Strokova and Ajwad, 2017_[108]).

On the agriculture side, the government could further improve the legal framework, including tax incentives, and increase technical and financial support for establishing co-operatives in order to further develop co-operation. Kazakhstan has successfully developed its network of co-operatives by educating farmers about them and providing technical assistance (OECD, 2015_[109]). The government could invest in the establishment of commodity protocols with existing and new markets and promote an agribusiness council to spearhead/co-ordinate commodity development and provide “soft” infrastructure to facilitate market access for agricultural products.

Finally, to monitor the effective impact of its agricultural policies, the government should build the internal capacity of its agriculture ministry and build reliable surveys among farmers and agribusinesses to have reliable statistics. The government should develop detailed KPIs that focus on outcomes and a thorough monitoring system, while ensuring that monitoring and evaluation feed effectively into policy making. In this area, the government could make use of the business surveys conducted by the Chamber of Commerce to determine the factors impeding the development of export of agricultural products.

Notes

¹ These figures exclude the exports of services in Turkmenistan due to the unavailability of data.

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

³ There are repatriation requirements in place on: capital and money market instruments, credit operations, direct investment, liquidation of direct investment, real estate transactions and personal capital transactions. Repatriation requirements on derivatives and other instruments were not regulated at the time of writing (Horton et al., 2016_[36])

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

⁵ To these numbers, we should also add the informal micro-companies which are especially prevalent in agriculture, about which there is very little data. Recent estimates suggest that the number of employees in informal agricultural companies could be double those in formal companies (Strokova and Ajwad, 2017_[108]).

⁶ A “single window” is a system that allows traders to lodge information with a single body to fulfil all import- or export-related regulatory requirements. The “entrance”, either physical or electronic, is managed by an agency that then in turn informs all other appropriate agencies, guaranteeing savings in the time and cost of compliance for traders.

⁷ Programmes identifying “reliable market players” or “trusted traders” are also called authorised economic operator (AEO) programmes. They are voluntary trade facilitation initiatives that recognise businesses with a secure supply chain and compliant trade practices, rewarding accredited businesses with a range of trade facilitation benefits (e.g. priority trade services, differentiated examinations, mutual recognition arrangements). To become a “trusted trader”, an operator must meet a wide range of criteria, including a positive track record of compliance with trade regulations and co-operation with customs authorities (usually at least two years), financial

solvency, and proven practical standards of competence or professional qualifications **Invalid source specified.**

⁸ First introduced with Resolution of the Government of Tajikistan No. 659 (2008) and then established with Resolution No. 630 (2010) of the Government of Tajikistan.

⁹ In an analysis of 2006, none of the 10 laboratories visited, which were accredited, would have passed an assessment in accordance with the ISO/IEC 17025 standards (ITC, 2007_[93]).

¹⁰ Statement based on OECD interviews and discussion during the Public-Private Working Groups in Dushanbe in May and July 2017.

¹¹ Draft law named “About modification and additions in Tax Code of the Republic of Tajikistan”.

¹² The Key Direction 3.6.1.2 called Establish the Institutions of Export Promotion includes the specific policy action “Establish the bank for export promotion and import substitution”.

¹³ *Dekhan* is the word used for individual or family farms in Central Asia.

¹⁴ Five other business associations carried out business surveys with grant support from the UNDP in 2014-16.

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