



CENTRAL ASIA

UZBEKISTAN INFRASTRUCTURE GOVERNANCE ASSESSMENT

Report No: AUS0003362

December 1, 2023



THE WORLD BANK
Europe & Central Asia • Governance

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Acknowledgments

This report was created under the auspices of the World Bank Group Advisory Services Project *Central Asia Infrastructure Governance Assessments* (P177090). The report was prepared by Daniela V. Felcman (Senior Governance Specialist and Task Team Leader), Elena Timusheva (Public Private Partnership Specialist), Tessa Cullen (Governance Specialist – ETC), Teresa Lazzaroni Andina (Governance Specialist – STC), Anna Bilous (Governance Specialist – STC), Dmitry Lesnichiy (Private Finance Specialist – STC), and Ronald Myers (Governance Expert). The report received substantial comments and/or contributions from Andrei Busuioc (Senior Financial Management Specialist), Elbek Yusupov (Senior Financial Management Specialist), Shavkat Rakhmatullaev (Water Resources Management Specialist), Maksat Korooluev (Private Sector Development Specialist – STC), Sandra V. Sargent (Senior Digital Development Specialist), Andrea Barone (Senior Economist), Sanjar Saidkhodjaev (Digital Development Specialist), Mikhail Bunchuk (Senior Digital Development Specialist), and Odete Duarte Muximpua (Senior Water Supply and Sanitation Specialist). The report benefitted from peer reviewing by Jonas Arp Fallov (Senior Public Sector Specialist) and Mikel Tejada Ibanez (Public Private Partnerships Specialist). Luiza Alimova (Program Assistant) provided valuable operational and logistical support throughout the missions.

The team would also like to thank Tatiana Proskuryakova (Country Director), Marco Mantovanelli (Country Manager), Daniel Boyce (Practice Manager), David Knight (Lead Country Economist and EFI Program Lead), Antonio Nunez (Senior Transport Specialist and Infrastructure Program Leader), and Rakhymzhan Assangazyev (Senior Operations Officer) for their overall advice, guidance, and support throughout the development of this diagnostic exercise and the engagement with the client.

The team would like to express its gratitude for cooperation to government officials of the Ministry of Economy and Finance and the Strategic Reforms Agency. The team thanks the representatives of all the other public institutions and private sector entities interviewed for the purpose of this diagnostic exercise.

Finally, the team would like to thank the Japan International Cooperation Agency as the sole donor of the Quality Investment in Infrastructure (QII) Trust Fund and the ECA PFM Trust Fund for supporting the development of this report, as well as the Trust Fund Managers Jane Jamieson (Program Manager) and Roberto Panzardi (Senior Public Sector Specialist).

Frequently used Abbreviations and Acronyms

ASR	Agency for Strategic Reforms
CPCPC	Competition Promotion and Consumer Protection Committee
EBF	Extra-Budgetary Funds
EIA	Environmental Impact Assessment
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
FDI	Foreign Direct Investment
GoU	Government of Uzbekistan
IFI	International Financial Institution
InfraGov	Infrastructure Governance
InfraSAP	Infrastructure Sector Assessment Program
IPO	Initial Public Offering
IPSC	International Packet Switching Center
MDT	Ministry of Digital Technologies
MIFT	Ministry of Investment and Foreign Trade
MIIT	Ministry of Investments, Industry, and Trade
MoCHU	Ministry of Construction, Housing, and Utilities
MoEEPCC	Ministry of Ecology, Environmental Protection and Climate Change
MoEF	Ministry of Economy and Finance
PIM	Public Investment Management
PPG	Public and Publicly Guaranteed
PPP	Public-Private Partnership
PPDA	PPP Development Agency
PSO	Public Sector Obligation
SAMA	State Asset Management Agency
SOE	State-Owned Enterprise
USP	Unsolicited Proposal
VfM	Value for Money
WSS	Water and Sanitation Services

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Executive Summary

Context

1. **Uzbekistan faces large infrastructure capacity constraints to maintain service performance.** Transport and water infrastructure has not kept pace with demographic and economic changes, and financing maintenance of existing assets has been insufficient. More than a quarter of the population does not have access to good quality drinking water, and while the country has the potential to become a main regional transit node, poor quality of transport services, logistical bottlenecks, and under-investment affects its extensive road and rail networks and undermines connectivity between China and Europe. Nearly 40 percent of the existing power generation infrastructure has exceeded its expected lifespan, leading to frequent power outages. Uzbekistan’s investment needs to close the infrastructure gaps are estimated to be around 10 percent of GDP in 2018-2030.¹ Most investment in infrastructure since 2017 has come from international financial institutions (IFIs) and bilateral creditors, and not from the private sector or the Government of Uzbekistan (GoU). In dollar terms the state budget and targeted funds’ investments have declined in recent years.

2. **Both market and institutional reforms have been focused on ensuring efficient resource allocation and crowding in of private financing for public infrastructure.** GoU’s role in controlling markets and owning productive assets has been reduced, while its role in ensuring robust competition, prudent regulation, and delivery of higher quality of social services has been enhanced. For the former, land and banking reforms have progressed, and the government plans to introduce debt limits for state-owned enterprises (SOEs) while also streamlining SOE ownership. Regarding the latter, GoU is moving forward to integrate the country into regional and global markets and is attempting to create a competitive business environment that incentivizes businesses to invest in Uzbekistan.² However, the country needs to focus its efforts to effectively translate government strategic priorities into investments and better services, by ensuring that investment prioritization is based on needs and not of funding availability, and that expanding investment flows do not come at the cost of efficiency and strategic coordination.

Objective and Assessment Framework

3. **This report outlines the infrastructure governance bottlenecks that impede both public investment performance and value for money and attraction of private sector participation.** It applies selected dimensions of the World Bank’s Infrastructure Governance Assessment Framework (InfraGov) and then maps out the concrete steps that GoU may take to fully realize the potential of the sectors’ opportunities. The report was generated following a benchmarking exercise, discussions with World Bank Country staff, a review of previous reports from the World Bank and other development partners on public investment management (PIM) and public financial management (PFM), and two in-person fact-finding missions to Uzbekistan that included a series of interviews/focus groups with government officials and private sector investors.

¹ OECD (2019), Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus: Hotspot Analysis and Needs Assessment, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/d1aa6ae9-en>.

² World Bank (2023), Uzbekistan—Public Expenditure Review.

4. **This assessment focuses upon key InfraGov dimensions across the project lifecycle, cross-cutting principles, and service delivery.** The chosen dimensions were prioritized together with the government and focus on the quality of the overarching PIM and public-private partnership concession frameworks and processes across the lifecycle of public infrastructure projects, as well as cross-cutting issues of data transparency and climate-change resilience. The assessment reveals barriers in managing public infrastructure projects financed by all sources. The project lifecycle dimensions covered in this assessment are (a) planning, preparation, and selection; (b) efficiency and value for money; (c) fiscal sustainability; and (d) procurement. Additionally, the principles of climate-change resilience and transparency are also incorporated into the analysis. Furthermore, SOE capacity in terms of service provision is analyzed, along with an analysis of the water supply and sanitation and digital sectors. The key governance challenges and the corresponding recommendations, timelines, priorities, and institutional actors identified in this report are highlighted at the end of this Executive Summary.

Project Lifecycle

5. **While infrastructure governance in Uzbekistan has undergone multiple reforms, the system for developing public infrastructure remains fragmented and varies depending on funding or financing source, and there are limited tools to ensure value for money and fiscal sustainability of investments.** The Ministry of Economy and Finance is responsible for selecting projects that are financed through the state budget. This de jure process is articulated (in principle) through a three-year rolling format based upon detailed multiyear sectoral and subnational development strategies, built upon the 2022-2026 Development Strategy of New Uzbekistan. However, in practice the public investment budget is still allocated annually and is not aligned with the multiyear planning framework, which can affect fiscal sustainability. Selection criteria are dependent on the sources of funding or financing, resulting in fragmentation in the decision-making process. A lack of coordination does not encourage proper scrutiny of projects, and duplication of projects can occur. There are formal criteria for inclusion of proposals in the investment program, but they do not necessarily ensure alignment with the country's high-level development goals. The introduction of better-quality assurance tools would increase the value for money of projects and overall prioritization for budget-funded projects. Prioritization is largely influenced by funding availability, with an overreliance on unsolicited proposals and investors to drive the discussion of project needs. The public procurement framework is structurally sound but delays in creating a unified electronic platform hamper efficiency and increase the risks of corruption.

6. **An ambitious public-private partnership (PPP) program seeks to accelerate infrastructure development, but lack of fiscal oversight poses risks, and line ministries are not yet adept in implementing PPPs.** Between 2019 and 2022, Uzbekistan initiated 265 PPPs with a total value of \$2.9 billion³ and during 2022-2027 the government hopes to attract \$14 billion of private investments.⁴ However, at present, there is a notable absence of a policy, regulatory framework, or institutional structure as well as a lack of established and a uniform methodology for conducting fiscal analysis of PPP projects. A Contingent Liabilities Unit responsible for monitoring the fiscal exposure of the PPP and SOE portfolios has been dismantled. This is concerning given the large and expanding portfolio of externally

³ Unless otherwise specified, the currency cited throughout this document is the U.S. dollar.

⁴ PPP Development Agency (PPPDA), (2023). Report on PPPs in Uzbekistan. Retrieved from: <https://www.pppda.uz/en/4966>

financed projects. A recent PPP Law, the Law on Public-Private Partnerships, diversifies the process of project development and level of decision-making based on the investment value of the project. The PPP Law posits a two-stage procurement process for projects with a value greater than \$1 million and a simplified procurement route for smaller-scale initiatives. Direct negotiations between the line ministry and the contractor, however, are also allowed. The coexistence of both an Investment Framework and PPP legislation, with differing incentives and levels of scrutiny, creates challenges. Decisions regarding framework selection are often left to the private partner's discretion, leading to a lack of clarity and poor differentiation. A more disciplined approach is needed to ensure consistency, transparency, and accountability in PPP project execution.

Climate Change and Transparency

7. **While environmental protection and climate-change resilience are somewhat integrated into public investment, there is room for improvement.** The recently formed Ministry of Natural Resources (MoNR), renamed to the Ministry of Ecology, Environmental Protection and Climate Change is the main regulatory body responsible for coordinating the activities of other national authorities in environmental protection and natural resources at the central, regional, and district levels. The MoNR undertakes environmental impact assessments (EIAs) for every investment project developed and executed— independent of funding or financing source—along with monitoring the project throughout its implementation; however, there is a lack of clarity on both the process and the required documents needed for a positive EIA finding. There are 27 different forms of information requested but no clarity about which are mandatory, how line ministries should gather and present this information, and how MoNR should evaluate it. There is also no requirement to include additional sector-focused environmental information, running the risk that fundamental environmental impacts could be neglected.

8. **Uzbekistan has made clear progress on transparency of both budget and procurement processes but could do more to improve the disclosure of its public investment program.** The Open Budget portal outlines the core aspects of the budgetary process and publishes information about the main parameters of national and local budgets. Information on debt obligations, including those of major SOE debt, has also been made publicly available since 2021. The transparency of procurement has increased since the launch of the e-Procurement Portal in 2020. The procurement complaints procedure, including its appeals mechanism, is well established. Uzbekistan is developing a three-year investment program and tools to monitor its implementation. The overarching program and annexes outlining the expected funding and financing allocations by sector, by source, and by project are now publicly available. Ministry of Investments, Industry, and Trade (MIIT) should also publish a consolidated public investment project pipeline detailing projects' timeline, value, funding source, current status, procurement type, and project description to allow investors to identify upcoming opportunities.

Service Delivery and Governance of State-Owned Enterprises

9. **SOEs play a dominant role in the economy and have considerable influence in most sectors.** SOEs are oftentimes the entity responsible for the development of public infrastructure and the delivery of essential services. GoU's aspiration is to reduce the state's presence in the industrial, mining, and

manufacturing sectors and ensure that SOEs are governed and managed in line with market principles.⁵ Key targets are (a) a 75 percent reduction in the number of enterprises with state participation, (b) initial public offerings (IPOs) and secondary placements of shares of at least 20 SOEs, (c) and an expansion of the share of independent members on SOE supervisory boards to 30 percent by 2025. Nevertheless, while some SOEs have been privatized, reorganized, or liquidated in recent years, the total number of SOEs remains roughly the same. Since 2019, the number of SOEs has been reduced from approximately 2,950 to about 2,700, after accounting for the creation of 600 new SOEs during the same period.

10. **In recent years, Uzbekistan has transitioned from a decentralized ownership model of SOEs to a more centralized one.** SOEs benefit from various advantages, including preferential access to financing and inputs, legal protections that grant monopoly rights in specific sectors, dual operational and policy responsibilities in essential sectors, and weak corporate governance, giving them a significant edge over private sector firms. As many SOEs fulfill mandates of policymakers, the conflicting role of the state as an owner and policymaker/regulator often result in significant distortions and obstacles to competition. There is no policy or regulation regarding the compensation or cross-subsidization of SOEs charged with meeting public sector obligations.

11. **There is no consolidated SOE database, which hinders accountability and risk management.** Although required by law (the Law on State Property Management No. LRU-321 dated September 3, 2023), the websites that should provide more consolidated information about SOEs and their performance are currently not operational. Additional immediate corporate governance reform priorities for GoU should include introducing competitive selection of SOE executives (including foreign managers), increasing the share of independent members of supervisory boards, and assessing the board and management against GoU's corporate governance and key performance indicators.

12. **To achieve the GoU's goals in relation to the SOE sector, there should be concerted efforts to speed up the reforms.** Reducing the number of enterprises with state participation, as well as accelerating the process with IPOs and secondary sales of shares in the SOEs require urgent attention for the GoU to meet its 75 percent reduction target.

Sectoral Analysis of the Water and Sanitation Services and ICT Sectors

13. **This report identifies the Water and Sanitation Services (WSS) and Information and Communications Technology (ICT) sectors as having the most governance-related bottlenecks affecting infrastructure.** The WSS sector is significantly underfunded. Tariffs for water supply are currently operating below cost-recovery levels and remain lower than most other developing countries. A decentralized tariff approval scheme poses a major risk to financial sustainability. The government and responsible water agency (Joint Stock Company O'zsvu'ta'minot) advocate appropriate tariff levels, but since their local application requires the approval of locally elected political leaders, tariffs have not been raised since 2021. This diminishes the resources available for maintenance and investments to improve and expand services, contributing to poor revenue collection, which has dwindled to 80-82 percent from its nominal range. Problems in non-revenue water, partly because of poor asset management (leaks, water pressure problems, water theft), exacerbate WSS sustainability and deter private sector

⁵ Decree of the President of The Republic of Uzbekistan on Measures to Implement the Administrative Reforms of New Uzbekistan, No.269, December 21, 2022 <https://lex.uz/ru/docs/6324798>

involvement in the sector. To better secure the sector's financial sustainability and efficient operation, it will be critical for JSC O'zsvta'minot to address these matters.

14. Uzbekistan has achieved mixed results with regards to the development of its digital sector.

According to the latest available International Telecommunication Union (ITU) indicators, about 77 percent of the population uses the internet. This value is above the estimated world average of 66.3 percent but below other countries in Central Asia. Considering affordability of the digital services, for all consumption baskets tracked by the ITU (either for fixed or mobile technologies) Uzbekistan finds itself in a better position compared to the global averages and most countries in Central Asia. From a regulatory point of view, the latest ITU assessments while acknowledging the significant progress made across several dimensions in recent years still consider the overall framework missing key elements in relation to institutional development and degree of competition.

14. 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.

Summary Table of Challenges, Recommendations Timelines, and Actors

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
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				
<ul style="list-style-type: none"> 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. The coexistence of the Investment and PPPs frameworks leads to inconsistencies in the quality of projects during preparation and implementation. 	<ul style="list-style-type: none"> Increase coordination between MoEF and MIIT to avoid fragmentation among processes for different funding streams. 	ST	High	MoEF & MIIT
	<ul style="list-style-type: none"> Consider forming a public investment committee to prioritize projects. 	MT	Medium	MoEF & MIIT
	<ul style="list-style-type: none"> Introduce selection criteria and cost-benefit analysis methodologies for all public infrastructure projects. 	ST	High	MoEF
	<ul style="list-style-type: none"> Plan PPPs strategically and ensure they are linked with the broader PIM program facilitated by MoEF and ASR. 	MT	High	MoEF & ASR
	<ul style="list-style-type: none"> PPPD should require that PPP projects be prepared following the PPP framework. 	ST	High	MoEF
Economic efficiency and 'value for money' over the infrastructure lifecycle should be important criteria in the choice of infrastructure investments				
<ul style="list-style-type: none"> 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. The preparation of feasibility studies for projects lacks consistency and is primarily conducted when a multilateral supports a project. Small-scale projects make up the largest portion of the PPP portfolio, raising questions about efficiency. 	<ul style="list-style-type: none"> Require feasibility studies for all projects and develop templates for line ministries. 	ST	Medium	MoEF
	<ul style="list-style-type: none"> Amend the relevant investment program regulations to require forecasts on the lifecycle/total cost of ownership of the assets created by projects. 	MT	Medium	MoEF

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
Fiscal affordability and fiscal sustainability of infrastructure projects should be assessed and managed throughout their lifecycle				
<ul style="list-style-type: none"> 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 sufficiently developed to proactively manage the size of the existing portfolio. 	<ul style="list-style-type: none"> Establish an effective fiscal risk assessment and monitoring framework for PPPs, along with a dedicated unit to oversee these functions. 	MT	High	MoEF
	<ul style="list-style-type: none"> Strengthen the PPP contract management framework to ensure projects are executed effectively and efficiently. This should include developing capacity and creating linkages between contract management in line ministries and fiscal risk monitoring and reporting in the MoEF and establishing an information management system. 	MT	Medium	MoEF
Public procurement for infrastructure projects should be efficient, transparent, and support competition				
<ul style="list-style-type: none"> Some elements in the public procurement framework implementation hamper efficiency and increase the risks of corruption. 	<ul style="list-style-type: none"> Prioritize competitive tendering of PPPs over their bilateral negotiations. 	ST	High	MoEF
	<ul style="list-style-type: none"> Complete and roll out the centralized electronic platform for public procurement that consolidates information on all stages of the procurement process into one database. 	ST	High	MoEF
	<ul style="list-style-type: none"> Strengthen monitoring mechanisms, particularly for turnkey projects. 	MT	Medium	MoEF
Incorporating environmental and climate-change considerations is important to ensure sustainable and resilient public infrastructure				
<ul style="list-style-type: none"> There is a lack of clarity on both the process and the required documents needed for an EIA 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. 	<ul style="list-style-type: none"> Require sector-specific environmental criteria to be met by high- and medium-risk projects. 	MT	High	MoNR & MoEF
	<ul style="list-style-type: none"> Clarify the review criteria/methodology used by MoNR in analyzing documents submitted for EIA. 	ST	High	MoNR
	<ul style="list-style-type: none"> Introduce better Geographic Information System tools and upskill use within the MoNR. 	MT	Low	MoNR
	<ul style="list-style-type: none"> Set clear and transparent guidelines and requirements for a climate-informed project appraisal and selection. 	ST	High	MoEF

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
Strengthening budget accountability and transparency can promote better infrastructure strategies and projects				
<ul style="list-style-type: none"> • Many public agencies are looking to further digitalize government investment processes, but it is not yet clear whether interoperability and data sharing is readily achievable. • 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. 	<ul style="list-style-type: none"> • Build the capacity of MIIT, MoEF, and line ministries to collect, manage, and analyze data available through the forthcoming Public Investment information system. • 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, current status, and procurement type. 	ST	Medium	MIIT, MoEF, LMs
		MT	Medium	ASR & LMs
		MT	Medium	MIIT & MoEF
The governance of SOEs should be transparent and efficient, with strong corporate governance mechanisms in place				
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Accelerate the SOE reforms. The announced targets related to reducing the number of enterprises with state participation, as well as accelerating the process with IPOs and secondary sales of shares in SOEs require urgent attention. • Regularly publish information on SOE performance, debt obligations, and contingent liabilities. 	ST	High	SAMA & ASR
		ST	High	SAMA & MoEF
<ul style="list-style-type: none"> • There is no consolidated SOE database, which hinders accountability and risk management. • While GoU improved the regulatory framework by introducing the Law on State Property Management, it still does not address public service obligations. • While the GoU has undertaken corporate governance reforms, there is limited information to assess their progress. 	<ul style="list-style-type: none"> • Improve quality and timely availability of aggregate reporting on the SOE portfolio. • Ensure a sound system of performance monitoring is established at an SOE level, using a top-down approach. 	ST	High	SAMA & MoEF
		MT	High	SAMA

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
Good governance and strong competition in the WSS and Digital sectors can support the delivery of high-quality infrastructure services				
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Achieve full cost recovery through gradual tariff increases by implementing a more dynamic tariff system, which adjusts to consumption levels or customer categories. 	MT	High	O’zsvta’minot & MCHCS
	<ul style="list-style-type: none"> • Improve the invoicing and payment collection system, as well as expand metering. 	MT	High	O’zsvta’minot
	<ul style="list-style-type: none"> • 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. 	MT	High	O’zsvta’minot & MCHCS
	<ul style="list-style-type: none"> • Develop a long-term strategy for the WSS sector, spanning 10-20 years. 	MT	High	O’zsvta’minot & MCHCS
	<ul style="list-style-type: none"> • 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. 	MT	High	MDT
	<ul style="list-style-type: none"> • 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. 	ST	Medium	MDT
	<ul style="list-style-type: none"> • 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. 	MT	Medium	MDT

I. Introduction

Despite recent reforms, access to quality services remains limited and there are still significant infrastructure capacity needs

1. **The Government of Uzbekistan (GoU) has implemented a number of important market-oriented reforms since 2016.** It has prioritized efforts to strengthen economic management, reduce the tax burden, improve energy supply, address trading bottlenecks, remove external and internal price distortions constraining markets, and reduce state control over agricultural production and exports. The government has taken significant steps to remove onerous regulatory constraints that previously sustained state-owned enterprises (SOEs) at the cost of private sector growth. The government has also implemented measures to strengthen public sector transparency. Over the last few years, these have included new public procurement legislation and regulations that promote competitive and transparent tendering processes, an electronic auction system for the sale of government land and assets, and continued efforts to increase fiscal and debt transparency, and open government data overall.¹ Reducing corruption has recently become a GoU priority. The National Development Strategy 2022-2026 highlights the need to eliminate corruption in the public sector and focuses on the sectors most prone to corruption.

2. **Despite the fast pace of reforms, Uzbekistan currently faces large investment needs to maintain service performance.** Transport and water infrastructure have not kept pace with demographic and economic changes,² largely because of underinvestment in the maintenance of existing assets.³ Water supply remains a challenge as approximately 35 percent of population does not have access to good quality drinking water, and fewer than one in five urban households receive water 24 hours per day and this is still more challenging in rural areas.⁴ While Uzbekistan's location makes it an excellent candidate to become a main transit node between China and Europe, it faces one of the most serious infrastructure investment gaps in the region, even to maintain current network performance. Despite an extensive network of roads and rail, logistics bottlenecks remain a major impediment to increasing the country's connectivity because of low efficiency and poor service quality.⁵ The road sector backlog in deferred

¹ World Bank (2019), Uzbekistan: Toward a New Economy. Country Economic Update.

² Uzbekistan has experienced steady population growth over the years. As of 2021, the estimated population was around 34 million people. The country has been witnessing significant urbanization. Uzbekistan has undertaken various market-oriented economic reforms to stimulate growth and attract foreign investment. These reforms include liberalization of foreign exchange, privatization of state-owned enterprises, and simplification of business regulations. The government has been striving to diversify the economy beyond its heavy reliance on cotton and natural gas. Efforts have been made to develop other sectors such as agriculture, manufacturing, tourism, and services. Uzbekistan has actively sought to attract foreign direct investment (FDI) by improving the business climate and offering incentives to foreign companies. Several infrastructure projects, such as the construction of railways and industrial zones, have been launched to facilitate foreign investment.

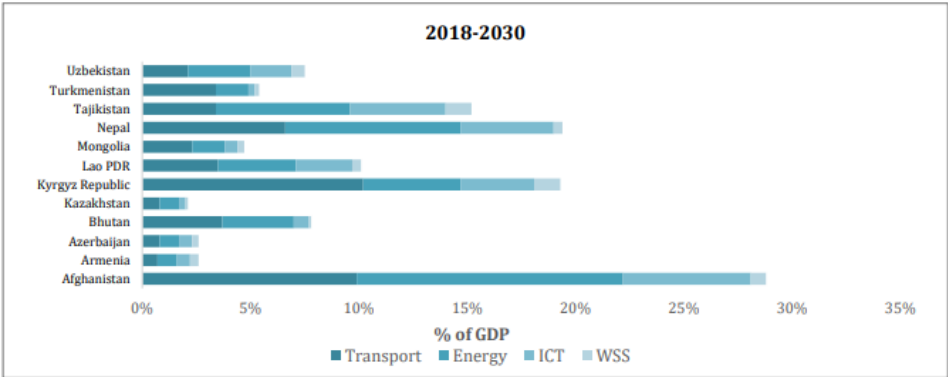
³ OECD (2019), Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus: Hotspot Analysis and Needs Assessment, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/d1aa6ae9-en>

⁴ World Bank (2021), Uzbekistan—Public Expenditure Review.

⁵ OECD (2019), Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus: Hotspot Analysis and Needs Assessment, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/d1aa6ae9-en>

maintenance is estimated at \$1 billion⁶ annually.⁷ Road infrastructure capacity must increase by 486 percent by 2030 and by 1,365 percent by 2050 to meet the expected volume of freight that will pass through Uzbekistan.⁸ The energy sector is also faced with inefficiencies, annually costing the economy around \$1.5 billion. Almost 40 percent of Uzbekistan’s available generation capacity is past service life, leading to frequent power outages.⁹ This is confirmed by the Enterprise Survey 2019, as nearly 12 percent of firms identified electricity and 9 percent transportation as some of the main obstacles they face.¹⁰ According to the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP),¹¹ Uzbekistan’s infrastructure requirements to close the infrastructure gaps, in such sectors as transport, energy, information, communications, and technology (ICT), and water and sanitation (WSS) are annually projected to be around 10 percent of GDP from 2018 through 2030 (see Figure 1). Although this amount is lower than some neighboring landlocked developing countries (LLDCs), such as Afghanistan (almost 30 percent of GDP), Kyrgyz Republic (20 percent), and Tajikistan (15 percent), the infrastructure financing needs of Uzbekistan remain high.

Figure 1: Infrastructure Financing Needs in Asian LLDCs



Source: UNESCAP 2022, Infrastructure Financing in Kyrgyz Republic.

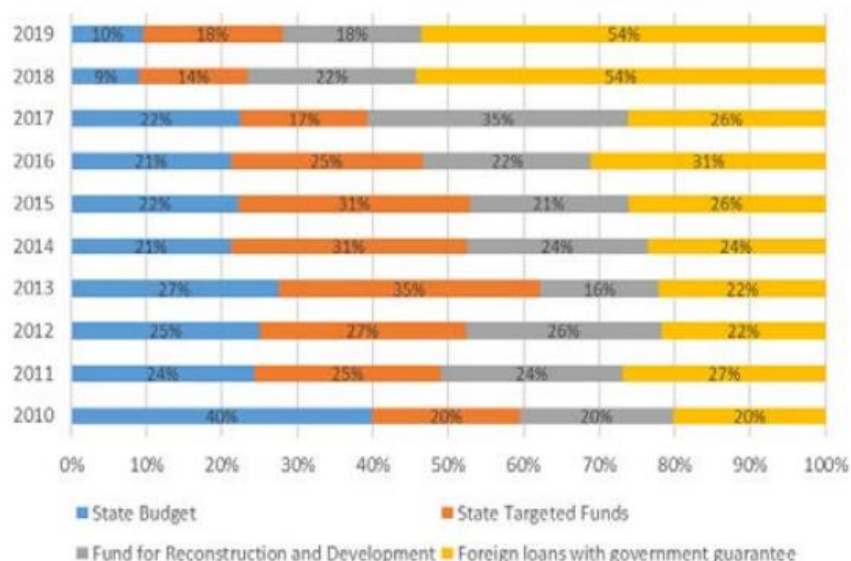
The country has limited fiscal space to respond to a large infrastructure gap, and external financing covers most of total public investment

3. Attracting private and foreign direct investment (FDI) has become a GoU priority. Notable progress has been made since 2016 to address a range of systemic business regulation problems and

⁶ Unless otherwise specified, the currency cited throughout this report is the U.S. dollar.
⁷ OECD (2019), Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus: Hotspot Analysis and Needs Assessment, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/d1aa6ae9-en>.
⁸ ITF (2019), Enhancing Connectivity and Freight in Central Asia, International Transport Forum, Paris, <http://www.itf-oecd.org>
⁹ OECD (2019), Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus: Hotspot Analysis and Needs Assessment, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/d1aa6ae9-en>
¹⁰ World Bank (2019), Enterprise Survey 2019, <https://www.enterprisesurveys.org/en/data/exploreconomies/2019/uzbekistan>
¹¹ UN ESCAP (2022), Infrastructure Financing in Kyrgyzstan. <https://repository.unescap.org/bitstream/handle/20.500.12870/4339/ESCAP-2022-WP-Infrastructure-financing-Kyrgyzstan.pdf?sequence=1&isAllowed=y>

overcome the dominance of state monopolies, but more is needed to further unlock all benefits of FDI for the economy. Figure 2 presents the sources of funding of centralized investment in the annual investment program,¹² showing that most investment funding/financing since 2017 has come from IFIs and bilateral creditors. In fact, in dollar terms the state budget and targeted funds have declined in recent years, as the government has made efforts to improve the investment profile of the country. The government has modernized its legislation through the adoption of the Law on Investments and Investment Activities.¹³

Figure 2: Sources of Investment Funding in Uzbekistan



Source: World Bank (2021), Uzbekistan—Public Expenditure Review.

To meet the country's growing spending on infrastructure needs without undermining debt sustainability, Uzbekistan is preparing a second set of reforms to allocate resources more efficiently

4. **A second stage of market and institutional reforms aims to allow more efficient resource allocation, but it needs to be selectively focused.** The role of the state is being restructured so that GoU's presence in the control of factor markets and ownership of productive assets is reduced, while its role in ensuring robust competition, prudent regulation, and delivery of higher quality social services is enhanced. For the former, land and banking reforms are moving ahead, and the authorities are planning to reduce distortionary directed credit and other nontransparent support to SOEs. The reform agenda is grounded—and should remain anchored—in credible macroeconomic policies that build cushions against domestic and external shocks and support vulnerable households during the economic transformation. Concurrently, the government is accelerating efforts to integrate the country into regional and global markets.¹⁴ While implementing the second wave of reforms, it will be important to ensure that

¹² This de jure process is articulated (in principle) through a three-year rolling format based upon detailed multiyear sectoral and regional development strategies, built upon the 2022-2026 Development Strategy of New Uzbekistan.

¹³ [Law of the Republic of Uzbekistan on Investments and Investment Activities No. ZRU-598 dated December 25, 2019.](#)

¹⁴ World Bank (2023), Uzbekistan—Public Expenditure Review.

government prioritization is based on needs and not on funding source, and that growth does not come at the cost of efficiency and strategy coordination.

5. **Aiming to support the Government of Uzbekistan in improving its quality of infrastructure services, the World Bank conducted a diagnostic and applied a governance lens, through the InfraGov assessment framework (see Annex 1 for the methodology).** This assessment provides a high-level overview of the widespread issues facing the governance of infrastructure in the country, as well as actionable recommendations. This report presents the findings and recommendations of the InfraGov assessment in the next sections. Chapter II presents the results of the assessment on Uzbekistan’s infrastructure performance and governance according to each InfraGov dimension reflected in this report.¹⁵ Chapter III analyzes the Water and Sanitation (WSS) sector, and the Digital sector. Annex 4 provides a glossary of relevant public infrastructure-related terms used in this report.

II. Infrastructure Performance and Governance

6. **This chapter identifies the key governance challenges within each InfraGov dimension and presents actionable recommendations.** The assessment covers the four project lifecycle dimensions of planning, preparation, and selection; efficiency and value for money (VfM); fiscal sustainability; and procurement; while also applying the cross-cutting principles of climate-change resilience and transparency, and the service provision dimension of SOE capacity.

A. Project Lifecycle

State of Play: Public & Private Investment in Infrastructure

Government Reforms

7. **The government reforms of December 2022 were aimed at creating a compact and professional public administration system focused on efficiency.** The Decree of the President of the Republic of Uzbekistan No. PF-269 of December 21, 2022 “On Measures to Implement Administrative Reforms of New Uzbekistan” was introduced to reduce the number of ministries and other units of government from 61 to 28.¹⁶ The decree stated that staff numbers should be reduced by 30 percent, and that a number of government buildings and public assets should be earmarked for privatization. The reform most relevant to the infrastructure governance agenda was the merging the Ministry of Economy and Poverty Reduction with the Ministry of Finance, to form the MoEF, and the reformation of the Ministry of Investments and Foreign Trade, to the Ministry of Investments, Industry, and Trade (MIIT). The Agency for Strategic Reforms (ASR) was established in 2022 to organize the implementation of the development strategy of New Uzbekistan for 2022-2026, by introducing uniform approaches to its implementation and ensuring

¹⁵ N.B. The “numbering” of the dimensions in this report aligns with the InfraGov format, and reflect this report’s thematic organization; hence, they are not herein internally sequential.

¹⁶ Decree of the President of The Republic of Uzbekistan on Measures to Implement the Administrative Reforms of New Uzbekistan, No.269, December 21, 2022 <https://lex.uz/ru/docs/6324798>

the integrity of the reforms, articulated through “On Additional Measures to Accelerate Strategic Reforms.”¹⁷

8. **The PPP institutional framework was also affected by the recent administrative reform.** The PPP Development Agency (PPDA) (formerly under the Ministry of Finance/MoF) was transformed into the PPP Development and State Reduction Functions Department (hereinafter, PPP Department) under the MoEF. The Contingent Liabilities Unit within the Macroeconomic and Fiscal Risk Department of the MoF was established in 2021 and is responsible for monitoring the fiscal exposure of the PPP portfolio and the SOE portfolio, while the investment project portfolio (created under the Investment Law) was dismantled. The fiscal risk management practice and portfolio risk monitoring are yet to be fully established within the new administrative structure and organization. With a large portfolio of externally financed agreements this is especially important given the looming contingent liabilities.

9. **While specific responsibilities within each of these newly formed ministries remain in flux, the essential mandates around the decision-making and implementation of public infrastructure have been established.** The newly formed MoEF issues annual state budget limits, which inform the selection of priority projects based on proposals received from line ministries; defines PPP policies; coordinates the PPP pipeline; and prepares and monitors PPP projects (through the PPP Department). MIIT defines the investment program to be financed through FDI and support from IFIs.¹⁸

Overview of Investment in Public Infrastructure

10. **The systems for developing public infrastructure in Uzbekistan vary depending on funding source.** MoEF is responsible for projects that are financed through the state budget and works in collaboration with line ministries. This state investment program is de jure based upon detailed multiyear sectoral and regional development strategies, built upon the social-economic Development Strategy of New Uzbekistan for 2022-2026. Which projects are selected for funding is broadly dependent on (a) prior decisions of the Office of the President or the Cabinet of Ministers; (b) whether these projects align with development concepts for a sector; (c) the quality of project documentation; and (d) whether projects are within top-down established expenditure ceilings. The selection criteria have substantial scope for noneconomic judgments about projects.

11. **Public investment in infrastructure funded through multilateral and bilateral donors is developed by the respective line ministry and MIIT.** There is no formalized process to elicit donor financing. Rather, MIIT either collaborates with the bilateral or multilateral partner to determine what the donor’s priorities are, or the line ministry is approached by a donor and coordinates with MIIT. MoEF only becomes involved in this process if these investments are funded by foreign loans under government guarantee, so as to determine whether the project is fiscally sustainable and aligns with strategic priorities.

12. **MIIT consolidates public infrastructure project proposals from all funding sources into the investment program and works informally with MoEF and the Cabinet of Ministers toward a final**

¹⁷ See the formal Decree of the President of the Republic of Uzbekistan No. DP-216 dated September 8, 2022, No. DP-216.

¹⁸ <https://lex.uz/ru/docs/4182349>

Program that is approved by the Office of the President. The three-year rolling investment program combines channels of state budget and IFI-funded sources while also integrating financing from FDI and PPP projects,¹⁹ with annual clarifications based on allocated financing. MIIT consolidates and summarizes all project proposals, which must be submitted to them by project initiators—ministries, agencies, and business associations—annually by May 1. Then, MIIT submits an initial draft of the investment program to the Cabinet of Ministers for consideration by August 10. The Cabinet of Ministers reviews the initial draft of the investment program and returns a revised list by August 25. Project initiators must then develop capital cost estimates of the selected investment projects. The revised investment program, with capital cost estimates, is then resubmitted to the Cabinet of Ministers by November 10, which then submits the final investment program to the Administration of the President of the Republic of Uzbekistan by December 1.

13. **The investment program is public and presents substantive information.** The latest investment program for 2023–2025 was adopted on December 28, 2022, under Decree of the President of the Republic of Uzbekistan, No. PP-459.²⁰ In the published investment program, each project is broken down by project name and initiator, city or region, project outputs, implementation period, total cost, and source of financing, along with forecasting of costs for 2024 and 2025. The 2023 investment program consists of approximately 1,047 projects. Table 1 outlines the cumulative investment program, disaggregated by financing source, across the three years. The Appendix of the investment program also includes a list of investment projects that are in development phase and have not secured funding/ financing; and a list of promising investment projects, the possibility of implementation of which has not yet been established.

Table 1: Cumulative Target Indicators of the Assimilation of Centralized and Decentralized Investments in 2023-2025 (in \$ million)

Financing sources	2023	2024	2025	Total
Centralized investments	4,667	5,151	5,341	15,136
Budgetary funds	2,175	2,204	2,168	6,518
Uzbekistan Fund for Reconstruction and Development	266	271	335	873
Foreign loans under sovereign guarantee	2,225	2,676	2,838	7,745
Decentralized investments	24,973	26,485	28,524	79,858
Enterprises funds	7,893	8,441	9,244	25,552
Loans from the commercial banks and other borrowings	4,848	5,085	5,496	15,403
Direct foreign investments and loans	9,764	10,455	11,215	31,389
Population funds	2,467	2,504	2,569	7,513
Total capital injections	29,640	31,636	33,865	94,994

Source: Annex 1 to the Resolution of the President of Uzbekistan dated December 28, 2022, ref # PQ-459.

¹⁹ The investment program is governed by the Resolution of the Cabinet of Ministers No.16 of 2023 on ‘Measures to Further Improve the System of Investment Program Formation of the Republic of Uzbekistan and Increase its Effectiveness.’

²⁰ <https://lex.uz/ru/docs/6329453>

14. **The key theme of Uzbekistan’s economic revitalization to accelerate infrastructure development through private sector participation since 2016 is also manifested through an ambitious PPP program.** According to the PPP Department, between 2019 and 2022, Uzbekistan has initiated implementation of 265 PPPs with a total value of \$2.9 billion across the energy, utilities, transport, water management, ecology, and social sectors (healthcare, education, culture, agriculture, etc.).²¹ Additionally, the National Strategy 2022-2026²² sets a goal of attracting \$14 billion of private investments into the transport, energy, health, education, and WSS sectors. Furthermore, the government signed the Decree of the President of the Republic of Uzbekistan No. UP-101, dated April 8, 2022²³ outlining the roadmap for implementing PPPs projects in 2022-2024. It contains actions concerning 28 projects across power (8 projects), education (6), transport (5), health (4), utilities (3), solid waste (1), and water (1) sectors. The stage of preparation of these projects varies. Projects planned for 2022 were all tendered and mostly closed (commercially). Projects planned for 2023 are in various stages of development. Most projects have been structured with support from IFIs. The administrative reform of 2022 also emphasized the private sector’s role in continuing to deliver the needed infrastructure services. To that effect, as previously mentioned, the PPPDA was transformed into the PPP Development Department, which now includes a new unit dedicated to reducing the role of the state in infrastructure services.

15. **Private participation in infrastructure is also enabled through an established framework for public-private partnerships, underpinned through the Law on Investments and Investment Activities.**²⁴ The Investment Law sets out the legal framework for foreign and domestic investments, establishes the rights and obligations of investors, provides for the protection of investments, and offers investor incentives and benefits, including tax incentives, customs and duty exemptions, and simplified procedures for obtaining permits and licenses. This law covers a wide range of investments and projects, including government-to-government arrangements. It also covers “PPP-like” arrangements (notably, the first solar deal under the 2018-2020 Scaling Solar initiative was signed under the Investment Law), which invites some confusion as to the possible application of both frameworks, Investment and PPP.²⁵ The Law on Public-Private Partnerships, developed with the support of IFIs and international PPP practitioners, provides a comprehensive framework for developing PPPs in Uzbekistan.²⁶ The most recent amendments in 2021 enhanced the framework by providing additional protection for investors in relation to currency control rules and the establishment of special purpose vehicles²⁷ (or a PPP project company), ensured

²¹ PPP Development Agency (PPPDA), (2023). Report on PPPs in Uzbekistan. Retrieved from: <https://www.pppda.uz/en/4966>

²² The National Development Strategy of 2022-2027 is the key policy plan where a concept of urbanization until 2030 envisages an integrated approach through master planning to the development of economic growth clusters for local economic development, cultural heritage upgrades, tourism, ICT, PPPs, and small and medium-size enterprise development, with investments in key municipal infrastructure and services.

²³ [Decree of the President of the Republic of Uzbekistan No. UP-101, dated April 8, 2022.](#)

²⁴ [Law of the Republic of Uzbekistan on Investments and Investment Activities No. ZRU-598 dated December 25, 2019.](#)

²⁵ <https://www.scalingsolar.org/active-engagements/uzbekistan/>

²⁶ Law No. 537, May 10, 2019 and superseded by the PPP Law 669, January 2021, <https://www.lex.uz/ru/docs/5235537>, <https://www.lex.uz/ru/docs/4751834>

²⁷ A special purpose vehicle, also called a special purpose entity (SPE), is a subsidiary created by a parent company to isolate financial risk.

additional rights for creditors, and streamlined and accelerated procurement procedures.²⁸ The PPP law is supplemented by Regulations on Implementation of PPP Projects No. 259 of April 26, 2020, which expand upon the procedural steps for the procurement of PPP projects as established in the PPP Law. Institutionally, the development and oversight of PPP policy, as well as the facilitation of PPP transactions, fall under the responsibility of the PPP Department. To support PPP initiatives within their respective sectors, certain line ministries have established their own PPP departments with the assistance of multilaterals.

Key Challenges

Dimension 1. Planning, Preparation, and Selection

It is important to have a solid legal framework and the institutional capacity to plan, assess, prioritize, and select potential infrastructure projects

Planning of projects should be based on a national vision for infrastructure development and/or infrastructure sectoral plans. The screening, assessment, prioritization, and selection of projects should align with rigorous technical methodologies in a transparent, data-driven manner. Moreover, some form of systematic comparison of projects should also occur to enable project prioritization and selection. Selection is perhaps the most critical stage of the project cycle, is often the point where political and evidence-based viewpoints intersect. A strong gatekeeping function can therefore ensure that the most legitimate criteria and the public interest are reflected in project selection

16. **The recent administrative changes within the Government of Uzbekistan aim to improve efficiency in the public sector and should foster infrastructure governance; however, there is further opportunity to harmonize processes.** The administrative reform of 2022 set a new allocation of roles for both state- and donor-funded public investment. Merging the Ministry of Economy and Poverty Reduction with the MoF has allowed the processes for developing and implementing public infrastructure funded through the state budget to become more streamlined and has removed duplicated mandates. There is also a better flow of information during the process now that key stakeholders are under one entity. However, this reform did not address the fragmentation between the program of public infrastructure funded through the state budget and other programs funded through other sources or modalities (donors, FDI, and PPPs). Currently, the various systems of financing infrastructure projects only become consolidated in the annual investment program once projects have secured financing.

17. **There are formal criteria for inclusion in the investment program, but they do not necessarily ensure alignment with the country's high level development goals as defined in the Development Strategy of New Uzbekistan for 2022-2026.** Resolution No. 16 states that “the MIIT together with interested ministries and agencies evaluate investment proposals based on their economic efficiency, priority and feasibility in accordance with the project documents submitted for inclusion in the investment

²⁸ More specifically, the amendments (a) clarified the definition of PPPs and the scope of PPP projects; (b) enhanced the procurement process for PPP projects through the establishment of a PPP project pipeline and the introduction of pre-qualification criteria for potential bidders; (c) established clearer guidance on risk allocation between public and private partners in PPP projects, along with new provisions on dispute resolution mechanisms; (d) permitted prices to be pegged to foreign currency, though only as an exception through decree; and (e) allowed a project company to open bank accounts outside of Uzbekistan. MoEF can exercise Decree power.

program by June 20 of each year, which then forms the initial list of investment projects.”²⁹ However, there is no further definition given as to what economic efficiency, priority, and feasibility actually entails and how a project is prioritized based on these three criteria. In practice, the prioritization and selection of a project occurs (a) at a decentralized level within line ministries/project initiators if the project has received funding or financing from an IFI; (b) through the project’s prior inclusion in the state budget; or (c) if the project is receiving private financing through FDI or is a PPP project.

18. Prioritization is influenced by the availability of funding/financing opportunities, but would benefit from more rigorous technical methodologies, driven by data. Once MIIT develops a draft investment program, it is sent to the Cabinet of Ministers for further prioritization. As established in Resolution No.16, the Cabinet of Minister should evaluate all projects against the following criteria: (a) its feasibility and economic efficiency; (b) social benefits aimed at reducing poverty, creating jobs, and improving the quality of life of the populace; (c) correlation of the project with the anticipated results of sectoral or region development initiatives; (d) placement of projects in vacant or inefficiently used state-owned facilities; (e) the rapid development of production capacities, deep processing of mineral raw materials and agricultural products, production of products with high added value or with export and import-substitution potential; and (f) the energy efficiency of the project and its potential for reducing electricity consumption.³⁰ In reality, if the project has already been tagged for funding through the state budget, or by a donor, it instantly receives prioritization and is included in the investment program. As a result, the investment program is mostly a comprehensive list of projects that have secured funding/financing.

19. The lack of coordination of public infrastructure funded through different funding streams does not support proper scrutiny of projects and risks duplication. Developing infrastructure projects in an isolated manner hinders the systematic project comparison essential for prioritizing and selecting projects. In addition, this risks a duplication of both proposed projects and prioritization efforts if alignment and coordination among key actors in line ministries, MoEF, and MIIT is not strengthened. An example of the suboptimal nature of this current process is the excess capacity associated with the construction of two dialysis centers in Khorazem (one implemented under the PPP framework, the other funded through the state budget) in close proximity to each other.

20. The private sector’s involvement in public infrastructure development is often disconnected from the government’s broader investment planning. Although the share of unsolicited proposals (USPs) in the PPP portfolio has declined in recent years, it is still excessive underscoring how investors drive the discussion of project needs and scope. Often, quick-fix solutions are pursued without sufficient long-term plans or a comprehensive asset inventory. One example of this is the Tashkent District Heating project, the highest cost project in the PPP portfolio. The €1.6 billion agreement with Veolia aims to replace the pipes in Tashkent heating system. However, the limitations of energy sources (gas) have yet to be addressed. The unusually cold air temperatures in January 2023 exacerbated vulnerabilities of the district heating systems, and demonstrated that the system’s integrity, from generation to end-consumer meters or terminals, is weak. A broader view of specific issues in each sector and their interconnectedness with

²⁹ Resolution of the Cabinet of Ministers No.16 of 2023 on ‘Measures to Further Improve the System of Investment Program Formation of the Republic of Uzbekistan and Increase its Effectiveness.’

³⁰ Ibid.

a wider planning system is crucial to enhance predictability and ensure that infrastructure services more efficiently address future needs. Greater coordination and integration between project-level private participation and wider government investment planning is a prerequisite to the achievement of optimal results.

21. **The coexistence of the Investment and PPPs frameworks, with their differing incentives and levels of scrutiny, leads to inconsistencies in the quality of projects during preparation and implementation.** Until the adoption of the PPP Law in 2019, the partnership between the public and private partners was regulated and structured under the Investment Law. However, even now, agreements continue to be signed under the Investment framework. The most recent example of a PPP-like agreement under the Investment framework is the Scaling Solar 2 project, whereby three 900 MW solar photovoltaic (PV) projects (in Jizzakh, Samarkand, and Sherabad regions) were financially closed in April 2023 in partnership with Abu Dhabi Future Energy Company PJSC—Masdar, one of the world’s leading clean energy companies. The decisions regarding framework selection are often left to the private partner’s discretion, leading to uneven processes and quality of project preparation. As mentioned above, different institutions with different capacities and mandates are involved under each framework – MIIT for projects developed under the Investment Law and MoEF for projects developed under the PPP Law. The PPPD only supervises projects under the PPP Law.

Dimension 2. Efficiency and Value for Money

Economic efficiency and value for money (VfM) over the infrastructure lifecycle are important criteria in the selection of infrastructure investments.

Design a process that agnostically guides the infrastructure service project decision, including the role of the private sector, prioritizing VfM. It is critical to consider the total cost over the project lifecycle (planning, design, finance, construction, operation and maintenance, and possible disposal) compared to the value of the asset and its economic, environmental, and social benefits. This approach guides the choice between repairing or upgrading an existing infrastructure vs. launching a new project, as well as selection of financing modalities. An initial VfM assessment should be conducted by the implementing agency during the early stages of project planning and business case development. This assessment should be updated at the feasibility stage when more information on the project becomes available (financial model or the feasibility study).

22. **The methodologies for applying quality assurance tools are not well-defined and there are limited tools to support prioritization for budget-funded projects with value for money considerations.** Resolution of the Cabinet of Ministers No. 206³¹ outlines the requisite project selection criteria for a public infrastructure project to receive capital funding from the state budget. According to the Resolution, infrastructure projects are evaluated based on indicators that include “creation of new jobs, efficiency of the project, level of importance, and number of the population served,” among others. However, there is no methodology to evaluate the indicators included in the Resolution. Additionally, while the regulation does require the project initiator to provide a full disaggregation of the project’s budget across the construction of the asset, there are no formal requirements to include key indicators to assess the

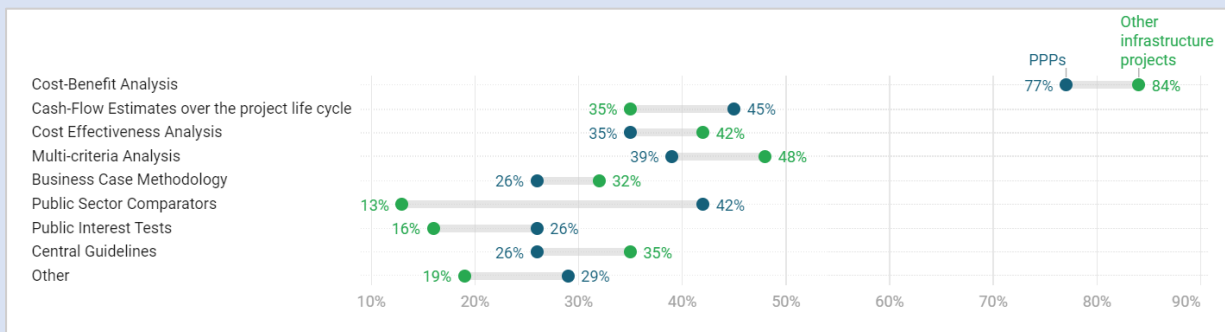
³¹ ‘Additional Measures for the Development of Social and Production Infrastructure Development Programs and Improvement of the State Investment Management System,’ dated April 21, 2022.

project's value for money and sustainability, such as cash flow estimates, a full business case methodology, or cost effectiveness/cost benefit analyses (see Box 1). Quality assurance of projects funded through IFIs is undertaken by the lending party.

Box 1: Use of Quality Assurance Tools in OECD Countries

The use of VfM methodologies and tools is beneficial in the consideration of project impact on fiscal affordability and financial sustainability. In addition to project-level financial sustainability, the impact of publicly funded infrastructure projects, and of possible contingent liabilities, on macro-level debt sustainability should be considered and disclosed, given that infrastructure investment can have significant impacts on public finance. This will contribute to attaining VfM that adequately reflects life-cycle cost, fiscal sustainability (including fiscal space for future potential projects), and inclusion of greater private investments.

Methodologies Used by OECD Countries to Assess Infrastructure Projects (2020)



Source: <https://www.oecd.org/gov/infrastructure-governance/project-selection/>

23. **In the case of PPPs, increasing consistency in project preparation requires the establishment of a dedicated project preparation facility and a comprehensive assessment of project feasibility.** Currently, preparation of project feasibility studies is typically conducted only with multilateral project funding. Line ministries involved in project development lack pre-feasibility or feasibility study templates or guidance to assist them. These studies are not conducted because the existing legal framework does not explicitly require them. The PPP Law and PPP Decree only acknowledge the need for a Project Concept Document and a Project Efficiency Document during project development. However, the content requirements for these documents do not match the level of detail typically covered in a comprehensive feasibility study. The current practice also suffers from limited allocated budget for project preparation and a lack of capacity in line ministries. Creating a project preparation facility is needed to strengthen project preparation. This facility is available offered through the World Bank's Institutions Capacity Building Lending Operation and the EBRD Uzbekistan Project Development Fund.

24. **Small-scale projects (under \$1 million of investment value) constitute about 75 percent of the PPP portfolio, raising questions about efficiency.** The proliferation of small-scale PPPs reflects the lack of review and monitoring of Project Concept Notes. The role of the PPP Development Department is limited to including PPP contracts in the PPP Register; it is not involved in the decision-making, oversight, and monitoring of PPPs. The potential overuse of PPPs in small-scale projects may respond to certain benefits

that PPPs offer, such as the ability to accept USPs and land use rights.³² Additionally, municipalities often delegate project preparation to private proponents, which helps lift the burden of implementing infrastructure projects.

25. **The recurrent costs of large infrastructure projects are not identified.** Currently, there are no guidelines or requirements for line ministries to identify the recurrent costs associated with large capital investments in infrastructure. For projects to be included in the investment program, line ministries must submit information to MoEF on the whole project costing—i.e., any capital cost related to the development of the asset until it is operational. However, this does not include recurrent/lifecycle costs associated with operation and maintenance of the asset. As a result, budget projections only include the total capital cost of major investment projects, and the recurrent budget remains separate from the capital investment budget.

Dimension 3. Fiscal Sustainability

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

For specific projects to be fiscally affordable, it is essential that the appraisal and selection process is linked to the budget cycle, even though the project evaluation cycle may reflect a different timetable. Multiyear budgeting facilitates this integration by allocating funds for project implementation over the medium term. The macro-fiscal implications of individual projects should be carefully assessed—i.e., their impact on a country's fiscal deficit, its gross and net debt, and the stock and flows of nondebt liabilities and contingent liabilities for government within the context of an adequate institutional setting (i.e., providing enough authority to MoEF). Finally, during the lifecycle of infrastructure projects, proper control, monitoring, and reporting mechanisms on public commitments and contingent liabilities are key, in particular for PPPs. All this should contribute to the fiscal sustainability of projects, including those that aim to crowd in more private investment.

26. **While Uzbekistan has begun a transition to a multiyear expenditure framework, the selection process for public infrastructure is not fully aligned with the budget cycle, which can affect fiscal sustainability.** Uzbekistan has implemented a multiyear expenditure framework, and the annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and programmatic (including public investment) classification.³³ However, the public investment budget is still allocated annually based on the annual top-down ceiling set by MoEF for total investment funded by the state budget, and is not aligned with the multiyear planning framework. In line with the budget ceilings, line ministries develop and propose projects annually, before sending these proposals to the MoEF for evaluation. The lack of multiyear allocation for project implementation poses risks to the sustainability of investments.

27. **At present, there is a notable absence of a policy or regulation, institutional structure, or established and uniform methodology for conducting fiscal analyses.** In the case of PPP projects, this has

³² Land use rights are the authorization, permission, or approval granted by the Government or a state agency to an individual or a business entity to occupy, use, or make an economic return from a parcel of land.

³³ This state investment program is governed by Decision of the President of the Republic of Uzbekistan No. PK-465 of 2022 on 'the Measures to Develop the Social and Production Infrastructure of the Republic of Uzbekistan.'

been compounded by the administrative reform of 2023, which has complicated matters, particularly regarding the institutional framework for fiscal analysis and management of portfolio exposure. The unit previously responsible for this function was disbanded, leaving no party explicitly assigned to the responsibility. The PPP Development Department has taken over primary responsibility for fiscal risk assessment. However, given the department's main focus on promoting PPPs, there is a potential conflict of interest when it comes to impartially assessing their fiscal risks. To address this, it is crucial to establish clear policies and regulations for conducting fiscal analyses of PPP projects, with a dedicated and impartial unit responsible for overseeing these functions.

28. **An effective management of PPP contracts requires an active risk-monitoring function to minimize potential budgetary risks; however, the current PPP contract management framework is not sufficiently developed to proactively manage the size of the existing portfolio.** With hundreds of projects reaching commercial close, there will be a need in the near future to develop sound contract management and monitoring practices. However, the PPP Law has severe constraints in this regard. It only allows for contract monitoring and site visits every six months during project implementation (with prior written notification), which limits public partners' oversight and control functions. Monitoring must be done jointly by the public partner and the PPPDA representative, adding additional complexities related to coordination, staff availability, and workload of the PPPDA. Information sharing between the private and public partners is limited, and there is a lack of sound digital platforms to allow for a coordinated and efficient execution of PPP contracts. Shortcomings of the current monitoring system include excessive manual intervention, which increases the chances of errors, a tedious process to add data, and a lack of organized analysis. Obtaining reliable data, copies of project contracts, and financial models to assess fiscal exposure during contract implementation can be challenging, even within the government. Public partners are often hesitant to provide copies of affordability reports and fiscal risk assessments, possibly because of concerns about confidentiality or scrutiny from other stakeholders. As a result, sourcing the necessary information for effective risk monitoring can be difficult. These shortcomings can lead to delays and financial losses.

Dimension 6. Public Procurement

Infrastructure procurement and contract management systems should be efficient, of high quality, and supportive of competition and transparency.

Ensure the quality and VfM of projects through competitive procurement. Whether infrastructure projects are delivered using public procurement or through PPPs and other types of hybrid arrangements, a high-quality process will ensure that they provide VfM, are safe and effective, and that investment expenditures are not diverted inappropriately. Creating a level playing field in procurement ensures that the government receives strong proposals/bids of high quality and that it can award the contract to the most advantageous bidder. To this end, GoU has to ensure that procurement documents are of high quality, set competitive bidding conditions, use transparent evaluation criteria that are fit for purpose, implement integrated e-procurement solutions, and efficiently manage the contract. Competitive bidding requires the convergence of several criteria, such as a good level of technical depth in the requests for proposals, enough time to prepare the proposals, rigorous evaluation of proposals, pre-disclosed contract conditions and risks, and so forth. Bidders need to be treated equally and fairly, the rules of the game need to be clear and adhered to, and the process needs to be conducted transparently. E-procurement systems should be implemented to promote efficiency,

integrity, and transparency of infrastructure governance, and to provide an interface with financial management systems to enhance commitment controls. The systems must be clear, straightforward, and user-friendly, and they must cover the core functions throughout the procurement and contract management cycle.

29. **The public procurement framework overall is structurally sound, but some elements in its implementation hamper efficiency, increase the risks of corruption, and undermine transparency and efficiency.** The Law on Public Procurement No. ZRU-684 from April 22, 2021, is comprehensive and recently introduced good practice principles such as preliminary selection criteria, an expansion of the e-procurement platform,³⁴ and an increased scope to which the legislation applies. Currently, information on public procurement is scattered on multiple platforms. This includes a platform for all public procurement related to construction work operated by the Ministry of Construction (<https://tender.mc.uz/>), two platforms for processing public procurement from which agencies can choose (<https://xarid.uzex.uz/home> and <https://xt-xarid.uz/>), and a catalogue of local vendors (<https://cooperation.uz/>). Having the information scattered in multiple sources hampers. The government has been working to improve and centralize the electronic platform for public procurement. A planned new platform would allow the consolidation of all processes under one system and tracking of procurement processes throughout the distinct stages (call for tenders, contract award, implementation, etc.), but its development has suffered significant delays. Moreover, “turnkey” projects included in the investment program can now be implemented using a ‘fast-track method,’ where the agency bids for one supplier to implement the full investment, subcontracting to other vendors as needed.³⁵ This applies to investment projects that are strategically important or have tight deadlines and have been approved by Presidential Decree. The implementation of a turnkey project can reduce value for money and foster corruption and collusion practices if there is not close monitoring of subcontractors.

Recommendations

- **Harmonize public investment functions to avoid fragmentation between processes for different funding streams.** Public investment projects should be developed based on need, not on financing source. Increased coordination is needed between MIIT and MoEF in the development of the public investment program, prior to the selection and prioritization of projects. This could involve the formation of a public investment committee, with representatives from both ministries, the Cabinet of Ministers, and ASR. The committee would be the first recipient of the public investment program proposals from line ministries and would prioritize projects based on formalized selection criteria (recommendation below). At this point, the projects can be classified and filtered based on the funding type, with those projects tagged for donor funding or financing going to MIIT, and budget-funded projects to MoEF.
- **Introduce formalized selection criteria and methodology for all public infrastructure projects, independent of funding source.** Following the recommendation above, projects should represent societal value, and should be prioritized, affordable, and delivered efficiently, balancing financial

³⁴ The new law introduced electronic platforms that provide auction sales, e-shop, e-selection of the best offers, and e-bidding based on transparency and competition.

³⁵ <https://lex.uz/docs/5382983>

and nonfinancial considerations. For a sound, technical appraisal process, cost-benefit analysis methodologies should be introduced in Uzbekistan, to require consideration of both monetized and nonmonetized impacts. The requirement of a formalized cost-benefit analysis should apply to both donor- and budget-funded projects.

- **MoEF should require feasibility studies for all projects and develop templates for line ministries.** This should be included in a Cabinet decision to ensure proper enforcement. It will also involve upskilling line ministries on how to complete such studies.
- **All public infrastructure projects should include forecasts on the lifecycle/total cost of ownership of the asset, and this should be grounded in legislation.** Investment program regulations should be amended to require forecasting of the lifecycle costs associated with maintaining an asset, in the development stage of a project. It will be necessary to apply such regulation to all projects, irrespective of their functional nature or funding source.
- **Strategically plan PPPs and ensure they are linked with the broader public investment management.** Moving away from ad-hoc project identification, and an overreliance on the private proponents' proposals for infrastructure development, strategic planning for PPPs should consider and respond to the economic and demographic situation. Greater coordination and integration between project-level private participation and wider government investment planning will foster better results. The merger of the Ministry of Economy and Ministry of Finance into MoEF and the emergence of ASR as an entity that has a comprehensive view of the reforms may facilitate this process.
- **The PPPD should require that PPP projects be prepared following the PPP framework.** This will translate into higher consistency in quality of project preparation, as well as greater transparency and accountability in PPP project execution.
- **Creating a more fully robust PPP framework requires the establishment of more effective governance and institutional arrangements, which must include a clear delineation of functions related to fiscal risk assessment and monitoring.** This involves conducting ex-ante assessments of fiscal risks and monitoring them throughout project implementation to ensure that PPP contracts are approved based on informed decisions and a full understanding of the fiscal implications of PPPs, to prevent having to subsequently mitigate emerging fiscal risks. Ideally, a dedicated unit should oversee these functions to ensure greater efficiency and consistency in the assessment and monitoring of fiscal risks associated with PPP projects.
- **To optimize VfM in projects, GoU should prioritize competitive tendering of PPPs rather than rely on bilaterally negotiated proposals.** While bilateral deals may be suitable for some projects, not all projects will benefit equally from this approach. To ensure fairness and transparency, GoU should follow the open tender process outlined in the PPP law for future projects and employ bilateral deals only when appropriate.
- **To increase VfM and efficiency of public procurement, information should be consolidated under one platform, and monitoring mechanisms should be strengthened, particularly for**

turnkey projects. The completion and roll out of a centralized electronic platform for public procurement, which integrates all stages of the procurement process (such as tender announcements, contract allocation, and implementation), as well as past procurement activities, will be crucial. This platform will enhance transparency in procurement and enable the monitoring of integrity-related risks.

- **Reinforce and develop the contract management framework for PPPs to ensure that projects are executed effectively and efficiently, while minimizing fiscal risks.** This involves reviewing the legal framework and enacting secondary legislation that aligns with best practices in contract management. This should include developing capacity and creating linkages between contract management in line ministries and fiscal risk-monitoring and reporting to MoEF. In addition, establishing an information management system will help to streamline processes and improve coordination between stakeholders.

B. Cross-Cutting Governance Issues

Dimension 5. Climate-Change Resilience

Incorporating resilience to climate change, natural disasters, and public health risks is important for infrastructure outcomes.

Governments' climate change and/or disaster-risk management frameworks should be factored in when designing infrastructure, throughout the project cycle. Climate-informed project appraisal is an important part of assessments. GoU should ensure effective use of environmental and/or specific climate-change evaluations to identify, mitigate, and manage the projected risks and impacts of infrastructure projects. This includes physical risks related to extreme weather events and gradual changes in climate as well as risks related to the transition to a low-carbon economy, resulting from changes in policy, technology, and consumer preferences. Extreme weather and disaster management should be considered during the pre-assessment of the project and controlled and monitored during its lifecycle. Climate objectives should be integrated into asset management policies and practices. Infrastructure investments need built-in adaptability and resilience against risks of natural and man-made disasters, public outcry, and pandemics.

State of Play

30. **Environmental protection and climate-change resilience is somewhat integrated into public investment in Uzbekistan.** The recently formed MoNR (formerly the State Committee on Ecology and Environmental Protection)³⁶ is the main regulatory body in the field of ecology, environmental protection, and rational use and reproduction of natural resources. The duties of the Committee were established under the Cabinet of Ministers Decree No. 29, 2019. This decree is still valid, although the modification of the responsible agency (i.e., the upgrade from Committee to Ministry) will likely be reflected in the next amendment. While its mandate is still pending this final confirmation, MoNR currently remains responsible for coordinating the activities of other national authorities in the field of environmental

³⁶ During the January 2023 administrative reform in Uzbekistan, the State Committee on Ecology and Environmental Protection was reformed into the Ministry of Natural Resources.

protection and natural resources at the central, regional, and district levels.³⁷ MoNR undertakes widespread environmental assessments for every investment project developed and executed in Uzbekistan, independent of funding source, along with monitoring the project throughout its implementation. A number of subordinate organizations and departments of MoNR located regionally deal with environmental assessment, issuing of permits, inspection, and enforcement. These include the Center for State Ecological Expertise, the Center for Specialized Analytical Control on Environmental Protection, the Center for State Ecological Certification and Standardization, the Inspectorate for Control in the field of Ecology and Environmental Protection, and other sector-specific institutions.

31. **The four levels of Environmental Impact Assessments (EIAs) undertaken by MoNR are categorized based on the project’s environmental risk profile.** MoNR undertakes four levels of environmental assessments: high risk (category 1); medium risk (category 2); low risk (category 3); and locally impacting risk (category 4). The degree of scrutiny of the assessment is based upon the monetary value of the project (as stipulated in Decree of the Cabinet of Ministers of the Republic of Uzbekistan No. 541),³⁸ whereby large infrastructure projects exclusively fall under category 1 or 2. As a project cannot move forward without a positive EIA assessment, line ministries/private parties are mandated to submit the required information to MoNR for review. For those projects falling into category 1, 2, or 3, the EIA process is outlined below.

Table 2: Environmental Impact Assessment Process

Stage	Subjects	Actions	Terms of execution
1st stage	Responsible line ministry or private party	The materials of intended, planned, and implemented economic activities are presented to the specialized expert units of MoNR online. (While the Presidential decree, which is still valid, states that the State Ecology Committee is the agency undertaking these assessments, it is assumed that MoNR has subsumed these responsibilities.)	As necessary
2nd stage	Specialized units of the State Ecology Committee	The submitted documents will be considered for compliance with clause 24 of the EIA Regulation and for the correct identification of the environmental impact category, based on the results of the review. If the documents are correct, it confirms that the payment can be made; if the documents are not suitable, it renders a decision to request additional documents and so informs the line ministry.	1 working day
3rd stage	Responsible line ministry or private party	The responsible line ministry will pay the fee for conducting an environmental examination.	Within 5 working days
4th stage	Specialized units of the State Ecology Committee	The projects presented for MoNR examination are considered, and if their result is positive, a positive conclusion of the state ecological examination is prepared and sent to the client’s personal office in electronic form. If	Category 1 - 20 working days

³⁷ <https://lex.uz/docs/4160312>

³⁸ <https://lex.uz/docs/4984499>

		deficiencies are identified, a response is sent to the client's personal account in electronic form to re-develop the project addressing the deficiencies.	Category 2 - 15 working days Category 3 - 10 working days
5th stage	Responsible line ministry or private party	Eliminates deficiencies in the project and resubmits relevant documents in electronic form free of charge.	Within 60 working days
6th stage	Specialized units of the State Ecology Committee	The projects submitted again by the experts of MoNR are considered, and as a result of them, one of the following conclusions is adopted: (a) a positive conclusion is sent to the client's personal office in electronic form; or (b) a formal rejection of the project is sent to the client's personal office in electronic form.	Category 1 - 10 working days Category 2 – 7 working days Category 3 - 5 working days

Source: <https://lex.uz/docs/4984499#4986917>

Key Challenges

32. **Climate-change considerations are not sufficiently incorporated into the prioritization and approval processes for public investment projects.** As previously mentioned, in forming the investment program, the Cabinet of Ministers evaluates all projects against established criteria, including the feasibility and economic efficiency of the project; perceived social benefits; alignment with national, regional, and sectoral strategies; use of state-owned facilities; production capacity and job creation; and the energy efficiency of the project.³⁹ While these criteria are admirable, the absence of a requirement to evaluate projects on their inclusion of climate-change related factors is notable.

33. **There is a lack of clarity on both the process and the required documents needed for an EIA to take place.** Clause 24 of Decree of the Cabinet of Ministers of the Republic of Uzbekistan No. 541 outlines the various types of information that should be included within the second stage of the assessment process. In total, there are 27 different forms of information that should be submitted. They range from “a scheme-map that reflects information on the geographical coordinates of the object, the recreation zones connected to it, settlements, irrigation and melioration entities, agricultural fields, power transmission lines, transport, water and gas pipelines and other communication, to “analysis of situations that may cause a negative impact on the surrounding environment as a result of the accident (scenario to prevent the consequences that may lead to the accident),” and “type and annual capacity of manufactured products.”⁴⁰ There is no clarity about which of these 27 types of information are mandatory to be included, how line ministries should gather and present this information, and how this information is evaluated by MoNR. There is also no requirement to include additional sector-focused environmental information within this submission—e.g., for the construction of an airport, the amount of flight-generated CO₂ emissions. This risks fundamental environmental impacts being neglected.

³⁹ Resolution of the Cabinet of Ministers No.16 of 2023 on ‘Measures to Further Improve the System of Investment Program Formation of the Republic of Uzbekistan and Increase its Effectiveness.’

⁴⁰ <https://lex.uz/docs/4984499#4986917>

34. **The use of public hearings for medium- and high-risk projects represents good practice, but there are further opportunities for increasing stakeholder engagement later in the EIA process.** For Category 1 and 2 projects, a public hearing must be held before the submission of information (stage 1) to MoNR to ensure that the purpose, content, and strategic importance of this decision are published in the mass media and that presentations and broadcasts are organized on the subject. During the submission of documentation to MoNR during stage 2 of the EIA process, the documentation must outline the conclusions of the public hearing on public support of the project and show that the suggestions and objections received during the public hearing of the project were taken into account.⁴¹ Public participation in the development of infrastructure projects represents good practice, especially considering the binding nature of these public hearings in Uzbekistan, as it allows citizens and nongovernment actors to directly communicate and share issues with the project initiator, and MoNR to understand how the line ministry or private party has taken issues raised during the public hearings into account. This process could be improved by allowing affected communities to also contribute after the draft environmental assessment report is prepared, in order to share their observations on the extent and manner to which the suggestions and objections raised during the hearing were taken into account.

35. **Assessment tools related to climate resilience and consolidation of assessment information present another potential area for improvement for the Ministry of Natural Resources.** MoNR does not have a centralized geographic information system software database that can consolidate all environmental and climate related information needed to evaluate the EIA documentation submitted by line ministries. Currently, a range of different data sources are used, all of which are presented in different formats. For example, modelling of the geographic landscape is often done using Google Earth with a separate and unconnected software tool managing, analyzing, and visualizing the data. This is a very labor-intensive process and involves significant labor. Particularly with the enhanced government focus on efficiency, it is crucial that MoNR has the proper tools and systems that enable centralized modeling and visualization functionalities to carry out these environmental assessments of infrastructure.

Recommendations

- **Set clear and transparent guidelines and requirements for a climate-informed project appraisal and selection.** Ideally, projects should be screened and analyzed for physical and transition risks related to climate change. Moreover, the government should lay out the guidelines for the climate-informed appraisal. Climate-related criteria should also be considered during decision-making on project selection. This will require additional regulations and/or Cabinet directives so that climate impacts can be routinely assessed as part of project screening, appraisal, and approval.
- **Require sector-specific environmental criteria to be met within category 1 and 2 projects.** Significant work is needed to develop specific criteria for the four main infrastructure sectors (transport, energy, digital, WSS) and their various subsectors. This will involve coordination with, and upskilling of, line ministries and private parties, to ensure the criteria are accurate and that they have the capacity to submit the relevant documents.

⁴¹ Ibid.

- **Specify the precise review criteria / methodology used by MoNR in analyzing documents submitted for EIA.** Review criteria should be defined in official guidance or legislation, covering all four categories of assessment.
- **Increase public participation to the second stage of the EIA process.** Following the use of public hearings for category 1 and 2 projects, there should be increased public participation following the preparation of the draft environmental assessment report by the line ministry/private party, clarifying how the suggestions and objections raised during the hearing were considered.
- **Introduce better Geographic Information System tools and upskill use within MoNR.**

Dimension 8. Data Availability and Transparency

Transparent access to adequate information throughout the project cycle is key for project performance and accountability.

The availability of adequate information and data on projects and service delivery is essential for ensuring accountability, improving project performance, strengthening the investment climate, and maintaining public confidence in the private sector. The government needs to invest in collecting, monitoring, and analyzing high-quality and integrated data that can serve as the basis for project management, decision-making, consultation, and accountability. The degree to which the data are made public should be determined by a disclosure framework that weighs the trade-offs of transparency and confidentiality. The framework should be enforced, and relevant public institutions scrutinized on their performance in complying with transparency requirements. Disclosed data should be easy to access, navigate, and analyze.

State of Play

36. **Uzbekistan has made clear progress on transparency of both budget and procurement processes.**⁴² The Open Budget portal, which has been operating since 2019, outlines the main aspects of the budgetary process in the country, and publishes information about the main parameters of the state budget and how revenues and expenditures are structured year on year. In 2021, the portal was upgraded, and its functionalities significantly expanded to present information on the execution of local budgets. From 2021, information on debt obligations, including major SOE debt per SOE, has also been made publicly available. There has also been major progress in terms of improving the transparency of procurement in recent years, especially given the launch of the e-Procurement Portal in 2020, which supports the digitalization of the procurement process.⁴³ The procurement complaints procedure is well established (ranked 'A' in the 2019 Public Expenditure and Financial Accountability/PEFA assessment) and has been in place since 2013.⁴⁴ The appeal review system offers access to an appeal mechanism in addition to the general court system. Still, certain procurement practices can be further improved, as established in paragraph 28. Small barriers such as publishing tender information in Uzbek and Russian, but not

⁴² <https://openbudget.uz/en/>

⁴³ <http://xarid.uz/>

⁴⁴ <https://www.pefa.org/sites/pefa/files/assessments/reports/UZ-Jan19-PFMPR-Public-with-PEFA-Check.pdf>

making an English version available can also have an adverse impact on the interests of foreign companies trying to invest in Uzbekistan.

Key Challenges

37. **Many public agencies are looking to further digitalize government investment processes, for which cross-government support and collaboration is critical to ensure interoperability and exchange of information.** Among a variety of goals outlined in the “Development Strategy for the New Uzbekistan for 2022-2026,” Uzbekistan aims to continue to move toward the digitalization of public services, with a goal that by 2026, 100 percent of such services should be electronic. ASR, the Ministry of Construction, Housing, and Utilities (MoCHU), and the Competition Promotion and Consumer Protection Committee all mentioned an ambition to increase transparency of government processes, particularly regarding public investment, through transitioning from predominately paper-based systems to digital online platforms. For example, MoCHU is currently developing a platform that monitors project implementation of the construction projects within its remit, tracing monthly data on construction progress and disbursement. Platforms such as these are a step in the right direction and would support GoU’s objective to increase government efficiency. However, there seems to be multiple systems in development across various line ministries and a question remains on whether these multiple systems interoperate among themselves and what are the possibility of sharing data for analysis. GoU, particularly through ASR, should coordinate with line ministries developing such systems to ensure that these online platforms are coordinated and complementary, and that up-to-date project information can be publicly accessible.

38. **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.** Resolution of the Cabinet of Ministers No.16 of 2023 on ‘Measures to Further Improve the System of investment program Formation of the Republic of Uzbekistan and Increase its Effectiveness’ states that from January 1, 2023, the Ministry of Investments, Industry and Trade and the Ministry of Economy and Finance will fully switch to the procedure of monitoring the investment program through an automated information system. This system is currently being developed and will be implemented on a pilot basis from August 1, 2023, with a phased involvement of all participants, and full operation of the system set to begin from October 1, 2023. It is currently envisioned that following the approval of the investment program, project initiators will enter the information about the work carried out within the framework of the investment program to MIIT through the information system no later than the fifth day of each month. MIIT shall then submit to the Administration of the President of the Republic of Uzbekistan and the Cabinet of Ministers the summary analytical information on the progress of the implementation of the investment program no later than the tenth day of each month. Public disclosure of this information system is not currently planned. While increased oversight of the investment program represents good practice, it will also be important to enhance the capacity of MIIT, MoEF, and line ministries / project initiators to collect, monitor, and analyze project and service delivery data to improve impact and decision-making.

39. **The implementation of the envisioned information system for tracking the investment program provides an opportunity to publish a pipeline of projects that would enable investors to identify upcoming opportunities.** To build on this progress in making project information publicly available, along with the collection of project information through the planned investment program information system,

MIIT should publish a consolidated public investment project pipeline detailing project timeline, value, funding source, current status, procurement type, and project description. The envisioned information system should include functionalities, such as generating data that establishes the link between the National Development Objectives and each specific public infrastructure project. Box 2 provides a recent example of a publicly available project pipeline developed in New Zealand.

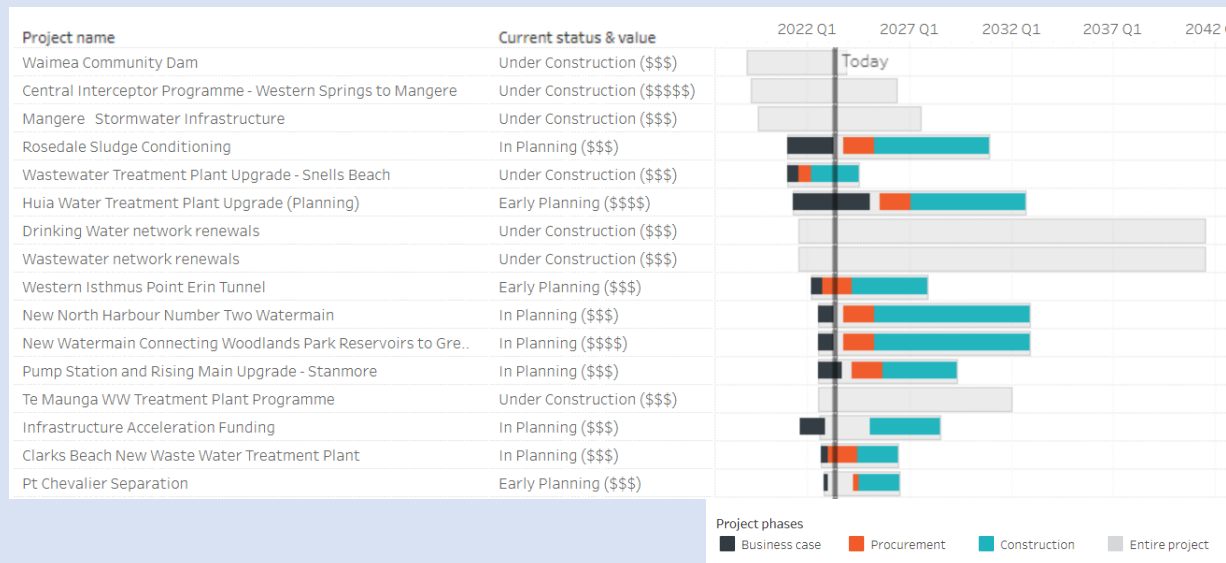
Box 2: Infrastructure Commission New Zealand—Project Pipeline

Transparency of the national infrastructure planning, development, and execution became an issue in New Zealand, with a lack of a visible, coordinated pipeline of work available to the public. As a result, the New Zealand Infrastructure Commission created the Project Pipeline, accessible online and updated both quarterly and dynamically as significant projects are announced. The pipeline can filter projects by sector, project status, funding status, region, project value range, procurement type, organization, project name, and funding tag.

The Pipeline seeks to:

- **act as a ‘shop front’:** developing a single, trusted source of information for the construction industry, detailing credible investments over the medium term.
- **enable industry to plan ahead:** removing speculation, providing secure forecasts, and attracting new entrants, driving increased competition and innovation.
- **enhance coordination:** enabling better planning of investment in New Zealand—smoothing the market and enhancing use of resources, capability, and capacity.

Pipeline for water sector projects



Source: <https://www.tewaihang.govt.nz/projects/search-the-pipeline/>

Recommendations

- **Enhance the digitalization agenda through increased coordination and data sharing.** ASR should coordinate with line ministries undertaking digitalization of processes, to ensure that data-sharing

systems are aligned; that good practices can be shared among government departments; and that any digital platform is accessible to the public.

- **Build the capacity of MIIT, MoEF, and line ministries to best utilize the forthcoming Public Investment information system to its full capacity and capabilities.** Beyond investing in IT systems, relevant public institutions need the technical capacity to collect, manage, and analyze data in those systems to maximize their benefits. This serves as the basis for evidence-based management and decision-making at the project, sector, and central government levels.
- **Improve investment project transparency by publishing online a consolidated pipeline of current and future projects.** The recently approved public investment program for 2023-25 contains a wealth of information on current and future projects, including information on value, funding source, timeframe, and responsible line ministry. This information should be consolidated into a publicly accessible project pipeline, administered, and updated by MIIT, in collaboration with MoEF.

C. Service Provision

Dimension 11. SOE Governance and Performance

SOEs should operate on market terms where possible, with clear reporting and corporate governance standards and sound approaches to human resources and financial management.⁴⁵

Corporate governance provides the structure for defining, implementing, and monitoring a company's goals and objectives and for ensuring accountability. Good SOE corporate governance ensures there are clear ownership rules and responsibilities, strong SOE oversight entities, independent and professional boards, robust performance monitoring mechanisms, and a high level of disclosure of financial and audit reports.

State of Play

40. **State-owned enterprises (SOEs) play a dominant role in the economy and have considerable influence in most sectors, including in natural resources, energy, WSS, ICT, and transport.** SOEs are responsible for the construction of public infrastructure, and the delivery of essential services through this infrastructure. However, in line with recent market-oriented reforms, GoU has reduced the degree of state presence in the economy, fostering privatization to achieve this objective.

41. **GoU has further aligned the regulatory framework for SOEs with strategic reform priorities.** The government has recently adopted the Law on State Property Management (No. LRU-821 dated September

⁴⁵ This section is based on Dimension 11 of the InfraGov Assessment Framework, which is aligned with Module 4 on Corporate Governance and Accountability Mechanisms of the World Bank's Integrated State-Owned Enterprises Framework (iSOEF), which can be found here: https://worldbankgroup.sharepoint.com/sites/gsg/CGFR/Documents/iSOEF/iSOEF%20Guidance%20Note%20Module%204_Final.pdf

3, 2023),⁴⁶ following one of the key recommendations provided in the 2021 World Bank Country Economic Memorandum for Uzbekistan.⁴⁷ Previously, SOEs were primarily governed by multiple legal acts, Presidential Decrees, and Resolutions of the Cabinet of Ministers (see Annex 4). The comprehensive new law aims to consolidate all these regulations, laws, bylaws, decrees, and resolutions into one overarching SOE regulatory regime.

42. **In recent years, Uzbekistan has transitioned from a decentralized ownership model to a more centralized one.** Article 12 of the 2023 Law on State Property Management stipulates that the functions of ownership and regulation must be separated. While the State Asset Management Agency (SAMA) is currently the largest owner of SOEs in Uzbekistan, ownership for the 32 largest and most strategic SOEs was transferred to ASR in March 2023. Previously, SOEs were under the governance of 61 different ministries and agencies, including the MoF, SAMA, and line ministries, resulting in a dispersed and fragmented ownership function. SAMA is a leading player in a number of SOE reforms, including the privatization of SOEs and selling and leasing public land. It is also responsible for state policy on the management of all state property and SOEs are required to submit financial and non-financial reporting to it. SAMA is also the sole body that can transfer an asset from public to private ownership, even if a given SOE does not otherwise fall under SAMA's remit. The new legislation is anticipated to effectively address the problem of fragmented SOE responsibilities, establishing clear roles for the SOE ownership agencies, and assigning board appointment responsibilities to the relevant agencies. However, certain important matters, such as the proper division of duties between SAMA and ASR are not directly addressed by this legislation. To effectively perform its oversight and decision-making functions for the entire SOE portfolio, SAMA's capacity and authority must be strengthened and the remits between it and ASR further clarified.

43. **In March 2021, GoU adopted the Strategy for the Management and Reform of Enterprises with State Participation for 2021-25, fostering the privatization of the SOE sector and laying the foundation for market reforms.** The strategy outlines GoU's ambition to reduce the state's presence in the industrial, mining, and manufacturing sectors and to ensure that SOEs are governed and managed in line with market principles. Key targets under the strategy are a 75 percent reduction in the number of enterprises with state participation; initial public offerings (IPOs) and secondary placements of shares of at least 20 SOEs; and the expansion of the share of independent members on SOE supervisory boards to 30 percent by 2025. In line with these commitments, new laws on privatization, state property management, and the reduction of state participation in the economy were introduced in 2021 and 2022.⁴⁸

44. **While many SOEs have been privatized, reorganized, or liquidated in recent years, their total number remains roughly the same.** In 2019, GoU announced that of the 2,965 centrally owned SOEs, only

⁴⁶ <https://davaktiv.uz/en/news/the-law-of-the-republic-of-uzbekistan-on-state-property-management-was-adopted>

⁴⁷ World Bank, 2021. Country Economic Memorandum for Uzbekistan. Chapter 7. SOEs: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/862261637233938240/full-report>

⁴⁸ Law No. 3PY-728 "[on] privatization of non-agricultural land plots," entered into force in 2021. The Decree of the President of the Republic of Uzbekistan No. PP-168 "On additional measures to further reduce state participation in the economy and accelerate privatization" was adopted in 2022. The law "On the management of state property" was adopted in 2022.

71 would remain in strategic state ownership, while 1,100 would be privatized (other SOEs were expected to be merged or liquidated). SAMA estimates that liquidations, mergers, and acquisitions since 2019 have reduced the number of formerly extant SOEs from 2,965 to 2,100. This does not, however, include the creation of 600 new SOEs during the same period.

Key Challenges

45. **Uzbekistan has made major progress on managing its debt; however, greater transparency on SOE debt and reduction of contingent liabilities from non-guaranteed debt would further strengthen public finances.** The International Monetary Fund (IMF) has previously recommended making information on debt obligations, including major SOE debt, publicly available (IMF, 2022).⁴⁹ However, individual SOE budget documents are not publicly available, limiting visibility on budgetary allocations to, and earnings from, SOEs.⁵⁰ Additionally, the government has still not addressed the IMF recommendation to develop additional fiscal rules to limit contingent liabilities arising from non-guaranteed debt of SOEs. At present, SOE debt is treated as state debt, which could create additional pressure on public finances in the future.

46. **The possibility of further using public and publicly guaranteed (PPG) debt to support SOEs will be affected by the new Law on Public Debt.** PPG debt rose from 28 percent of GDP at end-2019 to 36 percent by end-2021, according to the IMF (2022).⁵¹ Since then, the debt-to-GDP ratio has increased, with public debt reaching \$26.2 billion or 34.1 percent of GDP at the end of Q3 2022.⁵² Some of the PPG debt has been issued to support SOEs. The law On Public Debt limits PPG debt to 60 percent of GDP, in line with the recent IMF recommendations.⁵³ The new law also stipulates that only environmental, social, and infrastructure projects and investments where the decision has been taken by the President of Uzbekistan can be financed from public debt (apart from budgetary and fiscal deficits). The government is classifying SOE debt as high, medium, or low risk. For high-risk SOEs seeking to borrow, stricter notification and approval requirements apply.⁵⁴ Furthermore, the Law of Public Debt mandates SOEs submit information about any new debt obligations. SOEs must submit the quarterly reporting providing information to the authorized body on the debts they have attracted no later than the 15th day of the month following the reporting quarter, with the exception of debts on behalf of the Republic of Uzbekistan or under a state guarantee (Article 50).⁵⁵

47. **Weak corporate governance of SOEs in Uzbekistan results in significant distortions to the economy.** As many SOEs fulfill mandates of sector regulators and policymakers, this conflicting role of the state as an owner and policymaker/regulator often result in significant market distortions and obstacles

⁴⁹ IMF, 2022. Article IV Consultations. <https://www.imf.org/-/media/Files/Publications/CR/2022/English/1UZBEA2022001.ashx>

⁵⁰ US Department of State, 2022. 2022 Fiscal Transparency Report: Uzbekistan. <https://www.state.gov/reports/2022-fiscal-transparency-report/uzbekistan>

⁵¹ IMF, 2022. Article IV Consultations. <https://www.imf.org/-/media/Files/Publications/CR/2022/English/1UZBEA2022001.ashx>

⁵² MoEF, 2022. Debt Bulletin for Q3 2022.

⁵³ The Senate of the Oliy Majlis adopted the new debt law “On Public Debt” on August 4, 2022. The law was signed by the President of Uzbekistan in May 2023 and is due to enter into force three months later.

⁵⁴ IMF, 2022. Article IV Consultations. <https://www.imf.org/-/media/Files/Publications/CR/2022/English/1UZBEA2022001.ashx>

⁵⁵ <https://lex.uz/acts/6446825>

to competition with the private sector. Strengthening corporate governance is also important to reduce the likelihood of SOEs being exploited for political gain, which can adversely impact their efficiency. Currently, the executive decision-making of SOEs is tightly integrated within the government's structure, limiting their independence and market exposure. Additionally, SOEs benefit from various advantages, including preferential access to financing and inputs, legal protections that grant monopoly rights in specific sectors, dual operational and policy responsibilities in essential sectors, and weak corporate governance, giving them a significant edge over private sector firms.⁵⁶ This is expected to be addressed with the new legislation.

48. **Several important steps have been taken to improve SOE reporting and governance; however, the lack of a consolidated SOE database hinders accountability and risk management.** There is still no consolidated database of the SOE portfolio that incorporates SOEs' financial reporting, but the new Law on State Property Management creates a single register of SOEs. The summary of 2021 performance covering the entire SOE portfolio is available online.⁵⁷ Although the first full aggregate report, produced in collaboration with external consultants, was intended to be issued by SAMA at the end of 2022, it is still not publicly available. This situation does not adequately reflect the Resolution of the Cabinet of Ministers No. 674 of October 30, 2020, which mandated the placement of the main financial and economic indicators of enterprises on SAMA's website to ensure openness and transparency of enterprises with state participation, analysis, or control of SOE activities. Instead, the websites that should provide more information about SOEs and their performance are currently not operational.⁵⁸

49. **Although the sector's regulatory framework was enhanced by the Law on State Property Management, it still does not address public service obligations (PSOs), particularly regarding the compensation or cross-subsidization of SOEs issued with PSOs.** Instead, the status quo is often maintained by cross-subsidization from profitable business activities of SOEs. Identifying and agreeing on a compensation policy for SOEs undertaking PSOs could support the former by (a) creating a higher valuation of SOEs prior to privatization, (b) ensuring that PSOs (if any) are met following the privatization, or (c) improving efficiency and sustainability of SOEs that are to remain in state ownership. A clear and transparent plan is needed to understand the process for maintaining PSOs.

50. **To date, there is limited information to assess the progress of GoU's corporate governance reforms.** In 2022, GoU introduced the practice of competitive selection of candidates to the supervisory boards of SOEs. One of the immediate corporate governance reform priorities is the introduction of competitive selection of the executives of SOEs with a fixed term in office of up to three years. In addition, 100 foreign managers will be involved in the management bodies of SOEs. An assessment of the performance of members of the supervisory board and the executive body is also being introduced, which will be linked to corporate governance indicators and key performance indicators. These goals are ambitious, but to date there is an absence of publicly available aggregate reporting that would provide a

⁵⁶ World Bank, 2021. Country Economic Memorandum for Uzbekistan. Chapter 7. SOEs: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/862261637233938240/full-report>

⁵⁷ SAMA, 2022. <https://davaktiv.uz/ru/news/the-state-assets-management-agency-has-published-an-analysis-of-the-financial-statements-of-enterprises-with-state-participation>

⁵⁸ For instance, SAMA's website provides links to the following websites that should have detailed information about SOEs: <https://kpi.davaktiv.uz/site/uz/sama> and <https://murojaat.davaktiv.uz/>

consolidated view both on financial performance and corporate governance reform progress and achievements. Increased publication and transparency of such aggregate reporting is needed to ensure corporate governance reforms deliver the anticipated results.

Recommendations

- **To achieve GoU’s SOE sector goals, there should be concerted efforts to speed up the reforms.** In particular, the announced targets related to reducing the number of enterprises with state participation, as well as accelerating the process with IPOs and secondary sales of shares in SOEs require urgent attention. A significant amount of privatization will need to take place in the next three years for the GoU to meet its 75 percent reduction target.
- **Transparency around the performance of SOEs should be strengthened.** The government should address the lack of systematic and comprehensive financial information for SOEs. Also, there should be more clarity on the linkages between the key performance indicators and the overall SOE strategy and its objectives. As well, it will be important to ensure that SAMA and ASR have sufficient capabilities to monitor SOE performance, and that their respective remits are clear.
- **SAMA should work on improving quality and timely availability of aggregate reporting on the SOE portfolio.** The coverage of the SOE sector in SAMA’s first aggregate report should be expanded. Moreover, there is a need to expand the analysis beyond the financial indicators. SAMA should produce consolidated and/or aggregate reporting on all SOEs, to ensure all fiscal risks from the consolidated SOE portfolio are correctly assessed. Finally, including detailed information on expenditures by ministries and providing information on allocations to and earnings from SOEs in budget documents could further inform reform efforts.⁵⁹
- **Ensure a sound system of performance monitoring is established at an SOE level, using a top-down approach.** SAMA should monitor the progress made on SOE corporate governance reform. As a priority, it is important to (a) keep track of the implementation of the performance evaluation of SOE executives, (b) monitor corporate governance reforms at the individual SOE level, and (c) evaluate the supervisory board according to the results of corporate reforms. The implementation of the norm whereby the supervisory board should consider executive reports, prominently including reports on procurements, at least quarterly, should also be upheld. Finally, a specific mechanism of remuneration for supervisory board members in connection with the results of the corporate governance reforms should be developed to ensure the norms can be effectively implemented.

⁵⁹ US Department of State, 2022. 2022 Fiscal Transparency Report: Uzbekistan. <https://www.state.gov/reports/2022-fiscal-transparency-report/uzbekistan>

III. Sectoral Analysis

51. In addition to examining cross-cutting governance issues relating to the InfraGov dimensions, this report also analyzed specific sector governance issues. A benchmarking exercise identified the WSS and ICT sectors as having the severest governance concerns.⁶⁰

A. Water and Sanitation Services

State of Play

52. **Infrastructure in the WSS sector requires immediate attention.** The 2020 sector review data highlights significant disparities and deficiencies in water supply services, particularly in rural areas. Some 60-65 percent of the rural populace have water for a maximum of six hours daily, with only 17 percent of consumers having consistent water availability. More broadly, almost 35 percent of the populace are not connected to centralized water systems. There are also concerns regarding the sources of water, with 19.4 percent of the populace depending on wells, springs, and individual untreated wells, 6.8 percent using water from irrigation canals, channels, and rivers unfit for consumption, and 8.7 percent relying on water deliveries. More broadly, the coverage of centralized sewage services is critically low, with a national average of 16.5 percent, albeit significantly higher in major cities (up to 62.3 percent).⁶¹ This data underscores the urgent need to improve and expand water supply services, especially in rural areas.⁶²

53. **The Government of Uzbekistan has initiated a series of reforms to enhance planning and regulatory capacity in the WSS sector.** Prior to 2015, the country had 131 distinct water utilities with occasionally overlapping mandates, varied scales and capabilities, and no clear public reporting arrangements. The first phase of the reforms began through Government Resolution #306, issued October 30, 2015, when *vodokanals* were regionalized into *Suvokovalar*, responsible for both water supply and sewerage services. The underlying objectives of restructuring were to improve service delivery by consolidating human resources and technical capacity, leveraging economies of scale, and promoting financial sustainability. Each *Suvokova* took over the operation of the assets and management of staff of city and district water supply and sanitation services in its region. In 2017, the Ministry of Housing and Communal Services was established under Decree of the President of the Republic of Uzbekistan No. UP-5017⁶³ to improve sector governance. It became responsible for reconstructing WSS facilities and setting a tariff policy. In 2018, the Decree of the President of the Republic of Uzbekistan No. PP-4040⁶⁴ prioritized the development of water supply and sewage systems, emphasizing advanced foreign experience, modern technologies, facility construction and reconstruction, financial stability, and capacity building. In 2019, JSC O'zsuvta'minot, the sole WSS SOE utility company, was established by Presidential Decree.⁶⁵ JSC O'zsuvta'minot was tasked with formulating a 2020-2024 WSS sector development concept,

⁶⁰ This governance lens ensured the avoidance of replication of previous or ongoing sector work undertaken by other components of the World Bank.

⁶¹ Cities with populations above 1 million.

⁶² Dr. Kvint, Moscow State University, 2020, Strategy of Water Supply and Sanitation of the Republic of Uzbekistan until 2035.

⁶³ [Decree of the President of the Republic of Uzbekistan No. UP-5017 dated April 18, 2017.](#)

⁶⁴ [Presidential Decree of the Republic of Uzbekistan No. PP-4040 dated November 30, 2018.](#)

⁶⁵ [Presidential Decree of the Republic of Uzbekistan No. PP-4536 dated November 26, 2019.](#)

encompassing a comprehensive industry analysis, target indicators, investment attractiveness measures, and private sector involvement. In 2019, Resolution No. 309⁶⁶ regulated the procedure for establishing tariffs for WSS services, requiring them to cover service costs and include expenses for developing and modernizing water supply and sewage organizations.

54. **Donor financing has been crucial in supporting Uzbekistan’s efforts to improve WSS infrastructure and services.** By providing financial and technical assistance, it has facilitated the implementation of various projects to increase access to clean water, improve wastewater treatment, and promote efficient water resource management. As of 2021, \$2.35 billion was allocated to 22 investment projects in the WSS sector, with \$1,972.9 million (83.9 percent) deriving from multilateral and bilateral funds and \$377.6 million (16.1 percent) from state budget funds. Although the allocation from the State Budget is substantial, it represents only a small fraction of what is needed as the total sectoral needs, amounting to 4.5 billion USD.

55. **JSC O’zsuvta’minot, in collaboration with relevant government stakeholders, is adopting an innovative approach to WSS issues.** In November 2022, with support from MIIT, Tashkent City Municipality, and the Ministry of Construction and Housing and Communal Services, it signed a management cooperation agreement with SUEZ, a French-based utility company specializing in water management (see Box 3). Spanning seven years, the SUEZ agreement aims to tackle critical challenges in water management, including water losses (which the partnership plans to address by implementing a metering system, evaluating the existing tariff-setting process, and prioritizing debt collection). By leveraging the expertise of SUEZ, JSC O’zsuvta’minot and the Uzbek government should be able to ensure a more efficient and financially sustainable WSS sector.

⁶⁶ [Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 309 dated April 13, 2019.](#)

Box 3: SUEZ Secures Landmark Agreements in Uzbekistan’s Water and Sanitation Sector

On November 22, 2022, SUEZ signed key agreements with its Uzbek partners, including the National Water Company “O’zsuvta’minot,” the Municipality of Tashkent, and the MIIT. These agreements signal the commencement of the Tashkent water and sanitation project and further solidify SUEZ’s role as a trusted partner in modernizing Uzbekistan’s water infrastructure and services.

Key Highlights

- SUEZ embarks on a pioneering seven-year project focused on upgrading Tashkent’s water and sanitation networks to international standards using digital solutions and advanced technologies, worth €142 million. The project financing is sourced from three distinct entities. The French government is providing a loan valued at approximately €30 million; the BPI French Government Fund is contributing an estimated €80 million, while Deutsche Bank will supply the remaining funds, backed by sovereign guarantees from MoEF. Recognizing the project’s strategic significance, the Municipality of Tashkent has committed to bearing the repayment cost. The repayment will be made through the city’s budget, underscoring the project’s social implications.
- The project aims to enhance citizen satisfaction and quality-of-life in the capital through improved water quality and top-tier customer services.
- SUEZ will establish the “SUEZ Uzbekistan Water Academy” to train the next generation of Uzbek water specialists and managers.
- The project will contribute to the local economy and knowledge transfer by localizing the industrial production of water equipment in Tashkent, including 800,000 smart meters.
- A comprehensive strategic partnership will see SUEZ support in upgrading and expanding water services nationally, with 62 projects planned for execution until 2025, amounting to €5 billion.
- SUEZ will deploy an experienced resident team to help with the planning, design, monitoring, and execution of national projects and to oversee their commissioning and efficiency.
- A joint Development Agreement has been signed to improve the water supply in the Surxandarya region, laying the groundwork for substantial investment in the region’s water infrastructure.

Source: SUEZ Group, SUEZ Press Release, November 22, 2022, Paris. <https://www.suez.com/en/news/press-releases/suez-launches-its-landmark-contract-in-tashkent-and-becomes-the-strategic-partner-of-uzbek-authorities-in-water>

Key Challenges

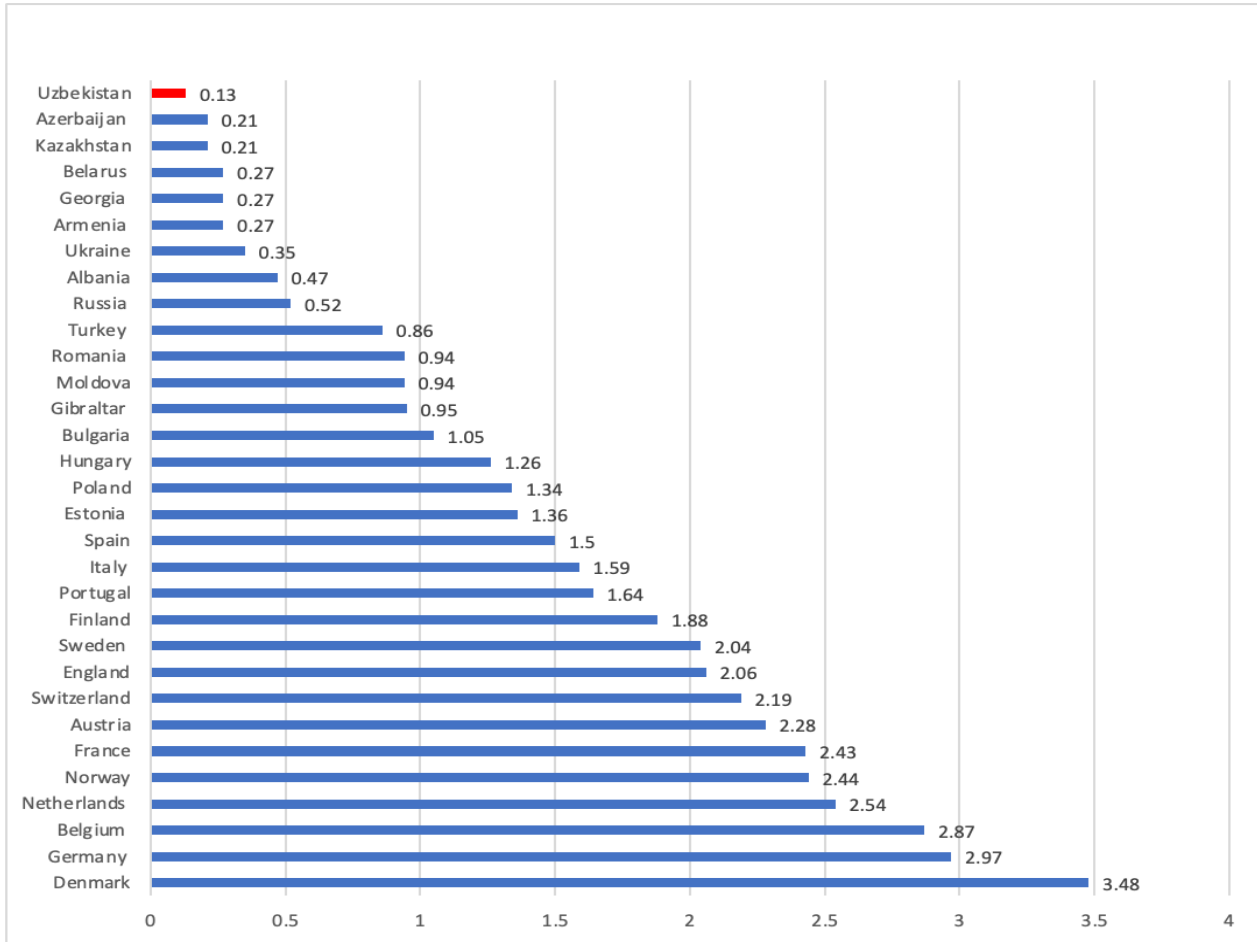
56. **The WSS in Uzbekistan has implemented a decentralized approval process of water tariff; while innovative, some elements of this approach may hinder the sector's long-term investment in infrastructure.** The tariffs for private households must be approved by the individual local councils/parliaments across Uzbekistan.⁶⁷ JSC O’zsuvta’minot initiates the process by setting the tariff, preparing the justification, and communicating this to the regional offices of MoEF and the Committee for Competition Promotion and Consumer Protection. Once agreement between the three parties is reached, the proposed tariffs will be publicly announced for open discussion for 15 days and then presented to the elected local council, where they must be publicly defended. The process of tariff approval invites local communities to participate in negotiations and allows for tailored water tariff structures that consider socio-economic factors. Concurrently, there are limited incentives for local councils to approve higher

⁶⁷ [Decree of the President of the Republic of Uzbekistan No. UP-6074 dated September 25, 2020.](#)

tariffs to avoid conflict with their constituents. This poses a risk to the sustainability of the investment and deterioration of services. In fact, WSS tariffs have remained without change since January 2021, even where there is a strong economic rationale for increasing tariffs. The current process diminishes the available resources for maintenance and investments to improve and expand services, contributing to chronic underfinancing in the water sector. Currently, any gaps should be covered from the respective regional budgets, but it remains to be seen whether this actually happens in practice. Tariffs should adhere to the cost recovery principle for WSS enterprises while considering the impact on low-income households, which often allocate a sizable portion of their budgets to utility bills. In this context, it is imperative that tariff proposals be developed with a commitment to fairness, transparency, and comprehensive justification and that they are approved without encountering any supplementary complications. As a result, it is imperative to address the water supply costs by implementing a metering system. This approach ensures that the tariff calculation remains well-grounded while concurrently enhancing the requisite capabilities of the personnel involved.

57. Tariffs for water supply are currently operating below cost-recovery levels and remain lower than most other developing countries. JSC O'zsvta'minot has a uniform approach for tariff settings, where its estimation is based on the cost of providing services and on regional factors, such as household income levels and macroeconomic indicators (including inflation, etc.). Uzbekistan has three categories of subscribers: households, budget organizations, and other enterprises (commercial and non-commercial). Tariffs are based on a cross-subsidy method, meaning that low rates for the populace are compensated by high rates for budget organizations and enterprises. The distribution of subscribers by categories is as follows: the populace (or households) accounts for approximately 97.7 percent or 3,959 thousand out of 4,052 thousand connections, budget organizations account for about 0.3 percent of the total or 13.3 thousand, other commercial customers, including wholesale consumers, account for 2 percent of subscribers (79.7 thousand). Tariffs are based on a volumetric pricing principle, using either a meter to measure actual water consumption or standards of water consumption set by local government authorities (for example, based on number of people living in a household) when meters are not available. Figure 3 shows price comparison across a wide spectrum of regions.

Figure 3: Water Tariffs, International Comparison—\$ per m³



Source: Concept of comprehensive development and modernization of WSS systems in the Republic of Uzbekistan for the period up to 2035. Based on Decree of the President of the Republic of Uzbekistan, no. PP-4040 dated November 30, 2018.

58. **The sector’s financial state inadvertently impacts the professional level of its employees.** The financial problems in the sector preclude provision of an adequate level of wages compared to other sectors of public utilities (gas supply, electricity supply), thereby hindering the recruitment of educated personnel. As a result, the sector is currently staffed by low-skilled local level employees of advanced age, with staff turnover being at almost 20 percent in 2021. There is an urgent need to enhance the professional skills of water utility personnel. Training and development of technical, financial, and managerial staff and parallel employee wage adjustments are critically required. Overall, water utility companies employ a significant workforce who are poorly compensated. Consequently, many employees are compelled to seek supplementary employment to sustain their livelihoods.

59. **The WSS sector faces substantial financial challenges from declining revenue collection and low tariff rates.** A primary concern is the dwindling revenue collection rate, which JSC O’zsuvtá’minot aims to raise from the current 65-70 percent—impacted by the COVID-19 pandemic—to a more ambitious 95 percent. The pandemic led to job losses, reduced income, and financial strain for many households, affecting their ability to make timely payments. Payments are deemed overdue after an average of 90

days, with approximately 15 percent of total residential household revenue being delayed by over five months. In contrast, commercial and state-owned enterprises consistently make timely payments with no outstanding balances. Another vital issue to address is non-revenue water, which weakens WSS sustainability and stalls private sector involvement in the sector, partly because of poor asset management. Currently, approximately 60 percent of residential households utilize metering systems, with the remainder depending on occupancy-based assessments. In contrast, commercial entities benefit from full metering coverage. JSC O'zsvta'minot applies a methodology that attributes 5 percent of losses to technical water issues, 10 percent to production expenses, and 15-17 percent to unrecovered losses, resulting in an overall water loss of approximately 30-32 percent. Finally, while O'zsvta'minot has advanced in improving billing and invoicing, there is still a lack of consistent and robust data on actual water consumption. Addressing these challenges is crucial for JSC O'zsvta'minot, as failure to do so could compromise the water sector's financial sustainability and further deplete scarce water resources.

60. Exploring well-regulated private sector investments could accelerate the expansion of coverage and access to essential water services and improve revenue collection and financial sustainability. As illustrated in Box 4, the example of private participation in infrastructure in Armenia provides valuable insights into the improvements achieved in the country's WSS sector.

Box 4: Private Sector Involvement and International Operators Have Significantly Improved Armenia's WSS Sector Performance

The most common forms of private sector participation in the Republic of Armenia's WSS sector are management contracts and lease contracts. The issue of full privatization (transfer of assets) of water supply and sewerage systems could not be considered, as it is prohibited by law. Since the early 2000s, all primary WSS systems in Armenia have been transferred to international operators.

The Yerevan Water Supply Company (and 32 nearby rural settlements) had a 10-year lease contract with Veolia Water (France), which has investment commitments of €9 million. Significant improvements have been made since 2006. The number of consumers equipped with meters increased from 56 to 95 percent; the water supply service time in Yerevan increased 3-4 times (to 18 hours a day), current water consumption was reduced by more than 50 percent, and payment collection increased 4-5 times (from 20 percent to 85-95 percent).

The Arm-Water-Canal Company delegated the issue of providing services under the management contract to SAUR (France) for inter-regional systems, with a contract term of four years + a two-year potential extension. The availability of water supply services increased 2-3 times, reaching 12.1 hours a day; energy consumption declined by 10 percent; payment collection increased by 28 percent, the number of subscribers equipped with meters rose by 65 percent, and employee wages increased 4-5 times.

Source: Concept of comprehensive development and modernization of WSS systems in the Republic of Uzbekistan for the period up to 2035. Based on Decree of the President of the Republic of Uzbekistan, no. PP-4040 dated November 30, 2018.

Recommendations

- **Achieving full-cost recovery of operations and maintenance through gradual tariff increases would significantly benefit JSC O'zsvta'minot.** One potential solution is implementing a more dynamic tariff (block or seasonal tariff) system, which adjusts to consumption levels or customer

categories.⁶⁸ Such a system would incentivize water conservation and ensure that high-consumption users bear a proportionately larger share of the service provision costs. This strategy could be reinforced by implementing a uniform tariff across the country as an alternative or complementary approach, with a surcharge applied for the capital city, Tashkent, to account for higher-income levels and consumption.

- **Improving the invoicing and payment collection system, as well as expanding metering, is crucial for the financial sustainability of JSC O'zsvta'minot organizations.** Although the entity has made progress after implementing an automated billing system in 2017, updated and unified in 2021, it is essential to establish more flexible and effective methods for due and full fulfillment of payment obligations by households, collect more consistent data on water usage, and thus foster improved collection rates.
- **Reducing non-revenue water (NRW) is essential for enhancing the operational efficiency of O'zsvta'minot organizations.** No cost-benefit analysis has been conducted to evaluate the feasibility of reducing water losses in the country even though current NRW levels approximate 32 percent of potential earnings, substantially increasing operating expenses. Developing and implementing targeted programs—through systematic strategies for leak detection, repair, and pressure management—for its reduction is essential to improving operational efficiency and enhancing financial viability, as is strengthening the technical and managerial skills of utility staff through training programs. Significant investments in time and money are required to address these extensive issues, which prioritizes forming partnerships with the private sector to mobilize needed investments. Successful application of the strategy applied in Armenia can serve as an example for adoption in Uzbekistan. While the absence of a regulatory framework may seem challenging, a learning-by-doing approach could prove beneficial for the overall development of the sector. This hands-on method allows flexibility and adaptation, which can be instrumental when navigating uncharted territories.
- **Implementing a series of investment roadshows of critical projects has successfully drawn private-sector interest in the energy sector in the past few years, stimulating transformative results.** Engaging well-established WSS utilities through a competitive process for sector development is advisable, as it brings international industry expertise, a developed pipeline of projects, and crucial financing that Uzbekistan's WSS sector urgently needs. By leveraging the private sector's experience, resources, and asset management, the overall efficiency and sustainability of the WSS sector can be significantly improved. However, this should be accompanied by efforts to strengthen regulatory systems and policies. A roadmap should be established to provide a predictable tariff structure and foster a more conducive environment for private-sector engagement. This dual approach would create a stable, predictable environment that incentivizes private-sector investment and innovation.

⁶⁸ While tariffs should aim to reach the overall cost-recovery level, this should be an overall goal and not a requirement for each consumer category. Each consumer category should aim to reach its own cost-recovery level, based on cost and affordability.

- **Developing a long-term strategy for the WSS sector, spanning 10-20 years, is advisable.** This forward-looking plan would serve as a blueprint for how the sector intends to tackle current and emerging challenges over the specified period while considering various probable future scenarios to ensure the sector’s robustness and resilience in the face of changing circumstances. It should anticipate demographic changes, climate impacts, technological advancements, and evolving societal expectations while providing a clear vision for sector development that can streamline public and private-sector engagement.

B. Digital

State of Play

61. **Uzbekistan has achieved mixed results with regards to the development of its digital sector.** According to the latest available International Telecommunication Union (ITU) indicators, about 77 percent of Uzbekistan’s population uses the internet. This value is above the estimated world average of 66.3 percent but below the regional leader Kazakhstan (92.3 percent).⁶⁹ Similar patterns are found also in relation to the affordability of the digital services. For all consumption baskets tracked by the ITU (either for fixed or mobile technologies) Uzbekistan finds itself in a better position compared to the global averages and most countries in Central Asia, but it is sometimes outperformed by Kazakhstan.⁷⁰ From a regulatory point of view, the latest ITU assessments while acknowledging the significant progress made across several dimensions in recent years still consider the overall framework missing key elements in relation to institutional development and degree of competition.⁷¹

62. **In 2020, GoU adopted a “Digital Uzbekistan 2030 Strategy” that envisages several breakthrough measures for the country.**⁷² The Decree stipulates that the strategy is being implemented on the basis of three-year programs separately approved by the Cabinet of Ministers outlining targets and the main directions for the further development of digital technologies. According to the Institute for Strategic and Regional Studies under the President of Uzbekistan, the implementation of 1,627 projects for the digital transformation of regions and industries has been set for the next three years, in line with the 2030 strategy.⁷³

63. **Between 2020 and 2022, the government introduced sundry ICT-related initiatives.** For instance, GoU introduced several e-government practices, and digital services available for businesses now include registration, licensing, VAT payment, and access to finance. As a result, Uzbekistan climbed up 18 positions in the latest UN e-government Development Index, ranking 69th of 193 surveyed countries. GoU also established incentives for digital development, including concessional loans and training subsidies

⁶⁹ Depending on the country, the data can refer to either 2021 or 2022. See <https://datahub.itu.int/data/?i=11624>

⁷⁰ The available data refers to 2022. See <https://www.itu.int/en/ITU-D/Statistics/Dashboards/Pages/IPB.aspx>

⁷¹ See both the ICT Regulatory Tracker (<https://app.gen5.digital/tracker/metrics>) and the G5 Benchmark (<https://app.gen5.digital/benchmark/metrics>) indices.

⁷² On the approval of the strategy ‘Digital Uzbekistan—2030’ and measures for its effective implementation” was approved by the Decree of the President of the Republic of Uzbekistan (No. UP-6079, October 05, 2020, accessible at <https://lex.uz/ru/docs/5031048>

⁷³ ISRS, 2022. The President of Uzbekistan proposed to create an “Intellectual Silk Road” platform, January 28, 2022. Accessible at <https://isrs.uz/en/smti-ekspertlari-sharhlari/2356>

provided to small and medium-size enterprises. To improve the availability of highly trained IT professionals, GoU introduced IT visas for foreign specialists.

64. GoU has made considerable progress in improving the quality and access to Internet connectivity Substantive investments have comprehensively expanded both fixed and mobile infrastructure. This includes the expansion of backbone and transmission networks, and the installation of fiber cabling. Since the adoption of Digital Uzbekistan 2030, more than 100,000 km of fiber optic cables have been deployed across the country, connecting some 80 percent of all settlements across the country to fixed broadband. Additionally, by the end of 2022, 98 percent of all residential areas were covered with mobile broadband. However, these investments are mostly conducted by SOEs while private investment is lagging behind, especially in rural and remote areas. The state-owned operator Uzbektelecom, which owns more than 95 percent of the country’s fiber optic backbone and middle-mile infrastructure, currently dominates in both fixed retail and wholesale markets (with market shares consistently above 90%)⁷⁴ and has recently taken a market lead also in mobile retail services (though market shares are more balanced across the different providers with the top four all having more than 20% of total subscriptions in the country)⁷⁵. Although private sector companies provide last-mile fixed broadband services to households—largely in urban areas—these companies must use Uzbektelecom’s wholesale and gateway infrastructure, while simultaneously facing competition from Uzbektelecom’s own last-mile retail services to households.

65. The Ministry of Digital Technologies (MDT) emerged as a result of the government reform in 2023 and carries a broad mandate over the regulation and control of the ICT sector.⁷⁶ It oversees coordination, monitoring, evaluation, and control on ICT-related issues, and is the regulator of the ICT sector, including licensing and control, and use of the radio frequency spectrum. It is also directly involved in further development and modernization of ICT infrastructure and development of the technical infrastructure to protect information resources, as well as works to attract foreign investment for the implementation of priority projects.

66. The ICT sector is also subject to state authority through the State Inspectorate for Control in the Sphere of Informatization and Telecommunications (State Inspectorate “Uzkomnazorat”). The Inspectorate was established to manage the implementation of e-government policies and compliance of state institutions with the e-government regulations. According to the Resolution No. PP-4452 “On additional measures to improve the system of control over the introduction of information technologies and communications, and the organization of their protection,” Uzkomnazorat, on the recommendation of the Agency for Information and Mass Communications is tasked with responding to entities violating the legislation of the Republic of Uzbekistan. Uzkomnazorat’s website publishes annual reports on its

⁷⁴ See latest report on Uzbekistan in the Telegeography GlobalComms Database at p.54.

⁷⁵ See latest report on Uzbekistan in the Telegeography GlobalComms Database at p. 30.

⁷⁶ Much of MDT’s remit was previously exercised by the Ministry of Development of Information Technologies and Communications, created in 2015 as the entity responsible for the implementation of ICT policies, including ‘e-government’ policies, and for the development of integrated programs for the introduction and protection/use of information. More recently, some digital transformation matters fell under the Ministry for Innovative Development, which was reorganized into the Agency for Innovative Development and placed under MDT.

activities regarding e-government policies as well as some informative summary statistics on the results of its reviews.⁷⁷

Key Challenges

67. **Uzbektelecom faces a clear case of potential conflict of interest with regards to its role in the supply of international connectivity.** Through the International Packet Switching Center, the market dominant Uzbektelecom provides access to the global Internet to all Internet providers active in Uzbekistan. According to the Committee for Competition Promotion and Consumer Protection (formerly, the Antimonopoly Committee), Uzbektelecom faces a conflict of interest because it both governs the digital infrastructure and is active in retail markets, such as fixed Internet, mobile, and other services.⁷⁸ Given that Uzbektelecom is selling international Internet access services to its competitors, the Committee noted that the company would likely fall under the definition of a monopoly according to a new competition law that is being drafted.⁷⁹ The change in the legal definition of a monopoly may put pressure on Uzbektelecom's price setting.

68. **In the context of rural connectivity attempts have been made to crowd in further private financing to expand broadband networks, but institutional barriers still remain.** Although expanding the rural broadband network is a strategic priority for Uzbekistan, large digital infrastructure projects have not typically been funded through the state budget. As a result, the Ministry of Investment, Industry and Trade (MIIT) has negotiated multiple bilateral agreements with donor institutions to provide loans with government guarantees. Uzbektelecom has recently signed a new infrastructure agreement with four Japanese firms—Internet Initiative Japan, NEC, NTT, and Toyota Tsusho. The agreement stipulates that the firms will provide network equipment and services for a wide-reaching initiative under the Digital Uzbekistan 2030 digital economy program. As part of the initiative, Uzbektelecom intends to build new data centers in Bukhara, Kokand, and Tashkent, three of Uzbekistan's main cities, as well as to increase the capacity and speed of its international data network. This would aid the operator in enhancing service quality and increasing connectivity between rural and urban areas. According to MDT and Uzbektelecom, the agreement will involve government guarantees with the loan taken out directly by Uzbektelecom. To achieve full coverage of high-speed mobile Internet along “highways of international importance” and on railways across the country, Uzbektelecom signed a deal with Chinese companies Huawei and ZTE. The agreement was reached in late 2022 and supported by the now-superseded Ministry of Information Technologies and Communications. It remains to be seen whether (a) private investment in this rural broadband network will suffice to ensure ubiquitous coverage, and (b) previously noted challenges (see Chapter II Section A) with respect to project preparation and the lack of a uniform methodology for addressing fiscal risks have been adequately addressed.

69. **There is a lack of transparency on the extent of state support for digital infrastructure, which makes potential cross-subsidization hard to monitor.** Investments in ICT are made by private parties where the activity is profitable; meanwhile, Uzbektelecom delivers state-mandated digital infrastructure projects when directed by Presidential and/or Cabinet Decree. Apart from some state support in the form

⁷⁷ For more details, see <https://gis.uz/activity/statistics>

⁷⁸ The unbundling of Uzbektelecom is a related regulatory action, for which the World Bank has advocated as part of the ongoing dialogue on the forthcoming Development Policy Action.

⁷⁹ The Senate approved the new Law on Competition on March 2, 2023. Among other aspects, the document amalgamates the Law “On Natural Monopolies” (adopted in 1999) and the Law “On Competition” (adopted in 2012). The text of the Law is currently unavailable because it has not yet been signed by the President of Uzbekistan.

of government guarantees for these projects, the possible existence of additional forms of cross-subsidization of such projects is not made publicly available. Currently, ICT-related projects are a part of the annual investment program of the state. The 2021-2023 state investment program includes allocations to the MDT, local authorities, as well as project-specific allocations.

70. **While Uzbektelecom has been earmarked for privatization, there is limited clarity on when the process will take place and its impact on the delivery of future projects.** On October 27, 2020, the President of Uzbekistan signed Decree No. UP-6096 “On the Measures to Accelerate Reforming of Enterprises with Participation of the State and Privatization of State Assets.”⁸⁰ Uzbektelecom was included in the list of large SOEs that should be privatized in accordance with Annex 1 of the Decree. Privatization of Uzbektelecom by conducting an IPO should be concluded by the end of 2023, in line with the government’s objectives about divesting dating from the early 2000s. However, there is limited clarity on whether the privatization will go forward in the near future or how state-mandated infrastructure projects will be delivered following any privatization, especially given the ambitious agenda of expanding broadband to all regions of Uzbekistan.

71. **Similar to the public investment process, there is a fragmentation of roles within the planning and provision of digital infrastructure.** Following Presidential and/or Cabinet direction, Uzbektelecom prepares a project proposal and sends it to MDT, MIIT, and MoEF for review. These ministries decide whether the project aligns with government priorities and assess the documentation’s quality. In case a project is funded from the budget, the review process takes place primarily at MoEF, which determines whether (a) the project is in line with strategic goals and plans, and (b) there is sufficient fiscal space for it. Projects funded by international partners go through MIFT. All the ministries must agree on including a particular project within the scope of the investment program for the following year. Once a project is approved, MIFT begins negotiations with the external financing entity.

Recommendations

- **Enhance the clarity and predictability of existing rules together with increasing transparency on the state financial support received by sector SOEs.** This would strengthen the incentives to expand investments of all the operators especially in higher cost geographic areas, helping the country to accelerate the achievement of its rural connectivity targets. In addition, this would also have a beneficial effect on the management of the public debt, as it would ensure that the government is not taking on significant amounts of debt in financing ICT infrastructure development.
- **Alleviate key infrastructural bottlenecks to reduce marginal costs for all operators, ultimately lowering retail prices and enhancing the affordability of digital services.** One of the most important is international connectivity. Currently this segment of the value chain at the wholesale level is monopolized by Uzbektelecom. Therefore, the price that telecom companies pay for this essential input constitutes a floor for what they charge to their retail consumers. This is avoided only by state-owned UMS LLC (Mobiuz) and COSCOM LLC (Ucell), which can skip the intermediation of Uzbektelecom because of a special right to international bandwidth that they

⁸⁰ <https://lex.uz/docs/5068826#5071382>

have been granted (with the obligation not to resell any spare capacity). Such situation distorts the level playing field, reducing incentives for service expansion and their overall affordability.

- **In the medium term, the Government could consider reducing its overall involvement in the direct provision of digital infrastructure and services.** This could be coupled with expanding 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. Specifically, technically competent institutions that create and enforce sectoral rules (for example, in relation to interconnection between networks) independently from the political process and without being captured by the overseen companies must be established. At the same time, regulators should remain accountable for their decisions by imposing on them duties to motivate their actions. Moreover, even under this alternative institutional paradigm, the political function to decide the appropriate balance between opposing objectives remains with the Government (for example, with reference to spectrum allocation the need to balance the level of public revenues obtained and the resulting retail price of digital services remains a political choice that should not be delegated to the regulator).

Annex 1. Methodology

1. **Sustainable, affordable, and cost-efficient infrastructure services are a fundamental pillar of long-term development.** Evidence shows that weak governance arrangements for infrastructure decision-making and implementation impede asset creation and operation. Governance of infrastructure sectors is a critical driver of sector performance, as well as a key determinant of the fiscal risks and investment climate for private finance. Governance of infrastructure sectors is complex and multifaceted, posing significant challenges along various stages of the infrastructure supply chain, and encompassing both regulatory and institutional dimensions.

2. **The economic crisis arising from COVID-19 has heightened the importance of sound infrastructure governance.** The pandemic and its associated economic downturn have simultaneously increased demand for certain types of infrastructure (whether new or retrofitted), reduced resources available for investment, and intensified the need for value for money (VfM) in infrastructure service provision, including through state-owned enterprises (SOEs). Infrastructure investment is likely to feature as a key component of economic recovery packages. Increased transparency and integrity will be critical given that there may be pressure to accelerate spending. In addition, investment will need to pay increased attention to social benefits, including employment generation, climate and environmental aspects, and impact on economic growth. Planning capacities and the governance of infrastructure planning, procurement, and delivery will also be critical in making infrastructure an effective part of economic recovery initiatives.

3. **The Infrastructure Governance Assessment Framework was developed in 2019 by the World Bank's Governance Global Practice and the Public-Private Partnership, Infrastructure Finance and Guarantees Group and Infrastructure Chief Economist.** The purpose of applying the InfraGov assessment framework is to help countries address governance challenges around infrastructure service provision and enable them to achieve VfM. The InfraGov forms one of the three pillars of the Infrastructure Sector Assessments Programs (InfraSAP) framework, a World Bank-extended core diagnostic, providing a diagnostic approach covering 11 key governance dimensions that contribute to good delivery of infrastructure services.

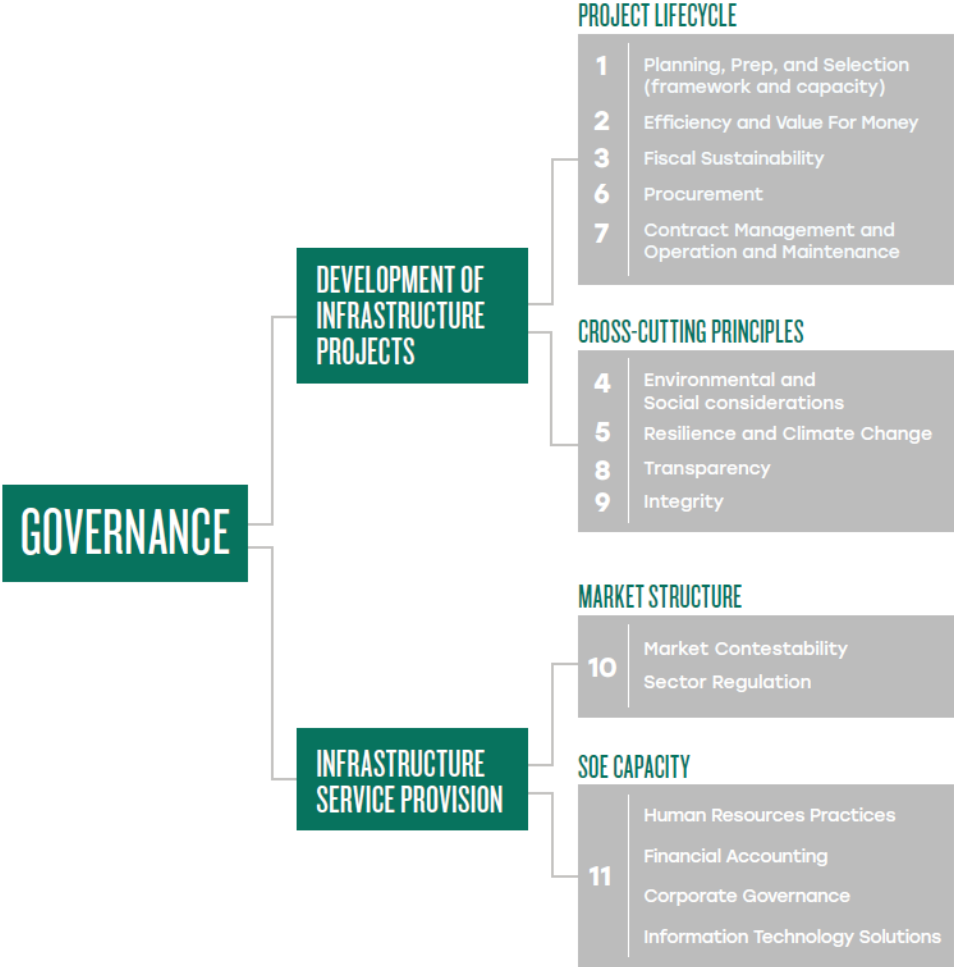
4. **The framework provides an overview of the governance that leads to quality infrastructure and offers resources and methodologies for conducting such an assessment.** The aim is to provide actionable recommendations that result in concrete policy changes. The set of dimensions outlined in this framework builds on existing standards, drawing on the Quality Infrastructure Investment principles developed and endorsed by the G20, MAPS methodology, the World Bank's integrated State-owned Enterprise (iSOE) Framework, Infrastructure Governance for Maximizing Finance for Development, previous InfraSAPs, more than 100 public investment management (PIM) assessments, the 2017 Organization of Economic Cooperation and Development framework "Getting Infrastructure Right," International Monetary Fund (IMF) research, and national government good practices.

5. **Broadly speaking, the InfraGov framework assesses three major areas of infrastructure governance.** The first area relates to the lifecycle of an infrastructure project, focusing on selection, design, procurement, and implementation of investment projects. The second identifies key cross-cutting issues for good infrastructure, including integrity, transparency, and consideration of social, environmental, and climate-change risks and opportunities. The third area concerns the ways in which

infrastructure services are provided to consumers. It encompasses market structure and competition, the regulatory framework for addressing natural monopoly activities, and corporate governance and governance arrangements around SOEs.

6. **The relevance of these broad areas and dimensions may vary depending on the specific governance arrangements in place for different sectors in different countries.** They are only meant to offer an analytical framework that helps uncover governance issues affecting the provision of infrastructure assets and services. They are not intended to prescribe specific systems or institutions; rather they highlight functional behaviors likely to deliver good infrastructure outcomes, acknowledging that there are many different ways to stimulate these behaviors. This governance assessment framework is illustrated in the Figure below.

Figure 4: Infrastructure Governance Assessment Framework Pillar Flow Chart



Source: World Bank Group Infrastructure Governance (InfraGov) Assessment Framework, December 2020.

7. **Recognizing the distinct needs of Uzbekistan, the assessment is methodologically aligned, but not uniform, in terms of coverage of the 11 dimensions of the Infrastructure Governance Framework, allowing for some tailoring to the needs and opportunities present.** Based on the country profile,

previous assessments, and the reform priorities of the Government of Uzbekistan, seven dimensions were identified, and two specific infrastructure sectors were chosen to be the focus of this assessment (see Table below). These seven applied dimensions and sectors were selected following a period of desk-based research, internal consultations, and discussion of the strategic priorities of the country. As the dimensions captured in InfraGov Assessment Framework span several topics that are relevant to other areas and sectors within the World Bank (and IMF), this assessment is built on such previous analysis, avoiding duplication with any previous work. Annex 2 summarizes the recommendations within these reports and provides an update on their implementation progress. This report complements sector-based analyses with the application of a governance lens.

Table 3: Uzbekistan InfraGov Assessment Dimensions and Sectors

APPLIED DIMENSIONS AND SECTORS		
<i>Applied InfraGov Dimensions</i>	Project lifecycle	Dimension 1. There should be a solid legal framework and institutional capacity in place to plan, assess, prioritize, and select potential infrastructure projects.
		Dimension 2. Economic efficiency and VfM over the infrastructure lifecycle are important criteria in the choice of infrastructure investments.
		Dimension 3. The fiscal affordability and fiscal sustainability of infrastructure projects should be assessed and managed throughout their lifecycles.
		Dimension 6. Infrastructure procurement and contract management systems should be efficient, of high quality, and should support competition and transparency.
	Cross-cutting principles	Dimension 5. Incorporating resilience to climate change, natural disasters, and public health risks is important for infrastructure outcomes.
		Dimension 8. Transparent access to adequate information throughout the project cycle is key for project performance and accountability.
	Service provision	Dimension 11. SOEs should operate on market terms where possible, with clear reporting and corporate governance standards and sound approaches to human resources and financial management.
<i>Identified Sectors</i>	Water and Sanitation Services (WSS)	
	Digital	

8. **This report summarizes the findings from applying the InfraGov Assessment Framework to Uzbekistan.** This report was generated following a benchmarking exercise, discussions with World Bank Country staff, a review of previous reports from the World Bank and other development partners on PIM and public financial management, and two in-person fact-finding missions to Uzbekistan. When benchmarking infrastructure service delivery in Uzbekistan against economies in the same region or with the similar level of economic development, the framework looks at efficiency of institutions and processes in their delivery of investments and related services, through the review of studies, collection of new data, and a series of interviews/focus groups with government officials and private sector investors.

Annex 2. Progress on Public Infrastructure-related Recommendations

Source	Recommendation	Progress Report
2020-PIMA	Establish a unified public investment management (PIM) system to ensure projects are subject to the same procedures for development, appraisal, and selection regardless of funding source or form of procurement.	No progress - Investment decisions are fragmented by revenue source, with no standard and systematic framework for public investment that provides common guidance for project screening and selection. Limited regulations and guidance for economic appraisals means most projects are selected based on noneconomic judgments.
2020-PIMA	Develop standard guidance for the preparation of national and sectoral development plans and their costing.	No progress - The decisions and responsibilities for public investments are largely delinked from the regular budget process, which oversees current expenditures, and recurrent asset maintenance and replacement costs are not required when costing investment projects.
2020-PIMA	Strengthen procedures for prioritizing projects by establishing a single pipeline of appraised projects and standardized criteria for project selection.	No progress - there is currently no pipeline of future projects.
2019-PER	Ensure all future investment projects are based on a uniform cost-benefit analysis approach.	No progress - there is no uniform cost-benefit analysis approach existing in Uzbekistan.
2020-PIMA	Further strengthen the comprehensives of the budget by bringing externally financed capital projects and those projects funded through off-budget accounts of budgetary organizations on budget.	Partial Progress - Over the past three budgets, the government has integrated off-budget spending into a newly developed budget preparation and oversight framework governed by parliament. Between 2019-2021, the operations of the Uzbekistan Fund for Reconstruction and Development and 21 other extra-budgetary funds (EBFs) were included in the consolidated government budget. Starting with the 2022 budget, all remaining EBFs, several thousand off-budget accounts of government agencies, and all externally financed expenditures will be included in the consolidated government budget.
2019-PEFA	Develop a Medium-Term Debt Strategy (MTDS).	Partial progress - The government approved a new debt law that establishes an overall public and publicly guaranteed (PPG) debt ceiling of 60 percent of gross domestic product (GDP) and requires the government to implement containment measures when PPG debt crosses 50 percent of GDP. The new law will also enable the government to adopt a medium-term approach to debt management through the adoption of MTDSs that are aligned with the new medium-term budget framework.

Source	Recommendation	Progress Report
2019-PEFA	Ensure economic classification presented in the financial assets transaction reports is fully compliant with international standards (new lending is classified as expenditure in the budget and repayments of principal are classified as revenue).	Partial progress - Uzbekistan still does not produce financial statements that follow internationally recognized standards and practices. Twelve budget accounting standards have been adopted since 2017 in accordance with the International Public Sector Financial Reporting Standards (IFRSOS–IPSAS). A further 25 standards will be adopted between 2021 and 2024.
2019-PEFA	Medium-term fiscal strategy and program budgeting should be introduced.	Good progress - The government adopted its first medium-term fiscal strategy covering 2021-23 and has expanded budget information to include assessments of tax and fiscal policy for the medium term, a review and forward look of macroeconomic conditions covering 2019–23, an update on key improvements to the public financial management system, and a description of major fiscal risks.
2019-PEFA	The share of direct contract award method should be reduced. The total value of contracts awarded through competitive methods in the last completed fiscal year was about 42 percent, the remaining 58 percent represented direct contract award method.	Partial progress - A new public procurement law was approved in 2021 to modernize public procurement and increase transparency. The law will be accompanied by a new online platform for all public procurement that is being developed to strengthen monitoring and transparency. This will increase transparency of contracting companies and reduce opportunities for corruption. The effectiveness of the new law and platform could be further enhanced through improvements in business register data on beneficial ownership of companies.
2019-PEFA	Internal audit activities are primarily focused on financial compliance. The current practice of internal audit does not follow international standards and there is little or no internal audit focused on systems monitoring.	No progress - Internal audit is being developed in Uzbekistan and has been piloted in six ministries. There is a need to develop a methodology that complies with international standards and train government staff to apply the new methodology. Monitoring of planned audits and how audit issues are addressed by management is currently not effectively done but there are plans to introduce a Harmonization Unit at the Ministry of Finance (MoF) to conduct this function.
2019-OECD Anti-Corruption Reforms in Uzbekistan	Adopt a Law “On Public-Private Partnership” (PPP) allowing for the widest use of competitive procedures.	Good progress - Uzbekistan has adopted a public-private partnership law and created a new public body under the MoF—the Public-Private Partnership Development Agency (PPPDA), which allows for competitive procedures.
2019-PER	Include estimates of SOEs’ quasi-fiscal deficits and report them at least annually.	No progress - Almost no information is available about aggregate SOE debt, limiting the quality of public debt transparency and of fiscal risk management.

Source	Recommendation	Progress Report
2013- Uzbekistan Energy/Power Sector Issues (World Bank)	The government should consider a number of adaptation measures that can be introduced over time to enhance power sector resilience against climate-change impacts, such as diversification of electricity generation mix.	Partial progress - Uzbekistan's 2022-2026 Development Plan includes a goal for the energy sector to intensify energy-generating capacities by almost half of current production and increase the share of renewable energy in the total portfolio of the country's energy generation by 25 percent.

Annex 3. Summary of Regulatory Changes Pertinent to the State-Owned Enterprise (SOE) Sector, 2017-2023

Decree of the Cabinet of Ministers, No. 837 dated October 16, 2017	Amendments and additions were made to the provisions on the procedure for privatization of state-owned entities: in particular, territorial competitive commissions are being created. They are headed respectively by the Chairman of the Council of Ministers of Karakalpakstan and khokims of regions and the capital.
Decree of the President No. PP-2200 dated July 3, 2014,	Includes a list of enterprises and entities to be privatized and simplifies their privatization procedure.
Decree of the Cabinet of Ministers No. 1012 dated December 22, 2017,	Established the Center for Research on Privatization Problems, Development of Competition and Corporate Governance under the State Competition Committee; the Center for Research on Privatization Problems, Development of Corporate Governance, and the Securities Market; and Center for the Improvement of Antimonopoly Policy.
Decree of the President “On the Measures to Further Simplify Procedures and Accelerate the Implementation of State Property Objects for Use for Entrepreneurial Purposes” of January 17, 2017	The Chairman of the Council of Ministers of Karakalpakstan and the khokims of the regions and of the city of Tashkent have been given the authority to decide on the implementation of non-strategic state property, including state-owned real estate entities at a “zero” redemption value with the adoption of investment obligations.
Decree of the President No. UP-6096 dated October 27, 2020	<p>Mandates the inventory of all SOEs and includes the list of (a) large SOEs and economic entities subject to transformation; (b) enterprises with the participation of the state, in which corporate management and financial audit are implemented; (c) state assets put up for public auction by means of targeted programs of entrepreneurship preparation and investment attractiveness improvement; (d) the state package of shares which is fully sold to the private sector by means of public auctions; and (e) state-owned real estate, implemented by the private sector.</p> <p>It also aims to improve state oversight of SOEs and market competition by:</p> <ul style="list-style-type: none"> • creating the Department for the Transformation of Large Enterprises with the Participation at the MoF. • preparing of financial statements of enterprises for 2019-2020 based on International Financial Reporting Standards (IFRS) and submission for approval to the Cabinet of Ministers of a schedule for obtaining international credit ratings. • developing a financial recovery strategy for each enterprise, improve operational efficiency, as well as medium-term and long-term development with the involvement of reputable international consulting organizations on a competitive basis. • developing and approving the "road maps" for the implementation of the activities provided for each SOE. • mandating the Ministry of Economic Development and Poverty Reduction, the Ministry of Finance, the Committee for Competition Promotion and Consumer Protection, the Anti-Corruption Agency, and the State Asset Management Agency (SAMA) to conduct an inventory of

	benefits and preferences that affect the competitive environment, submit to the Administration of the President of the Republic of Uzbekistan a draft resolution on their cancellation by December 1, 2020.
Decree of the President “On the Measures to Further Accelerate the Processes of Privatization of State Assets” of February 11, 2021	<p>Introduces modern methods of privatization of state assets with the involvement of international consulting, audit and investment consultants, investment banks and other specialized companies (referred to as international organizations).</p> <p>The document defines state assets that are put up for public auction and sold with the involvement of the SAMA or the UzAssets investment company based on the selection of the best offers without conducting an examination of contracts concluded with them. During the bidding process, the guideline on asset value or range of values is determined by international organizations.</p>
Decree of the President of March 18, 2022 “On additional measures to further reduce state participation in the economy and accelerate privatization.”	<p>Mandate further inventory analysis in order to identify unused, inefficiently used, and non-core assets. Aimed at introducing additional measures to improve effectiveness of state assets’ use.</p> <p>Lists approved by the document:</p> <ul style="list-style-type: none"> • privatized shares in the authorized capital of business entities. • real estate sold at public auction.
Law “On the privatization of land plots for non-agricultural purposes” (No. ZRU-728 dated November 15, 2021).	<p>It defines the entities, subjects, forms, and procedure for the privatization of land plots, the legal status of privatized land plots, the powers of state administration bodies in the field of land privatization.</p> <p>The subjects of privatization are citizens and legal entities of the republic. Foreign citizens, stateless persons, foreign legal entities, enterprises with foreign investments, as well as state bodies, institutions and enterprises are not subjects of privatization. Privatization of land plots takes the form of either redemption by subjects of privatization of land plots that have the right of permanent use (possession), lease, or lifetime inheritable possession; or purchase of land plots through an electronic online auction.</p>

Annex 4. Glossary

Term	Definition
Accountability	Accountability refers to being held responsible for correctly carrying out a defined set of duties or tasks, and for conforming with rules and standards applicable to a particular post.
Bid	An offer or proposal for goods and/or services submitted in response to a government agency's invitation.
Bidder	A person, commercial company, or other organization that offers to provide goods, services, or works in response to a request from a public organization.
Climate-change adaptation	The process of adjustment of human and natural systems to actual and expected adverse effects of climate variability and change.
Climate-change resilience	The capacity of human and natural systems to learn, adapt, and transform in response to risks induced or exacerbated by climate variability and change.
Climate risks	A function of the interaction between (a) environmental hazards triggered by climate variability and change; (b) exposure of human, natural, and infrastructure systems to those hazards; and (c) the systems' vulnerabilities (e.g., its sensitivity or susceptibility to hazards, and the constraints on capacity to adapt and cope).
Corruption	The abuse of public office for private gain.
Digitalization	The use of digital technologies and data and interconnection resulting in new or changes to existing activities.
Efficiency	The extent to which the intervention delivers, or is likely to deliver, results in an economic and timely way.
Environmental Impact Assessment (EIA)	A procedure that evaluates a project's potential environmental risks and impacts in its area of influence; examines project alternatives; identifies ways of improving project selection, siting, planning, design, and implementation by preventing, minimizing, mitigating, or compensating for adverse environmental impacts and enhancing positive impacts; and includes the process of mitigating and managing adverse environmental impacts throughout project implementation.
Environmental protection	Includes all activities and actions that have as their main purpose the prevention, reduction, or elimination of pollution as well as any other degradation of the environment.
Feasibility study	A preliminary exploration of a proposed project or undertaking to determine its merits and viability.
Financing	The way in which the resources required to undertake the upfront investment are raised. Financing increases public debt and must be repaid to the financing source.
Foreign direct investment (FDI)	Foreign direct investment is the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.
Funding	Funding comes either from users or taxpayers that pay for the infrastructure services, either directly or through the government and or government subsidies. Grants are a form of funding.
Governance	The process by which authority is conferred on actors, who make or modify and then enforce rules and regulations.

Term	Definition
International financial institution (IFI)	IFIs are entities established by two or more countries whose remit revolves around international financial issues (e.g., balance of payments distortions, promotion of sustainable economic development) and which are subject to international, not national, law.
Institutional framework	The systems of formal laws, regulations, procedures and informal conventions, customs, and norms that shape activities and behavior of an entity.
Joint Stock Company (JSC)	A legal entity that issues shares to raise funds for its operation.
Lifecycle costs	Total cost of ownership (including maintenance) of public infrastructure assets.
Monitoring	A continuous process of collecting and analyzing information to better understand how well a program is operating against expected outputs/outcomes.
Monopoly	A situation where there is a single or dominantly influential seller in the market.
Project	A group of activities (and associated expenditures) with clearly defined objectives and outputs implemented over a fixed time schedule and within a fixed budget.
Project lifecycle	All the stages during the lifetime of a public asset, starting from planning, prioritization, and funding, to design, procurement, construction, operation, maintenance, and decommissioning.
Public integrity	Public integrity refers to the consistent alignment of, and adherence to, shared ethical values, principles, and norms for upholding and prioritizing the public interest over private interests in the public sector.
Public investment	Investment in physical infrastructure (e.g., roads, government buildings, etc.) and soft infrastructure (e.g., innovation support, research, and development, etc.) with a productive use that extends beyond a year.
Public investment management (PIM)	According to <i>the PIM Reference Guide</i> ,* a PIM system should be concerned with the acquisition (or major improvement) of fixed assets, which is synonymous with capital expenditures. The PIM system should deal with investment delivered through projects. *See https://openknowledge.worldbank.org/handle/10986/33368
Public-Private Partnership (PPP)	A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility.
Public procurement	The process of purchasing goods, services, or works by the public sector from the private sector.
State-owned enterprise	An entity has its own, separate legal personality; is at least partially controlled by a government unit; and which engages in commercial or economic activities and/or has public service obligations to deliver noncommercial services.
Tender	The process through which a government invites bids for a purchase or project.
Total cost of ownership	The purchase price of an asset plus the costs of operation.

Term	Definition
Transparency	Transparency refers to an environment in which the objectives of policy, its legal, institutional, and economic framework, policy decisions and their rationale, data and information related to policies, and the terms of agencies' accountability are provided to the public in a comprehensible, accessible, and timely manner.
Value for Money	The optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user's requirements.