The Resource Efficiency in Agri-food Production and Processing (REAP) project will be implemented along two dimensions, direct industry support and stakeholder engagement. The primary activity of the project will be targeted towards direct support provided to micro, small and medium enterprises (MSMEs) in agri-food production and processing sector through capacity building measures, direct consultation and guidance through the process of implementing Sustainable Consumption and Production (SCP) practices. In addition, the project will conceptualise and implement specific activities to target key stakeholder groups individually through stakeholder roundtables, policy roundtables and dialogue and financial sector engagement. This will enable the creation of a comprehensive support framework for SCP uptake in MSMEs. One of the key activities is to engage with stakeholders involved in policy in order to embed the project outcomes in the national and regional policy frameworks and create supporting conditions for the implementation of SCP measures both at the MSME and cluster levels. This document is an initial draft based on desk research. This input papers outline the preliminary findings about the current SCP related policy ecosystem in Uzbekistan and provides initial recommendations. This document will be updated following the policy events and MSME engagement and will incorporate learnings from these engagements.

Background

In recent years, Uzbekistan has initiated the process of liberalizing its economy and has implemented a number of reforms that address improving energy efficiency, tax optimization, reduction of state presence in the economy and opening-up of the bank sector. While some of these changes have been promising and have given a long needed boost to economic development, there are still challenges and opportunities to be taken into account when designing further policy interventions. According to the Organisation for Economic Co-operation and Development (OECD), Uzbekistan is one of the most emission intensive economies in the world. This is caused by an energy mix of fossil fuels, energy intensive industrial sector, ageing energy infrastructure and high energy subsidies. The country is moreover vulnerable to the effects of climate change, registering higher than the global average temperatures (1.8°C and 1.6°C above pre-industrial levels).

Agriculture is one of the priority sectors in Uzbekistan that currently generates a substantial share of the total Gross Domestic Product (GDP) - about 30 percent, as well as 27 percent employment. Exports include cotton, vegetables, fruit, juice, grain, livestock and milk. Consequently, food manufacturing is one of the fastest growing sectors, with an annual growth rate of 10-15%

1. Intensifying land use in the agricultural sector is one of the goals in Uzbekistan’s Development Strategy for 2017-2021. In addition, water stress remains high in the sector, with a significant part remaining under state control.

2. This puts even more pressure on water use for the

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1. https://legacy.export.gov/article?series=a0pt00000009Pa7AAG&type=Country_Commercial__key
agricultural sector that is its largest consumer. All these factors emphasize the need to carefully strike a balance between optimization of resource usage and environmental sustainability in the agri-food sector.

The agri-food processing sector is mostly represented by micro, small and medium enterprises (MSMEs) that play a vital role in providing employment opportunities and contributing to the country’s manufacturing and economic growth. As per World Bank, their share of industrial output increased from 12.9% in 2000 to 45.3% in 2016. Transitioning to more resource efficient technologies is core to ensure sustainability, increase production and contribute to their competitiveness in regional and international markets. Resource efficiency in priority sectors is one of the aspects that can significantly contribute to green economic growth when implemented properly. The current policy brief addresses resource efficiency in agri-food processing, taking into account the current reforms that have been initiated in the sector.

Current status of SCP Regulation

The institutional reforms that have occurred in recent years has facilitated an improved coordination among ministries responsible for infrastructure and environment. The Action Strategy on Five Priority Directions for the Development of the Republic of Uzbekistan 2017-2021 sets greater openness to trade, economic diversification, and moving up the value chains towards high-tech industries among the core goals.

Energy efficiency has been addressed in a number of official documents and strategies. The Ministry of Energy of the Republic of Uzbekistan is the main governmental body addressing this issue. The Concept Note for ensuring electricity supply in Uzbekistan in 2020-2030 has been developed and approved.

According to OECD, the regional and global value chains (RGVCs) in which Uzbekistan takes part are mostly commodity-type intermediate goods such as base gold, fuels and cotton, with the export share being 27% and import 53% (UNESCAP, 2015). One of the goals of the Action Strategy on Five Priority Directions for the Development of the Republic of Uzbekistan 2017-2021 (Development Strategy for 2017-2021) is to increase the country’s participation in RGVCs. This is planned to be achieved through the promotion of high-tech industries, primarily for the production of finished products with high added value (see section 9.3 of the Strategy).

Recently a draft of a presidential decree was published, outlining the strategy for Uzbekistan’s transition to a green economy. The main area of the strategy focuses on sustainable economic progress, which contributes to social development, reduction of greenhouse gas (GHG) emissions, climate and environmental sustainability by integrating green economy principles into structural reforms. The agri-food processing sector is central to the implementation of the strategy.

In addition, several measures aim to enhance private sector development. These include:

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[1]https://www.oecd-ilibrary.org/sites/5fd38a3d-en/index.html?itemId=/content/component/5fd38a3d-en
[3]https://www.oecd-ilibrary.org/sites/5fd38a3d-en/index.html?itemId=/content/component/5fd38a3d-en
• Improving access to loans and establishing a friendly investment climate;
• Adoption of new tax code;
• Reforming land use and ownership rights in industry, services and agriculture;
• Providing state support (export risk reduction, certification, diversification etc.) for export-oriented businesses;
• Restructuring state-owned enterprises (SOEs), improving budget transparency and financial reporting requirements;
• Re-designing state-investment programmes;
• Designing new legislation on improvements to the law on state procurement with regard to MSMEs and public-private partnerships;
• Improving economic cooperation with neighbouring countries6.

Among the conducted reforms are abolishment of export controls, price limits and licenses, simplification of clearance procedures and removal of prepayment requirements. While undoubtedly these changes contribute to private sector development, Uzbekistan can increasingly benefit from a unified strategy and action plan that is tailored to specifically address resource efficiency among MSMEs.

SCP legal status

A number of legal acts, laws, resolutions and decrees support the transition to SCP. The Law of the Republic of Uzbekistan No. ZRU-539 05.21.20 “On the use of renewable energy sources” provides benefits and preferences in the field of the use of renewable energy sources, including exemption from payment of all taxes (5 year period) and property and land tax for installations of renewable energy sources (10 year period)7.

According to the Resolution of the President of the Republic of Uzbekistan No. PP-4422 issued in 2019, the following measures will be taken:
• Implementation of an energy management system in accordance with the requirements of the international ISO 50001 standard;
• Covering interest expenses of individuals and legal entities on their loans from commercial banks for the purchase of renewable energy technologies, energy-efficient gas burner devices and boilers, as well as other energy-efficient equipment expenses8.

The Resolution of the President of the Republic of Uzbekistan No. PP-4477 of April 10, 2019 seeks to implement the following:
• Improving energy efficiency of the economy and the rational consumption of natural resources through technological modernization and the development of financial mechanisms;
• Introducing of “green” criteria based on advanced international standards in priority areas of government investment and spending9.

The priority areas of the Green Economy Strategy 2019-2030 include10:

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7https://lex.uz/docs/4346835
8https://lex.uz/docs/4486127
9https://lex.uz/ru/docs/4539506
10https://lex.uz/docs/4744566
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- Improving the energy efficiency in the main sectors of the economy;
- Diversification of energy consumption and development of renewable energy sources;
- Adaptation and mitigation of climate change, increasing efficiency in the use of natural resources and preserving natural ecosystems;
- Development of financial and non-financial mechanisms to support green economy.

Its implementation requires cooperation of state authorities, local authorities, civil society institutions, international organizations as well as the private and the public sectors.

Important actors and programmes

A number of key national actors are relevant for SCP regulations. Among them are the Uzbek Ministries of Agriculture, Energy, Water Management, Innovative Development as well as the State Committee on Ecology and Environmental Protection. Each of these actors can play an important role in taking SCP measures forward. Furthermore, the Chamber of Commerce and Industries is responsible for creation of favorable conditions for the further development of entrepreneurship, while the Council of Farmers provides full assistance to farmers of Uzbekistan. Coordination of projects and programmes in the Aral Sea Basin is the responsibility of The Agency for the Management of Project Implementation of the Aral Sea Basin and Global Environment Facility (GEF). This is the agency under the International Fund for saving the Aral Sea (IFAS).

The World Bank project “Energy Efficiency Facility for Industrial Enterprises” (2010-2023) aims at establishing a credit line to participating banks as one of the two major components. To achieve this, the Asaka, Uzpromstroy, and Hamkor Banks will sign sub-credit agreements (worth USD 8 million) to lend to industrial enterprises to carry out energy efficiency investments. In addition, the Agriculture Modernization Project (with a value of USD 610 million, approved by the World Bank in March 2020) is aimed at modernization of institutions and technologies. Local agri-businesses will receive support for upgrading their technologies, long-term financing, improving logistics and developing capacity. Another upcoming project by the World Bank, approved in April 2020 is “Supplementary Development Policy Financing: Sustaining Market Reforms in Uzbekistan”.

Green Economy Financing Facility (GEFF) in Uzbekistan provides finance to MSMEs to increase their resource efficiency through investing in sustainable energy and resource efficient technologies. Under this, a total of USD 60 million has been allocated. The participating local financial institutions, including banks, microfinance and leasing companies, receive unsecured loans through European Bank for Reconstruction and Development (EBRD) for lending to private borrowers. Small projects can receive up to USD 300,000 in credits to invest into equipment and materials while large projects that meet the eligibility criteria are entitled to a maximum of USD 1 million.

The Green Climate Fund (GCF) Readiness Programme was launched in 2016 in Uzbekistan. It focuses on awareness raising and capacity development for climate finance options, including GCF. The goal is to provide support to the Government of Uzbekistan in accessing, managing

10https://lex.uz/docs/453950684542805
and monitoring finance provided through GCF. The National Designated Authority is the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan.

In Uzbekistan, MSME finance is delivered by two types of financial institutions – 28 commercial banks (including state-owned the specialized Mikrocredit bank) and 37 microcredit organizations. At the same time, foreign investment and external assistance programs play a major role in SME finance accessibility through providing credit lines to MSMEs. Among them are International Financial Institutions (IFIs) such as Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), the World Bank (WB), the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and KfW (German bank) and the International Development Association (IDA).

Problem Analysis

Uzbekistan’s government has shown ambitions towards “greening” the process of economic recovery in order to achieve sustainable economic growth. This is a clear signal that the introduction of SCP measures at the industry level is a timely initiative\(^\text{11}\). In practice, however, challenges regarding the implementation of SCP in MSMEs remain, including policy and legislative obstacles, MSMEs’ capacity constraints, MSMEs’ difficulties in accessing green finance and general awareness issues.

While policies in Uzbekistan increasingly focus on energy efficiency issues, there is no explicit strategy that incorporates SCP measures and addresses MSME development. As mentioned above, the need for energy efficiency has been recognized by many strategy papers and is reflected in decrees, laws and resolutions. These have also outlined specific action and a range of policy measures such as tax exemption, easing up export regulations, energy management system implementation, and creation of technical and financial incentives. The absence of a national energy efficiency or SCP strategy, however, prevents the government from effectively implementing the proposed actions. Only a comprehensive strategy tackling existing institutional, informational, technical, financial, and market barriers all at once can significantly improve SCP implementation. In addition, the formulation of such a policy would ensure that the government builds an SCP framework that is sustainable and incorporated into Uzbekistan’s law.

The current sector-based planning practice does not allow for complex, cross-sectoral initiatives. Different sectors continue to compete with one another; moreover, Ministry of Finance is not involved in thematic planning activities\(^\text{12}\).

Implementation is yet another challenge now, especially given the socio-economic constraints in the post COVID-19 world. Limited financial resources in government and administrative institutions, possible shifts in economic priorities, early stage of liberalization of economy and a domination by government owned enterprises are other barriers to effective policy implementation.

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\(^{11}\)https://www.ifc.org/wps/wcm/connect/bac596d6-322f4e78-9368-bd3bf32c18ae/UZB+CP5D+Launch+Presentation_English.pdf?MOD=AJPERES

\(^{12}\)https://carececo.org/publications/nexus/Policy_Brief_1_Why_Nexus_ENG.pdf
On a positive note, promotion of the agriculture sector has been set as a priority area by the government of Uzbekistan, creating momentum for establishing and implementing a sound strategy on SCP in agri-food production and processing industry.

**Energy and resource efficiency** is among the four development deficits for Uzbekistan, the others being employment, enterprises and export. In order to capitalize on new opportunities such as foreign investment programs or digital economy, it is important to close these deficits. To date, Uzbekistan’s energy consumption, water usage and CO₂ emissions per unit GDP are among the highest in the world. To address these issues, energy subsidies should be removed and inefficiencies in the chemicals and petrochemicals sectors should be dealt with.

**Compromised export competitiveness.** As a double landlocked country, Uzbekistan faces challenges to access global markets. This is exacerbated by poor business environment and outdated technologies. Given the new reforms, there is a window of opportunity to boost trade through building value chains, upgrading to efficient technologies and creating a better business environment. This will allow Uzbek goods and services to more easily reach and serve larger markets in Western Europe and East Asia.

**Medium-sized sector growth.** Agricultural and service sectors are dominated by state-owned enterprises (SOEs). Four out of five workers are employed in these sectors, similar to the share of these sectors in the GDP. One in three workers works in SOEs and one in three is self-employed. Such domination by underperforming SOEs and small-scale companies results in a very small share for medium-sized fast-growing companies.

**Access to finance.** There is limited capacity of the banking sector for financial intermediation. State-directed lending (mostly to SOEs), underdeveloped financial services and capital markets, as well as limited transparency and competition limit the access to finance for private institutions. In addition, high costs of bank credits, combined with lack of MSME financing expertise among state-owned banks further hinder MSME access to cleantech finance. Accessible financing options have to meet the needs of MSMEs, while MSME capacities have to develop in order to screen and access them.

**MSME’s technical capacities.** The MSMEs in Uzbekistan lack technological know-how with regard to purchasing, installing and maintaining technologies on-site. These technical constraints are typically connected with a high level of uncertainty about how SCP technologies might work in their respective settings. In addition, lack of financial literacy among MSMEs to manage businesses and prepare viable financial plans leads to increase in risks and costs; this consequentially limits the access to bank loans. Thus, the overall challenge regarding MSMEs’ technical capacity constraints is the limited availability of skilled workforce, both at managerial and at the operational level, that can provide knowledge on the introduction of SCP technologies and on the operation of respective technical facilities.

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13 https://www.brookings.edu/blog/future-development/2018/12/20/how-uzbekistan-is-transforming-into-an-open-economy/

14 Ibid.

15 Ibid.


18 Ibid.
Recommendations

Based on this problem analysis, the following points have been identified to promote SCP among MSMEs in Uzbekistan's agri-food processing sector:

- Raise awareness for MSMEs’ SCP challenges among policy stakeholders to highlight the need for tailor-made policy formulation and implementation;
- Establish cross-sectoral cooperation mechanism to explore and exploit synergies, and to identify and mitigate trade-offs among sectors for resource efficiency;
- Design and develop relevant industrial SCP related educational programmes to strengthen technical skills of new professionals and develop a consulting environment for MSMEs;
- Look for opportunities to introduce SCP initiatives into national programmes that are under development;
- Raise awareness on MSMEs’ cleantech implementation financial needs among lending institutions;
- Increase finance accessibility through boosting cooperation with state-owned banks, providing them with up to date data on market demand to stimulate more loans under better conditions;
- Align green investment programs with MSMEs’ financing needs;
- Provide incentives to encourage innovations in MSMEs for ensuring SCP measures;
- Diversify Green Finance keeping in view that most finance has been directed to the energy sector and making finance more accessible to other sectors would contribute to cross-sectoral approaches and stimulate MSME growth;
- Establish a private sector development strategy that will include formal partnership with local non-governmental organizations (NGOs), international donors and development organizations with an emphasis on SCP and financial opportunities;
- Stimulate value chain development, creating export competitiveness.

Disclaimer: This paper has been produced with the financial support of the European Union in the framework of the project “Resource Efficiency in Agri-food Production and Processing (REAP)”. Its contents are the sole responsibility of the authors and do not necessarily reflect the views of the European Union.

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