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Supporting Local Enterprises Through the Public Procurement System: Uzbekistan's Experience and Reforms

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Abstract: This article examines the theoretical and practical aspects of using public procurement as an instrument to support local manufacturers, promote domestic industrial cooperation, and expand access of locally produced goods to the public procurement market. It analyzes the operation of Uzbekistan's Electronic Cooperation Portal - new.cooperation.uz the mechanism requiring public customers to give prior consideration to products offered by local manufacturers, price preferences, guaranteed procurement and offtake agreements, incentives linked to localization, and recent regulatory reforms aimed at integrating industrial cooperation with public procurement. Empirically, the study draws on portal-based statistics showing that 56,580 contracts with a total value of UZS 8.826 trillion were concluded in January–July 2024. The study substantiates the need to transform support for local enterprises in public procurement from a predominantly price-preference model into an outcome-oriented local procurement policy based on local value added, competitiveness, product quality, contract performance, and import-substitution effects. The author proposes an "Import Substitution Opportunity Map," a digital development profile for local manufacturers, a graduated guaranteed-procurement mechanism, and a Local Procurement Efficiency Index (MHSEI). These instruments are intended to shift policy emphasis from short-term protection toward the systematic development of competitive domestic suppliers.

Keywords: public procurement, local manufacturer, industrial cooperation, Electronic Cooperation Portal, new.cooperation.uz, localization, price preference, offtake agreement, guaranteed procurement, import substitution, value added, small and medium-sized enterprises.

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1. Introduction

In modern economies, public procurement is no longer merely a mechanism through which government bodies and organizations satisfy their demand for goods, works, and services. It is increasingly becoming a strategic economic instrument for shaping domestic demand, developing local production, expanding market access for small and medium-sized enterprises, and creating new value chains across industrial sectors [1], [2].

As a large and relatively stable buyer, the state is capable of generating long-term demand for specific goods and services. Consequently, opening part of public demand to local manufacturers can create economic incentives for enterprises to utilize production capacity more efficiently, master new product lines, and undertake investment.

In Uzbekistan, the institutional foundations of this approach have been developed progressively. The Electronic Cooperation Portal was established as a specialized electronic marketplace designed to strengthen industrial cooperation among local manufacturers, expand industrial output, and involve small businesses in industrial activities. The portal incorporates a product catalogue, a register of manufacturers, and procurement by corporate customers [3], [4], [5].

Since October 2025, public customers have been required to examine, as a first priority, the possibility of procuring planned goods, works, and services from local manufacturers registered on new.cooperation.uz. Only where the required product is unavailable on the portal may the customer proceed to other electronic public procurement systems on the basis of a portal confirmation [6].

In March 2026, this mechanism was expanded further: budgetary and corporate customers were required to examine, as a first priority, the possibility of purchasing goods, works, and services - including audit and tax advisory services - from local manufacturers represented on new.cooperation.uz or in the Manufacturers' Ecosystem [7].

At the same time, the policy of supporting local manufacturers through public procurement should not undermine competition, generate unjustifiably high prices for public customers, or create permanent dependence of domestic enterprises on preferential treatment.

Accordingly, the purpose of this study is to assess the existing mechanisms for supporting local enterprises through public procurement in Uzbekistan on the basis of Electronic Cooperation Portal data and recent reforms, and to develop scientific and practical proposals for redirecting this system toward stronger competitiveness of domestic products and higher local value added.

The literature examines strategic public procurement as a tool of industrial policy, supplier development, innovation, and access for smaller enterprises. The OECD describes procurement as a strategic policy instrument across the full procurement cycle [2], while the World Bank compares procurement processes and complaint review systems as elements of the regulatory environment [8].

Kattel and Lember examine public procurement as an industrial-policy instrument for developing countries, arguing that public demand can support technological upgrading and new industrial capabilities [9]. Uyarra, Zabala-Iturriagoitia, Flanagan, and Magro likewise explain how procurement can shape future demand and encourage innovation and economic diversification [10]. For Uzbekistan, these perspectives suggest that the Electronic Cooperation Portal could disclose future demand as well as list goods already available to purchase.

The design of local-content support affects its results. Kalyuzhnova and co-authors show that outcomes depend on the structure of procurement instruments and the capabilities of domestic producers [11]. Accordingly, an assessment of local suppliers should consider value added, technological capacity, employment, and the ability to compete beyond a period of preferential treatment.

McCrudden discusses the relationship between domestic policy objectives and international procurement rules [12]. The WTO Agreement on Government Procurement specifies the rules applicable to covered procurement by its parties [13]. These sources underscore the need to assess domestic preferences in light of applicable commitments and competition, without assuming that the agreement automatically governs all procurement in Uzbekistan.

Existing studies therefore establish the industrial potential and policy constraints of public procurement, but they do not measure whether the combined Uzbek mechanisms generate durable domestic supplier capabilities. This study evaluates access, preferences, guaranteed demand, local value added, and competition together, using the available portal statistics and policy documents.

2. Materials and Methods

The study employs systemic analysis, dynamic analysis, institutional analysis, comparative analysis, structural grouping, and scientific abstraction.

The empirical base consists of statistical indicators derived from the Electronic Cooperation Portal - new.cooperation.uz -official reports of public customers, and regulatory legal acts of the Republic of Uzbekistan governing public procurement and industrial cooperation.

The analysis of portal data for January–July 2024 uses the following indicators:

1. Number of contracts concluded;
2. Total value of contracts;
3. Structure of transactions by categories of goods and services.

The statistical data were verified through a 2024 academic publication that identifies new.cooperation.uz as the underlying source.

The institutional effectiveness of supporting local enterprises through public procurement was analyzed using the following conceptual relationship:

$$LP = f(A; P; G; V; C),$$

where:

LP - effectiveness of support for local manufacturers;

A - access to the public procurement market;

P - price and other preferences;

G - guaranteed procurement mechanisms;

V - level of local value added;

C - level of competition.

This framework makes it possible to assess support policy not merely by the share of local products in public procurement, but by its contribution to expanding domestic production capabilities.

3. Result

3.1 Role of the Electronic Cooperation Portal in Supporting Local Manufacturers

The Electronic Cooperation Portal has developed into a specialized digital infrastructure linking industrial cooperation and public procurement in Uzbekistan.

Under the current framework, the portal is integrated with the special information portal for public procurement and provides information on manufacturers and their products, electronic trade fairs, and procurement procedures.

A significant feature of the portal is its price-request mechanism. Once a public customer selects a product, the portal automatically sends a request for quotations to the supplier that posted the relevant offer and to other suppliers offering comparable products. Suppliers may submit a lower price within 48 hours, after which the portal automatically compares the offers [14].

This mechanism is intended to combine support for domestically produced goods with price competition among local manufacturers.

The scale of transactions conducted through the portal also demonstrates its economic significance.

Table 1. Selected Statistical Indicators of the Electronic Cooperation Portal

Indicator	January–July 2024
Number of contracts concluded	56,580
Total contract value	UZS 8.826 trillion
Share of electrical and electrotechnical products	26%
Share of services	16%
Equipment, mechanical devices and components	13%
Transport vehicles and spare parts	9%
Other goods and services	36%

Source: statistics published on the basis of new.cooperation.uz data.

In January–July 2024 alone, approximately 56.6 thousand contracts were concluded through the portal, with a total value exceeding UZS 8.8 trillion. This indicates the platform's substantial role in connecting public and corporate demand with the domestic market for industrial products.

The fact that electrical and electrotechnical products accounted for the largest share of transactions, at 26 percent, suggests that public and corporate demand can serve as a significant market driver for domestic production in selected industrial sectors.

The practical significance of the portal is also visible in the procurement activity of individual corporate customers. According to the official year-end data of National Electric Grid of Uzbekistan JSC for 2025, 381 contracts worth UZS 146.4 billion were concluded with local manufacturers registered on new.cooperation.uz.

3.2 Institutional Development of Mechanisms Supporting Local Manufacturers

In Uzbekistan, the system of supporting domestic production through public procurement is increasingly taking the form of several interrelated mechanisms.

First mechanism – prior examination of the domestic market. Under changes introduced in 2025, a public customer is required first to examine the possibility of purchasing required goods, works, and services from local manufacturers represented on new.cooperation.uz. Only if the relevant product is unavailable may the customer proceed to other electronic procurement systems [15], [6].

From March 2026, this mechanism was expanded to cover not only new.cooperation.uz but also the Manufacturers' Ecosystem. In practice, this rule establishes the principle of "identify the domestic offer first - consider import alternatives afterwards."

Second mechanism — price preferences. Under the 2025 procedure, where foreign suppliers and at least two local manufacturers participated in a tender or best-proposal selection procedure, local manufacturers were granted a 15 percent price preference.

Presidential Decree No. PF-17 of 4 February 2026 transformed this mechanism into a graduated system linked to the degree of domestic competition. From 1 April 2026, where local manufacturers compete with foreign suppliers in procurement by budgetary customers, the following price preferences apply relative to the lowest-priced imported goods: [7].

- a. 15 percent where three or more local manufacturers participate;
- b. 12 percent where two local manufacturers participate;
- c. 8 percent where one local manufacturer participates.
- d. Accordingly, the percentage of the preference is now differentiated by the number of local competitors.

A key feature of this reform is that the magnitude of the preference is directly linked to the level of competition among domestic producers.

Table 2. New Mechanisms for Supporting Local Manufacturers in Public Procurement

Mechanism	Content	Expected economic outcome
Prior examination of the domestic market	new.cooperation.uz / Manufacturers' Ecosystem is analyzed first	Market-access opportunities for local enterprises
8–12–15% price preference	Linked to the number of participating local manufacturers	Greater ability to compete with imported goods
Guaranteed procurement	Demand guarantee for a newly developed product	Reduced investment risk
Offtake agreement	Advance procurement of products with a high localization level	Incentive for new domestic production
Incorporating value added into the rating	Additional rating points for local value added	Real rather than formal localization
Division into lots	Lots suitable for small and medium-sized enterprises	Expanded SME participation

3.3 Reforms of 2026: From Preference-Based Support to Industrial Development

Presidential Decree No. PF-17 of 4 February 2026 strengthened the institutional linkage between domestic production and public procurement. The Decree established the Agency for Industrial Cooperation and Public Procurement and transferred to it the relevant functions, responsibilities, and powers in the field of public procurement [7].

This institutional change is significant because coordinating public procurement policy and industrial cooperation policy within a single institutional framework enhances the ability to use public demand strategically to develop domestic production.

From 1 July 2026, the Agency was tasked with analyzing national and regional markets and preparing, by sector, a list of competitive products recommended for localization in order to expand value chains within the national economy. The framework also provides for guaranteed procurement contracts with entrepreneurs that successfully master the production of such products.

This mechanism establishes a fundamentally new policy sequence in public procurement: import statistics + public procurement demand → selection of products for localization → development of domestic production → guaranteed procurement.

In addition, the share of local value added in manufactured products was introduced as an indicator awarding additional points in the sustainability rating of business entities.

This represents an important shift from the formal status of a “local manufacturer” toward assessment of the actual value added created by an enterprise within the national economy.

3.4 Importance of Guaranteed Procurement and Offtake Mechanisms

One of the principal risks faced by a local manufacturer when developing a new product is insufficient demand after production has been launched. Guaranteed procurement and offtake agreements therefore constitute important financial instruments of industrial policy.

From 1 January 2026, for procurements with a contract value of up to 250 times the Base Calculation Amount (BCA), it became possible to conclude a direct guaranteed-procurement — offtake — agreement for a period of up to three years with a local

manufacturer located in the same region as the public customer, provided that the localization level of the product exceeds 30 percent [16].

This mechanism can generate the following development sequence: guaranteed demand → reduced investment risk → creation of production capacity → lower unit production costs → stronger competitiveness of domestic products.

4. Discussion

4.1 Public Procurement: Protectionism or an Instrument of Industrial Policy?

Price preferences for local manufacturers can strengthen their ability to compete with imported products in the short term. However, a preference alone does not improve a firm's technological efficiency.

If a local enterprise remains in the market for an extended period solely because of a state-granted price advantage, its economic incentive to improve competitiveness may weaken.

The objective of support should therefore not be to "purchase a domestic product under any circumstances," but to "enable the domestic product to become competitive with imported alternatives within a defined period." This approach is consistent with the concept advanced by Kattel and Lember, who interpret public procurement as an instrument of industrial and innovation development [9].

4.2 From "Local Manufacturer" to "Local Value Added"

When supporting domestic production, the mere fact that an enterprise is registered in Uzbekistan should not be treated as a sufficient criterion. What matters is the extent to which the value embodied in its product is actually created within the country.

From this perspective, the inclusion of the local-value-added share in the sustainability rating of business entities under Presidential Decree No. PF-17 constitutes an important institutional change. In our view, the next stage of reform should link selected public-procurement incentives for local enterprises more directly to the level of local value added.

4.3 Access of Small and Medium-Sized Enterprises to Public Procurement

Large public contracts may create financial, technical, and qualification-related barriers to entry for smaller firms. Presidential Decree No. PF-17 provides for the introduction, from 1 January 2027, of a practice whereby procurement objects are divided into separate lots by technological chain, functional stage, and type of work. The objective is to expand participation of small and medium-sized enterprises in public procurement. This mechanism is fundamentally different from the artificial fragmentation of large contracts: its purpose is not to circumvent procurement rules, but to open technologically independent lots to SMEs.

4.4 Scientific Novelty and Practical Proposals

In our view, the next stage of the system for supporting local enterprises through public procurement should move from a preference-based model toward an outcome-oriented developmental procurement model.

1. Introduce an "Import Substitution Opportunity Map." Procurement plans of budgetary and corporate customers, import contracts, customs data, and information on domestic production capabilities available on new.cooperation.uz should be integrated into a single analytical database. For each product, the system should automatically analyze: annual public demand + import volume + import price + number of local manufacturers + available production capacity. This would identify product groups in which localization is likely to generate the greatest economic benefit.

2. Introduce a "Local Manufacturer Development Profile" on new.cooperation.uz. The current portal model focuses primarily on the presence of a product and a manufacturer.

In our view, a dynamic profile should be generated for each manufacturer, including:

- a. Level of local value added;

- b. Number of public procurement contracts;
- c. Share of contracts performed on time;
- d. Product-quality complaints;
- e. Production capacity;
- f. Certifications;
- g. Newly developed products;
- h. Export volume;
- i. Technological modernization.

This would enable a public customer to assess not merely whether a supplier is “local,” but whether it is a reliable and developing domestic manufacturer.

3. Link price preferences to performance. The current 8–12–15 percent framework differentiates preferences according to the number of local participants. At the next stage, enterprises benefiting from such preferences should be monitored over a two- to three-year period with respect to production costs → product quality → local value added → production volume → exports. If an enterprise fails to improve competitiveness despite public support, the support mechanism should be reassessed. In this way, a preference would function not as a permanent privilege but as an investment incentive supporting transition toward competitiveness.

4. Transform guaranteed procurement into a three-stage mechanism. Guaranteed-procurement arrangements should be structured as follows:

- Stage I — development and localization of the product;
- Stage II — guaranteed minimum demand through public procurement;
- Stage III — transition to the open competitive market.

At the first stage, the producer develops the technology and product. At the second stage, investment risk is reduced through guaranteed procurement of a defined volume. At the third stage, the enterprise gradually reduces its dependence on state-backed demand and participates in ordinary competitive procurement. This model would limit the long-term dependence of local enterprises on guaranteed public demand.

5. Introduce a “Procurement Lot Constructor” for small and medium-sized enterprises. The lot-division mechanism planned from 2027 should be supported by automated analysis. The electronic system should assess whether a large procurement can be divided into independent SME-accessible lots according to product type + technological stage + region + delivery period + type of work. This would prevent artificial fragmentation while opening technologically independent components to smaller businesses.

6. Introduce a Local Procurement Efficiency Index (MHSE). Assessing support for local manufacturers solely by the value of contracts concluded with them is insufficient.

The following composite index is proposed:

$$MHSE = f(L; R; V; Q; I; E),$$

where:

- L - participation of local manufacturers in public procurement;
- R - competition among local manufacturers;
- V - level of local value added;
- Q - product quality and contract performance;
- I - import-substitution outcome;
- E - export potential of the supported enterprise.

The index would make it possible to assess the outcome of public procurement policy not by asking “how many domestic goods were purchased?” but rather “how much competitive domestic production was developed as a result of public procurement?” This changes the policy metric from procurement volume to capability-building outcomes.

5. Conclusion

The findings show that public procurement in Uzbekistan is increasingly becoming an important institutional mechanism for supporting local manufacturers and developing industrial cooperation.

The Electronic Cooperation Portal provides a single digital marketplace for domestic products, links the demand of public and corporate customers with local production capabilities, and facilitates cooperation among enterprises.

The conclusion of 56,580 contracts worth UZS 8.826 trillion through the portal in January–July 2024 demonstrates the substantial economic importance of this electronic marketplace for the domestic industrial-products market. The 26 percent share of electrical and electrotechnical products in portal transactions also indicates that public and corporate demand can have significant potential to stimulate domestic production in selected industries.

Recent reforms have also changed the qualitative design of instruments supporting local manufacturers. Requirements to examine domestic production opportunities first, graduated price preferences of 8–12–15 percent, guaranteed procurement and offtake agreements, incorporation of local value added into business ratings, and the division of procurement into separate lots for SMEs collectively create a legal basis for transforming this policy into a comprehensive instrument of industrial development.

At the same time, the long-term effectiveness of support for local manufacturers should not be measured solely by growth in the number or value of contracts concluded with them.

The proposed Import Substitution Opportunity Map, digital development profile for local manufacturers, performance-linked preferences, three-stage guaranteed-procurement mechanism, and Local Procurement Efficiency Index (MHSI) can help transform public procurement into a strategic economic institution that promotes higher-value-added production in Uzbekistan.

As a result, support for local enterprises through public procurement would go beyond retaining budgetary expenditure within the national economy. It could contribute to the creation of new production capacity, stronger private investment incentives, expansion of technological capabilities, creation of new jobs, and improved competitiveness of domestic firms in external markets. In policy terms, the reform trajectory should move from preference-based protection toward capability-building procurement, from formal localization toward measurable local value added, and from guaranteed demand toward sustainable market competitiveness.

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