THE WORLD BANK
Europe & Central Asia · Governance

INFRASTRUCTURE GOVERNANCE ASSESSMENT

UZBEKISTAN

Context

Despite recent market-oriented reforms by the Government of Uzbekistan since 2016, access to quality services remains limited, and significant infrastructure gaps persist. Reforms have focused on economic management, tax reduction, energy supply improvement, and reducing state control over agriculture and public sector transparency.

Uzbekistan faces substantial investment needs to maintain service quality, particularly in transport, water supply, and energy. Water access challenges persist, with less than half the population having access to clean drinking water. The country's strategic location for transit between China and Europe is hindered by infrastructure bottlenecks, and the road sector needs substantial maintenance investment. Energy inefficiencies cost the economy $1.5 billion annually.

The country's infrastructure requirements are estimated at around 10% of GDP annually until 2030. External financing covers most public investments due to limited fiscal space. Attracting private and foreign investment is a priority, with recent legal improvements.

The Government of Uzbekistan is preparing a second phase of reforms to enhance resource allocation efficiency, reduce state involvement in factor markets, and foster competition. It seeks to integrate the country into global markets without compromising efficiency.

Assessment Framework

In this context, the World Bank recently carried out an Infrastructure Governance (InfraGov) assessment in Uzbekistan, to identify governance bottlenecks and recommend steps to unlock sector potential. The assessment spans the project lifecycle, cross-cutting principles, and service delivery. Key dimensions include planning, efficiency, fiscal sustainability, and procurement, with climate change resilience and transparency principles. The sectoral focus in Uzbekistan is the digital and water and sanitation services sectors. The assessment highlights key governance challenges and offers practicable and actionable recommendations.

Summary of key challenges and recommendations

A solid legal framework and the institutional capacity to **plan, assess, prioritize, and select infrastructure projects** is crucial in ensuring a coordinated infrastructure investment program

CHALLENGES

- Formal criteria for inclusion in the investment program do not necessarily ensure alignment with the country's high-level development goals.
- Project prioritization is influenced by the availability of funding / financing opportunities.
- The lack of coordination of public infrastructure funded through different funding streams does not support proper scrutiny of projects and risks duplication.
- The private sector's involvement in public infrastructure development is disconnected from the government's broader investment planning and there is still an overreliance on unsolicited proposals and investors to drive the discussion of project needs/scope.

RECOMMENDATIONS

- Increase coordination between Ministry of Economy and Finance and Ministry of Investment, Industry, and Trade to avoid fragmentation among processes for different funding streams.
- Consider forming a public investment committee to prioritize projects.
- Introduce selection criteria and cost-benefit analysis methodologies for all public infrastructure projects.
- Plan public private partnerships (PPPs) strategically and ensure they are linked with the broader Public Investment Program facilitated by Ministry of Economy and Finance and Strategic Reforms Agency.
- The Public Private Partnership Department should require that PPP projects be prepared following the PPP framework.

Economic efficiency and 'value for money' over the infrastructure lifecycle should be important criteria in the choice of infrastructure investments

CHALLENGES

- The methodologies for applying quality assurance tools are not well-defined and there are limited tools to conduct prioritization for budget-funded projects with value for money considerations.
- Small-scale projects make up the largest portion of the PPP portfolio, raising questions about efficiency.

RECOMMENDATIONS

- Require feasibility studies for all projects and develop templates for line ministries.
- Amend the relevant investment program regulations to require forecasts on the lifecycle/total cost of ownership of the assets created by projects.

Fiscal affordability and fiscal sustainability of infrastructure projects should be assessed and managed throughout their lifecycle

CHALLENGES

- The selection process for public infrastructure is not fully aligned with the budget cycle.
- There is a notable absence of a policy or regulation, institutional structure, and methodology for conducting fiscal analysis.
- The current PPP contract management framework is not developed enough to proactively manage the existing portfolio's size.

RECOMMENDATIONS

- Establish an effective fiscal risk assessment and monitoring framework for PPPs, along with a dedicated unit to oversee these functions.
- Strengthen the PPP contract management framework by: developing capacity; creating linkages between contract management in line ministries and fiscal risk monitoring and reporting in the Ministry of Economy and Finance; and establishing an information management system.

Public procurement for infrastructure projects should be efficient, transparent, and support competition

CHALLENGES

- Some elements in the public procurement framework implementation hamper efficiency and increase the risks of corruption.

RECOMMENDATIONS

- Prioritize competitive tendering of PPPs over their bilateral negotiations.
- Complete and roll out the centralized electronic platform for public procurement that consolidates information on all stages of the procurement process into one database.

Incorporating **environmental and climate-change** considerations is important to ensure sustainable and resilient public infrastructure

CHALLENGES

- There is a lack of clarity on both the process and the required documents needed for an Environmental Impact Assessment to take place.
- Assessment tools related to climate resilience and consolidation of assessment information present another potential area for improvement for the Ministry of Natural Resources.
- Climate-change considerations are not sufficiently incorporated into the project appraisal and selection processes.

RECOMMENDATIONS

- Require sector-specific environmental criteria to be met by high- and medium-risk projects.
- Clarify the review criteria/methodology used by Ministry of Natural Resources in analyzing documents submitted for Environmental Impact Assessment.
- Introduce better Geographic Information System tools and upskill use within the Ministry of Natural Resources .
- Set clear and transparent guidelines and requirements for a climate-informed project appraisal and selection.

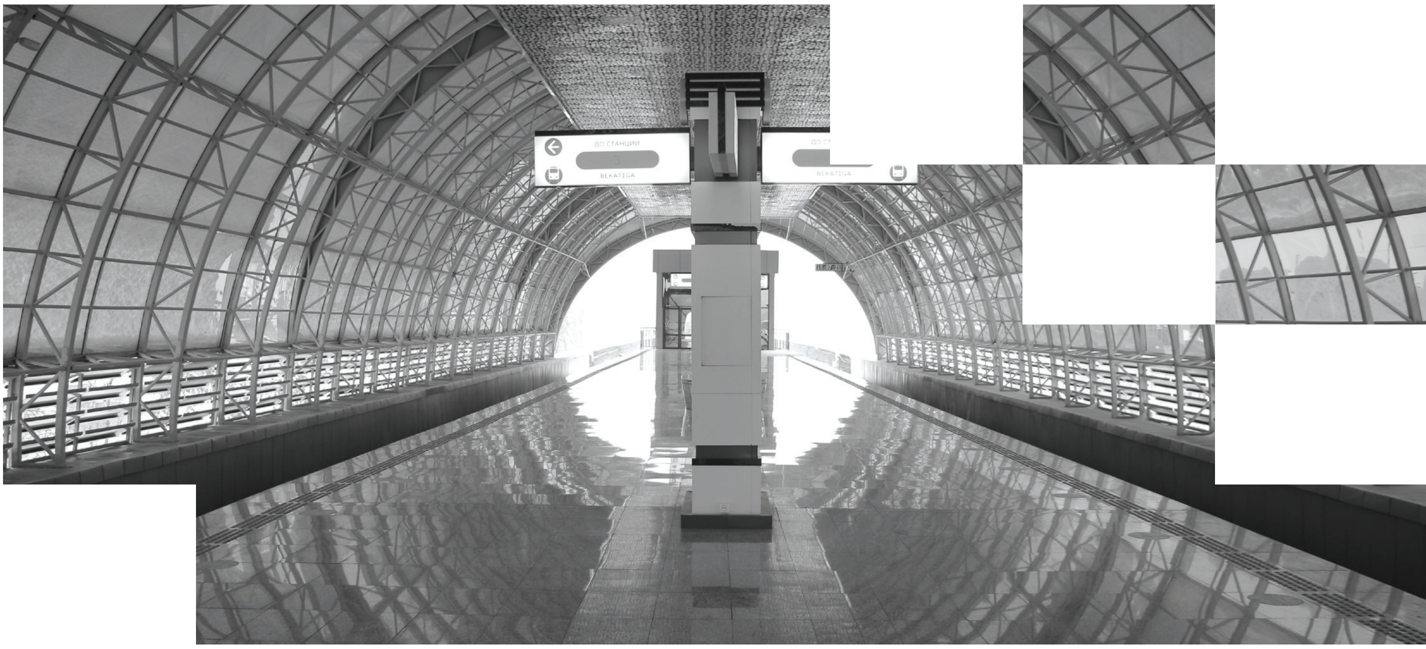
Strengthening **budget accountability and transparency** can promote better infrastructure strategies and projects

CHALLENGES

- While work to create a consolidated information system to monitor the implementation of the investment program is underway, the lack of public disclosure of this system limits transparency.
- The lack of a project tracking information system is leading to limited publicly available information on the pipeline of projects, inhibiting investors from identifying upcoming opportunities.

RECOMMENDATIONS

- Enhance the digitalization agenda through increased coordination and data sharing.
- Improve investment project transparency by publishing online a consolidated pipeline of current and future projects detailing project description, timeline, value, funding source, status, and procurement type.



The governance of State Owned Enterprises (SOEs) should be **transparent and efficient, with strong corporate governance** mechanisms in place

CHALLENGES

- Individual SOE budget documents are not publicly available. SOE debt is treated as state debt, which could create additional pressure on public finances in the future.
- Corporate governance of SOEs in Uzbekistan remains weak.
- There is no consolidated SOE database, which hinders accountability and risk management.
- While the Government of Uzbekistan improved the regulatory framework by introducing the Law on State Property Management, it still does not address public service obligations.
- While the Government of Uzbekistan has undertaken corporate governance reforms, there is limited information to assess their progress.

RECOMMENDATIONS

- Accelerate the SOE reforms. The announced targets related to reducing the number of enterprises with state participation, as well as accelerating the process with initial public offerings and secondary sales of shares in SOEs require urgent attention.
- Regularly publish information on SOE performance, debt obligations, and contingent liabilities.
- Improve quality and timely availability of aggregate reporting on the SOE portfolio.
- Ensure a sound system of performance monitoring is established at the SOE level, using a top-down approach.

Good governance and strong competition in the **Water and Sanitation (WSS) and Digital** sectors can support the delivery of high-quality infrastructure services

CHALLENGES

- The regulatory framework still does not address public service obligations.
- The WSS sector's financial state inadvertently impacts the professional level of its employees.
- The WSS sector faces substantial financial challenges because of declining revenue collection and low tariff rates.
- Uzbektelecom is not subject to regulation as a monopoly due to the current legal definition.
- There is a lack of transparency on the extent of state support for digital infrastructure which makes potential cross-subsidization hard to monitor.
- There is a fragmentation of roles within the planning and provision of digital infrastructure.

RECOMMENDATIONS

- Achieve full cost recovery through gradual tariff increases by implementing a more dynamic tariff system, which adjusts to consumption levels or customer categories.
- Improve the invoicing and payment collection system, as well as expand metering.
- Reduce non-revenue water losses through developing and implementing targeted programs, strengthening utility staff's technical and managerial skills through training programs and forming partnerships with the private sector.
- Develop a long-term strategy for the WSS sector, spanning 10-20 years.
- Enhancing the clarity and predictability of existing rules together with increased transparency on the state financial support received by sector SOEs would strengthen the incentives to expand investments of all the operators. This would be the case especially in higher cost geographic areas, thus helping the country to accelerate the achievement of its rural connectivity targets.
- Alleviating key infrastructural bottlenecks (like those found in international connectivity) would reduce marginal costs for all operators ultimately lowering retail prices and enhancing the affordability of digital services.
- In the medium term, the Government could consider reducing its overall involvement in the direct provision of digital infrastructure and services and expand the opportunities for private sector participation, possibly also through privatization of specific assets. To succeed, such an ambitious reform requires the State to strengthen its regulatory functions.

For more information, please visit

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