

NO 04 | JUN 2024

POLICY BRIEFING
UZBEKISTAN

SME export promotion: German best practices and implications for Uzbekistan

by Dr. Alexander Knuth

Structure

1. Background
2. Why allocating budget for SME export promotion?
3. Main instruments of German SME export promotion
 - 3.1 Market Development Programme
 - 3.2 Foreign Trade Fair Programme
 - 3.3 Young Innovators Trade Fair Programme
4. Success factors of German SME export promotion
5. SME export promotion in context
6. Implications for Uzbekistan and next steps

1. Background

- » The Ministry of Economy and Finance is drafting a strategy for the development of entrepreneurship and small and medium-sized enterprises (SMEs) in Uzbekistan until 2030
- » GET has provided several analyses to support the process (see TN/01/2024, TN/04/2024, PB/03/2024)
- » One essential part of the strategy will be export promotion for SMEs

Purpose of this Policy Briefing

- » Providing an overview of German best practice in SME export promotion and deriving implications for the efficient implementation of SME export promotion programmes in Uzbekistan

Why German experience?

- » The German system of foreign trade promotion is internationally acknowledged as one of the best in the world, especially with regards to the integration of German SMEs into the export promotion system

2. Why allocating budget for SME export promotion?

- » Forming international business connections involves significant risk for SMEs
- » High risk of sunk cost: often time and money invested in initiating international business contacts are lost if no contract can be secured
 - No return on investment (ROI) solely from establishing business connections
 - Risks are higher for SMEs in relation to turnover than for large companies
- **SMEs tend to underinvest in internationalisation**
- » At the same time, SMEs generate so-called positive external effects when they offer their products and services internationally
 - For example, the participation of SMEs in international trade fairs promotes a positive image of the country
 - The first SMEs to enter international markets lay the groundwork for subsequent SMEs, as they contribute to the establishment of a country brand
 - The efforts of the "first movers" are often not rewarded, while the "second movers" benefit from the established national brand
- **By supporting SME export promotion countries can reduce the individual risks for SMEs and at least partly offset underinvestment**

3.1 Market Development Programme

The Market Development Programme is an export promotion instrument specifically for German SMEs. It has been working very successfully for 11 years.

It is financed by the Federal Ministry of Economic Affairs and Climate Action, but it is implemented by experienced specialised organisations.

It consists of two subsequent phases.

Phase 1: Information events

- » One day information events
- » Dedicated to one specific foreign destination country
- » Basic information regarding
 - Political and legal framework conditions
 - market opportunities
 - trends
 - trading conditions,
 - technical requirements and processes
- » Costs: free for German SMEs

3.1 Market Development Programme (cont.)

Phase 2: Trade mission (market research travel/business connection travel)

- » Guided 3-5 days travel
- » 10 – 20 SMEs plus experienced guide
- » Dedicated to one specific industry in one specific destination country
- » Contacts with local multipliers, authorities, public institutions and business partners
- » Site visits and project visits
- » Meet-ups with potential businesses partners in the destination country
- » Costs:
 - Costs for programme management and guide are covered, only small contribution for SMEs (up to 750 EUR per travel)
 - Travelling expenses must be paid by each SME itself

3.1 Market Development Programme (cont.)

Experiences

- » Dedication to specific industries in specific countries proved to be very effective
- » Two-phase approach ensures that SMEs are very well prepared for the travel programme
- » One third of participating SMEs could generate long-term business connections
- » 20% of participating SMEs could secure new contracts in the destination country
- » 1:18 = Relation of state budget spend to SMEs' new foreign turnover generated
- » The impact on the turnover of SMEs becomes apparent within a year

Conclusion

The Market Development Programme could be of interest for SME policy in Uzbekistan, as it follows a targeted and efficient approach. It is possible to start with a small budget and to scale up the programme in the upcoming years. The impact on the development of the SME sector will be noticeable in the short term.

3.2 Foreign Trade Fair Programme

The Foreign Trade Fair Programme is an export promotion instrument mainly for German SMEs.

It is financed by the Federal Ministry of Economic Affairs and Climate Action, but it is implemented by experienced specialised organisations.

- » Supports participation in international trade fairs abroad
- » Joint stand for participating SMEs with professional stand management
- » Costs: discounted prices, depend on country / trade fair

Experiences

- » 6,500 German SMEs participate in 235 international trade fairs every year
- » 65% of participating SMEs could generate long-term business connections
- » 54% of participating SMEs could secure new contracts in the destination country
- » 1:235 = Relation of state budget spend to SMEs' new foreign turnover generated

Conclusion

The Foreign Trade Fair Programme could be of interest for SME policy in Uzbekistan because it has proven to be very efficient in terms of the relationship between input and impact.

3.3 Young Innovators Trade Fair Programme

The Young Innovators Trade Fair Programme is an export promotion instrument specifically for German SMEs

It is financed by the Federal Ministry of Economic Affairs and Climate Action, but it is implemented by experienced specialised organisations.

- » For innovative private small companies, not older than 10 years
- » Supports participation in leading international trade fairs in Germany

(instead of SMEs traveling abroad, they present their products/service on big trade fairs with many international exhibitors and visitors in Germany)

Note: Germany hosts 380 trade fairs per year with 141,000 foreign exhibitors and 4.8 m foreign visitors.

- » Joint stand with professional stand management
- » Costs: 50% of trade fair costs can be reimbursed

Conclusion

The Young Innovators Trade Fair Programme could be of interest for SME policy in Uzbekistan in the future.

4. Success factors of German SME export promotion

Germany uses the same instruments for SME export promotion as most other countries - trade missions and trade fair missions- but German practice stands out due to the following success factors:

- » Targeted approach, i.e. the customization to industries and target countries
- » Smart money approach, i.e. not only cost reimbursement but also comprehensive and professional support, such as
 - Support in selecting the most suitable trade fairs
 - Support with stand design and decoration by an architect and a stand construction company
 - Further trade fair-specific accompanying measures and services etc.
- » Programmes are implemented by organisations employing competent and internationally experienced staff
- » Programmes are regularly evaluated by independent experts
- » Programmes are regularly improved and adapted to the changing requirements of SMEs

5. SME export promotion in context

The German SME export promotion programmes are to be seen in the overall context of trade policy

EU level

- » Trade agreements
- » Customs duties
- » Export related subsidies
- » Technical standards

National German level

- » Export control
- » Import Restrictions
- » Maritime Security
- » War arms control, Chemical Weapons Convention
- » Control of transboundary movements of radioactive substances
- » Enforcement of the German Act on Corporate Due Diligence in Supply Chains
- » Economic departments in foreign representations
- » Foreign Chambers of Commerce (AHK)
- » Investment protection treaties
- » Investment guarantees
- » Export credit guarantees / trade finance
- » Germany Trade & Invest (GTAI) Agency
- » **SME export promotion**

6. Implications for Uzbekistan and next steps

A major advantage of SME export promotion instruments over many other types of SME promotion is their scalability.

At the same time, a targeted approach is a decisive success factor according to German experience.

Suggested steps for the efficient implementation of SME export promotion in Uzbekistan:

1. Identification of Uzbek SMEs that are ready for internationalisation
2. Selection of a specific industry to start with export promotion
3. Identification and selection of one potential destination country for the export of Uzbek SMEs
4. Identification of a lead trade fair in the selected destination country
5. Cooperation with potential partners in the destination country, such as chambers of commerce, associations, trade promotion authorities
6. Start with one trade mission / trade fair mission for Uzbek SMEs
7. Evaluation, adaptation and scaling of the programme

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

CONTACT

Woldemar Walter, Project Manager Uzbekistan

walter@berlin-economics.com

German Economic Team

c/o BE Berlin Economics GmbH

Schillerstraße 59 | 10627 Berlin

Tel: +49 30 / 20 61 34 64 0

info@german-economic-team.com

www.german-economic-team.com

Our publications are available under

<https://www.german-economic-team.com/uzbekistan>

Implemented by

